

COOPERATIVE ASSOCIATIONS IN HAWAII;  
A FUTURE IN HAWAIIAN AGRICULTURE

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*In this age of bigness and diversification among all segments of industry, agricultural cooperatives are also growing, diversifying and constantly re-examining their objectives and policies to keep in step and even lead the way in their respective fields.*

*--Exploring Farmer  
Cooperatives.*

## FOREWORD

This report was prepared in response to House Resolution 92, requesting the Legislative Reference Bureau in cooperation with the Hawaii Farm Bureau to conduct a study on agricultural cooperatives and recommend possible incentives to aid in their growth. The study grew out of a concern on the part of the Legislature over the marketing problems experienced by Hawaiian agricultural producers on the domestic front and the seeming inability of agricultural cooperative associations to aid the Hawaiian farmer in this area.

We are grateful to the following persons who have contributed their time and their knowledge towards the completion of this report: Dr. Jack Ishida, University of Hawaii, Cooperative Extension Service; Mr. Richard T. Morimoto, Department of Agriculture, Farm Loan Division; the cooperative association managers in the State; the farmers, both cooperative members and independents; the Hawaii Farm Bureau; and the Berkeley Bank for Cooperatives.

Henry N. Kitamura  
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## INTRODUCTION

The problems of cooperative marketing are not new to Hawaii. The development of agricultural associations has been slow and for the most part, subject to a high rate of failure among individual cooperative associations. However, it is now becoming imperative that special effort be exerted toward the establishment of more stable cooperative associations to aid the individual farmer in his fight against the influx of mainland grown products and the increasing gains in the cost of production without a parallel increase in the market price and demand of commodities.

The Governor's Coordinating Committee on Agriculture, in its report entitled Opportunities for Hawaiian Agriculture stressed the importance of cooperative marketing needs for all sectors of the agricultural industry. It recommended as a "means of increasing agricultural marketing efficiency(,)...the establishment of local commodity associations or cooperatives, eventually forming a State Commodity Association".<sup>1</sup> While the report goes on to state that these associations may not solve all the problems now facing the industry, it nonetheless lists four areas in which assistance may be rendered:<sup>2</sup>

- (a) Assist in expanding the demand for their products through promotion and advertising;
- (b) Provide industry leadership;
- (c) Establish a marketing system based on grades and quality;
- (d) Regulate the flow of product to market and other areas.

Reiteration of the advantages of cooperative marketing have been made by the Cooperative Extension Service of the University of Hawaii, the State Department of Agriculture, the Farm Bureau, and others concerned with the cooperative movement. However, the most revealing comment concerning the inertia plaguing the development of cooperative associations was the fact that there is nothing the cooperative association can do for the farmer that he can't do for himself. If this opinion is true, then the cooperative system now existing in Hawaii has not been effective in giving the farmer the necessary services and benefits that a cooperative association can.

Realizing the problems of agricultural cooperative associations and the need to strengthen the position of marketing cooperatives on the State commodity market, the House of Representatives of the Sixth Legislature, Regular Session 1971, passed a resolution<sup>3</sup> requesting the Legislative Reference Bureau, in cooperation with the Farm Bureau, to conduct a study to recommend incentives for farmers to join agricultural cooperatives. According to a testimony quoted in the Standing Committee Report No. 312 the Department of Agriculture stated that:

"At present, most cooperatives are organized for purchasing benefits. We feel that marketing cooperatives provide a virtually untapped source for the economic growth of Hawaii's agricultural industry. Incentives could be provided through tax exemptions for improvements on real property, State-supported pilot plants which directly result in formation of a cooperative to operate the facility, or grants for market promotion and development of commodities such as anthuriums, macadamia nuts and other developing sectors of industry.

With this in mind, research was done through interviews with the cooperative association managers in the several areas of diversified agriculture, with the University Extension Service, with the State Department of Agriculture, with the Department of Planning and Economic Development, and with various other persons in the private sector who are connected and involved in the cooperative movement.

After preliminary research of the area, it was decided that two commodities in the agricultural industry were to be excluded from consideration. They are sugar and pineapple. It has been noted that these two commodities have an expansive and sophisticated marketing system and do not share the basic marketing problems of diversified agriculture.

Sugar has accomplished its marketing effectively through the cooperative known as California and Hawaiian Sugar (C & H Sugar), which processes and markets a finished product under the same name. This type of marketing system represents the ultimate in cooperative marketing. Other examples of this type of total integration include such brand names as Sunkist, Welch Grape Juice Company, Sun Maid Raisins, Lindsay Ripe Olive Company, and Ocean Spray Cranberries.

Pineapple, on the other hand, is corporately owned and marketed and therefore has established an integrated system from field to final product. In most cases, companies like Dole Pineapple or Libby own their own fields from which their products are processed and marketing is done through the company.

Aside from this, pineapple and sugar operate on a large scale relying on volume production whereas the rest of the Hawaiian agriculture is essentially a family unit cultivating a small parcel of land.<sup>4</sup> Further, both sugar and pineapple are subject to world and national market conditions because of their extensive export program and in the case of sugar, the sugar quota system administered by the federal government compounds the complexity of marketing.

The emphasis of this report, therefore, lies in the area of diversified agriculture and more specifically in those areas where cooperative marketing associations have been established but have not developed to its fullest potential. It is hoped that this report will define the problems hindering the development of these cooperative marketing associations and offer suggested solutions to aid development.

## CHAPTER I

### AN HISTORICAL VIEW AND BACKGROUND

#### HISTORY - UNITED STATES

The economic organization known as the "cooperative association" has become an important institution in many sectors of the American economy. Cooperative forms now include agricultural cooperatives, consumer cooperatives, health cooperatives, credit unions, utility cooperatives, and most recently, condominiums and housing cooperatives. In all cases, the basic organizational principle remains the same--"A cooperative can be defined...as a democratic association of persons organized to furnish themselves an economic service under a plan that eliminates entrepreneur profit and that provides for substantial equality in ownership and control."<sup>1</sup>

Historically, the philosophical and organizational basis of the agricultural cooperative association movement in America can be traced back to the Rochdale Society of Equitable Pioneers founded in England in 1844,<sup>2</sup> with twenty-eight members. "The essential Rochdale principle of co-operative association economy is that the association shall be operated purely for service and not at all for direct profit as such. Indirectly, the patron may enjoy a quasi-profit in that he may accumulate more savings than he would accumulate in a profit inspired economy."<sup>3</sup> Since that time, under adaptation to the American way of life, the original principle has been expanded to a model which is comprised of four specific kinds of

cooperatives: production, marketing, purchasing, and financing. In addition, the three basic tenets which have emerged as the basis of agricultural cooperative associations in the United States are:<sup>4</sup>

- (1) Democratic control by members. In a cooperative, control is associated with those who use and also own the business. It is common practice to limit each member to one vote, regardless of the amount of equity interest held or the amount of patronage. In a non-cooperative business corporation, voting is associated with the amount of stock held.
- (2) Payment of capital limited to a conservative rate. In a cooperative, members make investments and assume related risk but are limited to only a fair rate of return (or none at all) on the investment....
- (3) Sharing the benefits and savings in proportion to the patronage of the individual member. Any profits or net income after paying expenses, including a fair rate for the use of capital, belong to the members. They share in the benefits and savings in proportion to the amount of patronage rather than in proportion to the amount of their investment.

The first cooperatives in the United States were agricultural cooperative associations which were usually informal, based on agreements among individuals to work together for a common purpose. Impetus was given to the farmers to band together in a more formal manner with a Michigan law in 1865 which provided a specific statute dealing with the incorporation for agricultural cooperative associations.

After 1865, under a battery of federal<sup>5</sup> and state statutory provisions, the agricultural cooperative association movement grew rapidly to a peak of 14,628 active cooperative associations in 1922. However, since that time, the number of cooperatives has been on a constant decline. An extensive survey of farmer

cooperative associations conducted in 1937 by the Farm Credit Administration, with the assistance of the bank for cooperatives, colleges of agriculture and state agencies showed that there were 10,752 farmer cooperative associations in 1936 which were engaged in marketing, purchasing and other related farm services. The total membership for the same year was 3,256,000.<sup>6</sup>

By the middle of the century, the total number of farmer cooperative associations had further declined to 10,064 and by 1963 it was down to 8,907. Contrarily, the trend in total membership in cooperative associations had risen to 7,091,000 in 1950-51 and to 7,200,000 by 1962-63.

According to the latest survey, there are presently some 8,125 farmer cooperative associations functioning in the United States with a total membership of 6.5 million; and it has been estimated that by 1973, the number of farmer cooperatives will be down to 7,000 with a possible further increase in the membership.<sup>7</sup> Interestingly enough, this increase in membership is occurring during the period when the total number of farms is on the decline.

#### HISTORY - HAWAII

The Hawaiian experience in cooperative organization has been difficult and still remains in a tenuous position, although cooperation in the area of diversified agriculture is not new to the Islands. "In 1950 a cooperative of some sort was suggested for the pineapple industry and in 1913 at least six agricultural

associations had been organized on Kauai, Hawaii, and Maui. A survey of agricultural cooperatives in the Territory in September 1947, reveals (sic) the existence of ten cooperatives, with a total membership of 915 persons."<sup>8</sup> Of the early cooperative associations, only Hilo Meat Cooperative and C & H Sugar Cooperative have survived to the present.

A boon for agricultural cooperatives came as a result of World War II when the economy of the Territory was subjected to regulations controlling practically all phases of production and marketing of agricultural commodities. Through the Office of Food Production, an agency of the Office of Civil Defense, the "Hawaii Produce Market"<sup>9</sup> was developed and operated for almost four years. In a report by C.W. Peters and John L. Rasmussen, published by the Hawaii Agricultural Experiment Station of the University of Hawaii, entitled, Integrating Hawaiian Agriculture Through Cooperatives, an appraisal of the Hawaii Produce Market was stated in the following manner:<sup>10</sup>

"By most objective criteria the Hawaii Produce Market was a successful operation in that it coordinated very well the flow to market of produce from some 800 small farms and at the same time accumulated a substantial amount of capital with an absolute minimum of direct contribution from the membership. This showing was made despite the very nominal charge made for services performed by the cooperative. Despite these elements of success, however, the association literally disintegrated at the close of World War II when economic controls were removed."

The reasons for the disintegration of such a profitable cooperative organization were: (1) the farmers were "forced" to conform to wartime marketing needs in joining the cooperative association so that when the war ended and the need no longer

existed, they went back to their former marketing affiliations and practices without feeling any obligations to continue the Hawaii Produce Market; and (2) the accumulation of capital in excess of \$80,000 on sales of \$3.5 million during its first three years of operation served as a negative incentive for cooperation. With the imposed tenure of the cooperative lasting only six months after the end of the war, many were in favor of splitting the money among all the members. Education to inform the members as to the uses of the excess capital was sorely lacking.

However, the Hawaii Produce Market did accomplish a number of things:<sup>11</sup>

- (1) Production plans of the numerous small grower members were coordinated.
- (2) Harvesting and delivery schedules were set up for the growers.
- (3) By pooling purchases of production supplies, the cost of these items was reduced.
- (4) Quality of produce was improved through the grading and packaging program of the cooperative.
- (5) Economies of scale were obtained through the consolidation of small lots of produce.
- (6) A partial control of sales was effected through a subsidiary outlet in the Honolulu market.

The dissolution of the Hawaii Produce Market was followed by a number of attempts to revive some type of cooperative marketing system to take advantage of the economic benefits produced in cooperative marketing. However, a dock strike during the latter part of 1946 stymied any further developments as individual marketing became a lucrative practice and many farmers found it more inviting

to act as independent agents than to deal through the more cumbersome and controlled cooperative.

By the following year, Hawaii had ten cooperatives serving diversified agriculture with a membership of 915 farmers who were estimated at comprising one-fourth to one-fifth of the farmers. However, it has been stated that "these associations were an important factor only in the marketing of fresh fruits and vegetables and live hogs."<sup>12</sup>

The year 1949 was a landmark year for Hawaiian cooperatives in that the Territorial legislature passed House Bill 31 which became Act 234, relating to agricultural cooperative associations. The new law, based on the model adopted by the National Conference of Commissioners on Uniform State Laws as the Uniform Agricultural Cooperative Association Act, was essentially a reorganization of Chapter 154, Revised Laws of Hawaii 1945. However, it provided a number of clarifications and specifications directly related to cooperatives:

- (1) It restricted the formation of agricultural cooperative associations to producers in the then Territory of Hawaii.
- (2) It restricted the cooperatives to supply members with commodities of an agricultural nature.
- (3) It restricted the accumulation of reserves to capital reserves only.
- (4) It continued to permit a cooperative to perform services for nonmembers to an amount not greater in annual value than the total business conducted with members but restricted the cooperative to deal in agricultural products of Hawaiian origin and not in commodities produced outside the then Territory.

- (5) It clarified to whom net margin in excess of dividends may be paid and provided that they were to be made to members and nonmembers on the basis of patronage.

In addition, the Act defined some of the tax provisions relating to cooperatives and their patrons as a result of the nonprofit status of the cooperative association. It also separated the incorporation of cooperatives from the general corporation laws which had served as incorporation rules for cooperative associations.

In 1959, ten years after the passage of the Agricultural Cooperative Association law, the number of incorporated agricultural cooperatives in Hawaii had risen to twenty-seven. Distribution of the cooperatives by commodity were as follows:

Fruits and Vegetables	9
Livestock and Poultry	7
Coffee	4
Miscellaneous (including C & H)	7

Most of the above mentioned cooperatives had been organized between 1946 and 1959. Prior to that time, the failure rate of agricultural cooperatives in the State was fifty per cent.

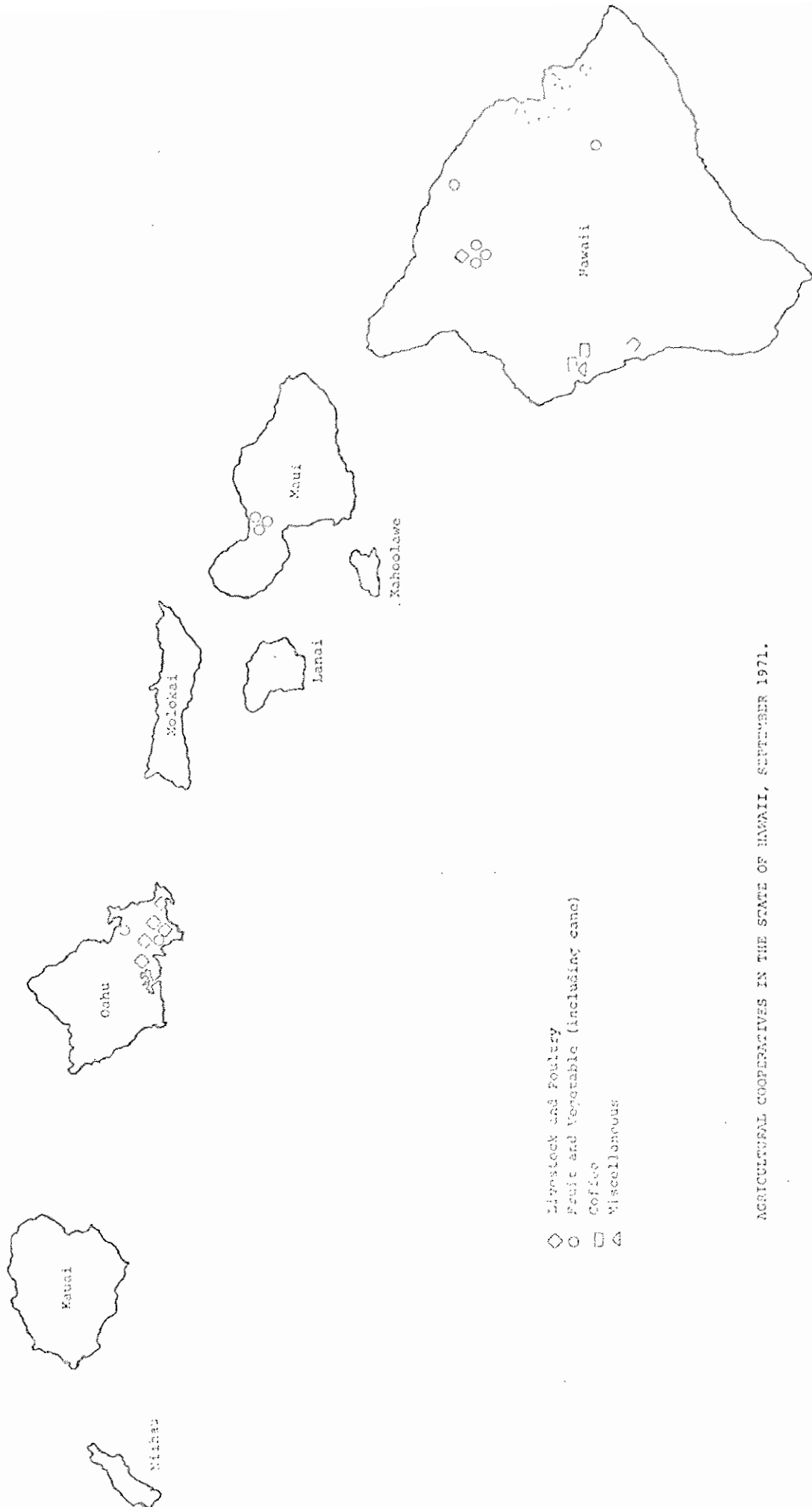
Today, the number of cooperatives has risen to thirty-two with their areas of service being extended over marketing, purchasing, processing and other related activities as provided by law. Of the thirty-two cooperatives, fourteen are in fruits and vegetables, six in poultry and livestock, three in coffee, five in sugar cane, and four are miscellaneous cooperatives.<sup>13</sup>

Because of the unique geographical situation of the islands, the location of the cooperatives becomes an important factor in the marketing of commodities. The present situation finds twenty-one

cooperatives on the island of Hawaii (five of which are cane cooperatives), seven on the island of Oahu, three on Maui, and none on Kauai. The Big Island cooperatives, other than sugar cane, include beef, egg, vegetable and fruit and coffee cooperatives. Oahu has vegetable, hog, dairy, and egg cooperatives while Maui cooperatives are vegetable cooperatives. (See Figure 1 for the location and type of agricultural cooperatives operating in Hawaii.)

Membership in the cooperatives is approximately 3,248. (The number includes all members listed in the 1969 exhibits filed with the Department of Regulatory Agencies.) In terms of the farm population of self-employed farmers who are eligible to join cooperatives, the number represents approximately seventy-eight per cent of the farmers in the State.

Except for sugar cooperatives which are primarily purchasing cooperatives and a number of miscellaneous cooperative who deal in garden supplies or act as bargaining agents for their farmers, most of the cooperative associations in the state are a combination of marketing/purchasing cooperatives. The degree to which each cooperative association has developed within any given commodity varies according to the type of commodity and the conditions of the market for that particular produce or livestock or poultry product. The marketing services provided by the various cooperatives in diversified agriculture range from an integrated marketing arrangement with the Kona Coffee industry where the total harvest is sold to Superior Tea and Coffee Company to many small marketing cooperatives in the vegetable industry to the beginnings of cooperative



AGRICULTURAL COOPERATIVES IN THE STATE OF HAWAII, SEPTEMBER 1971.

FIGURE 1

marketing in the flower industry. In terms of the total agricultural industry, sugar has the most complete cooperative marketing system; and pineapple at present has no cooperative marketing program.

One of the ways to evaluate the development of cooperative marketing in Hawaii is to examine the growth of sales through cooperatives over a number of years. Statistics were gathered from exhibits filed with the Department of Regulatory Agencies regarding cooperative sales and purchases. For the selected years of 1966, 1969, and 1970 the dollar value of cooperative activity in Hawaii is shown on the following table:

Figure 2

APPROXIMATE MARKETING SALES AND PURCHASES THROUGH COOPERATIVE ASSOCIATIONS. Compiled from exhibits filed with the Department of Regulatory Agencies.

	1966		1969		1970	
	Mark.	Purch.	Mark.	Purch.	Mark.	Purch.
Fruits and Vegetables	2,691 <sup>1</sup>	394	3,403	576	4,102	887
Livestock and Poultry	4,949	--- <sup>2</sup>	5,199	118 <sup>3</sup>	5,566	---
Coffee	1,964	311	2,006	241	1,262	222
Misc. <sup>4</sup>	617	---	616	---	1,142	---

<sup>1</sup> All figures in thousands of dollars.

<sup>2</sup> Records of exhibits filed with the Department of Regulatory Agencies did not show specific breakdowns for revenue gained from supply sales. It is, therefore, assumed that a percentage of the amount under marketing sales may have gone for supply sales.

<sup>3</sup> Figure is the sales for sales reported by 50th State Dairy Cooperative. No other cooperatives reported sales in this area.

<sup>4</sup> Miscellaneous includes macadamia nut cooperatives, cooperatives which subdivide land and gain income, cooperatives which run retail stores. It does not include cane cooperatives. Here again, purchasing and marketing were not discernable in the records.

According to the statistics, marketing sales constitute a major part of a cooperative's business transactions. Over the years, sales returns have increased for all commodity areas except for coffee which has suffered a drop in world market prices.

The significance of such figures, however, can only be seen when compared to the total marketing output for the same years in the State of Hawaii:

Figure 3

MARKETING IN HAWAII OF HAWAIIAN AGRICULTURAL COMMODITIES  
Source: Statistics of Hawaiian Agriculture, 1970

	1966	1969	1970
Fruits and Vegetables	8,431 <sup>1</sup>	9,718	10,233
Livestock and Poultry <sup>2</sup>	37,116	39,796	41,748
Coffee	2,058	1,562	1,715
Miscellaneous <sup>3</sup>	5,619	8,218	9,666

<sup>1</sup> All figures in thousands of dollars.

<sup>2</sup> Does not include broiler chickens.

<sup>3</sup> Includes macadamia nuts; fruits such as mangoes, limes, lychee, pomelos, loquats, and others; vegetables such as chicory, endive, bitter melon, parsley, radish, squash, chinese peas and others; field crops as hay, corn, soybeans, and others; horticultural specialties and forest products.

The comparison of figures for each commodity area begins to reveal, quantitatively, the extent to which cooperative marketing has developed for Hawaiian grown agricultural products. In fruit and vegetables, the market impact has risen from twenty-five per cent in 1966 to approximately forty per cent in 1970. Livestock and poultry marketing impact has remained at a steady twelve per cent for the years since 1966; and coffee has maintained over eighty per cent level in marketing through cooperatives.

These percentage figures, while giving some indication of the developmental level of cooperative marketing in the different commodity areas, may be misleading. The high percentage of cooperative marketing in coffee does not necessarily mean that coffee cooperatives are the most successful cooperatives nor does it mean that livestock and poultry cooperatives have failed. Similarly, the existence of many cooperatives in the area is no indication of success.

Even more revealing is the contextual comparison of marketing in diversified agriculture as compared to the total agricultural income for the State. According to the Bank of Hawaii's 1971 annual economic review, entitled, Hawaii '71, diversified agriculture accounted for approximately \$62.6 million or 29.5 per cent of the total agriculture receipts which were \$211.9 million.<sup>14</sup> Consequently, cooperative marketing associations in diversified agriculture account for approximately fourteen per cent of the total marketing of diversified agriculture. Signs for increase in the future look dim under the present system.

## CHAPTER II

### AGRICULTURAL MARKETING COOPERATIVES IN HAWAII: THEIR PROBLEMS

Marketing is but one area of the total agricultural industry but it represents the key to farming, since its execution determines the total income of the farmer. With proper marketing, the farmer can: gain incentive to produce more and better crops to meet the demands of the consumer; improve on his production efficiency to produce better goods at a lower cost; and increase the returns for his crop, thereby increasing his farming income.

Formerly, marketing of agricultural goods could be done by the individual farmer. Market demands were such that he could meet volume requirements of the small retail store within his community. However, with industrialization in the urban areas and the changing base of society from an agrarian society to an urban industrial society, the corner retail store began to disappear only to be replaced by the large food chains and food processing plants. Over ninety-two per cent of the retail food sales now being conducted in the United States are through supermarkets or superettes owned by chain store organizations or independent grocers. Less than eight per cent of the nation's food sales are through stores doing annual volume of less than \$75,000.<sup>1</sup>

Industrialization also brought in mechanization, forcing the farmer to make large capital investments in the purchasing and

and maintaining of the new equipment. The costs of production kept rising as the need for more chemicals and fertilizers, feed and storage facilities grew with the depletion of the nutritive elements in the soil and growing demand for more feed on the part of livestock and poultry producers. Mechanization also imposed new efficiency methods which the farmers had to implement at their own expense. While all of these costs for goods and services rose beyond the farmer's control, he found survival depended upon his ability to adjust to the change. Those farmers who were progressive moved toward larger more businesslike farms to offset the capital costs. Others, less aggressive, less willing to change found farming to be an unattractive form of business. Small farmers were eventually forced to sell to the larger farmers.

The nationwide experience has also affected the Hawaiian farmer. However, because of land limitations, transportation costs of shipping equipment, chemicals, and feed over from the mainland, and high labor costs, the problem has become more acute. Figures reporting the average Hawaii farm net income at \$17,471 in 1967 seem to indicate that Hawaii farmers have succeeded despite the odds. However, this figure is partially misleading when speaking of diversified agriculture. Part of the problem stems from the fact that such figures are based on an income averaging of all of agriculture including sugar and pineapple. For the diversified farmer, the story is different.

Gross income for the diversified farmer normally ranges between \$2,500 and \$10,000. The following table shows the distribution of gross farm income for diversified farmers:

Figure 4

DIVERSIFIED COMMERCIAL FARMS IN HAWAII  
BY GROSS INCOME CLASS, 1959 and 1964

Source: Opportunities for Hawaiian Agriculture, p. 133

NUMBER OF DIVERSIFIED COMMERCIAL FARMS		
	1959	1964
GROSS INCOME CLASS	PERCENT OF TOTAL	
\$50---2,499	19.2	23.1
\$2,500--4,999	31.6	27.6
\$5,000--9,999	21.2	20.1
\$10,000-19,000	14.0	12.6
\$20,000-and over	14.0	16.6
TOTAL FARMS	2,110	2,248

From the table one can see that in 1959, seventy-two per cent of the farmers in diversified agriculture earned a gross income of less than \$10,000 and by 1964 the percentage had improved by only two per cent. Vegetable farming has probably experienced the steadiest low income rate of all diversified agriculture. "In 1968, total sales of the 6,562 vegetable and melon farms in the State amounted to \$6.5 million, valued at the farm. This averages about \$11,650 sales per farm, an increase of eighty-four per cent over the 1960 average sales of \$6,250. Assuming a conservative fifty to sixty per cent for production costs, average net income to farmers is estimated to be between \$4,660 and \$5,825. If these figures are converted to net income per capita, assuming three to five people per family, vegetable farmers rank among the lowest in the State."<sup>2</sup> It should be noted, however, that many farmers in this sector of the industry are part-time farmers.

The production costs for vegetable farming are less than production costs in other areas of diversified agriculture. An interview with a poultry cooperative member on the Big Island revealed that sixty-eight per cent of his cost went to feed grain. Estimates for such costs in the livestock sector are approximately the same. In any case, the income of the livestock and poultry producer is not much better than the vegetable farmer.

Coffee farmers have also experienced the same phenomenon, compounded by a sharp decline in the price of coffee on the market. In 1964, the average income per farm was \$3,517 and by 1968 the figure had dropped to a low of \$1,797. "According to a study, the net return to coffee family labor amounted to forty-eight per cent of gross return."<sup>3</sup>

Marketing, therefore, is a crucial factor in the survival of agriculture in Hawaii. As a result, persons involved in agriculture have been on a long crusade to show farmers the advantages in cooperative marketing. However, the task has not been easy and many farmers still balk at the idea of marketing cooperatively. In addition, because of problems inherent in the organization and other external factors those cooperative marketing associations which have been established have not fared well.

Although each commodity is plagued with problems peculiar to the product, certain issues affecting cooperatives can be generalized for all commodity groups. These problems have been categorized into two areas: problems relating to the operation of the institution, including financial, educational, and social relationship problems; and problems relating to agricultural marketing in the State, more specifically to the marketing conditions existing including competition from other markets, marketing practices and the independent farmer.

Interviews were conducted with cooperative association managers and members on the islands of Oahu, Maui, and Hawaii to define these problems facing cooperatives and to gain some insight into the types of incentive programs which may be designed to induce independent farmers to enter cooperatives. In addition to the cooperative managers and members, informal interviews were conducted with independent farmers gaining another viewpoint on the cooperative association as a marketing outlet. Government officials were also contacted with the purpose of evaluating present government services in the area of agricultural cooperative associations.

## OPERATIONAL PROBLEMS

Unfortunately, in the area of diversified agriculture, there is no exemplary cooperative which can be termed "successful" and from which farmers in the area can find incentive. Most of the Hawaiian cooperatives have been hindered by three essential problems: financing, management and education.

FINANCING. Hawaiian cooperative associations are underfinanced and have not been successful in accumulating reserves. In a 1968 study done by Heinz Spielmann and Edmund R. Barmettler entitled Financing Farmer Cooperatives in Hawaii, it was revealed that the "basis of this condition rests on a lack of sufficiently owned equity capital (net worth) of the associations.... In a majority of the cases, there are clear indications that owned equity is less than borrowed funds.... To attain a suitable balance of equity versus borrowed funds the rate of acquisition of owned capital must be increased in the majority of the associations in our sample."<sup>4</sup>

The problems of attaining sufficient equity capital begins at the formation of the organization. The average membership fee charged persons entering cooperatives is approximately \$30 for a lifetime membership although they do range from a high of \$1,000 for a federated cooperative in the fruit and vegetable area to a low of no membership fee in a livestock cooperative association. Very few Hawaiian cooperatives issue shares of stock. Hypothetically then, if a fruit and vegetable cooperative were formed with fifty-one members (the average number of members

for existing fruit and vegetable cooperatives), the total initial capital would amount to \$1,530. If one compares this to an amount normally required to start a corporation, a businessman could conclude that the persons establishing a cooperative would be foolhardy to do so on such slim capital.

Realizing that initial membership capital is insufficient to start a cooperative, loans are negotiated between the cooperative and a lending institution to make up the difference. It is generally agreed that a favorable financial condition for cooperatives is to own approximately fifty per cent of their total assets. Again, taking the hypothetical cooperative, this would mean that its total assets could amount to approximately \$3,060 to maintain a balance between equity capital and borrowed funds. Normally, the cooperative would be able to attain more capital through borrowed funds from a private lending institution, the Berkley Bank For Cooperatives, or from the State Farm Loan Division of the Department of Agriculture. However, once the loan is made the cooperative must begin to accumulate capital on its own and eventually establish a solvent position from which to do business. Reserve capital also acts as an insurance for the cooperative association against crisis situations in which uncommon amounts of capital may be needed.

The financial system under which most of the cooperatives exist does not lend itself to the accumulation of capital. Persons knowledgeable in the area of cooperative financing advocate the revolving-capital financing plan as the best way for cooperatives to accumulate capital. This plan operates in the following manner:<sup>5</sup>

"As a member does business through a cooperative, he authorizes the cooperative to use a portion of the money he has furnished the cooperative through his patronage. This may be either a specified deduction for each unit of product sold or bought or a percentage of the savings the member realizes on each transaction. This money is provided and is used for capital purposes only.

This amount is credited to the member on the cooperative's books. At the end of the year the member is issued a certificate in the total amount of his capital retains for the year. This certificate represents member capital invested in the cooperative.

The capital retains go into a revolving capital fund. In the first years of the cooperative's existence, money from this fund usually goes to pay off the long-term loan of original capital. Later on, capital retains are returned to the members year by year, in the order in which they went into the fund. That is, the oldest are paid back first.

The revolving capital plan allows members to build up an equity in their association in proportion to the amount of business they do. It makes it possible to return a withdrawing member's investment. And it gives the business flexibility to meet changing conditions that may cause financial needs to change."

Hawaiian cooperatives, as a group, do not use the revolving financial plan because they have not been able to realize any form of surplus from which patronage dividends could be proportionated to the farmer members. Consequently, reserves have never been accumulated. In turn, this lack of capital reserves impedes the growth of the cooperative in terms of services and physical expansion. Nor does it aid the cooperative during a year of business reverses.

A view of the owned assets as compared to the total assets was given in the Spielman-Barmettler report. They showed that "the aggregate relationship of owner equity to total assets for

1963 indicates that associations in the sample held fifty-one per cent of assets in the form of owned equity. However, only the miscellaneous and the produce-purchasing groups showed equity capital holdings greater than borrowed funds."<sup>6</sup> From these findings it can be concluded that the marketing cooperatives have an unfavorable equity capital to borrowed funds ratio.

Another contributing factor to the already underfinanced condition of the marketing cooperative is the period of time for which a cooperative member is required to bring his produce to the cooperative. Mainland cooperatives have five- to ten-year contracts with their membership. Hawaii cooperatives require only three years (Section 421-18, Hawaii Revised Statutes). This three-year requirement is inconsistent with basic term financing of the type the cooperatives are involved, which usually runs between five to ten years or longer. The fact that a farmer can dissolve his contract with the cooperative after a three-year period causes many of the lending institutions to hesitate in extending the payments of loan over a long period of time. Essentially, they have no guarantee as to how many members will remain in the cooperative beyond the three years nor as to the economic condition of the cooperative beyond the same three-year period. The only alternative is to finance on a short-term basis.

Short-term loans, in turn, adversely affect the cooperative. According to cooperative managers interviewed, it takes approximately ten years before a cooperative is on a financially sound basis where the returns to the farmer are good and the marketing contacts well established. Short-term loans place an extra

financial burden on the associations during a time when financial affairs are in a precarious position.

MANAGEMENT. Concomitant with the financial situation of the cooperative are the managerial aspects. Good management is the key to a successful cooperative. Without proper management, inefficiency and waste occur which eventually result in smaller returns for the farmer.

Management in Hawaiian cooperatives is not up to par with mainland practices. Most of the managers lack the proper background since many of them "stumbled" into the situation. Some were former farmers, others were interested parties and still others came from unrelated fields. A 1959 study conducted by the Agricultural Experiment Station of the University of Hawaii reported that one-fourth of the managers have had college or business school training while two-thirds reported graduation from high school. While the percentage of managers who have had college or business school experience is improving, an informal survey done through interviews essentially upheld the fact that most managers do not have special training in the management of marketing cooperatives.

The problem of attracting competent, trained cooperative managers has been paramount for Hawaii cooperatives because they pay their managers a relatively low salary. This fact was pointed out in the Experiment Station's 1959 report and was restated in a 1968 report by Heinz Speilman and Edmund Barmettler.

Aside from the relatively low pay, the crude organizational structure of cooperative associations and their tight financial position places a great burden on the managers to become jack-of-all-trades. "Not infrequently, the managers have to perform the selling, purchasing, grading and accounting functions as well as the maintenance of membership relations (including advisory and field man work) and unloading of trucks. This leaves little time for the actual function of management itself, which consists primarily of planning, coordinating, organizing and controlling--in short, activating all the resources available to the organization."<sup>7</sup>

Under these adverse conditions, Hawaii cooperative managers seem to be doing the best job possible. The fact that the tenure of most of the managers is over five years attests to their interest in helping the cooperative. However, except for a few areas such as coffee, the general attitude toward the future seems to be to take each day as it comes. Master plans for future expansion of services are almost non-existent. Crises are attacked on a situational basis and preventative measures are not usually undertaken. As a consequence, the cooperative bends with the slightest pressure and continually assumes a defensive position in the areas of marketing.

EDUCATION. Misconceptions of the function of the cooperative association as a marketing agent for the farmer members also contribute to the weakness of the cooperative. Cooperative associations thrive on participation by its members in determining

and developing its potentials. Democratic participation by the members is a key tenet on which the cooperative is based, although it can be one of the most debilitating factors in the operation of the organization. Under present conditions, many of the farmers in Hawaii do not realize this fact. All too often they see the cooperative in the limited role of a panacea to their economic woes. For many, the cooperative is a place where one delivers his goods and then goes home to await the returns on the sale of the goods. This narrow concept of the cooperative's function leads to a limited loyalty on the part of the farmer for his cooperative. As a result, during times of crisis when there is a price drop due to market imbalance between supply and demand, the Hawaiian farmer may use the cooperative as a dumping ground by delivering all his goods to be sold. On the other hand, when times are good and marketing conditions are such that the cooperative is not necessary and the farmer finds that he can obtain a better price for his produce by selling to the wholesaler, he often engages in discriminatory selling. This means that for those goods which are more difficult to sell and for which the wholesaler cannot offer a good price, the farmer will again "dump" it on the cooperative since it is obligated to sell all the goods a member brings in. Then, for those goods which the wholesaler is offering a premium price, the farmer will deliver to the wholesaler. This practice undermines the existence of the cooperative and is one of the causal factors which has led to the effectiveness of many Hawaiian cooperatives.

The reason for the farmer's abuse of his cooperative is difficult to determine. In the case of Hawaii, part of the problem rests in the area of education. The farmers' first exposure to a successful cooperative was under wartime conditions which forced them to form the Hawaii Produce Market. Entering a cooperative operation without proper education led to the downfall of the Market, which could have been developed further into a statewide cooperative marketing system. While the Hawaii Produce Market demonstrated that Hawaiian grown produce could be marketed successfully with excellent returns to the farmer, its dissolution revealed that most of its participating members knew nothing of the concepts or operations involved in cooperative associations.

The University of Hawaii Extension Service is charged with the responsibility of educating the farmer in the area of director and membership training. Unfortunately, education is a slow process and from looking at the present state of cooperatives, one could conclude that these programs have not been particularly successful. Farmer attendance at workshops and conferences has been poor. For instance, at the recent Fifth Biennial Cooperative Conference held on the various islands, the attendance never exceeded seventy-five persons, many of whom were government officials or resource persons. If one considers that there are approximately three thousand cooperative members in the State, the turnout at the conference was poor indeed. Interviews with managers revealed that notices of such workshops or programs are posted on bulletin boards at the cooperative but that farmers did not pay much attention to them. Managers do not have the time to individually urge each member

to attend the workshops or meetings. However, attendance of officers and the members of the board of directors are much better than the farmer member. Since farming is a full-time job and attending meetings and workshops often causes hardship to the farm business, as the farmer himself is often the major laborer on his farm, the inclination on the part of the farmer is to concern himself with his farm only and let others run the cooperative. Meetings and workshops are thought to be a waste of time.

The problems of communicating with the farmer on the farm is a continual one. Cooperative managers visit their members regularly and for the most part membership relations are good. However, cooperatives fall short in the area of membership education. This type of education would consist of relaying to the farmer the meaning of his membership in the cooperative, the obligations he has as a member, the long- and short-range goals of his cooperative and other information to help him understand his cooperative, thereby aiding him in becoming a more responsible and discernable member.

Another area in which education is lacking has been the area of introducing new farming trends, production shortcuts, marketing programs and other technological innovations to the farmer to increase his production and returns. Some cooperatives have made attempts in this area by bringing experts to talk on new trends for farming or new feeding practices. However, cooperative managers have reported that more likely than not farmers listen to the advice and then return to their farms to pursue their own familiar course. Other cooperatives report that they have provided

none of these educational benefits to their membership and do not intend to do so in the future. Many leave such things to the University of Hawaii Cooperative Extension Service.

Public relations with the community at-large doesn't exist. Outside of the farm communities, the large urban population is unaware of agricultural cooperatives and their function in aiding the farmer in his product marketing. Nor is the public aware of the difference between an agricultural marketing cooperative and a wholesaler. It would be advantageous to the agricultural community in general if some effort were made to acquaint the general public with cooperatives. This program could also include advertisements on island grown products emphasizing their superiority over mainland grown products. The cooperative can be strengthened through the consumers' preference of island produced agricultural products over mainland imports.

MARKETING AGREEMENTS. A common practice of cooperatives who market agricultural goods is to make a member sign a marketing or membership agreement in which they contract to market a portion of all of the member's commercial production, either on the basis of acreage or volume. In turn, the cooperative contracts to receive and market all of the product specified in the agreement. "These contracts are often called a 'two-way street' since they assure the cooperative of a steady supply of 'raw material' and the grower a home for his product. The contract relieves the grower of doubts and a sense of insecurity at harvest time."<sup>8</sup>

Unfortunately, the majority of Hawaiian cooperatives do not execute marketing agreements with their membership. In an interview of the different cooperatives in the State it was found that only one cooperative, Mr. Papaya, requires its members to sign a formal marketing agreement. If members violate this agreement, they are penalized. The results have been excellent in that the cooperative is assured of a certain supply volume and a uniform standard papaya. From this, the cooperative association has been able to plan an effective marketing program which has seen an increase in papaya exports to the mainland and a new market for the fruit in Japan.

The inability of the cooperative manager to be assured of a given quantity or quality of his marketing commodity allows him no leverage in performing and planning marketing programs for his farmer member. He cannot make contracts with wholesalers or retail food buyers in advance because the manager never fully knows how much he will have to sell. As a result, he is often last in getting to the buyer, often being relegated to supplementing other produce to meet the market commitment. This type of marketing presents little room for volume growth and no control over the price at which the goods are to be sold.

PERSONALITY CONFLICTS. Internal personality problems have also plagued the cooperative. Many cooperative managers, government officials and others connected with the cooperative movement in Hawaii have noted that personality conflicts among Hawaiian farmers are more acute than on the Mainland. Explanations for this

phenomenon vary, however. Some feel that the farmers in Hawaii are particularly independent and stubborn, refusing to work together cooperatively. Others feel that because of the stiff competition for a limited amount of marketing and the small yields which places an uncommon dependence on the sale of the products, farmers are less agreeable to share returns with others.

An anecdote told by one of the persons interviewed succinctly conveys the attitude which used to be prevalent among many of the Hawaiian farmers towards their neighbors. He told of a man who had gone crabbing at the beach. Each time he caught a crab, he placed it in a bucket. Soon his friend came along, and noticing the bucket full of crabs asked what type of crabs he had caught. The crabber replied, "Oh, they're farmer crabs."

"How can you tell?"

"Well," said the crabber, "every time one crab is at the top trying to get out of the bucket, another crab comes up from behind to pull him back."

Farmers, however, are now slowly beginning to realize some of the necessities of working together to market their products. The first step being taken towards cooperation have come in the form of statewide associations for the various commodities. These associations are helping to coordinate production activities and are informing the farmer of the future marketing conditions so that he can plan his own production. The egg association, for instance, has aided farmers in the recent overproduction of island eggs. All the farmers in the association agreed to cut back their flock by five per cent to avoid a further drop in the price of eggs.

## COOPERATIVE ASSOCIATIONS--SPECIAL PROBLEMS

### Fruit and Vegetable Cooperatives

The tangible advantages for entering a cooperative association are least prevalent in the fruit and vegetable sector of diversified agriculture and it is in this sector that independent farmers have demonstrated the most resistance in joining cooperative associations. One of the reasons for their resistance is due to the nature of the product they are marketing. The produce need little or no preparation for marketing, except for crating which can easily be done by the farmer on the farm. Once crated, the produce can be delivered directly to a wholesaler or to the market. Since the cooperative associations do essentially the same thing for its farmers, the independent farmer finds it cumbersome and unnecessary to channel his produce through the cooperative.

In addition, many small farmers competing for a limited market has created conflicts among the farmers particularly between cooperative members and independents. While this is not confined to the vegetable or fruit farmer, the problem has been most acute in this area.

### Livestock and Poultry Cooperatives

The necessity of being part of a cooperative is more acute in the livestock and poultry sector of

diversified agriculture because of the finishing and processing requirements before marketing. The problem, therefore, lies not so much in inducing farmers to join these cooperatives but to make these cooperatives work to the best advantage of the farmer member.

Pork production has suffered a number of setbacks during the last couple of years which has made hog farming a dubious proposition although the pork producers cooperative has managed to stabilize the market. The biggest problem is land, particularly since hog production is centered on Oahu. The encroachment of suburban housing developments have pushed the hog farmer into areas where land is cheaper but which is less accessible to market. Slaughterhouses and market outlets are normally located in Honolulu forcing the farmer to transport his hogs to the slaughter house. This presents a difficulty since hogs may weigh up to 150 pounds at the time of marketing and transporting them is not an easy task.

In addition, the recent Hawaii Meat Inspection Act (Chapter 159, Hawaii Revised Statutes) implemented by the State of Hawaii in compliance with federal law has reduced the number of slaughterhouses to one for the island of Oahu and one for the island of Hawaii. This means that those persons operating these two slaughterhouses have a virtual monopoly on the business and neither of these two slaughterhouses are run by cooperatives.

Pork producers have also faced the problem of not having the volume to meet the market demands. As a result they have slowly been losing a number of their marketing outlet. To make up some of the loss revenue, the pork producers cooperative has branched out into subsidiary activities such as the production of laulau, chinese roast pork and kalua pig to subsume some of the loss in market revenue. However, federal and state regulations have severely curtailed these operations. Much more coordination and communication in marketing programs is needed to help the hog industry.

Milk marketing has improved since the implementation of the Milk Control Act Chapter 157, Hawaii Revised Statutes, which allows the pooling of milk to meet the quota requirements. However, the milk industry faces a threat from the sale of "filled" or "imitation" milk which sells for approximately twenty cents less per half gallon than "real" milk. With the endorsement of the State nutritionist and the health personnel at the University of Hawaii as to its vitamin equivalence to "real" milk, "imitation" milk is expected to increase in sales. Since most of the milk of this kind comes from the mainland, local producers will not reap benefits from the sale of "imitation" milk which is expected to cut deeply into their own sales.

Egg marketing faces stiff competition from mainland egg imports. Presently, mainland eggs can be imported and sold for less than island eggs can be processed. Since most of the egg producers find it necessary to work through cooperatives because of the processing an egg must go through before marketing, the egg cooperative, like pork cooperatives, must concentrate on its advertising program stressing such product differentiating factors such as freshness. An island egg is normally less than a week old when it is placed in the market shelves, whereas a mainland egg is usually over a week old when the consumer buys it.

A federal law outlawing the sale of damaged eggs, requiring them to be pasteurized before sale, is presenting the egg producers with another marketing problem. Presently it is estimated that egg sales in this area amount to approximately \$800,000. However, in times of overproduction, the sale of damaged eggs, particularly leakers which are sold in liquid form to bakeries and restaurants, acts as an outlet to prevent total loss in overproduction. Once the federal law is implemented, the island egg producers will have no outlet for their liquid eggs.

An alternative to the problem would be the establishment of a pasteurization plant where the excess and the damaged eggs could be processed in compliance with

federal regulations. The capital costs of such a plant, however, are beyond the reach of local egg producers. Under existing state programs, similar to those establishing vacuum cooling plants for vegetable farmers in Kamuela and Kula, money could be obtained from the state to assist in the costs of such a plant.

Another large problem shared by all three sectors of the livestock and poultry industry is the feed problem. Since feed grain is not produced in the islands, all the feed must be imported from the mainland. According to one poultry farmer, feed costs represent approximately sixty-eight per cent of the cost of production. A manager of a dairy cooperative noted that one cause for the high cost of feed is the lack of uniformity among the farmers. That is, while he buys the feed in bulk, he must have available different feed mixtures to satisfy the needs of his members. The acquisition of a number of different varieties of feed cuts down on the savings in bulk buying requiring the farmer to pay more for his feed. Transportation costs are another factor adding to the price of feed.

#### Coffee Cooperatives

The coffee industry has by far made the greatest advances in integrated marketing. Its next step is to form some kind of integrated cooperative marketing system

for the two principle cooperatives--Sunset Coffee Cooperative and Pacific Coffee Cooperative. Once this merger is achieved, the coffee industry will be the only industry which has a totally integrated cooperative marketing system.

The development of promotional programs for Kona Coffee have been financed on a matching fund basis with the State of Hawaii and has been administered by the marketing outlet, Superior Tea and Coffee Company. If present conditions persist, the forecast is an upsurge in the price and demand for Kona coffee as a gourmet item. However, even the most optimistic realize that the coffee industry may never again attain the highs of the mid-sixties. The goal is to maintain an equitable price for coffee.

#### Miscellaneous

Macadamia nuts is probably the most important of the miscellaneous group of products. Presently, macadamia nut producers sell their crops either to Sunset Coffee Cooperative, which operates a shelling and roasting plant, or directly to the private processing plants, which make macadamia nut candies or roasted nut products. There is much opportunity in this area to establish a cooperative system since the projections of marketing potential in exports of macadamia nuts are reported to be excellent.

Other miscellaneous crops in fruits and vegetables have little or no market impact upon diversified agriculture because of their seasonal sales and the smallness of the volume of production. Most of these commodities experience the same problems affecting the rest of diversified agriculture.

The greatest area which is developing in diversified agriculture is in flowers. Anthuriums and other ornamental flowers are presenting marketing challenges to the industry. The hardiness and the long life span of the anthurium make it an excellent prospect for exportation. Orchids can also be exported as specialty items although the care necessary in their growth may render them unfeasible for volume marketing.

Presently no cooperative marketing association has developed in this area and the possibilities for benefits to growers through cooperative marketing look good. Consolidation of packing and preparation procedures would cut costs and air transportation rates may be lowered through bulk transporting.

## MARKETING PROBLEMS

TRADE STRUCTURE AND MAINLAND COMPETITION. The competition from mainland products, which can be produced at a cheaper rate and shipped over to the State and sold for less than native-grown products, has always been a threat to diversified agriculture.

In recent years, the threat has been even more of a problem as a result of more efficient production methods of mainland farmers and the lowering of shipping rates through containerization while production costs in Hawaii have risen and inter-island transportation costs have increased. The practical result is that mainland eggs can be sold for thirty-nine cents a dozen while it costs forty-one cents a dozen to process island eggs.

A study entitled The Impact of Economic Growth on the Agricultural Trade Structure of an Island Economy, written by Bertrand M. Renaud and published by the University of Hawaii Agricultural Experiment Station, projected the supply and demand trends for seventeen commodities in diversified agriculture which represented ninety-five per cent of the crops. The conclusion involving the interrelationship of demand, personal income, supply, and import needs was stated as follows:<sup>9</sup>

"The long-run income elasticity of demand for all fresh vegetables was negative and large. This implies that the level of per capita demand will decrease as personal income increases. In most cases, the growth of population will maintain the volume of total demand at the level of 1967. Nonetheless, the trade gap will increase as supply is projected to decrease. These trends in consumption are similar to those on the mainland: consumer preferences are shifting away from fresh vegetable products, while demand for additional services in the form of processed foods is increasing with income. The trends imply a less favorable trade structure for Hawaii's producers, since processed foods are generally imported. The only exception is lettuce, which has a large positive long-run income elasticity. Its level of demand is expected to increase on a per capita basis as well as the total volume. However, the level of local supply will not increase sufficiently and the need for greater imports will increase.

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In the case of animal products, the long-run economic elasticity of demand was always positive. Consequently, the volume of demand for beef and veal, pork, chicken, eggs and milk will increase. For beef and veal, the 1975 level of total demand is projected to be one-third higher than 1967. Hawaii's producers are expected to expand their production significantly. But due to the expected rapid rise in demand, the current need for imports from the mainland will not be reduced. Total demand is expected to be increasingly satisfied through imports. The demand for chicken is expected to continue its upward trend but local production is not expected to resist competitive pressures from the mainland and the level of imports will increase. The demands for eggs and milk will increase at different paces. In the case of milk, a significant increase in the level of consumption of "filled" or "imitation" milk is anticipated. This change has been interpreted as an increase in import requirements, since powdered milk comes from the mainland.

As for tropical crops, the only two products of great potential locally and for export are macadamia nuts and papayas. Their long-run income elasticity is very large and demand and supply are expected to increase rapidly. Passion fruit also had a large positive income elasticity, but as a crop it is not economically very significant. The income elasticities of the other products were negative and their levels of demand are projected to decline significantly.

Overall, diversified agriculture does not appear to be in a position to take advantage of the projected increases in the level of income and of population. The only sector that will greatly benefit is the animal products sector. But even in this case, the level of imports will increase. The trade structure of the local economy is projected to require greater reliance on mainland imports of food products. The only factors which could reverse this trend would be greater scale of production accompanied by greater efficiency, better marketing techniques, and the development of local food processing facilities. Otherwise diversified agriculture will not grow and the value of the tourist multiplier will be consequently reduced."

From this conclusion it is clear that the present cooperative marketing system has not been effective in turning the tide against mainland imports and unless measures are taken to revamp present marketing and production practices in the State, agriculture may become an import industry. Marketing emphasis, therefore, must be changed.

Thus far, the state government has not done much in the area of cooperative associations and the domestic marketing problems faced by diversified agriculture. Most of the agricultural programs established, such as the Agricultural Products Program, administered by the Department of Agriculture or the agricultural promotional functions performed by the Department of Planning and Economic Development, have placed their emphasis on developing agricultural commodities for export purposes or expanding the export market for certain agricultural commodities. While these programs do benefit commodities like papaya, coffee, sugar and pineapple, the other commodities produced by diversified farmers do not lend themselves to exportation and consequently have not reaped the benefits of such programs.

Legislation in recent years has attempted to deal with this problem by requiring labels to be placed on poultry and livestock products to differentiate between mainland imports and Hawaii-grown products. However, differentiation is not enough of a stimulant to motivate the consumer to buy Hawaiian products. In order to save the domestic market, the State must begin to aid diversified agriculture in a campaign to emphasize the advantages

of Hawaiian grown products over mainland imports. Programs such as the one which has helped the papaya industry expand its markets on the mainland and overseas should be implemented for other diversified agricultural commodities with emphasis on expanding the building of their domestic market potential. A "Buy Hawaii" product promotion program is vital.

However, the State needs the cooperation of the diversified farmer to produce the best possible product on which to base a marketing campaign. This is where the cooperative association can become an important factor. Since the cooperative association has the necessary power of enforcing quality and grading standards, the State could work closely with the associations to assure that the farmers will produce quality products. (A more detailed discussion of quality standards will be found later in this chapter.) In addition, the cooperative association represents an already existing organization through which programs may be implemented and problems may be brought out.

The benefits of such a joint venture would be the strengthening of the domestic agricultural market as well as aiding the marketing programs of the agricultural cooperative associations.

TRANSPORTATION AND PRODUCTION COSTS. Hawaii's isolation from the Mainland and its island geography makes it particularly dependent upon air and sea transportation systems as the main thoroughfares of commerce. An adequate, efficient and low cost transportation system greatly contributes to the well-being of the economy. Inefficient, inadequate and high cost transportation systems handicap the economy.

Unfortunately, Hawaii's dependence on sea and air transportation has not stimulated competition in the area but rather has left the State in an almost monopolistic situation. Presently, there are two airlines, Hawaiian Airlines and Aloha Airlines, and one sea transport system, Young Brothers, Ltd. Such a situation has presented many problems because of the imbalance between the service supply and the demands of the economy. Freight and passenger rates between the islands have increased steadily over the past couple of years as a consequence of this imbalance. However, there are other contributing factors to the rate increase:<sup>10</sup>

1. Limited back haul;
2. Uneconomic loads;
3. Competition for limited space;
4. High taxes and wharf fees; and
5. High cost of services.

With the present situation, the producers of agricultural products on the neighbor islands have no real alternatives for transporting their goods to market. Perishables are sent by air through one of the two airlines, both of which charge the same air freight rates. Non-perishables may go by barge through the one sea transport company.

Aside from the effect the high cost of transportation has on the final market price of the agricultural product, it also affects the cost of production, particularly in the area of livestock and poultry. Grain feed must be imported from the

Mainland since Hawaii has no visible grain industry at present. As a result, transportation costs are included in the cost of feed, adding to the already high cost of production. Even bulk purchasing does not significantly reduce the cost of feed to allow island livestock and poultry to compete equitably on the market.

The dairy industry needs to develop an economic source for feed concentrates and roughages. Estimates show that the annual requirements amount to 135 million pounds. "At a cost of three cents per pound, this equals approximately \$4.0 million annually. The estimated annual feed concentrate requirements amount to seventy million pounds valued at \$3.5 million."

The poultry industry faces the same problem since all the raw materials necessary for production must be imported. This transportation expense is then added into the price farmers pay for the materials of production.

Vegetable and fruit production suffer from high costs due to the small yields, the price of chemicals and fertilizers, and the costs of transporting the goods to market.

WHOLESALE VERSUS COOPERATIVE. The cooperative association can help the farmer combat many of the marketing problems facing him. But thus far many cooperatives have not met the needs of their farmer members. In most cases, the cooperative is in no position to compete on the marketplace or more importantly to compete with the wholesaler who remains his most potent competitor.

The biggest advantage that the wholesaler has over the cooperative association is his ability to deal in both Hawaiian agricultural products and mainland imports. As a consequence, the wholesaler can meet the volume demands of large buyers. The cooperative association, on the other hand, is limited by law to deal only in "products of Hawaiian origin" (Section 421-2, Hawaii Revised Statutes). This requirement places the cooperative in a weak position since its volume is not large enough to meet the demands of the large buyer leaving him with small markets which have limited growth potential.

The resultant effect has been the necessity of selling the cooperative produce to a middleman, either the wholesaler or a "jobber", who in turn supplements the produce with mainland products to be sold to retail food chains, the tourist industry and other large buyers. What this means to the farmer is an extra transaction which reduces the returns on the produce. This reduction happens because of the system under which sales are conducted. The cooperative does not pay the farmer immediately upon the delivery of goods, but pays him after the goods have been sold to the wholesaler. In turn the wholesaler pays the cooperative after it sells its goods to the retail buyer. Then the wholesaler returns to the cooperative the price it received minus the service charge and profit; the cooperative then gives the farmer the amount it received from the wholesaler minus the service charge. As can be seen, this system does cut into the farmer's returns

and defeats the purpose of using a cooperative as a marketing outlet. Cooperatives should be selling directly to the large food buyer or retail food chain, cutting marketing service costs to a minimum and thereby insuring the farmer member the greatest returns for his produce.

QUALITY STANDARDS AND GRADES. Grades and quality standards present another stumbling block for the development of cooperative marketing programs, particularly in the area of fruit and vegetable and some areas of livestock and poultry marketing. Marketing cooperatives on the mainland have been pioneers "in paying producers on the basis of grade and quality. Cooperatives that have done the quality program (often) sell under their own brand names and effectively merchandise and advertise their products."<sup>12</sup> Unfortunately, a majority of the cooperatives in Hawaii do not impose strict grade or quality standards for the commodity the farmer markets through the cooperative. As a consequence, the type of produce the cooperative may receive varies with the producer or with the particular planting, leaving the cooperative varied qualities of goods.

Standardization in quality and grades is an integral part of any marketing program of agricultural produce. Consumers buy on the basis of standardization. For instance, a product like Chiquita Banana has based its marketing appeal on uniformity. Every Chiquita Banana looks like every other Chiquita Banana. In all cases, the fruit is yellow, large, and usually has no

bruises. If the consumer were to compare island bananas which vary in size, do not have the same uniformly yellow color, and have bruises on the skin of the fruit, but for all practical purposes tastes just as good or better than the Chiquita Banana, chances are that the consumer will buy the Chiquita Banana. It looks better. While attractiveness of the product is only one aspect of the standard on which to base a marketing program, it nonetheless illustrates the effectiveness of one type of quality standard. Moreover, this type of buying persists in the sale of most produce. Tomatoes must be large, red and firm. Lettuce leaves should have no brown spots. Cabbage should be heavy since the weight indicates that the vegetable is compact and that one is getting his money's worth.

Based on the demands of their customers, large food buyers and retail markets look for quality goods and are willing to pay better prices for the assurance that the goods will be of uniform quality. In addition, uniformity of the product prevents inefficient marketing due to waste. The fact that some products are smaller in size or are not as attractive reduces their chance of being sold, resulting in "left-over" produce which must be thrown away or sold at a reduced price. Income loss through waste is usually prevented through quality and standard requirements.

The laxity of Hawaiian cooperatives to impose stricter quality and grading standards brings on a hesitancy on the part of the buyer to deal extensively with these cooperatives. This

leaves the cooperative with many small buyers who are less strict in their requirements but represent a limited market with little or no room for volume growth in marketing.

CONSIGNMENT SALES. Consignment sales practices for produce presents another problem for the cooperative association. Although this is a long standing practice among wholesalers it adversely affects the Hawaii farmer. Whether the farmer markets his goods through the cooperative association or deals directly with the wholesaler he is still subject to these consignment sales. Mainland produce, on the other hand, is usually bought under contract, sometimes at a higher cost, and shipped over to the State. In terms of marketing, this means that the wholesaler tends to sell the mainland produces over the local produce since he has already purchased those goods at his own expense. Hawaii produce therefore may be relegated to second priority.

Consignment sales also allows the wholesaler to return whatever goods are unsold or which have been spoiled in the process of marketing and cannot be sold. The farmer is then paid for only that produce which actually were sold to the retailer. The problems of spoilage and other biological processes which may happen during the marketing process become the responsibility of the farmer who faces the consequences for conditions which are essentially out of his hands. Of the three persons involved in marketing, the farmer, the wholesaler, and the retail buyer, it is the farmer who is least able to absorb the loss he now must accept.

THE INDEPENDENT FARMER. Independent farmers have demonstrated a great resistance to joining marketing cooperatives. Many cooperative managers interviewed admitted that presently there is nothing the cooperative can do for the farmer that he cannot do for himself. This comment lead to an examination of some of the reasons why independent farmers do not join cooperatives.

(1) Independent farmers contend that cooperatives do not allow for the maneuverability and flexibility that one man has in dealing with the wholesaler. Since both must deal with a wholesaler, the independent farmer finds it more profitable to deal directly with the wholesaler often being able to undercut the price of the cooperative's produce while still making a profit.

(2) Independent farmers fear cooperative organizations because many of them are large successful producers who do not want to lose their power in the one-man-one-vote concept. Most of the independents feel that the cooperative harbors many of the less successful, less aggressive, and less efficient farmers. They do not wish to risk their profitable business in the hands of those less capable.

(3) Many of the independent farmers, through their own initiative, produce some of the best quality goods for market. With the laxity in the quality standards of most cooperatives, many feel that their asking price will be compromised since all goods are sold in bulk. Substandard produce from another farmer will lower the price of the goods.

(4) Purchasing privileges, which may once have been a selling point for cooperatives, no longer is an effective inducement to join the cooperative. In the case of fruit and vegetable farming, many independents have informally formed a purchasing group which can obtain the same type of discount the cooperative has provided.

(5) Since most independent farmers are progressive farmers, many take the initiative of learning about new methods of more efficient production. As stated earlier, cooperatives do not really have any formal program to inform their members of new production or marketing methods. Thus, this aspect of the cooperative does not provide the independent with anything new.

(6) Many independents have had personality conflicts with cooperative members and to some extent have been ostracized from the farm community. Being unwelcome in an organization is not an incentive to join.

To a certain extent there is validity in the seven points brought out by the independent farmers. Even cooperative members agree on some points such as the favoritism on the part of the cooperative manager, or the fact that many of the members of the cooperative are less successful than the independents. However, the independents themselves must begin to realize that they cannot continue in the manner they have been moving. While they may be successful now, their efficiency and volume output will not be able to keep pace with the growing demand of the urban industrial complex and eventually even these successful farmers will have to face the hard realities now being experienced by the cooperative associations.

## CHAPTER III

### THE AGRICULTURAL COOPERATIVE ASSOCIATION LAW: PROVISIONS FOR THE FUTURE

The Agricultural Cooperative Association law, Chapter 421, Hawaii Revised Statutes, has not been significantly revised since its enactment in 1949. During the intervening years, the business practices and services of the cooperative have undergone a nationwide change and laws of other jurisdictions relating to agricultural cooperatives have been amended to adjust to the new demands placed on cooperative associations.

Once based on informal cooperation among groups of farmers, cooperative associations have emerged as large business concerns affecting whole sectors of the agricultural community. Cooperative brands such as Sunkist, Lindsay Ripe Olives, Sun Maid Raisins, Ocean Spray and Welch's grape products represent the ultimate in the development of marketing programs for its member farmers. However their emergence has required adjustments in cooperative organization practices.

Although surface evidence seems to point to a change from one cooperative organization to another, the principles of democratic control by the members, the nonprofit status of the association and the sharing of savings returns still remain basic to the concept of cooperative associations. A change is occurring, however, in an attempt at streamlining operations to compete with the private businesses involved in the same activities as the cooperative. Consequently, the cooperative

must be given some latitude under the law for optimum development within the concept of cooperative activity.

To this end, the present law was reviewed with the help of the legal department of the Berkeley Bank for Cooperatives and Percy Smith, Esquire, formerly of the Bank and a consultant to some Hawaii cooperatives. Most of the suggested changes involved relieving the law from many of the encumbrances which have either become archaic or have hindered Hawaii cooperatives from keeping pace with their private competitors.

The first suggested change and probably the most controversial concerns the limitation in the law which requires cooperative organizations to handle only "products of Hawaiian origin". Present marketing conditions show that Hawaiian agricultural cooperatives cannot fulfill the needs of the consumer market. As a result, most cooperatives are unable to sell directly to the large retailer or to buyers such as the military or the tourist industry since they cannot guarantee the quantities required by volume buyers. Many are confined to selling goods to small buyers whose markets provide little opportunity for expansion or to wholesalers who supplement island products with mainland or foreign imports to meet volume orders. "In order to supplement such supplies from other-than-Hawaiian sources, some cooperatives....have set up subsidiary corporations through which they are able to draw mainland supplies if necessary." However, many of these subsidiary corporations have been like an albatross to the already unstable cooperative.

The removal of the Hawaiian origin restriction is a necessary and vital part of strengthening the position of cooperatives in the State and would preclude the necessity of forming subsidiary corporations which may lead to legal entanglements. With the ability to import mainland goods to supplement present supply, cooperative associations would have a stronger base and more leverage from which to operate in meeting their market commitments. For example, the ability to sell a viable and consistent amount of a given product could lure the large retailer into buying directly from the cooperative rather than dealing through a middleman, either a private wholesaler or a "jobber". Greater returns on the produce sold would be one of the benefits received by the farmer. The elimination of the extra transaction with the middleman, resulting in less handling of the produce, could reduce the time between the field and the market, thereby improving the condition of the produce sold to the consumer.

Secondly, the omission of the Hawaiian origin provision permits the various cooperatives to develop and implement more orderly and reliable marketing programs. In the case of hogs, for instance, the production of island pork does not meet the demands of the buyers. Being allowed to import mainland pork would give the island pork producers a chance to develop a total marketing program by ensuring their buyers of a steady and adequate supply of pork. In the case of poultry, the ability to import mainland eggs would extend some control over the flow of mainland eggs to the poultry farmer, thereby establishing a more stable market situation, eliminating conditions like the

recent fluctuation in egg prices. The same benefit would occur in vegetable marketing. For instance, tomatoes grown in Hawaii could compete more equitably with mainland tomatoes if local cooperatives were allowed more control over the importation of the competing product.

Thirdly, the approval to handle non-native products would enhance the cooperative association's price bargaining position with the retail markets, large wholesalers and other food buyers. This places the cooperative associations in an offensive position to establish prices for their commodity as opposed to the present defensive position which often leaves the farmer at the mercy of the wholesaler or large buyer. Having produced a product at his own expense, it should be the prerogative of the farmer to demand a given price for his crop provided it is in line with market conditions. Presently, the Hawaii farmer has almost no control over his goods beyond the production stage. With the leverage given him by the ability to import mainland crops as supplements to Hawaiian grown produce, he is in a better position to set prices for his goods and to extend the control over his product.

On the other hand, it should be noted that the fact that cooperatives would be allowed greater self-determination and more effective marketing development under the removal of the "Hawaiian origin" restriction does not necessarily mean that food prices will automatically come down. The result, however, would be a greater return to the farmer and a more orderly marketing of Hawaiian grown products, all of which will eventually affect the price of agricultural products and establish the Hawaiian

agricultural industry as an economically solvent contributor to the total economy.

#### SECTION BY SECTION AMENDMENTS

Section 421-4 Articles of Association. This section relating to the formation of cooperative associations contains a provision which can be eliminated. This is the requirement of the word "cooperative" in the name of the organization. Nationwide trends show that there is a definite move away from the use of the word "cooperative" in the name of the organization, as cooperatives branch out into other areas of agricultural services. This, however, does not preclude the use of the word by any association that wishes to include it in its name, but it allows cooperative associations which feel that the name relates an uneasy connotation among the general public to by-pass the word while still embodying the practices and principles of cooperative associations. In addition, with the move towards greater corporate practices, some cooperatives may feel that the use of the word in the name would create expectations on the part of the consumer which are not necessarily part of the cooperative's goal.

Section 421-6 Filing and recording articles of association. Paragraph (c) of this section limits the life of the cooperative association to fifty years. Such a requirement is cumbersome and not necessary since most corporate laws provide that a corporation shall exist in perpetuity.

Consequently, this provision should be changed to allow the cooperative a life in perpetuity. The renewing of articles of incorporation only causes extra work for the organization. And since articles of incorporation may be amended at any time, the necessity for having to renew the articles becomes superfluous.

Section 421-9 Powers. The cooperatives are required to limit their "annual purchases made for persons who are neither members nor producers...to fifteen percent of the value of all its purchases".<sup>1</sup> Such a limitation was placed in the law to ensure that the cooperative would qualify for tax exemption under the federal law. However, at the same time, this forces the cooperative into a tax exemption category. It is possible that some cooperatives may not necessarily want to be tax exempt if the patronage from nonmembers is a vital part in building its stability.

It can be argued that the omission of this phrase would give the nonmember farmer an undue advantage since he could now purchase at cooperative discount prices or use cooperative marketing services without bearing the burden of the operational costs. There are other ways of making nonmembership uninviting which the cooperative may determine in its bylaws. In any case, the cooperative membership is given the choice.

Section 421-18 Contracts between association and members.

In contracts between associations and its membership, the length of time for which the member is committed to patronize the

cooperative association is three years. Thereafter, the member may terminate the contract and withdraw from the association. This withdrawal and termination requirement should be lengthened from the present three-year requirement to a period of ten years. The importance of such a commitment becomes evident when a cooperative association is seeking financing for capital improvements or other loans. The financial institution normally looks at the willingness of the cooperative members to commit themselves to the association. The rationale for such thinking rests on the principle that if the cooperative members are willing to invest ten years in their cooperative organization, then the bank gains some assurance that the organization will be in existence for at least ten years. Banks are hesitant to extend term financing if they cannot be assured that the organization will have a duration at least the length of the loan. The commitment also gives the lending institution some indication of the reliability of the members who compose it. Some of the borrowing problems of the cooperatives in Hawaii stem from the fact that members often do not invest a fair share of the capital investment and expect the government or the private banking institutions to extend them credit. The realities of good banking procedures, however, do not work in this manner.

If, on the other hand, during the ten year period a member is expelled from the cooperative, he should not be required to honor the ten year obligation against his wishes. A provision

for the voiding of the contract except when both parties agree to continue the contract should be included.

SECTION 421-23 Taxation. There is a reference to the filing of documents with the director of taxation of each district concerning the operations and proceeds of the preceding calendar year. The March 20 deadline has caused problems for many cooperatives since not all cooperatives keep their accounts based on a calendar year. In cases where the cooperative association uses a fiscal year, the association is now required to file a fiscal year report for its patrons and a calendar year report for the director of taxation.

In addition, most farmers keep their accounts on a cash basis and report their gross income for the period from December to November. This figure will therefore differ from the January to December figure required by the director of taxation.

The requirement for such reports to the tax department should be changed to ninety days after the close of the fiscal year as are presently required by law for corporations.

Without forsaking the principles of cooperative associations it is necessary for the law to allow the cooperative association to adjust some of its procedures to establish a form of organization which would grant the greatest efficiency to help eliminate waste in both production and distribution. Much more power should be given to the cooperative on such internal issues as to whether to become a taxable institution, how to deal with nonmember business, and most importantly the ability to deal

in non-Hawaiian produce. It was stated that the cooperative, presently, could offer no services to a farmer which a nonmember farmer could not do for himself. The self-determination advantage in the aforementioned issues are designed to give the cooperative the right to offer the member farmer special privileges over the nonmember farmer who uses the cooperative as a marketing outlet. In this way, membership would definitely be an advantage over nonmembership thereby inducing the nonmember into joining the cooperative.

## CHAPTER IV

### AGRICULTURAL MARKETING COOPERATIVES: PLANNING FOR THE FUTURE

From the foregoing discussion it can be seen that agricultural cooperatives face a myriad of problems which must be solved before the cooperative can offer the independent farmer any kind of incentive to join marketing cooperatives. Basically, a strong and efficient cooperative is the only incentive for membership. The problem, then is to develop cooperative associations to a position in which they can aid the farmer in his marketing. They must have marketing power, that is, where the cooperative is in a position to either pull or push their products through the market.

#### THE INSTITUTION

Cooperative associations have not fared well in diversified agriculture because of internal deficiencies. Farmers have been unfamiliar with cooperative operations and as a consequence have misused the cooperative. Cooperative managers and government personnel have not been able to provide the impetus necessary to guide and counsel the farmers in their cooperative ventures. Underfinancing and lack of equity reserves have hindered the growth and development of many marketing cooperatives. Personality conflicts have compounded the already existing organizational problems, making it even more difficult for the cooperative to operate as a cohesive organization.

Marketing agreements setting out volume requirements and quality standards and grading schedules have never been formally established between the cooperative and the member. The result has been an unsteady flow of goods, varying in quality and grades, making it particularly difficult to implement a scheduled and steady marketing program. The total result has been a weak and ineffective marketing of Hawaiian diversified agriculture.

As with most existing institutions, there is a limited opportunity for sweeping changes in the methods of operations of existing cooperatives, save dissolving them all and establishing new integrated cooperatives within the various commodity groups. However, there are a number of areas in which cooperatives can implement or change their practices which may help improve their marketing potential.

- (1) Consolidation and merger. Consolidation and merger must be undertaken if Hawaiian cooperatives are to make any real impact and influence on the agricultural market of the State. Cooperatives with small volumes, competing for the same buyers, result in the eventual demise of the cooperatives and pave the way for large food distributors to dominate the market.
- (2) Marketing agreements. Marketing agreements should be instituted between the farmer and the cooperative. Stricter regulation of quality and grading standards should be enforced and farmers who do not bring in goods of the specified standard should be penalized in some manner. Volume requirements should also be implemented so that the cooperative manager will be able to plan a better marketing program for his goods. Likewise, the cooperative manager has the responsibility of establishing marketing outlets so that the sale of the goods will be consistent.
- (3) Revolving Credit Plan. Cooperatives should use the revolving credit plan, where possible, to help

build up capital reserves and farmers should be informed of the long range benefits of such a program. Capital investment on the part of the farmer should be increased for greater ease in obtaining loans from financial institutions. In addition, a greater monetary investment on the part of the farmer makes him realize that he has a financial stake in the business to protect.

- (4) Bylaw and articles of incorporation. Cooperative associations should review their bylaws periodically to determine the feasibility of some of the practices they provide for or adjust those which have become outmoded. Associations should experiment with different voting methods to insure equitable treatment for all members.
- (5) Plans for future marketing. Plans for future marketing should be designed with the aid of the State Department of Agriculture, the Cooperative Extension Service, and the Department of Planning and Economic Development. Cooperative Associations should look into other alternatives to their present marketing programs.

In addition to these internal changes within the cooperative associations, a parallel development should be occurring in the formation of a State Council for Cooperatives. The council should provide the vital communication linkage and leadership now lacking among cooperative associations. It would act as a liaison between associations and the general public or between the associations and the various government agencies including the legislature. Council programs vary widely in the thirty-three states which have organized such councils. However, most of their programs can be categorized into four areas: (1) advertising and public relations; (2) education and member relations; (3) legislative work; and (4) work with other organizations and agencies. The state council may undertake those programs which the existing cooperatives cannot furnish its members--a newsletter of cooperative

farm information, educational and research services in the area of market promotion and new product recommendations, public relations work in the schools and educational institutions to interest young people in farming as a profession.

The recommendations mentioned in the above discussion must be done by the cooperatives themselves and are not the subject of legislative concern. Government programs are not necessarily the answer to the problem.

#### GOVERNMENT PROGRAMS

The role of government in the area of cooperative marketing should be to encourage farmers to use marketing cooperatives as their marketing agent. Encouragement can come in many forms including direct and indirect benefits to the cooperative or to the farmers themselves. Promotional programs, capital investments for facilities resulting in the formation of cooperative associations, education programs to help the farmers learn of cooperatives in other jurisdictions and tax incentives should be considered.

The most direct form of incentive would be to exempt farmers from the gross income tax on the sale of goods that are marketed through the cooperatives. Presently, under the general excise tax laws of the State, the farmer is required to pay one-half of one per cent on the gross income he receives from the sale of his goods. The amounts of loss in state revenue would be minimal. According to figures gathered during 1970, the sale of goods through cooperative associations amounted to a total

of approximately \$12 million. At the rate of the taxation, one-half of one per cent, this would mean that State would be losing some \$60,000 in revenue. However, this amount is expected to increase if more farmers join cooperative associations, and therefore such a tax incentive could be limited to the first ten years of membership.

Another area of tax exemption which could be extended to the cooperative association is a real property exemption on the land, the building, improvements and other capital investments on the facilities of the cooperative association. Without the real property tax, cooperatives may be more likely to consider capital improvements on their property. The property tax exemption, may also allow cooperatives to obtain more centrally located business properties thereby allowing for easier market contacts. Presently, this would mean an exemption on some thirty properties.

The amendment could either be made by adding the class of agricultural cooperatives to the present exemptions under non-profit corporations found in Section 246-42(6), Hawaii Revised Statutes, or by adding a new section spelling out the exemption.

Pilot programs and product promotional programs should be expanded. Presently these two programs are being administered by the Department of Agriculture and the Department of Planning and Economic Development, respectively.

On product promotion, the legislature normally appropriates a lump sum to be given to the Department of Planning and Economic Development for administration. The department then divides up the money for the different commodities depending on

the needs of the industry and the amount the industry can contribute since the program is based on a matching funds system.<sup>1</sup> However, a number of cooperative managers who were interviewed mentioned that some industries do not have the money to match with the state's contribution and therefore lose the funds. It may be possible that flexibility be used in the matching fund formula allowing the state's and the industry's contribution to vary with the economic condition of the industry. Or it is possible that the State may contribute the whole amount with payment from the industry for its share coming at a later date.

Thus far, both coffee and papaya promotional programs have been implemented through funds provided by the legislature. While it is realized that each commodity has certain unique qualities that may be taken advantage of in an advertising and promotional campaign, nonetheless, the State, along with the agricultural industries and in particular the industry associations and the cooperative marketing associations, should consider a statewide promotion on Hawaiian agricultural products, emphasizing those qualities which may set them apart from mainland or foreign imports. More importantly, the State must begin to focus its attention on the domestic market products rather than continue to concentrate on only export commodities. Both the product promotion program under the Department of Planning and Economic Development and the agricultural products program under the Department of Agriculture have focused on export promotion and potential rather than in state promotion. As a result only those products which have export value are promoted.

Pilot projects administered through the Department of Agriculture have established a vacuum cooling plant on the island of Maui and Hawaii.<sup>2</sup> The capital investment on the building of the plant was made by the State through legislative appropriations. Land used for the building was state land and the operators of the plant pay a minimal rental to the State for the use of the land. In the process of establishing a vacuum cooling plant, however, a cooperative had to be formed to take over the operations of the plant from the State, the result was the Kamuela Vacuum Cooling Cooperative and the Maui Produce Processing Cooperative.

The pilot program for building facilities could be expanded to other areas of diversified agriculture. For instance, the livestock and poultry industries could benefit from feed grain storage warehouses to aid them in keeping down the cost of feed and stocking the feed supply to ensure a constant supply even during times of a dock strike which may cripple the island's supply indefinitely. The pork industry would find benefit in a slaughterhouse since recent development have left them at the mercy of two slaughterhouses for the State. Other industries such as coffee, dairy and livestock, macadamia nuts, flower and other growing areas may possibly apply for help in these areas. However, prior to the planning of such programs, feasibility studies should be conducted to determine the probable success of such ventures. In addition, the operational aspects of these physical plants should be done by cooperatives formed for such a purpose.

Educational programs is another area in which the State and the cooperative association may work in the promotion of cooperative marketing. For instance, an exchange program may be established between Hawaii cooperative members and cooperative members from other jurisdictions to meet either here or on the mainland to discuss problems and exchange ideas. The biennial conference could be scheduled annually and an agricultural fair sponsored jointly by the cooperative associations and the State could be used as a vehicle to develop public awareness of the agricultural sector of the economy.

As previously discussed, the Agricultural Cooperative Association law, Chapter 421, Hawaii Revised Statutes, should be amended to allow at least a percentage of the volume a cooperative may handle to be of non-Hawaiian origin. Of all the suggested amendments, this is the most important as it would give the Hawaiian cooperatives the needed volume supplement to meet the market demands of food buyers. It would also insure a more stable price on the goods sold and give the cooperative more control over fluctuating prices due to over supply of goods.

With all of its small farmers producing small volumes of agricultural goods, Hawaiian agriculture should be most conducive to cooperative marketing. However, such has not been the case. Instead, marketing has developed into many small cooperatives competing against larger independent farmers for the same marketing outlets. While it may have been possible at one time to

adopt a "wait and see" policy, time is beginning to run short. Mainland competition is gaining on the market and unless some kind of reformation occurs in the present marketing system, agriculture may become a purely import business.

## FOOTNOTES

### Introduction

<sup>1</sup>Hawaii, Governor's Agriculture Coordinating Committee and Department of Planning and Economic Development, Opportunities for Hawaiian Agriculture, Agricultural Development Plan, (Honolulu: 1970), p. 80.

<sup>2</sup>Ibid., p. 80.

<sup>3</sup>House Resolution 92, HD 2, See Appendix A.

<sup>4</sup>The average size of a farm in diversified agriculture is approximately between 10-20 acres.

### Chapter I

<sup>1</sup>Israel Packel, The Organization and Operation of Cooperatives, Joint Committee on Continuing Legal Education, American Law Institute and American Bar Association (Philadelphia: 1970), p. 2.

<sup>2</sup>For details on Rochedale principles see article by Milton Conover entitled "The Rochedale Principles in American Cooperative Associations" published in The Western Political Quarterly, vol. XII, no. 1, part 1, (March 1959), pp. 111-122.

<sup>3</sup>Milton Conover, "The Rochedale Principles in American Co-operative Associations", The Western Political Quarterly, vol. XII, no. 1, part 1, (March 1959), p. 111.

<sup>4</sup>Russell C. Engberg, Financing Farmer Cooperatives, Banks for Cooperatives (Washington: 1965), pp. 2-3.

<sup>5</sup>See Appendix B.

<sup>6</sup>U.S., Farm Credit Administration, A Statistical Handbook of Farmers Cooperatives, Bulletin 26, (Washington: November 1938).

<sup>7</sup>U.S., Department of Agriculture, Office of Information, A Fact Book of U.S. Agriculture, (April, 1970), p. 48.

<sup>8</sup>Norman Meller, Agricultural Marketing and Purchasing Cooperatives, Legislative Reference Bureau, Report No. 2, (Honolulu: University of Hawaii, 1947), p.4.

<sup>9</sup>For more details on the Hawaii Produce Market, see C. W. Peters and John L. Rasmussen, Integrating Hawaiian Agriculture through Cooperatives, Agricultural Experiment Station, Agricultural Economics Report No. 57, University of Hawaii, (Honolulu: December 1961).

<sup>10</sup>C. W. Peters, John L. Rasmussen, Integrating Hawaiian Agriculture through Cooperatives, Agricultural Economics Report No. 57, Agricultural Experiment Station, College of Tropical Agriculture, (Honolulu: University of Hawaii, 1961), p. 8.

<sup>11</sup>Ibid., p. 10.

<sup>12</sup>C. W. Peters, Agricultural Cooperatives in Hawaii, Agricultural Economics Report No. 42, Agricultural Experiment Station, College of Tropical Agriculture, (Honolulu: University of Hawaii, 1959), p. 9.

<sup>13</sup>See Appendix C and D.

<sup>14</sup>A breakdown of the total figure showed that sugar and pineapple represented 70.5 per cent or \$149.3 million of the total of \$211.9 million.

## Chapter II

<sup>1</sup>Agricultural Council of California, Exploring Farmer Cooperatives, (Sacramento: 1970), p. 15.

<sup>2</sup>Opportunities in Hawaiian Agriculture, p. 56.

<sup>3</sup>Opportunities in Hawaiian Agriculture, p. 33.

<sup>4</sup>Heinz Spielmann and Edmund R. Barmettler, Financing Farmer Cooperatives in Hawaii, Hawaii Agricultural Experiment Station, Agricultural Economics Report No. 79, (Honolulu: University of Hawaii, 1969), p. 33.

<sup>5</sup>U.S. Farmer Cooperative Service, U.S. Department of Agriculture, How to Start a Cooperative, Educational Circular 18, (Washington: U.S. Government Printing Office, 1965), p. 6.

<sup>6</sup>Financing Farmer Cooperatives in Hawaii, p. 12. See also Appendix E.

<sup>7</sup>Financing Farmer Cooperatives in Hawaii, p. 36.

<sup>8</sup>Exploring Farmer Cooperatives, p. 36.

<sup>9</sup>Bertrand M. Renaud, The Impact of Economic Growth on the Agricultural Trade Structure of an Island Economy, Hawaii Agricultural Experiment Station, Research Bulletin 150, (Honolulu: University of Hawaii, 1971), p. 91-92.

<sup>10</sup>Opportunities for Hawaiian Agriculture, p. 17.

<sup>11</sup>Opportunities for Hawaiian Agriculture, p. 23.

<sup>12</sup>Exploring Farmer Cooperatives, p. 21.

### Chapter III

<sup>1</sup>We recognize the fact that the Internal Revenue Service in its code (Section 521(b)(4)) adds a proviso that a cooperative's purchasing activities with respect to nonmembers shall not exceed fifteen percent of the value of all its purchases. However, if a cooperative does exceed such a requirement, it becomes a taxable entity.

### Chapter IV

<sup>1</sup>See Appendix F.

<sup>2</sup>See Appendix G.

## HOUSE RESOLUTION

REQUESTING A STUDY TO RECOMMEND INCENTIVES FOR ENCOURAGING FARMERS  
TO ENTER AGRICULTURAL COOPERATIVES.

WHEREAS, food is not only essential for human life, it is the most pressing need of all goods and services; and

WHEREAS, the largest item in a family's budget is usually food; and

WHEREAS, ability to produce food has provided the nation with one of its largest and most costly domestic problems; and

WHEREAS, the rapid advance of agriculture has brought important gains to society in the form of a low real price for food; and

WHEREAS, agricultural advances have released resources to produce other goods and services of marginal urgency in an affluent society; and

WHEREAS, agricultural problems extend over the entire rural community and have a direct impact on the entire community; and

WHEREAS, the agricultural community must be encouraged to continue these contributions to progress while realizing equitable returns in the process; and

WHEREAS, agricultural cooperatives are uniquely equipped to meet the challenge of providing a firm base for facilitating adjustments needed in Hawaiian agriculture; now, therefore,

BE IT RESOLVED by the House of Representatives of the Sixth Legislature of the State of Hawaii, Regular Session of 1971, that the Legislative Reference Bureau, in cooperation with the Hawaii Farm Bureau Federation, is requested to conduct a study which would recommend incentives for encouraging farmers to enter agricultural cooperatives, emphasizing the potential of marketing cooperatives; and

BE IT FURTHER RESOLVED that the Legislative Reference Bureau is requested to report its findings to the House of Representatives

twenty days prior to convening of the Regular Session of 1972;  
and

BE IT FURTHER RESOLVED that certified copies of this Resolution be transmitted to the Legislative Reference Bureau and the Hawaii Farm Bureau Federation.

## APPENDIX B

### FEDERAL LEGISLATION

"The cooperative undoubtedly represents an important development of a different type of financial control in many parts of our economy ...In fact, like the labor union and the monopolistic business corporation, the cooperative has, in the past, had its existence threatened by state and federal antitrust laws. Only after much difficulty did the courts often with the assistance of specific statutory exemptions, finally reach the conclusion that cooperatives are not illegal under these (anti-trust) laws." (Law and Contemporary Problems) Today, the statutes pertaining to cooperatives are well defined and their federal income tax status has been cleared by statute and regulation.

- (1) Capper-Volstead Act: Although not the first act dealing with cooperative associations, the Capper-Volstead Act formally authorized the formation of associations of producers of agricultural products. It gave these producers the right to "act together in associations, corporate or otherwise, ... in collectively processing, preparing for market, handling and marketing in interstate and foreign commerce such products of persons so engaged." (Capper-Volstead Act) Three provisos were added to the sanction requiring each member to have only one vote regardless of the amount of stock or membership capital to eight per cent per year, and limiting the amount of non-membership business to an amount less than the value of the business handled for members. Enacted 1922.

- (2) Agricultural Marketing Act (as amended): This Act enlarged the Capper-Volstead Act definition of agricultural cooperatives to include any association engaged in "farm business services" and made cooperative associations eligible to borrow from a bank for cooperatives. In addition, it provided for all business conducted cooperative associations for or on behalf of the federal government shall not be included as part of the non-member services in computing the ration of the member services. Enacted 1929.
- (3) Cooperative Marketing Act: The establishment of the Farmer Cooperative Service under the United States Department of Agriculture was authorized under this law. The Farmer Cooperative Service was charged with informational, educational, statistical and consulting services for farmer cooperatives. Enacted 1926.
- (4) Robinson-Patman Act: Essentially, this Act prevents discrimination by cooperative associations, as well as other business concerns, in the selling of commodities of the same grade and quality. It does permit, however, a seller to give a buyer discounts on the basis of the quantity of the sale. Enacted 1936.
- (5) Clayton Act (Section 6): This Act clarified the status of cooperative associations under the Sherman Anti-trust Act. The section reads "Nothing contained in the anti-trust law shall be construed to forbid the existence and operation of labor, agricultural or horticultural organizations, instituted for the purpose of mutual help, and not having capital stock or conducted for profit, or to forbid or restrain individual members of such organizations from lawfully carrying out the legitimate objects thereof; nor shall such organizations, or the members thereof, be held or construed to be illegal combinations or conspiracies in restraint of trade, under the anti-trust laws." However, this section does not guarantee total immunity from any kind of practice which blatantly exemplifies conspiracy in restraint of trade. A Supreme Court decision stated that the language of the section "shows no more than a purpose to allow farmers to act together in cooperative

associations without the associations as such being 'held or construed to be illegal combinations or conspiracies in restraint of trade under the anti-trust laws' as they otherwise might have been." (Legal Phases of Farmer Cooperatives)

# APPENDIX C

## INCORPORATED AGRICULTURAL COOPERATIVES OPERATING IN HAWAII July 1, 1971

Name and Location	Incorporation Date	Functions Performed	
I. <u>Fruits and Vegetables</u>			
Hawaii Farmers Cooperative Association	1934	Marketing	Purchasing
Hawaii Produce Cooperative <sup>a/</sup>	1952	Marketing	Purchasing
Hilo Farmers Cooperative Exchange	1943	Marketing	Purchasing
Kamuela Farmers Cooperative Association	1947	Marketing	Purchasing
Kamuela Produce Exchange Cooperative	1966	Shipping	
Kamuela Vacuum Cooling Cooperative <sup>b/</sup>	1964	Processing	Vacuum Cooling Services
Maui Farmers Cooperative Exchange	1943	Marketing	Purchasing
Maui Produce Processing Cooperative	1964	Processing	Vacuum Cooling Services
Maui Vegetable Growers	1945	Marketing	Purchasing
Mr. Papaya Cooperative, Inc.	1963	Marketing	

Name and Location	Incorporation		Functions Performed	
	Date			
Volcano Growers Cooperative Association <sup>a</sup>	1947	Marketing	Purchasing	
Waiakea Farmers Cooperative <sup>a</sup>	1949	Marketing	Purchasing	
Waimanalo Growers Cooperative	1963		Purchasing	
Waipio Taro Cooperative				
<u>II. Poultry and Livestock</u>				
50th State Dairy Farmers Cooperative	1959	Marketing	Purchasing	
Holohana Mahaia'i Cooperative	1968	Marketing		
Island Pork Producers	1953	Marketing	Purchasing	
Hilo Egg and Poultry Producers Cooperative	1948	Marketing	Purchasing	
Independent Egg Producers Cooperative		Marketing	Purchasing	
Island Egg Producers Cooperative		Marketing	Purchasing	

Name and Location	Incorporation Date	Functions Performed
III. <u>Coffee</u>		
Kona Coffee Cooperative Association	1953	Marketing Purchasing
Pacific Coffee Cooperative, Inc.	1955	Marketing Purchasing
Sunset Coffee Cooperative <sup>b/</sup>	1956	Marketing Purchasing
IV. <u>Sugar Cane</u>		
Hamakua Cane Cooperative <sup>b/</sup>	1966	Purchasing
Hilo Cane Growers Cooperative <sup>b/</sup>	1963	Purchasing
Puna Independent Cane Planters Cooperative <sup>b/</sup>	1959	Purchasing
Wood Valley Cooperative <sup>b/</sup>	1964	Purchasing
Divaco <sup>b/</sup>	1965	Purchasing
V. <u>Miscellaneous</u>		
Kona Macadamia Nut Cooperative	1962	Marketing Purchasing
Mil-ka-ko Fish Cooperative		

Name and Location	Incorporation Date	Functions Performed
Kamilonui Farmers Cooperative	1966	Subdivision of Farm Lots
Koolau Farmers Cooperative	1941	Purchasing of Supplies

- a/ Both Volcano Growers Cooperative Association and Waiakea Farmers Cooperative are members of the Hawaii Produce Cooperative.
- b/ Divaco consists of six members: Sunset Coffee Cooperative, Wood Valley Cooperative, Puna Independent Farmers Cooperative, Hilo Cane Growers Cooperative, Kamuela Vacuum Cooling Cooperative, Hamakua Cane Growers Cooperative.

## APPENDIX D

### A PROFILE OF OPERATIONAL AND MANAGERIAL CHARACTERISTICS OF HAWAIIAN COOPERATIVE ASSOCIATIONS

#### MEAT AND POULTRY ASSOCIATIONS

Age of meat and poultry cooperative associations: 1-44 years. All are local associations dealing with local business associations and mainly perform processing and marketing functions for their members. Product marketed directly to the wholesalers, retailers, and institutional trade. Manager performs selling function. Perform limited purchasing functions--feed and breeding stock. No farm implements are purchased. Storage and truck transportation functions are carried on by the association with owned and leased facilities.

One livestock association maintains contractual relationships with its members, limiting deliveries of livestock solely to the cooperative associations. One exercises quality standard control set forth in its contract.

STRUCTURE. Only one of the associations in the group has, aside from its central organization, a number of branches throughout the State. None are affiliated with national federations or other associations. No mergers reported.

## FRUIT AND VEGETABLE MARKETING AND PRODUCE AND PURCHASING ASSOCIATIONS

About 50 per cent in the group of associations engaged in marketing fresh fruit and vegetables also purchase various farm supplies for other members. With the exception of one association, the manager carries on both sales and purchasing functions. Majority sell directly from the association to the wholesaler but two use jobbers. Transportation and storage are carried on mainly in associations that own trucks and warehouses. No contractual relationship with the membership or the exercise of quality control, except federal inspection. Receive 100 per cent of their product requirements from the membership.

STRUCTURE. No mergers or acquisitions of other businesses or cooperatives were reported. None of the associations maintains branches or is vertically or horizontally integrated.

## COFFEE COOPERATIVE ASSOCIATIONS

All local organizations engaged partially in marketing of coffee. One uses middle man as distribution channel. Others sell directly to wholesalers in San Francisco. All perform purchasing functions for their members and regularly carry a stock of fertilizer. Chemicals, assorted farm supplies. Provide transportation of coffee from producer members to their processing plant in their own trucks.

STRUCTURE. Neither are the associations of this group federated nor do they have any branches. Vertically integrated inasmuch as they operate their own processing facilities. No mergers or consolidations.

Source: Financing Farmer Cooperatives in Hawaii,  
Spielmann and Barmettler, 1968.

# APPENDIX E

Owned equity capital as per cent of total assets of 23  
Hawaiian cooperative associations (by groups), 1956-1963

Association groups	1956	1957	1958	1959	1960	1961	1962	1963
	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
Fruit and vegetable marketing	52.2	43.1	42.4	45.8	45.7	50.0	39.8	46.2
Produce and purchasing	48.2	54.8	57.3	66.9	63.3	64.2	59.7	63.7
Meat, poultry, and dairy	73.6	63.3	38.9	32.3	26.4	31.3	31.0	46.8
Coffee	11.0	10.2	20.3	26.6	32.5	40.8	44.6	48.6
Miscellaneous	48.2	33.8	48.3	51.7	56.7	67.8	76.9	75.9
All groups	54.3	38.8	40.9	39.1	34.6	41.8	40.9	51.6

Source: Financing Farmer Cooperatives in Hawaii, Heinz Spielmann and Edmund Barmetter.

## APPENDIX F

For the years 1965-1971, the Department of Planning and Economic Development has received the following funds for industry and product promotion:

### Act 99, SLH 1965

Product Promotion . . . . . \$ 90,000

### Act 8, SLH 1966

Industry and Product Promotion . . . . . \$100,000

Provided, \$34,000 to be used for engaging a mainland industrial consulting firm to develop and execute an industrial development action program.

### Act 54, SLH 1967

Industry and Product Promotion . . . . . \$ 30,000

### Act 74, SLH 1968

Industry and Product Promotion . . . . . \$ 40,000

### Act 154, SLH 1969

Industry and Product Promotion . . . . . \$130,854

Provided, \$20,000 be used for the papaya industry provided they meet one-half of the cost.

### Act 175, SLH 1970

Industry and Product Promotion . . . . . \$305,000

Act 68, SLH 1971

Industry and Production Promotion

FY 1971-72. . . . \$232,500

FY 1972-73. . . . \$267,500

Provided, that authorized appropriations expended only to the extent that state funds are matched by industry; and

Provided further, that \$10,000 for the FY 1971-72 and \$5,000 for FY 1972-73 appropriated on a non-matching basis to encourage development of anthurium market.

## APPENDIX G

The Department of Agriculture received specific appropriations for the two pilot projects for vacuum cooling plants for the Kahului and Kamuela areas:

Item A.4, Act 155, 1969  
Vacuum Cooling Plant, Kahului, Maui.....\$55,000

Item A.2, Act 187, 1970  
Vacuum Cooling Plant, Maui.....\$25,000

Item A.3, Act 187, 1970  
Vacuum Cooling Plant, Kamuela, Hawaii.....\$18,000