

# Strategic Freight Transportation Analysis

## Washington State Grain Cooperatives: History, Functions, and Regulations

SFTA Research Report # 16

September 2005

# **Washington State Grain Cooperatives: History, Functions, and Regulations**

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## **SFTA Research Reports: Background and Purpose**

This is the sixteenth of a series of reports prepared from the Strategic Freight Transportation Analysis (SFTA) study. SFTA is a six year comprehensive research and implementation analysis that will provide information (data and direction) for local, state and national investments and decisions designed to achieve the goal of seamless transportation.

The overall SFTA scope includes the following goals and objectives:

- Improving knowledge about freight corridors.
- Assessing the operations of roadways, rail systems, ports and barges – freight choke points.
- Analyze modal cost structures and competitive mode shares.
- Assess potential economic development opportunities.
- Conduct case studies of public/private transportation costs.
- Evaluate the opportunity for public/private partnerships.

The five specific work tasks identified for SFTA are:

- Work Task 1 - Scoping of Full Project
- Work Task 2 - Statewide Origin and Destination Truck Survey
- Work Task 3 - Shortline Railroad Economic Analysis
- Work Task 4 - Strategic Resources Access Road Network (Critical State and Local Integrated Network)
- Work Task 5 - Adaptive Research Management

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The contents of this report reflect the views of the authors, who are responsible for the facts and accuracy of the data presented herein. The contents do not necessarily reflect the official views or policies of the Washington State Department of Transportation. This report does not constitute a standard, specification or regulation.

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## **PREVIOUS SFTA REPORTS NOW AVAILABLE**

1. Casavant, Kenneth L. and Eric L. Jessup. "SFTA Full Scope of Work." SFTA Research Report Number 1. December 2002.
2. Clark, Michael L., Eric L. Jessup and Kenneth L. Casavant. "Freight Truck Origin and Destination Study: Methods, Procedures and Data Dictionary." SFTA Research Report Number 2. December 2002.
3. Casavant, Kenneth L. and Eric L. Jessup. "Value of Modal Competition for Transportation of Washington Fresh Fruits and Vegetables." SFTA Research Report Number 3. December 2002.
4. Ripplinger, Toby, Kenneth L. Casavant and Eric L. Jessup. "Transportation Usage of the Washington Wine Industry." SFTA Research Report Number 4. May 2003.
5. Clark, Michael L., Eric L. Jessup and Kenneth L. Casavant. "Dynamics of Wheat and Barley Shipments on Haul Roads to and from Grain Warehouses in Washington State." SFTA Research Report Number 5. September 2003.
6. Casavant, Kenneth L., Eric L. Jessup, and Joe Poire. "An Assessment of the Current Situation of the Palouse River and Coulee City Railroad and the Future Role of the Port of Whitman County." SFTA Research Report Number 6. September 2003.
7. Tolliver, Denver, Eric L. Jessup, and Kenneth L. Casavant. "New Techniques for Estimating Impacts of Rail Line Abandonment on Highways in Washington." SFTA Research Report Number 7. September 2003.
8. Tolliver, Denver, Eric L. Jessup, and Kenneth L. Casavant. "Implications of Rail Line Abandonment on Shipper costs in Eastern Washington." SFTA Research Report Number 8. September 2003.
9. Jessup, Eric L. and Kenneth L. Casavant. "Rail Line Investment Alternatives Resulting from Abandonment: A Case Study of Moses Lake, Washington." SFTA Research Report Number 9. July 2003.

10. Peterson, Steven K., Eric L. Jessup, and Kenneth L. Casavant. "Freight Movements on Washington State Highways: Results of the 2003-2004 Origin and Destination Study." SFTA Research Report Number 10. October 2004.
11. Meenach, Stephanie, Eric L. Jessup, and Kenneth L. Casavant. "Transportation Characteristics and Needs of the Washington Hay Industry: Producers and Processors." SFTA Research Report Number 11. November 2004.
12. Meenach, Stephanie, Eric L. Jessup, and Kenneth L. Casavant. "Transportation and Marketing Needs for the Washington State Livestock Industry." SFTA Research Report Number 12. November 2004.
13. Pike, Quinton D., Eric L. Jessup, and Kenneth L. Casavant. "Washington Warehouse/Distribution Center Industry: Operations and Transportation Usage." SFTA Research Report Number 13. December 2004.
14. Makaryan, Shushanik, Marie Drews, Eric L. Jessup, and Kenneth L. Casavant. "Waterborne Commerce on the Columbia/Snake Waterway: Commodity Movements Up/Down River 1995-2003." SFTA Research Report Number 14. September 2005.
15. Stenger, Jessica, Marie Drews, Eric L. Jessup, and Kenneth L. Casavant. "Profile of Washington Rail Shipments: Commodity Origin-Destination Analysis 1985-2002." SFTA Research Report Number 15. September 2005.
16. Monson, Jason W., Eric L. Jessup, and Kenneth L. Casavant. "Washington State Grain Cooperatives: History, Functions, and Regulations." SFTA Research Report Number 16. September 2005.

# Washington State Grain Cooperatives: History, Functions, and Regulations

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## Introduction

Agriculture cooperatives play a pivotal role in the U.S. food and fiber industry. The United States Department of Agriculture (USDA) defines a farmer cooperative as an organizational business structure where membership is limited to people producing agricultural commodities and the majority of business is done with those who are members.<sup>1</sup> Cooperatives are more than simply a business structure, however; they are a philosophy on equitable treatment of all members. Due to the success of this cooperative business structure, from their early beginnings, cooperatives have survived through low crop yields, producer bankruptcies, changing U.S. farm policy, dwindling farm numbers, declining patron loyalty, increasing operating costs, fluctuating crop prices and a rapidly evolving agricultural industry.

Management and control of grain handling firms is aided by local ownerships, ownerships who understand the specific needs of area farmers, climates, and cropping systems. These local cooperatives, managed with additional global perspective and commitment to patrons locally, appear useful to the economic viability of farmers, the grain industry and American agriculture.

Cooperatives have succeeded by conquering the economic and social challenges of the past and by remaining beneficial for community finances. Annually, several cooperatives appear on the Fortune 500 list; Farmland, Cenex Harvest States and Dairy Farmers of America have made appearances on the list in previous years. Similarly, a trip to the local supermarket illustrates the prominence of food cooperatives with such brands as Sunkist, Welch's, Ocean Spray, Land O' Lakes, Blue Diamond and Sunsweet. As farms have expanded in size, so have the cooperatives that support them. In fact, a majority of farmers currently use cooperatives to purchase inputs and market commodities (Cropp and Ingalsbe, 1989).

Cooperatives play a critical role in marketing grains, legumes and oilseeds and in providing producers with inputs and supplies, both nationally and in the state of Washington. The USDA reported in 2000 that there were 3,346 cooperatives in the United States which were supported by more than 3 million members. In Washington during the year 2002, there were 22 state and federally licensed grain marketing cooperatives. Approximately 81% of these 22 licensed warehouses are farmer-owned grain cooperatives. The remaining 19% of grain firms are public or private investor-owned. Cooperatives are also able to offer necessary elevator holding capacity to area producers as they store and move their grain from the Pacific Northwest. The 2001/2002 total state and federal licensed capacity of country houses in Washington State was 211,592,000 bushels with a total of 416 houses. Of these 413 commercial houses, 309 or 74% are managed by cooperatives. Private companies operate the remaining 104 elevators or 26% of eastern Washington total houses capacity (Washington State Department of Agriculture, 2002a).

Historically, mergers, acquisitions, and consolidation among grain cooperatives have been an integral part of Washington's cooperative business and organizational structure. The number of marketing, supply and service cooperatives decreased 3.5% (120 cooperatives) from 1999 to 2000 to 3,346 firms. The largest decrease was in grain and oilseed cooperatives, which decreased by 70 cooperatives. The economic climate of increasing costs and lower profit margins has driven cooperatives to merge and consolidate (United States Department of

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<sup>1</sup> Most specifically, the USDA defines a cooperative as: "A business owned and democratically controlled by the people who use its services and whose benefits are derived and distributed equitably on the basis of use." The primary functions of cooperative are marketing products, purchasing supplies and providing services (USDA, 1997b).

Agriculture, 2001c). Despite the decreasing number of cooperatives, however, storage capacities have increased demonstrating that a fewer number of cooperatives does not necessarily suggest the decreasing viability of their structure.

The structural alterations of grain cooperatives are affected by changes in technology, timing of grain movements, types of transportation available, farm populations, customer demands and markets. These kinds of changes in the industry have influenced the decreasing numbers of grain cooperatives in different ways. The following report provides an overview of the history of cooperatives in terms of their general organizational structure and legislative influences. As grain farmers prospered, developments in transportation and storage of grain products shaped the ways that they were able to market their commodities and conduct business. Cooperatives, then, rose out of situational and legislative decisions surrounding grain transport, even as differing factors continue to shape the way that these cooperatives function in the present. The grain industry in Washington, in particular, has witnessed the organization of its cooperatives shift substantially since the early half of the century. Tracing the ways that through consolidation, acquisitions and mergers these 22 Washington cooperatives have matured since their founding provides a helpful glance at the state of the industry.

### **History of Grain Trade in Eastern Washington**

The landscape east of the Cascade Mountains in the Pacific Northwest is unique in many ways, with numerous valleys, volcanic soils, arid climate and the Columbia and Snake Rivers. Certainly, it was “unusual” for those who came upon it for the first time when exploring eastern Washington during the early to mid-19<sup>th</sup> century—it was “a different kind of country, open and undulating, rolls out before the viewer like a great interior sea” (Meinig, 1995, p. 1). Perhaps it was the difference of the landscape that caused the early pioneers to initially overlook the grasslands of what is known as the Inland Empire, the geographical area from the Cascades to the Rocky Mountains and the Blue Mountains to British Columbia. Those arriving in eastern Washington and Oregon thought the sparse precipitation and native bunchgrass was unfit for civilization. Missionaries, however, proved that the lush soils and grasses were excellent for agriculture, and in October of 1847, Dr. Marcus Whitman who passed through southeast Washington following the Oregon Trail disclosed that “[t]he interior of Oregon is unrivaled by any country for the grazing of stock, of which sheep is the best. The interior will now be sought after” (Schafer, 1930, p. 220). Where bunchgrass grows, grain will grow became the philosophy of settlers in the Pacific Northwest after the high yields were achieved on winter wheat.

George Pangburn produced the first wheat crop north of the Snake River along Union Flat Creek in 1867. Early settlers traditionally settled in lowlands, near rivers or rail lines and in close proximity to timber. Grain production shifted to the hills after their immense fertility was discovered. The hills allowed farmers to begin spring work earlier and were less susceptible to floods and late season frosts (McGregor, 1997). Choosing to farm the hills proved successful: today wheat is grown on 2.5 million acres of land in Washington, with the fertile growing area known as the Palouse producing more wheat per acre than anywhere in the world. The loess soils, winter rains, and hot summers of the semiarid climate are ideal for the abundant production of dryland winter wheat. In the past century, Whitman County has ranked consistently as a leading wheat producing county in the nation (Suess, 2002).

Despite its agricultural richness, historically, the rugged landscape of the Inland Empire posed obstacles for hauling grain or delivering supplies to and from markets, which in turn impeded the settlement of the area. Over time, however, improvements were made to the area’s multi-modal transportation system that would not only facilitate the movement of grain products but that

would aid the economy and livelihood of communities situated in the area. Because transportation of materials creates time and place value, it serves as the dynamic link between producers and consumers. Thus, movement of these commodities prescribed the ways that individual farmers and larger companies were able to most economically conduct business with each other. Accordingly, development of rail, truck, and waterborne transportation became a crucial part of the area's industrial growth as well as the creation of grain cooperatives.

### **Development of Improved Handling Technologies**

Joseph Dart, a retail merchant, constructed the first grain elevator on Buffalo Creek in 1842 in New York. His original wooden warehouse had a capacity of 55,000 bushels, and allowed ships to be unloaded at rate of 1,000 bushels per hour. Dart perfected the earlier elevator design and became the first to utilize the concept of an elevator. The elevator consisted of a series of buckets on a continuous steam powered belt. The birth of the grain elevator was crucial to the development of cooperative structure in that it enabled bulk handling of grain and less reliance on regional markets. Farmers were no longer dependent on the local miller to buy their wheat. While bulk handling of grain would revolutionize the industry, it did not arrive in the Pacific Northwest (PNW) for another century mainly due to geography (Dooley, 1986).

Prior to the development of bulk handling and transportation in eastern Washington, the region was isolated from markets, and shipping grain was burdensome and costly. Inefficient commodity movement began at the grain handling level, and thus improvements in handling technology that followed the development of the elevator were the first step in easing commodity movement. Before the 1940s most of the grain produced in the PNW was handled in sacks rather than in bulk. A dry harvest season allowed grain to be left in fields, and insurance underwriters refused to insure poorly equipped vessels of bulk grain. Sacks were easy to handle and allowed easy transfer between land and water transportation. Farmers would deliver the sacks to flat houses which were the grain facilities in Washington State at the time. World War II brought the end of sack handling of grain and horse powered farming to the PNW. Switching from sacking to bulk handling of grain and mechanical power was a technological revolution, and by 1946 nearly 100% of the grain in the PNW was handled in bulk due to improved roads, motor trucks and railroad lines (Van Ausdler, 1968). Handling the grain in bulk increased the facility of shipping large amounts the distances they needed to go in order to reach desired markets.

### **The Railroad Empire**

The Pacific Northwest enjoys a complete transportation system of rail, river and road networks. Cost efficient transportation increases the competitiveness of commodities and provides access to international markets. Bulk movement of grains can be attributed to developing rail, barge and truck transport that had been occurring for several decades previous to the 1940s. The need to move grain commodities westward was a primary obstacle that directed transportation efforts. Steamboat traffic on the Columbia River was limited by the falls at Celilo (around 90 miles upriver from Portland where The Dalles dam currently sits) and Cascades (further west on the river near the present-day town of Cascade Locks). Steamers were able to reach Wallula, however, which is located just north of the Oregon border, around 12 miles south of the Tri-Cities. In the 1870s, wheat production occurred primarily in the Walla Walla region, around 30 miles east of Wallula. Fortunately, the Walla Walla and Columbia River Railroad was completed in 1875 and connected Walla Walla to the Columbia River at Wallula, making possible movement of grain to the Columbia/Snake waterway. Meanwhile, the Northern Pacific Railroad constructed rail lines from the Spokane Falls to Wallula which increased transportation opportunities further distances from the river (Dooley, 1986).

Despite the developing rail lines, delivering grain all the way to Portland in the 1850s before those lines were readily available was an arduous task. Originally grain was shipped from Walla Walla to Pacific coast ports using wagons and steamships.<sup>2</sup> Unfortunately, however, grain had to be unloaded and reloaded at the falls at Celilo and Cascades. Portage railroads were constructed at these places in 1859 and 1863 respectively, and by the end of the 1880, over 1,500 miles of rail line had been constructed in Washington. Steamboat traffic ended on the river in 1880, with the completion of a rail line from Walla Walla to Portland (Newkirk, 1995). Just a few years later in 1883, the North Pacific Railroad built a line from Palouse Junction (Connell) to Colfax, which began rail service in the Palouse. Rail line mileage dramatically increased in the area in the following years with tracks being constructed by the Oregon Railway and Navigation Company, Union Pacific and others. With the region no longer being isolated, grain, fruit, livestock, and lumber could be shipped to market. Plus, groceries, farm machinery and supplies could more easily reach the Palouse (Williams, 1984).

Because the birth of the grain industry was due in large part to railroads, it is not surprising that changes in railroad systems contributed to the grain industry's previous and current restructuring. Early on during the development of the rail network, collusion between the Northern Pacific Railroad and Union Pacific, discriminatory pricing, and unfair competition among railroads led to the passage of the Interstate Commerce Act in 1887 which "required that rates be just and reasonable, prohibited discrimination against persons or shippers and unique preferences among areas, and forbade the practice of charging more for a short haul than a longer one" (as cited in Dooley, 1986, p. 28). This act strictly regulated railroad pricing and operations. The Interstate Commerce Commission (ICC) was slow to approve new freight rates, and abandonment of unprofitable lines was a timely and expensive process. Because railroads had a common carrier obligation, abandonment was often denied (Dooley, 1986).

The Interstate Commerce Act put a financial strain on many railroads because they were unable to quickly react to competition from other transportation modes. All rate changes and railroad mergers had to have ICC approval. Railroads were forced to provide service on unprofitable lines, and they had to compete against barge and truck transportation, modes that had greater pricing flexibility because they did not face ICC regulations. Many rail rate cuts were denied by the ICC to avoid triggering railroad pricing wars and to avoid hurting the profitability of truck and barge firms by diverting business from them (Dooley, 1986).

Almost a century after the Interstate Commerce Act, the Staggers Rail Act of 1980 replaced government regulation with competition. The Act provided railroads with pricing flexibility and freer abandonment procedures. The purpose of the law was to restore the financial health of railroad companies by increasing pricing flexibility and freedom in abandonment procedures. The law assumes the railroad is no longer a monopoly but faces competition from other

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<sup>2</sup> An unknown California reporter depicted the following transportation difficulties prior to development of the Columbia and Snake River navigation system:

To give an accurate idea of transportation from Walla Walla to the ocean, we will follow a sack of wheat from the field where it is grown. It is hauled to the depot at Walla Walla and there stored, to await its turn when the twenty thousand ahead are taken away. Then it is put on the cars and taken to Wallula; then it is put upon the boat and taken to Umatilla and transferred to another boat for Celilo; then it goes through the Warehouse to the cars, taken to the Dalles and stored again, then it goes by boat to the Upper cascades and transferred to another boat, by which it is taken up the Willamette to Portland. Here it is stored, and thence sent down the river to Astoria and to the ocean (Meinig, 1995, p. 253).

transportation types. In passing the law, congress hoped to create a more efficient rail system with less regulation.

The result of the Staggers Act was dramatic restructuring of rail rates with the introduction of multiple car rates and uncertainty in the future of rail service (Dooley, 1986). Between 1970 and 1999, 1,900 miles of rail lines were abandoned in Washington, and in 1999, there were 3,100 active rail lines with 18 carriers. The Class 1 rail lines operating in Washington are Burlington Northern Santa Fe and Union Pacific. Short line railroads operate 1,500 mile of track in the Washington State area and include the Blue Mountain and Palouse River and Coulee City Railroad (Casavant and Tolliver, March 2001). Consequently, grain cooperatives developed in the context of this static rail industry, which guaranteed the existence of all rail lines and stable freight rates.

### **Waterborne Transportation**

In addition to rail transportation, moving grains via the accessible Columbia River waterway was also an important factor that influenced the growth of the grain industry. The Columbia River begins its 1,214-mile journey to the Pacific Ocean in British Columbia. It is the fourth largest river in North America and together with its tributaries drains 219,000 square miles in seven western states. Over 65% of Washington wheat is shipped by barge on the Snake and Columbia River system and 30% of U.S. wheat exports are shipped from Columbia River ports (Zakarison, 2003).

The completion of Bonneville Dam in 1937 marked the beginning of barge transportation on the Columbia and Snake River System. Grand Coulee Dam was completed in 1942, which further transformed the Columbia dessert into an agricultural region producing a wide variety of fruits, vegetable and grains. The complete 465-mile slack water system from Lewiston, Idaho to the Pacific Ocean became operational in 1975 with the opening of McNary (1953), The Dallas (1958), and John Day (1963) dams on the Columbia River and Ice Harbor (1962), Lower Monumental (1969), Little Goose (1970) and Lower Granite (1975) dams on the Snake River. Completion of this efficient inland navigation system improved and altered movement of grain produced in eastern Washington (Hays, 1986).

### **Trucking Traffic**

In addition to rail and barge transport, during the beginning of the twentieth century, trucks began to replace horses and wagons and became another integral component aiding grain transport. Farm trucks in the U.S. increased from 2,000 in 1911 to 1,490,000 in 1945. Not only did trucks allow farmers to move grain farther and faster, they also dramatically decreased the need for cropland to feed livestock. In 1920, 90 million acres of cropland were used to feed work stock. Mechanical power increased the land available for crop production. The impact of trucks would not have been as pronounced without the Federal government's commitment to road building, however. According to Frank Dooley, "The successful development of the farm truck was predicated upon the commitment of public funding for the construction and maintenance of a road system" (Dooley, 1986, p. 30). This was evident in Washington where between 1910 and 1942, mileage of hard surface roads increased from 91 miles to 4, 200 miles (as cited in Dooley, 1986, p. 30).

Trucks were originally used to haul grain from the fields to the railroads because they were able to offer more economical means for transport. The regulatory process of the Interstate Commerce Commission prevented railroads from setting competitive prices against the cheaper freights offered by trucks in the 1950s. Trucks were exempt from ICC regulation of

unprocessed agricultural commodities, so they were able to charge lower and negotiated rates (Dooley, 1986). Railroad deregulation in the 1980's Staggers Act decreased the use of trucks, but truck use was revitalized as it was used in tandem with barges. Trucks became essential to shuttle grain to satellite elevators, river terminal, and local buyers of grain, such as cattle feeders. In 2002, truck/ barge moved 51% of the grain to the Pacific Coast, and the Columbia River ports received 91.5% of the total grain volume shipped from eastern Washington (Clark, 2003).

Most important about the changing transportation infrastructure was how it allowed farmers and businessmen the opportunities to enter into practical exchange relationships where movement of products was feasible and economical. When those working together in the Pacific Northwest and other locations were able to communicate effectively and transport their goods efficiently, they were able to organize into business communities that further eased grain movement. Cooperatives developed as this kind of communication was facilitated.

### **Agricultural Cooperative Purpose, Principles, and Functions**

The field of agricultural production demonstrates rich historical traditions of farmers working collectively—such as at harvest bees or barn raisings. Cooperatives embody the same idea of acting together but under the negotiation of formal business arrangements. In the U.S., the primary business structures that determine these arrangements are sole proprietorships, partnerships, and corporations. The two types of corporations are investor-owned and cooperatives. Cooperatives are a unique form of business entity in that they are distinguished by their objective to maximize returns to their members. Conversely, other investor owned corporations exist to maximize profits for investors. The difference in scope is seen in the distribution of profits: investor-owned earnings are distributed to stockholders, and cooperatives distribute profits to members on the basis of use (Kohls and Uhl, 1998). Ultimately, cooperatives are distinctively different in their purpose, ownership, control and allocation of profits.

Pacific Northwest grain cooperatives were created in the 1930s and 1940s to take advantage of economies of size when shipping commodities that individual farmers could not obtain. At the same time, grain cooperatives in other regions of the nation began to force out private competition (Hays, 1986). In 1947, seventy percent of grain companies in eastern Washington operated as cooperatives with private firms comprising the remaining 30%. The primary functions of grain marketing firms include handling, storage, and merchandising grain (Van Ausdale, 1968). In 2002, twenty-two cooperatives comprised 42% of the 52 grain companies operating warehouses in eastern Washington. Cooperatives represent 81% of the Washington's licensed capacity, which marks a 15% increase in market share since 1947. Similarly, cooperatives operate 309 houses (75%) of the 413 total commercial houses in eastern Washington (Washington State Department of Agriculture, 1990-2001b).

### **Cooperative Purpose**

The organization of initial cooperatives necessitated the coming together of community members behind a common purpose. The Grange was started in 1867 and generated the momentum behind the agriculture cooperative movement in the U.S. In 1875, the Grange published a pamphlet of rules for organizing cooperatives stores, stores which were established to provide rural members with farm supplies, hardware, groceries and clothing. By the 1920, 14,000 cooperatives were operating in the nation (USDA, 1997b).

Cooperatives enjoy the special privilege to act and bargain collectively. The Capper-Volstead Act of 1922 recognized cooperatives as a unique form of business. While the act neither specifies what associations are allowed to do so nor does it mention the word “cooperative,” it states that “persons engaged in the production of agriculture products may perform certain activities collectively through associations.” It also states that farmers can organize marketing cooperatives without violating antitrust laws under the following criteria: 1) that members must be considered agricultural producers; 2) that each member can contribute one vote; 3) that dividends on equity are less than 8%; 4) that less than 50% of business is contributed by nonmembers 50%; 5) that product prices are not marked up considerably (Barton, 1989b, p. 17).

Cooperatives are owned and controlled by their members or patrons. When dealing with cooperatives, patrons are consumers, businesses (i.e. farms), or government agencies that do business with a cooperative, while members are patrons that have the added responsibility of electing the board of directors. Members must meet certain qualifications including being an agriculture producer or part of a cooperative, but patrons may or may not be members. Patronage refunds, or “distributions of net income (generated from patron business only) returned to patrons in proportion to the value or quantity of their patronage,” however, may be only paid to members (Barton, 1989b, Cobia, 1989, p. 230). Typically, most members are participating patrons, owning voting stock and providing most of the patronage (Barton, 1989b).

The membership structures of cooperatives are organized as central, federated or mixed. A federated cooperative, such as Cenex Harvest States, is a cooperative whose members are other cooperatives. Local cooperatives elect the board of the federated cooperative, so it is controlled from the bottom up. In contrast, a centralized cooperative, such as Farmland, is where producers hold direct membership. Centralized cooperatives can be regional or local but most are local. They serve a smaller geographic area and have a smaller volume of business. Members are usually more loyal, and locals can then choose to do business with any federated cooperative (Cropp and Ingalsbe, 1989). Of the 3,346 farmer cooperatives in 2000, 3,263 were centralized organizations, with 57 federated associations and 26 mixed cooperatives (USDA, 2001c). Mixed cooperatives have both individuals and independent cooperatives as direct members. Harvest States, for instance, had a centralized line elevator division and federated member division prior to merging with Cenex (Cropp and Ingalsbe, 1989).

Besides categorizing cooperatives by ownership structure they can be segregated by type of function performed. The general classifications are market, supply and service. Marketing cooperatives sell, process, receive, grade, store and package agricultural commodities/products. Supply cooperatives provide producers with basic inputs such as feed, seed, fertilizer or chemicals at competitive prices. Also, cooperatives provide specialized services such as credit (i.e. Farm Credit Service), insurance, or utilities (i.e. Rural Electrification Act of 1936). At their core, however, cooperatives are people working together for the mutual benefit of all members regardless of the structure or functions provided (Cropp and Ingalsbe, 1989). Of the 3,346 farmer-owned cooperatives, 50% are marketing, 38% farm supply, and 12% are service cooperatives. In 2000, there were 48 marketing and 34 farm supply and service cooperatives operating in Washington State. Leading farm supplies sold by cooperatives in 2000 included petroleum 31%, feed 19.5%, and fertilizer 19%. Principal commodities marketed by cooperatives were: dairy (milk and milk products) 31.5%, grains and oilseeds (excluding cottonseed) 25.5%, and fruits and vegetables accounted for 24.2% (USDA, 2001c).

## Principals of Cooperatives

In order for cooperatives to meet the philosophical underpinnings of equal profit share and distributed power relations, they must adopt a common operational ideology or a set of guiding principles. Cooperative principles are tools to effectively meet the need of patrons. They describe what cooperatives are, not what they do. Other forms of business do not publicly abide by a standard set of beliefs, but cooperatives adhere to a set of principles that describes their role. They serve as a guide to director, managers, and policy makers (Barton, 1989a).

Three principles that define the essence of cooperatives are: 1) the **user-owner principle**; 2) the **user-control principle**; and 3) the **user-benefits principle**. Cooperatives are owned and controlled by the people who use them (user-owner), and benefits generated are distributed to users on the basis of use (user-benefits). Users provide the equity investment, decide issues democratically, and share earnings based on their volume of business (user-control). Cooperatives exist to provide high quality product and services at the lowest possible cost (USDA, 1997b). Ken Duft (1991) summarizes the importance of these values: "What cooperatives are is generally a reflection of its principles. Those principles, in turn, are merely a reflection of a rather pointed sociological perspective" (pp. 1). Cooperatives have implemented social and economic philosophies into a business (Duft, 1991).

Idealistically, cooperatives represent a true democracy by allowing one vote per member. Power is distributed evenly in a cooperative because the total number of shares owned does not determine votes. Membership is voluntary, so members are not obligated to patronize their own organization. Also, members are not forced to join a cooperative and may leave the association at any time. Cooperatives operate as independent businesses under the rules of government under the same rules of other businesses. Finally, growth in size, and quality in the products and services offered, depends on cooperative's ability to respond to economic challenges. Cooperatives cannot be complacent but must continually strive to improve their business. Duft (1991) concludes the importance of these principles by stating: "Truly successful cooperatives, those which have survived and prospered, those which continue to serve well their member patrons, do closely abide or adhere, surprisingly so, to these time-worn principles" (pp.6).

## Benefits of Cooperatives

The benefits of cooperatives are based on the amount members use the cooperative rather the amount of equity invested. One of the primary benefits is access to quality supplies and services at lower prices. By purchasing as a group cooperatives are able to obtain volume discounts and negotiate better delivery or credit terms. Also, cooperatives may supply inputs or services to producers that are not available elsewhere. A second benefit includes increases in market power. Marketing products together lowers distribution costs and customizes the amounts and type of products delivered. A third benefit is the availability of annual allocation of earnings based on the amount of business done. Increased possibility for political action is a fourth benefit. Cooperatives are an effective tool to organize member issues and influence public policy as one unified voice. The local economy profits from cooperatives which is an important fifth benefit. Cooperatives create jobs for the local area, pay taxes and support community service projects. Similarly, a sixth benefit is the social rewards that come from working within a cooperative structure. Members benefit from uniting with one another to accomplish a common goal. Other social rewards include increased education in agricultural issues, leadership training, and a sense of achievement (Cropp and Ingalsbe, 1989).

## Lessons from the Past

Over time, economic forces, exemplified by a push to gain greater volume, have prompted consolidations, acquisitions, and partnerships in the PNW grain industry. These shifts in cooperative organization occur following three types of changes in business arrangement. **Mergers** are when the control of several different cooperatives is vested into a single one by issuing stock in the name of the controlling organization in place of majority of stock in the other cooperative; this occurs without dissolution of the consolidating cooperatives. **Acquisitions** are when the assets of one cooperative are purchased by another cooperative using cash or other assets. **Consolidation** is when control of different cooperatives is vested into a single one by issuing stock in the controlling cooperative in place of a majority of stock in the other cooperatives and dissolution of the controlling companies (USDA Rural Business Cooperative Service, 2001).

To evaluate the current performance of the PNW grain industry, it is beneficial to understand how the current market structure arose. In the following section, a comprehensive review of PNW grain firm consolidations is presented, illustrating how the number of grain companies has decreased due to consolidations and acquisitions. Accompanying figures chart the changes in these firms visually. Information on the acquisitions, mergers, consolidations was obtained through interviews with grain industry managers and industry experts as well as through the review of notes to the financial statements. This list is not exclusive of all grain firms' consolidations, but it does serve as a representative review of the events that determined the present compositions of firms.

## Consolidations, Acquisitions, and Partnerships in the Pacific Northwest Grain Industry

### Figure Legend

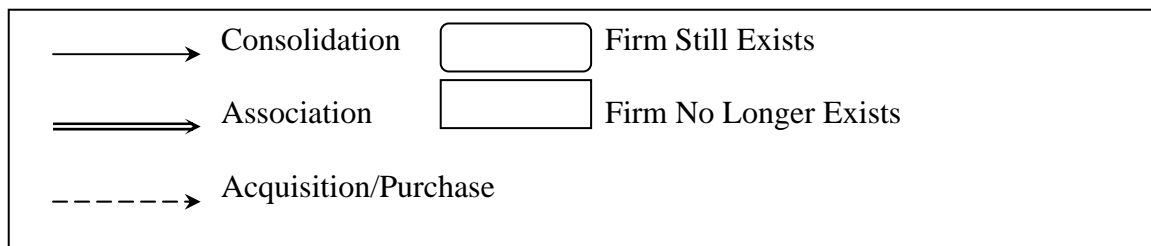
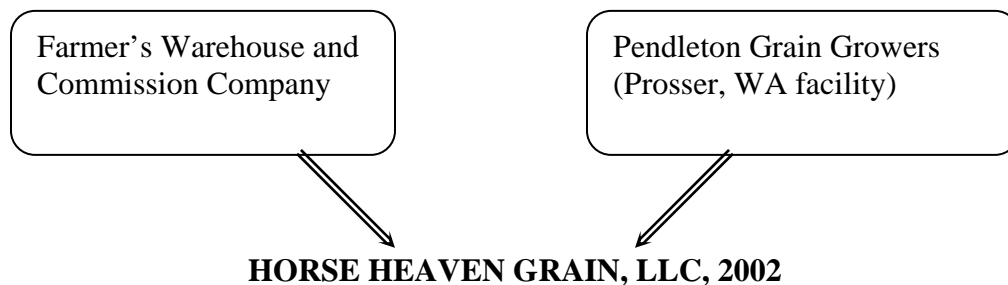


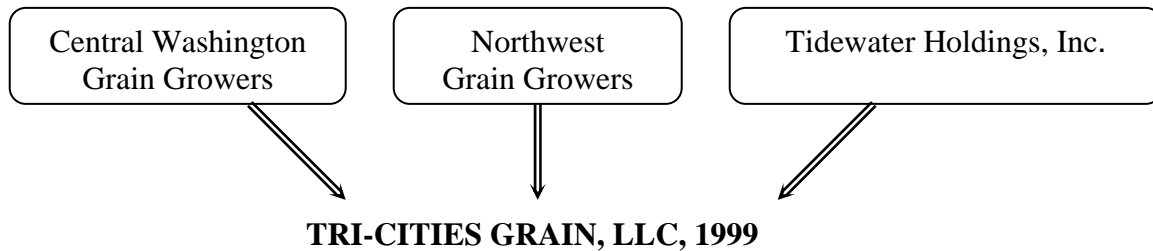
Figure 1.1.



Farmer's Warehouse, whose office and warehouse is located in Roosevelt, Washington, does not have up-country elevators and acts as an intermediary in selling member's grain. It also acts as a purchasing agent for United Harvest, LLC (50% joint venture between Cenex Harvest States and Mitsui & Co. Ltd. of Japan), and thus the grain it purchases from members is immediately resold. The firm primarily markets soft white wheat, hard red winter wheat, and dark northern spring wheat.

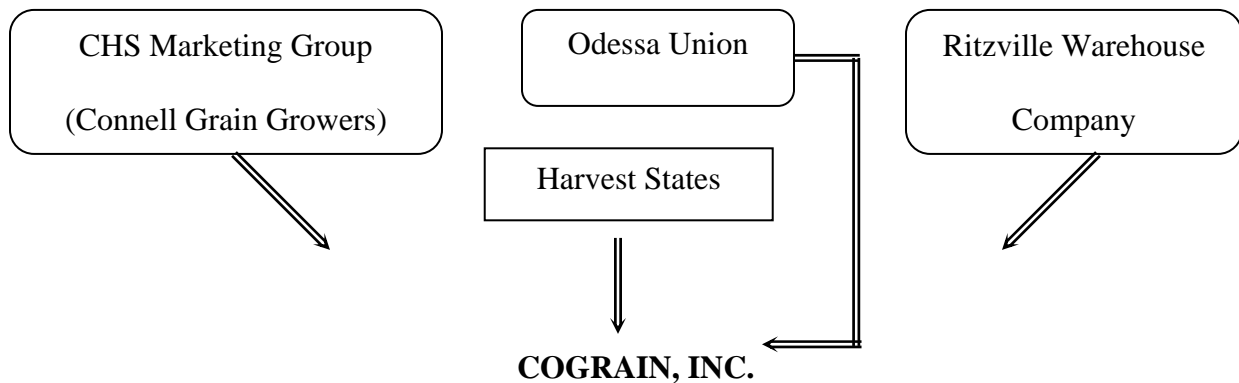
Horse Heaven Grain, a limited liability company, was created July 1, 2002 between Farmer's Warehouse and Commission Company and Pendleton Grain Grower's Prosser, Washington facility. A main reason behind the partnership agreement was that it would offer the ability to increase grain volume. Profits from Horse Heaven Grain are divided equally between the two cooperatives. Farmer's Warehouse rents their facilities to Horse Heaven Grain, LLC but maintains their own board of directors. Similarly, Horse Heaven Grain has a board of directors comprised of officers from Farmer's Warehouse and Pendleton Grain Growers, and they also provide storage and marketing services.

**Figure 1.2.**



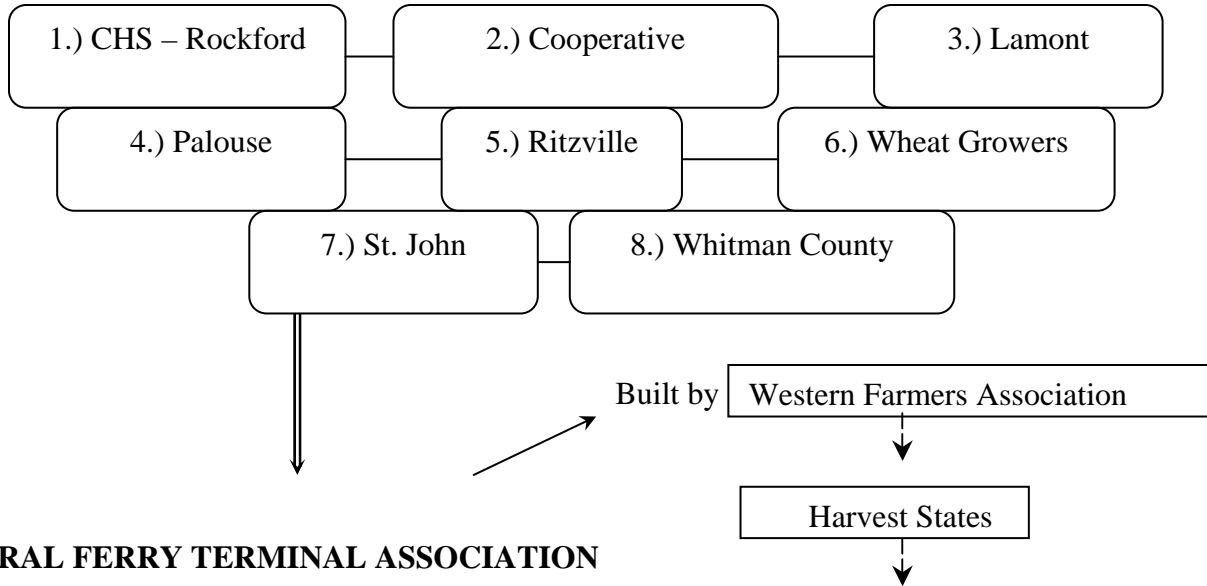
Tri-Cities Grain is a limited liability company comprised of Northwest Grain Growers, Central Washington Grain Growers and Tidewater Holdings, Inc. A grain barge and load out-facility was built at Burbank, Washington in 1999, with each partner contributing an equal amount of capital.

**Figure 1.3.**



CoGrain is a river subterminal located at Windust near Kahlotus, Washington. In 1996, Odessa Union Warehouse Company and Connell Grain Growers each owned 50% of CoGrain. Their shares of CoGrain were reduced from 50% to 37% respectively during the 1997 with the addition of two more cooperatives: Ritzville Warehouse Company and Harvest States. CoGrain was leased to CLD Pacific Grain in 2002.

**Figure 1.4.**



**CENTRAL FERRY TERMINAL ASSOCIATION**

**CFTA, 1980**

Slack water from the four Snake River dams reached Central Ferry in 1970, which encouraged the commencement of construction on three initial subterminal elevators, elevators that would serve as intermediary storage facilities as grain is moved to terminal elevators where it would be shipped to buyers. Western Farmers Association built the facilities now owned by Central Ferry Terminal Association (CFTA).<sup>3</sup>

Western Farmers Association, originally called Washington Cooperative Farmers Association, was a large Washington State cooperative that began when poultry farmers banded together to sell eggs in 1917 and continued to provide poultry marketing services to patrons. The cooperative expanded into many different businesses, including turkey processing, farm supply retailing and grain merchandising. In 1980, Western Farmers Association filed for Chapter 11 bankruptcy and sold their Central Ferry facilities to the Grain Terminal Association (GTA). GTA then consolidated in 1983 with North Pacific Grain Growers to form Harvest States. Central Ferry Terminal Association was formed to purchase the grain terminal, but their bid was much lower than that offered by GTA. The newly formed association was dormant for the next eight years.

Harvest States's operation of the warehouse was marginally successful, but they were not able to acquire the volume of grain they had planned. Consequently, they contacted CFTA to see if CFTA would purchase the river subterminal from them. The grain and shipping facility was purchased August 1, 1988 and was financed by issuing stock. CFTA serves as a put-through facility where grain is loaded onto barges for transport to Pacific coast ports. CFTA leases

<sup>3</sup> Western Grain Exchange built the elevators next to CFTA, which are now owned by Columbia Grain International. Also, Pomeroy Grain Growers built their river facilities across the Snake River in Garfield County.

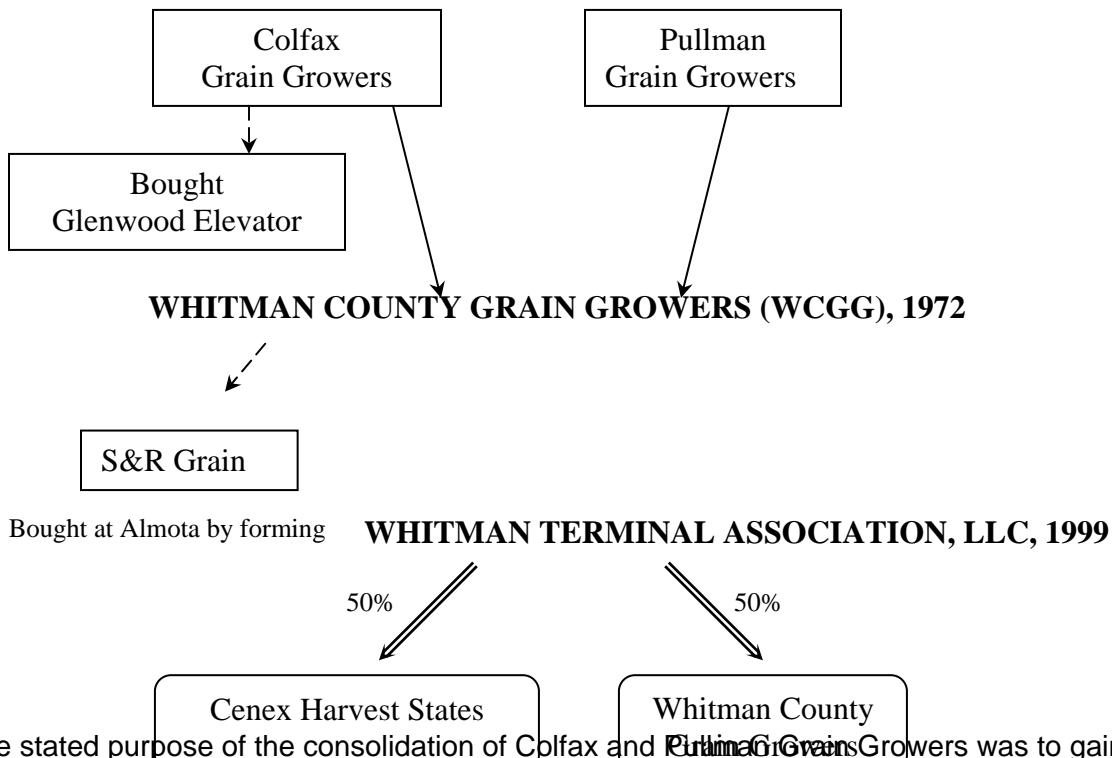
11.36 acres from the Port of Whitman County. Each of the CFTA members contributed differing capital amounts, and Harvest States remained a partial owner. CFTA was very successful from the beginning with each cooperative guaranteeing to deliver a specific volume of bushels. If a cooperative were not able to deliver their quota, they would have to pay \$0.05/bushel times their deficit in bushels. Through the years CFTA was able to pay back cooperative members their original contributions, and today each member has an equal equity amount.

**Figure 1.5.**



Lamont Grain Growers was established January 4, 1930. Lamont Grain Growers and Sprague Grain Growers together purchased the Revere warehouse from the North West Dock Elevator Company in January 1932. In July 1933, Lamont Grain Growers bought Lamont Farmers Warehouse. Next, they purchased the General Mills Elevator in 1965. Today their business office is located in Lamont with grain stations at Lamont and Revere. Wheat and barley are the primary commodities handled and they provide no other services. Lamont's extremely loyal customer base explains their consistently strong financial position. Lamont Grain Growers has also maintained high quality facilities during its career with regular capital improvements and maintenance programs.

**Figure 1.6.**

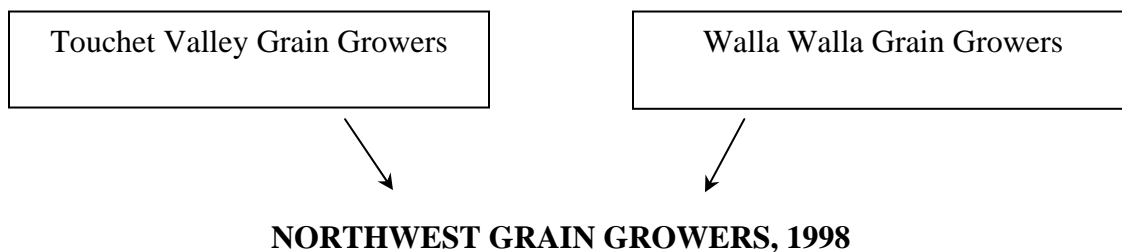


The stated purpose of the consolidation of Colfax and Pullman Grain Growers was to gain operational savings and possible construction of a terminal at the Snake River (*Colfax Gazette*, March 2, 1972). An article appearing in the March 2, 1972 issue of the *Colfax Gazette* stated that the consolidation would create one of the largest grain cooperatives in the Inland Empire

with only Lewiston Grain Growers, Odessa Union and Walla Walla Grain Growers being larger in total capacity. The 1972 licensed capacity of Colfax Grain Growers was 4.6 million bushels compared to 2.7 million bushels for Pullman Grain Growers. Whitman County Grain Growers (WCGG) was formed in 1972 with the business office located in Colfax and grain stations throughout Whitman County and at the Port of Almota. Wheat and barley are the primary commodities handled, and legumes are stored for other companies. WCGG has two river terminals (Almota and Central Ferry) and two unit train loading stations (Thorton and Fallon). Also, the terminals provide seed sales and hedging services. In December 2002, WCGG board authorized the purchase of some leased parcels from the railroad. They hope to gain greater efficiency and economies of scale even though the initial costs were significant.

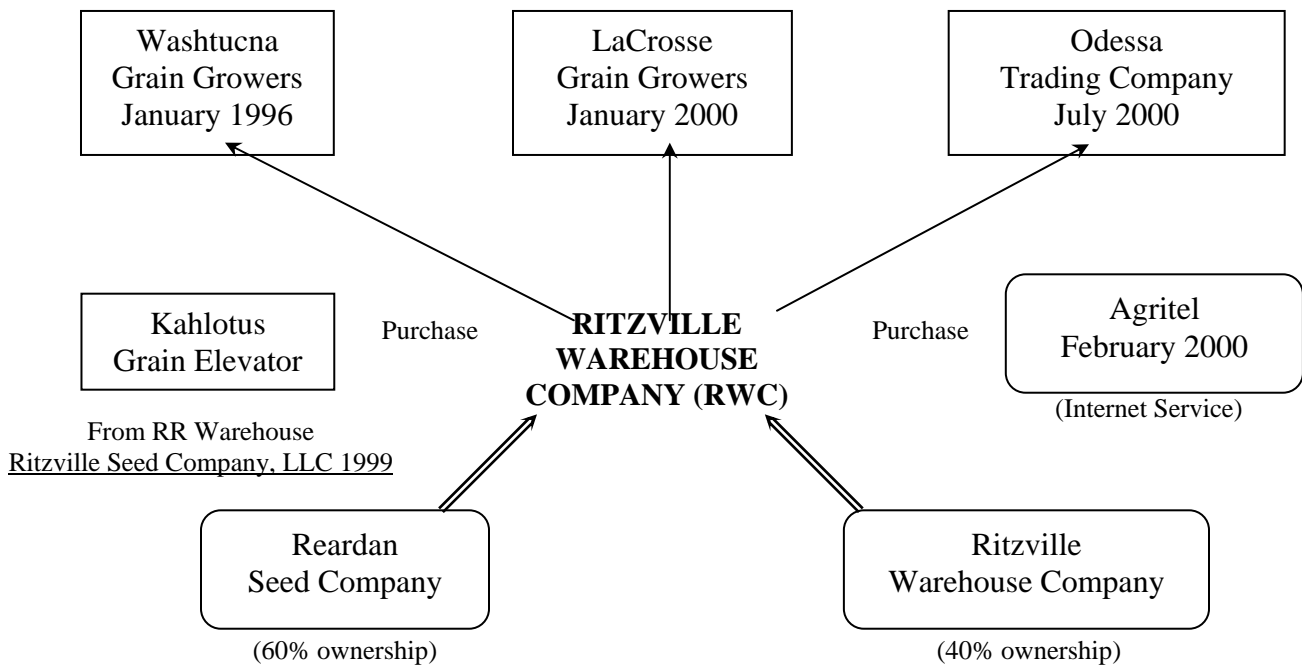
Whitman Terminal Association, LLC (WTA), a cooperative that has limited duration, is a 50%-50% joint venture between Whitman County Grain Growers and Cenex Harvest States. This entity was formed in 1999 to purchase S&R Grain Company at the Port of Almota. WTA is similar to a real estate holding company, and its sole purpose was to buy the terminal and rent it out to make a profit. WCGG leases the facilities from WTA by making monthly lease payments, paying all operating expenses, and receiving all the revenue from grain delivered to the facility.

**Figure 1.7.**



Touchet Valley and Walla Walla Grain Growers consolidated in 1998 to form Northwest Grain Growers. The management personnel at Touchet Valley had medical concerns, so it was a timely strategic move to combine the firms. Uniting the firms created one of the largest grain cooperatives in eastern Washington in licensed capacity and annual volume handled. Their business office is located in Walla Walla with grains stations throughout southeastern Washington and on the Columbia River. They have three river facilities (Port Kelley, Sheffler and Tri-Cities) and several unit train stations. The primary commodities handled are wheat and barley, and legumes are stored for other companies. Northwest Grain Growers operates the following divisions: grain, petroleum products, seed and a feed/merchandise store. The feed, lawn, garden and pet store was built to utilize an unused building and as a service to the community. Northwest Grain Growers is a licensed dealer of America's Country Store, and the store's emphasis is on products for the country lifestyle.

**Figure 1.8.**



Ritzville Warehouse Company is the oldest grain cooperative in eastern Washington with a charter date of 1893. Agricultural production has changed significantly since then, but RWC has progressed with the changing times. Today, with over 1,400 members, they represent one of the largest grain cooperatives in Washington and are the only one to offer a 110-car shuttle loading service. Their business office is located in Ritzville, Washington with grain facilities in Whitman, Lincoln, Franklin, Grant and Adams counties. Wheat and barley are the primary commodities handled.

Ritzville Warehouse pursued aggressive expansion plans in the late 1990s and increased their licensed capacity from 10 to 18 million bushels. Beginning in 1996, they consolidated with Washtucna Grain Growers. In 1998, a 350,000-bushel grain tank was constructed at Eden. Ritzville Seed, LLC was formed in 1999 as a partnership between RWC (40% ownership) and Reardan Seed Company (60% ownership). The LLC functions solely as a seed company. Agritel, the local Internet service provider for the Ritzville vicinity, was acquired by RWC in February 2000.

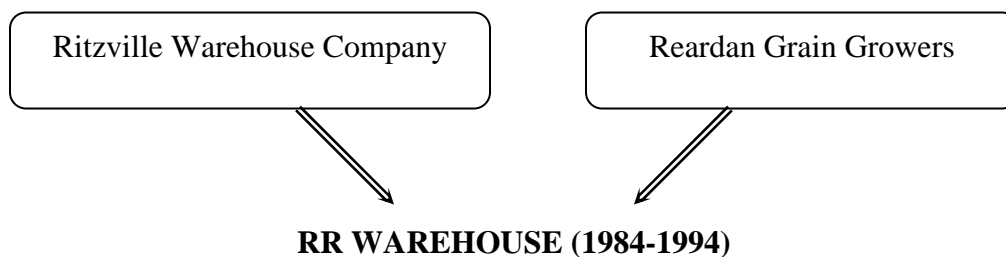
Ritzville Warehouse Company consolidated with LaCrosse Grain Growers in January 2000 and made capital improvement with the newly acquired facilities. The scale house in LaCrosse was remodeled and serves as an office for Ritzville Warehouse. The office occupied by Lacrosse Grain Growers was closed. Seed is sold in LaCrosse through Ritzville Seed, LLC. Finally, Ritzville updated the railroad track in LaCrosse, so unit trains can be loaded.

RWC instituted a proposal for Pacific Rim Ethanol in 1998, a project build an ethanol plant on property the cooperative owns near Moses Lake, Washington. The plans were tabled when an attempt in 2000 to secure \$120 million through a public offering was not successful. Pacific Rim Ethanol would have the capacity to produce 40 million gallons of ethanol annually with several secondary products, such as animal feed, wheat gluten and beverage/ industrial grade alcohol.

It was anticipated the plant would use 15 million bushels of barley and four million bushels of wheat annually since ethanol is made through fermentation of grain and is used to oxygenate petroleum-based fuels (Wheat Life, April 2000). Even though this cooperative expansion was not permitted, RWC would see important growth in the coming years.

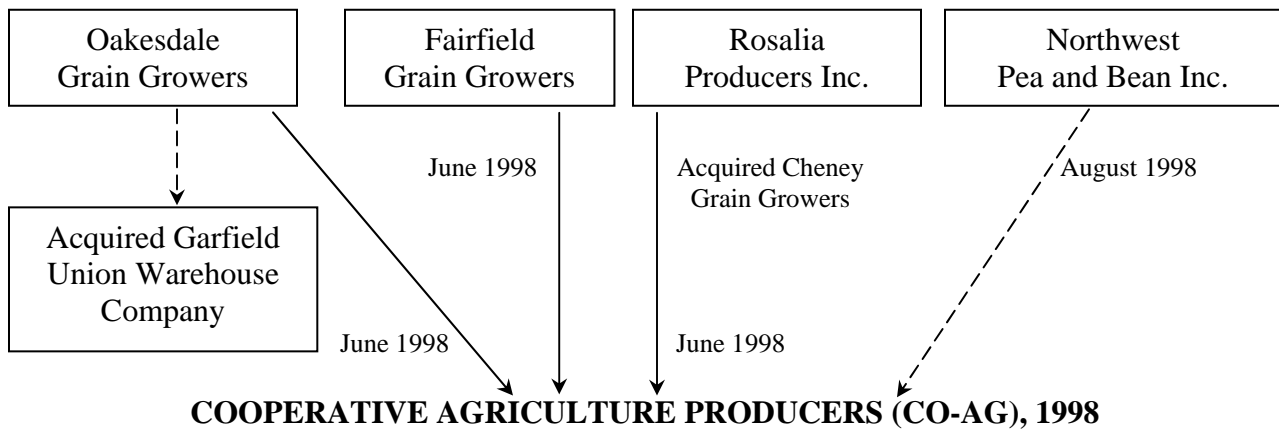
Odessa Trading Company and RWC consolidated in July 1, 2000. The retail machinery and parts department of Odessa Trading Company remains a division of RWC. Odessa Trading Company is a licensed dealer for J.I. Case and Car Quest and has dealerships in Odessa and Coulee City, Washington. A year later, 2001 brought the construction of Templin Terminal, a 110-shuttle car loading facility located east of Ritzville, Washington on the Burlington-Northern Santa Fe main line. Templin Terminal is meant to operate as a put-through facility rather than storage warehouse, and therefore it only has a total storage capacity of 762,000 bushels. The first grain train was loaded April 30, 2002 in 11 hours and 20 minutes; each unit train holds 407,000 bushels. Reports indicate it can be seven cents cheaper to ship grain by a 110-car shuttle than a 26-car unit train. If this price decrease materializes, the savings in transportation costs will be significant and will result in a higher net price to producers.

**Figure 1.9.**



RR Warehouse was formed in 1984 between Ritzville Warehouse Company and Reardan Grain Growers to store Commodity Credit Corporation (CCC)-owned grain. Each cooperative owned an equal share and profits were divided accordingly. In 1995, RR Warehouse purchased Connell Grain Grower's Kahlotus grain facility, and in 1997, Ritzville Warehouse Company purchased the Kahlotus elevators from RR Warehouse. During 1999, Ritzville Warehouse's ownership of RR Warehouse increased to 100% when they redeemed Reardan Grain Grower's shares. RR Warehouse does not conduct any business today and was only a grain handling and storage company prior to 1998.

**Figure 1.10.**



Cooperative Agriculture Producers was formed June 1, 1998 by the consolidation of Rosalia Producers, Oakesdale Grain Growers, and Fairfield Grain Growers. Three geographic districts were created with three directors per district. This equates to roughly one director for each million bushels of intake. Term limits for each of these directors are three consecutive three-year terms. In August of 1998, CO-AG acquired Northwest Pea and Bean to compliment their legume processing operations. Northwest Pea and Bean is located in Spokane, Washington and is one of the largest processors of dry peas and lentils in the nation. They were a natural complement to CO-AG because much of their business was comprised of three of the companies that consolidated to form CO-AG. Jeff Pittmann, current Board President, says the reason for the consolidation was foresight by the managers of the separate cooperatives. The new cooperative is successful, he says, and advised that the cooperatives operating individually may not have survived the tough economic conditions of today, such as the decline in Commodity Credit Corporation (CCC) storage revenue. There were some problems in computer software after the companies were combined, but overall, CO-AG is well positioned to be an economically efficient and viable entity.

Cooperative Agriculture Producer's business office is located in Rosalia with grain stations in Whitman and Spokane counties. CO-AG handles a diversity of grains (soft white wheat, red wheat, white club, oats), legumes, and specialty crops (mustard, canola, garbanzos). With several grain bins they have a vast potential to separate grains/legumes for identity-preserved markets. They sell seed, feed, and petroleum products and also provide hedging services. Commodities are shipped about 50% truck/barge and 50% rail through one of CO-AG's three unit train loading stations. Plus, they are one of the Pacific Northwest's largest suppliers of malt barley to Great Western Malting. Malting barley often carries a premium over feed barley if it meets the quality and grade requirements. The malting barley contracts are highly sought after by growers and are rewarded to patrons based on their business and loyalty through the years. Members with a longer history of business receive contracts for varieties that yield and perform better.

**Figure 1.11.**

**PALOUSE GRAIN GROWERS**



Purchased 200,000 bushels in steel storage and pearl barley plant from 

Wallace Grain and Pea.
------------------------

Palouse Grain Grower's business office and grain facilities are located in Palouse, Washington. Wheat, barley and oats are the main commodities marketed, and the cooperative provides no other services. While the cooperative enjoys a loyal customer base, their patrons are few due to geography and to the presence of many grain firms in Whitman County. Palouse purchased a pearl barley plant, 200,000 bushels in steel storage, and an 80-foot truck scale from Wallace Grain and Pea in 2001. The additional storage allows them to store legumes for other firms. Pearl barley (the inedible hull has been removed) is sold to food manufacturers such as Campbell's. Finally, the company invested in a protein analyzer to test Madsen soft winter wheat. Madsen wheat that meets Great Western's malting standards for protein and quality is used to brew hefeweisen beers (wheat beers). Growers do not receive a premium for their wheat directly but indirectly through patronage dividends.

**Figure 1.12.**

**POMEROY GRAIN GROWERS**

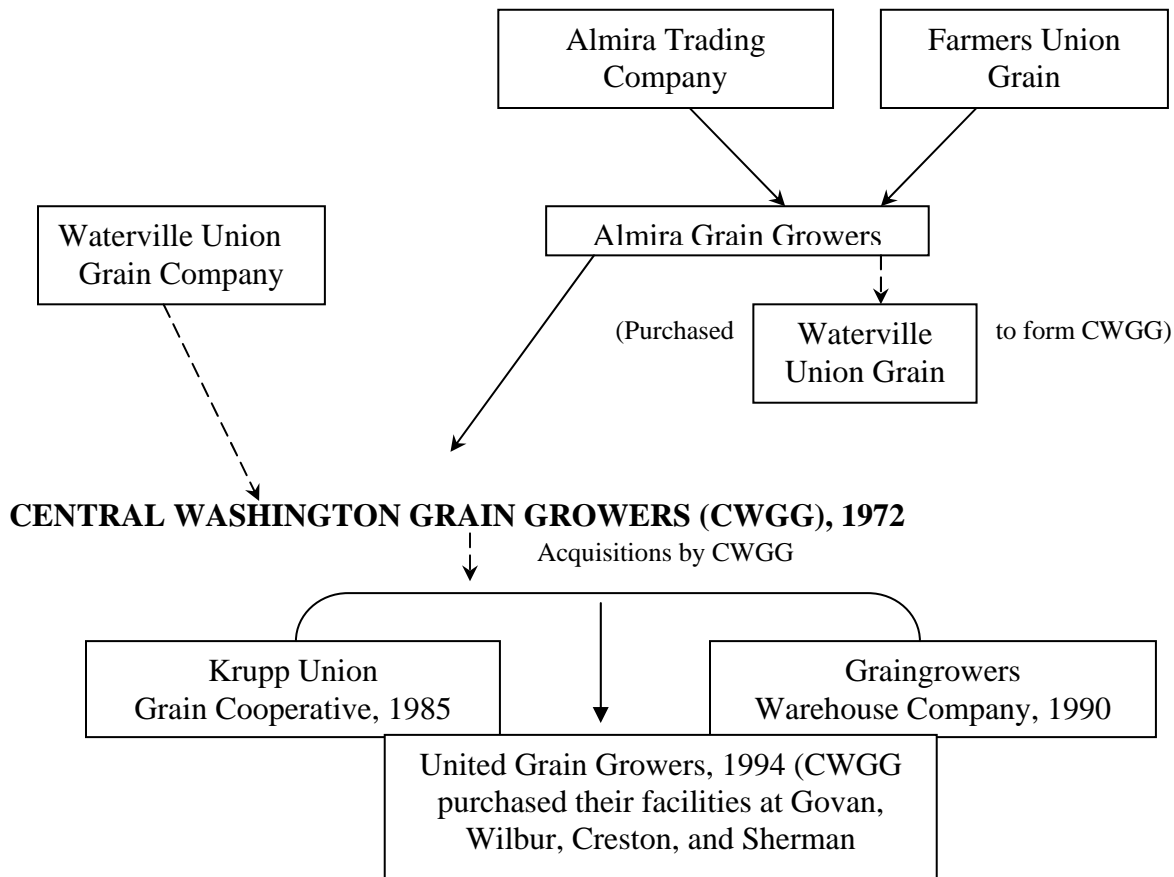


Purchased 

Pomeroy Warehouse Feed & Company
----------------------------------

Pomeroy Grain Grower's business office is located in Pomeroy with grain stations at Pomeroy and Zumwalt and a river terminal at Central Ferry. Facilities were expanded at Central Ferry with the addition of a 256,000-bushel grain bin during 2001. In 1999, Pomeroy Grain Growers purchased Pomeroy Warehouse and Feed Company, a private grain firm located in Pomeroy. This was the only private grain company to consolidate with a cooperative in our study. Wheat and barley are the primary commodities handled by the only grain cooperative in Garfield County. Land at Central Ferry is leased from the Port of Garfield County. Farm Commodities, which is a division of Pomeroy Grain Growers, is located in Colfax, Washington. Pomeroy Grain Growers markets grains, provides hedging services, and sells agriculture fertilizer and chemicals.

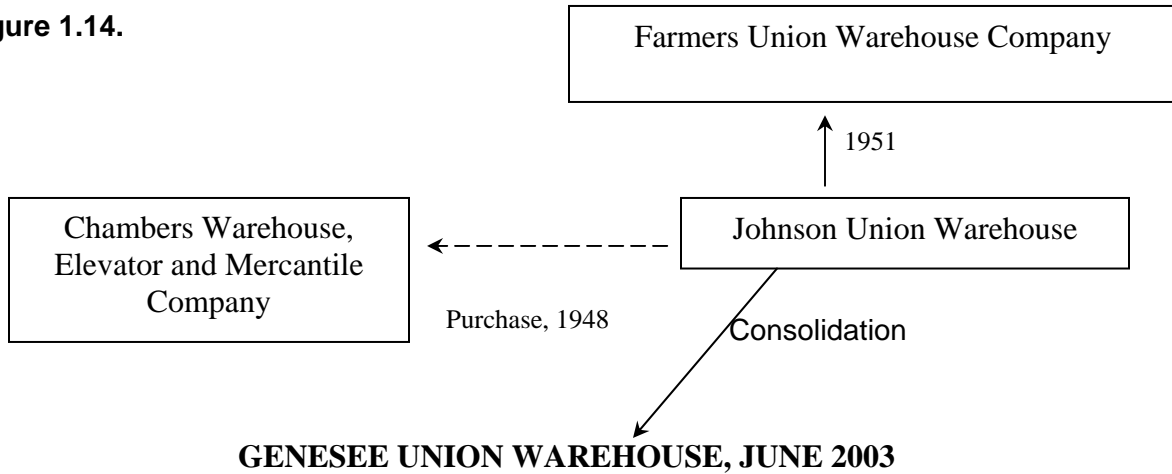
**Figure 1.13.**



Almira Grain Growers purchased Almira Trading Company in 1937 to form Farmers Union Grain Company in 1962. Central Washington Grain Growers was established in 1972 when Almira Grain Growers purchased Waterville Union Grain Company. CWGG continued to expand its operations by merging with Krupp Union Grain in 1985. The Wilbur grain storage and farm parts store was acquired in 1990 with the merger of Graingrowers Warehouse Company. Finally, they acquired United Grain’s facilities at Creston, Wilbur, Govan, Wheatridge, and Sherman in 1994. United Grain Growers ceased operations in 1994 due to accounting irregularities that kept them from being able to be licensed and bonded. Today, CWGG has six marketing offices, several unit train loading stations, and a river terminal elevator to transport grains.

Central Washington Grain Grower’s main business office is located in Waterville with grain stations in five counties in central and northern Washington (Grant, Lincoln, Douglas, Okanogan, Chelan). They handle a wide array of commodities, sell seed, and offer hedging services. Wilbur is the site of their Trustworthy Hardware and farm parts store, machinery maintenance shop, and seed plant. CWGG has experienced reduced revenues due to the Conservation Reserve Program (CRP), however, especially in Douglas County.

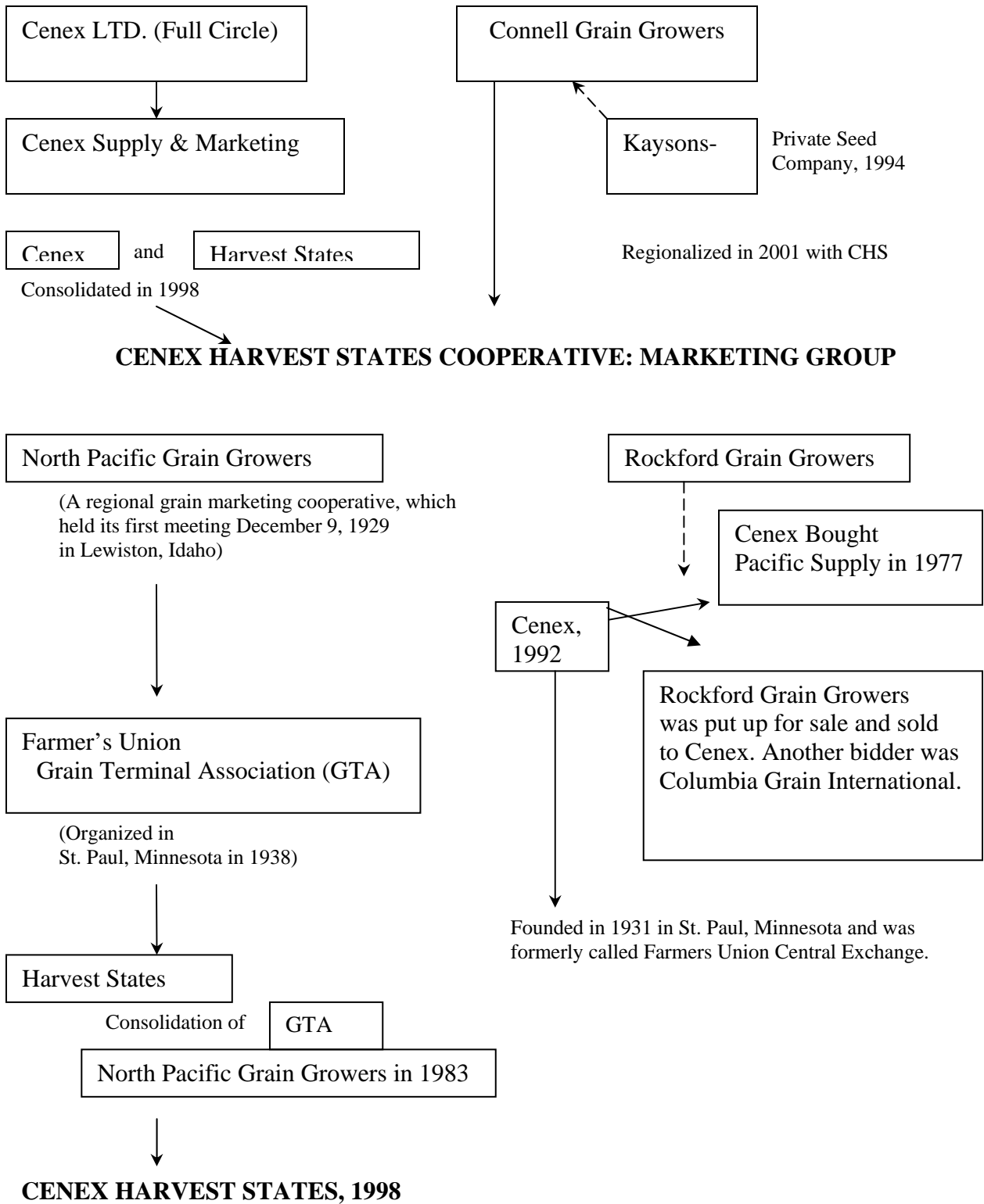
**Figure 1.14.**



Johnson Union Warehouse was established August 16, 1909 and reorganized as a farmer cooperative in 1936. In 1948, the Chambers Warehouse Elevator and Mercantile Company was purchased. Then, in 1951, the Farmers Union Warehouse Company of Colton consolidated with Johnson Union Warehouse Company of Colton with Johnson Union Warehouse being the surviving company. Their business office is located in Johnson with grain stations at Johnson, Chambers, and Colton. To increase profitability they handle a diversity of grains (soft white wheat, red wheat, white club, oats), legumes, and specialty crops (mustard, canola, garbanzos). They have a pea processing plant, so they have their own bag (brand) of peas. Johnson Union also sells seed and is a member of Lewis-Clark Terminal Association.

Recently, the patrons of Genesee Union Warehouse and Johnson Union Warehouse voted to consolidate into one company, with Genesee Union being the surviving company. Genesee Union has twice the licensed capacity, and the combined firm will be able to attract more volume from the increased buying area. Both of these cooperatives face formidable competition from nearby grain companies. Uniontown Cooperative Association is not a major competitor due to mutual respect for each other's patrons. The consolidation is scheduled to occur June 1, 2003, and the office in Johnson will be maintained.

**Figure 1.15.**



## **The History of Cenex Harvest States Marketing Group**

Because Cenex Harvest States is a mogul cooperative, one which (as mentioned earlier) appeared on the Fortune 500 list and that has through mergers, acquisitions, and consolidation become intertwined with several other cooperative organizations in the Pacific Northwest, it is beneficial to understand the history of its cooperative relationships more specifically. The following history is charted in Fig. 2.25.

### **Cenex**

Cenex was chartered January 15, 1931 and was originally known as Farmer's Union Central Exchange. In 1971, Cenex began supplying 60 cooperatives of the Grange Cooperative Wholesale in the Pacific Northwest. Then, in 1977, Cenex began serving Pacific Supply Cooperatives in Washington, Oregon, and Idaho. Pacific Supply was organized in 1934 in Wall Walla, Washington as a federated cooperative. They specialized in providing petroleum products.

Full Circle of Moses Lake was a former Pacific Supply cooperative. When Cenex purchased Pacific Supply, some satellite locations such as the Moses Lake facility did not revert to local ownership. They remained wholly owned subsidiaries of Cenex with ownership and profits kept corporately. Today, they operate as CHS Marketing Group, with their business office located in Wheeler (Moses Lake). They have grain stations at Quincy, Wheeler, Trinidad, Toppenish, Othello, Royal City, Basin City and Bruce. Connell Grain Growers regionalized with CHS in June 2001.

### **Harvest States**

Harvest States is a union of two cooperatives. North Pacific Grain Growers held its first board meeting December 19, 1929 in Lewiston, Idaho. The Farmer's Union Grain Terminal Exchange (GTA) began operations June 1, 1938. These grain merchandisers consolidated to form Harvest States cooperatives in 1983. In 1992, Harvest States and Continental Grain formed a joint venture titled Tacoma Export Marketing Company (TEMCO) located Tacoma, Washington. The purpose of this entity is to supply feed grain shipments to the Pacific Rim countries. Next, Cenex and Harvest States consolidated June 1, 1998. In 1998, CHS Country Energy, LLC was also formed as a partnership between Farmland Industries and CHS.

### **Rockford Grain Growers-CHS**

Cenex purchased Rockford Grain Growers in 1992. Their business office is located in Rockford, with grain stations in northeastern Washington and two facilities in northern Idaho (Setters and Worley). Cenex purchased Rockford Grain Growers prior to their merger with CHS, making these elevators a wholly owned subsidiary of CHS. Rockford Grain Growers-CHS handles wheat, barley, peas, lentils, oats and canola. Also, the grain elevator in Spangle has the ability to load unit trains. The Rockford division of CHS is operated out of Madras, Oregon because both areas produce grass seed. Also, there is no longer a local board of directors or local patronage at Rockford Grain Growers-CHS. Patronage received by area members comes nationally from all CHS operations.

Besides grain merchandising, CHS at Rockford sells agriculture and chemical products through Agriliance, LLC. Agriliance was formed in 2000 as a joint venture between Cenex Harvest States, Farmland Industries and Land O' Lakes. They sell agronomic inputs as well as seed.

CHS is a large national cooperative with many diverse operations from foods to grains, and they offer a complete line of agriculture inputs and supplies.

### **Regionalization: Lewiston Grain Growers and Connell Grain Growers**

Regionalization is a new term in the grain industry that began in the Midwest. It occurs where the balance sheet of one cooperative is folded into another one. The new structure is termed quasi-federated. Regionalization allows local grain cooperatives to maintain local control with a local board of directors, allowing members receive patronage based with the local cooperative. CHS Marketing Group of Moses Lake, Washington has regionalized with Lewiston Grain Growers and Connell Grain Growers. Lewiston Grain Growers recently consolidated with Grangeville Union Warehouse and changed their name to Primeland. Employees of the regionalized cooperative receive their paychecks from CHS rather than Connell Grain Growers or Lewiston Grain Growers. The advantage to this entity is that it allows the cooperative access to cheaper financing. Plus, they receive a comprehensive and lower cost insurance package from Ag States Agency. Most importantly, with this novel concept, the balance sheet remains as a separate company.

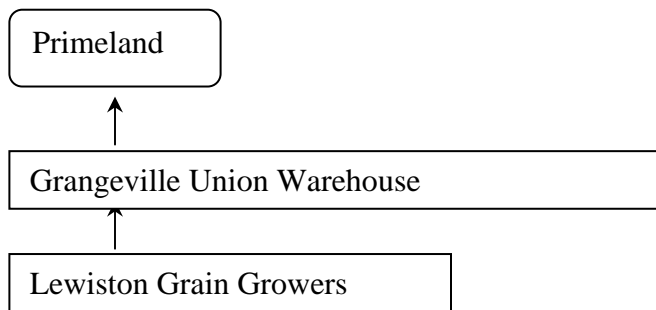
The Kennewick Terminal, which was formerly owned by Harvest States, was brought into the CHS regionalization with Connell Grain Growers. This elevator has a capacity of over five million bushels and is the largest receiving elevator on the Columbia River east of Portland, Oregon. CHS Marketing Group has a policy of originating grain directly from farmers in the field and delivering directly to the Kennewick Terminal. Three hundred barges were shipped from the Kennewick Terminal with shipping cost of \$0.20/bushel from Kennewick, Washington to Portland, Oregon. Trucking firms are contracted to originate grain from farmer's fields all over eastern Washington, making CHS a single source shipper. Producers still have the same marketing options available but do not have to worry about storage risks.

Connell Grain Growers is the headquarters for the grain marketing division of CHS Marketing Group. Wheat, corn, and barley are the primary commodities handled, with dryland agriculture to east of Connell and irrigated crop production to the west. They are the largest seed dealer in Pacific Northwest with exclusive associations from private crop breeder Western Plant Breeder. In 1994, Connell Grain Growers acquired the private seed company Kaysons. They are a primary supplier of superior quality seed in the Pacific Northwest, especially Triticale varieties. Irrigated acres provide a reliable supply of consistently high quality seed crops. Corn and seed sales provide a lucrative source of revenue for the firm. The company is actively promoting new seed varieties and sees increased revenues with biotechnology crops.

Corn received is used in their feed mill to produce rations for area livestock feeders. Changing crop patterns in the Columbia Basin have reduced revenue received from handling dry feed corn. Farmers are beginning to double crop sweet corn and timothy hay. Planting sweet corn provides two main advantages over planting feed corn: 1) it is easier to plow down as a green crop and 2) the green crop breaks down easier in the soil and nutrients are released earlier when potatoes can utilize it. Consequently, the feed mill may be closed due to declining profits and cattle feeders obtaining corn directly from the Corn Belt.

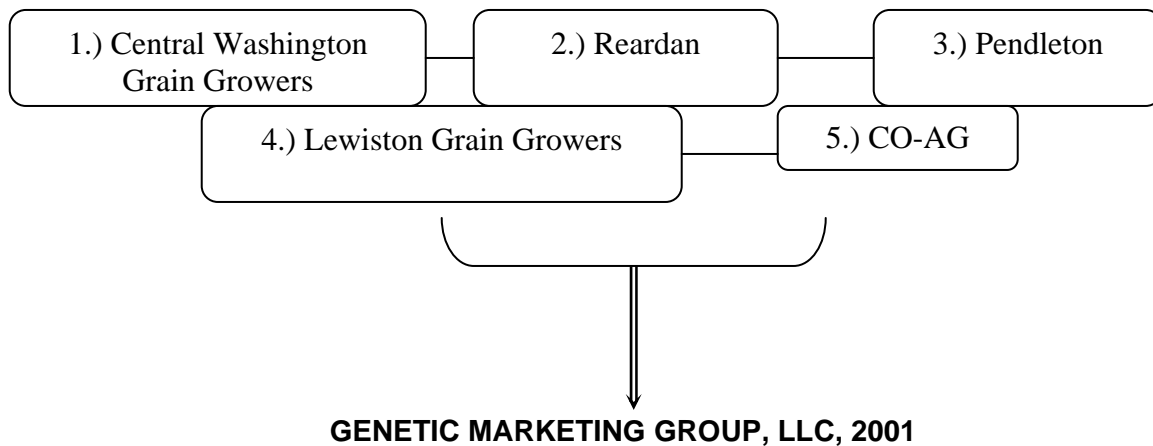
Today, CHS is the largest grain cooperative in the U.S. with 1 billion bushels handled annually. In 1999, CHS generated \$6.3 billion in sales with a net income of \$86 million dollars. CHS is organized into four separate businesses: 1.) Foods; 2.) Milling and Processing; 3.) Grain Marketing; and 4.) Country Operations. Their mission is to grow value by linking producers to consumers, with a vision to be a united agriculture system from the "Back 40 to Aisle 40."

**Figure 1.16.**



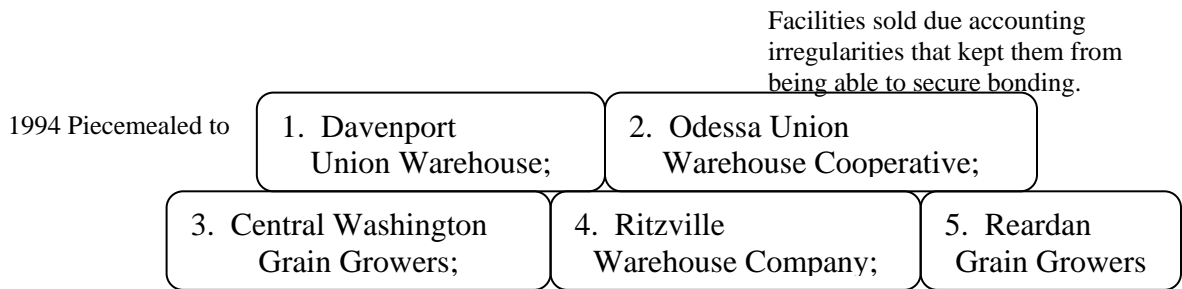
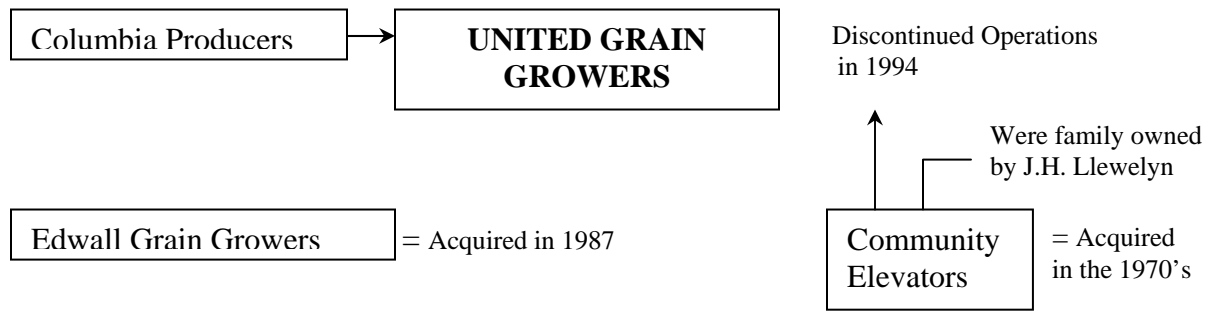
Cenex Harvest States has done two regionalizations in the Pacific Northwest. The first was with Lewiston Grain Growers and the second was with Connell Grain Growers. Lewiston Grain Growers consolidated with Grangeville Union Warehouse and changed their name to Primeland.

**Figure 1.17.**



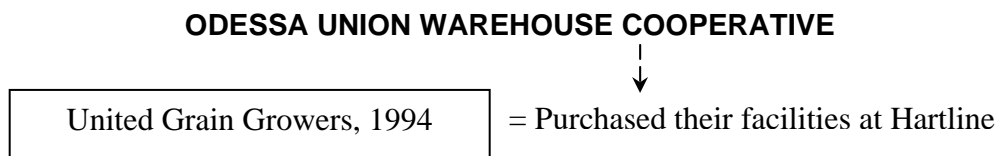
Late in 2001, Genetic Marketing Group, LLC was formed as an agreement between Central Washington Grain Growers, Reardan Seed Company, Pendleton Grain Growers, Primeland, and Cooperative Agriculture Producers. The purpose of this entity is to benefit from future innovations in the grain and seed industry.

**Figure 1.18.**



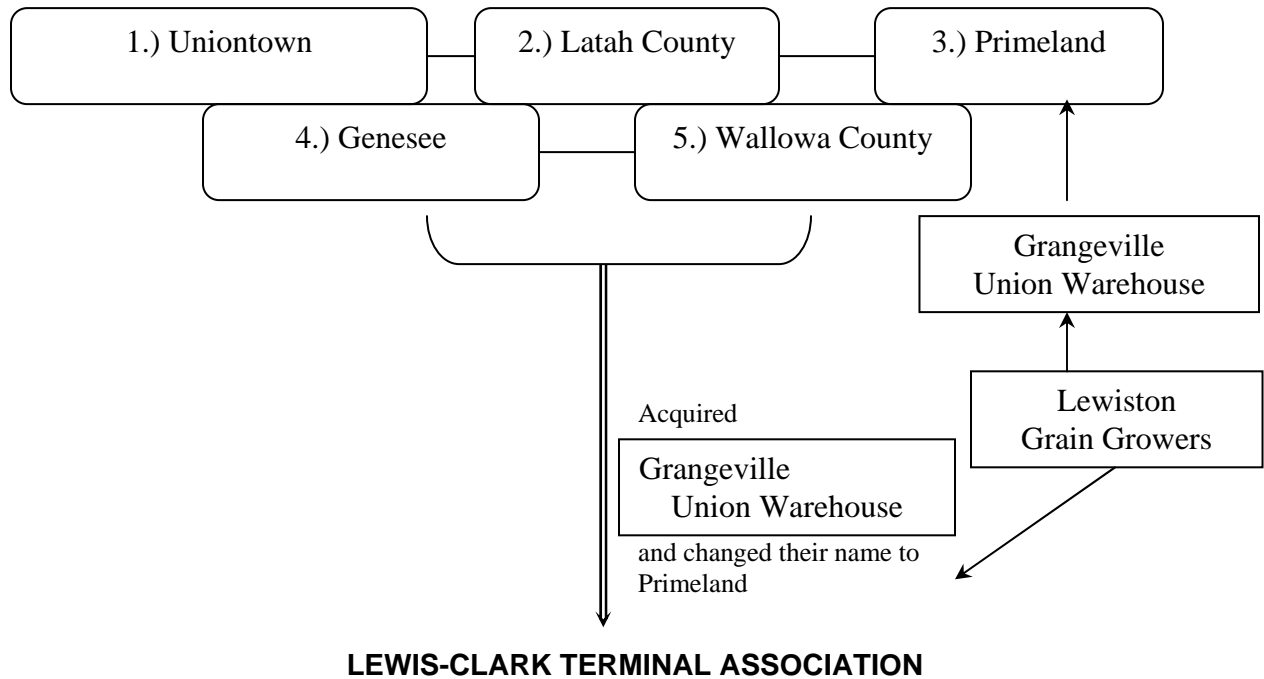
In 2001 St. John Grain Growers purchased the Columbia Seed plant at Warden. The Columbia Seed plant used to be part of Columbia Producers, which was acquired by United Grain Growers.

**Figure 1.19.**



Odessa Union’s office is located in Odessa with grain stations in Adams, Grant, and Lincoln counties. Wheat (especially club wheat), barley, oats and corn are the primary commodities handled. Also, they provide hedging services and sell seed and feed as a service to the community. Odessa Union has three branch offices in Harrington, Davenport and Ephrata and six-unit train loading facilities.

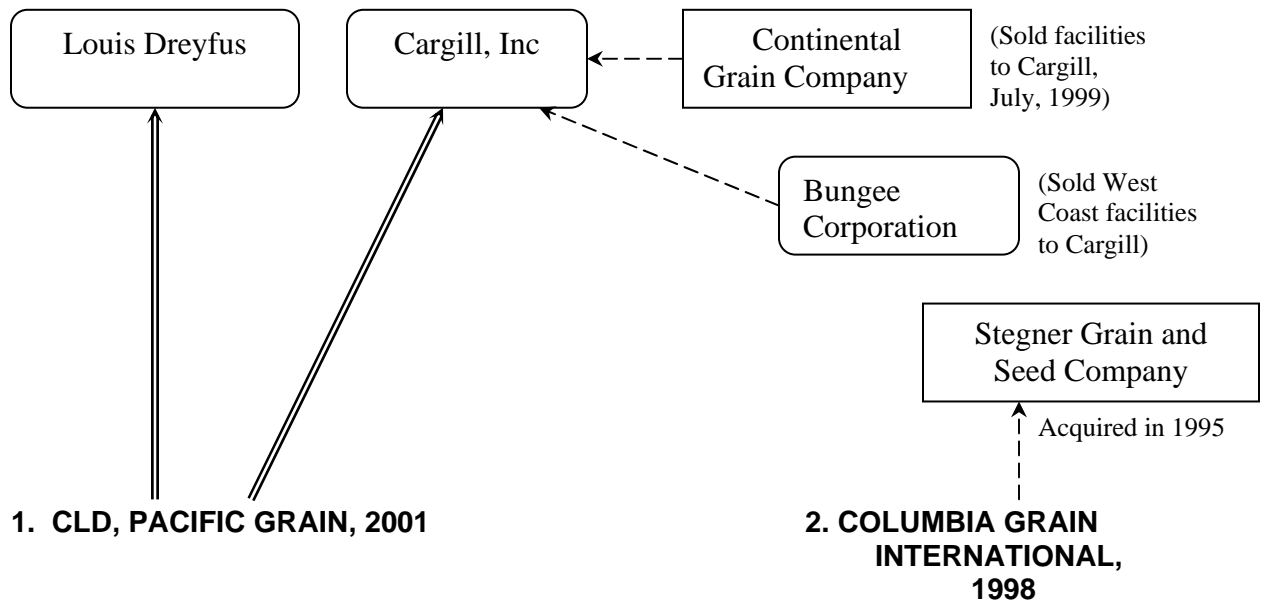
**Figure 1.20.**



Lewiston Clark Terminal Association was formed in the early 1960s in anticipation of the arrival of the Snake River dams. It operates a river subterminal and functions as a put through facility for members' grain.

**PACIFIC COAST EXPORTERS**

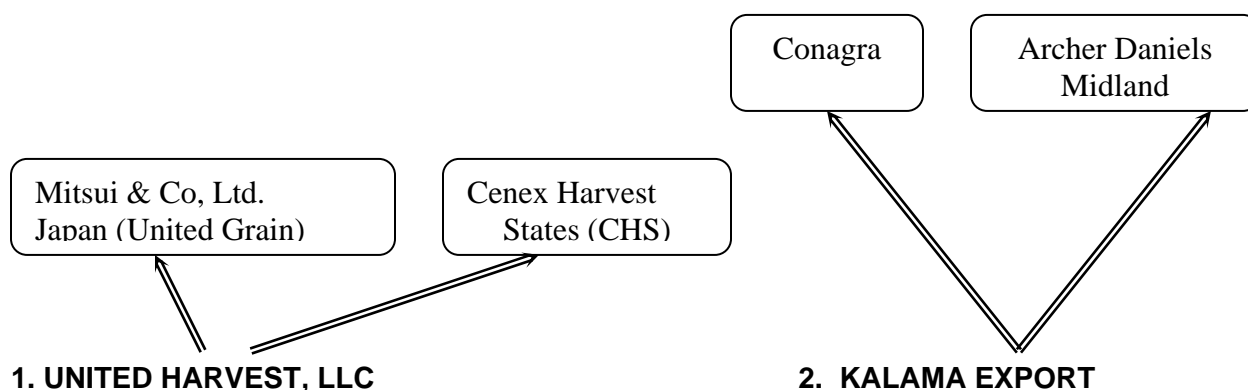
**Figure 1.21.**



Cargill and Louis Dreyfus leased their facilities on the Columbia and Snake Rivers to CLD Pacific Grain on November 1, 2001. Barge terminals included in the partnership are located in Oregon at The Dalles, Arlington, and Boardman; in Washington at Burbank and Pasco; and in Idaho at Lewiston.

Columbia Grain International was created in 1978. They acquired Stegner Grain in Lewiston in 1995, and on October 21, 2002 they entered into an operating agreement with General Mills, Inc to lease 13-grain elevator warehouses in Montana. Columbia Grain services domestic and international markets, with 30 elevators in Washington, Idaho, Montana, North Dakota; plus an export elevator in Portland, Oregon. Also, they are a large dry pea and lentil processor and exporter.

**Figure 1.22.**



CHS operates an export river terminal in Kalama, WA. They have a 50%-50% joint venture with United Grain, which is owned by Mitsui & Co, Ltd. of Japan. The joint venture is titled United Harvest, LLC. Mitsui is one of the largest trading companies in Japan. Kalama Export is a 50%- 50% joint ventures between Conagra and Archer Daniels Midland.

### **Grain Warehouse Operating Licenses**

Government laws, policies and regulations guide our economic system, ensure equality to market participants, protect consumers and maintain competition. U.S. grain is bought and sold in the free market, but policies are required to direct market transactions and guarantee product uniformity. Regulations influence the business conduct of grain firms and thus their economic performance. Any public grain warehouse operating in the state of Washington must comply with merchandising and warehousing laws, the U.S. Grain Standards Act, and U.S. laws governing marketing concentration.

### **Merchandising and Warehousing Laws**

In the state of Washington warehouse operators and grain dealers are required to be licensed and bonded either with the Washington State Warehouse Audit Program or with the Commodity Operations division under the USDA. Warehouse operators **have a choice** whether to be federally or state licensed to operate grain-receiving facilities in the state of Washington (RCW 22.09.030 and RCW 22.09.035).

The Warehouse Audit Program is under the jurisdiction of the Consumer and Producer Protection Division of the Washington State Department of Agriculture. To obtain a license,

warehouse operators must file a bond or other form of equivalent security in lieu of a bond, such as the cash value of a life insurance policy, irrevocable letter of credit or certificate of deposit. Grain managers can choose the surety but not the bond amount. The security is determined by: “the higher of 6% percent of the cost of commodities purchased from producers or \$0.18 times the licensed capacity.” The minimum security is \$50,000 and maximum amount is \$750,000 in the state of Washington. The maximum amount of security for federal licensed warehouses is \$500,000 (D. Michelbook, personal interview, October 30, 2002).<sup>4</sup>

Bonding protects depositors from company bankruptcies, and legitimate claims are entitled to a pro-rata share of the pledged security. The Washington State license period begins each July 1 and ends June 30, and a minimum of one audit is done during this time period. Grain firms must meet a minimum net worth and working capital ratio to be licensed. Also, warehouse operators must file their tariffs for receiving, storage, and load out and post them in a noticeable place in their office. Depositors have the right to be issued a warehouse receipt upon request. Written purchase contracts must contain: “1) A clear pass title statement; 2) The net price or charges to be deducted from the selling price; 3) Payment due date; and 4) Quantity and commodity to be purchased” (D. Michelbook, personal interview, October 30, 2002).

Applicants for a warehouse license must submit the following information (RCW 22.09.040): 1) the full name person applying for the license and whether the applicant is an individual, partnership, association, corporation, or other entity; 2) the name of each member of the firm or partnership, or officers of the company, society or cooperative; 3) principal business address; 4) names of people authorized to receive and accept service of summons and legal notices for the applicant; 5) whether the applicant has also applied or been issued a grain dealer license; 6) location of each warehouse and the headquarter the applicant intends to operate; 7) the bushel storage capacity of each warehouse to be licensed; 8) the schedule of fees to be charged at each warehouse for handling, conditioning, storage and shipment of all commodities during the license period; 9) financial statements to determine if the applicant meets the net worth requirement; 10) whether the application is for a terminal, subterminal or country warehouse; 11) whether the applicant has previously been denied a grain dealer or warehouse license or whether the applicant has had either licenses suspended or revoked by the department; 12) any other information the department finds necessary to carry out the purpose and provisions of this chapter.

Routine state audits are performed to ensure that warehouse operators are in compliance with state and federal laws. The compliance examination determines that commodities are fully insured against loss caused by fire and wind and are stored properly to maintain quality. Also, auditors determine the amount of the outstanding storage obligation for the warehouse and the dollar amount owed to depositors. Plus, they ensure that there is a sufficient amount of a commodity to cover the outstanding storage obligation for the commodity. Commodities in the program include: Wheat, Barley, Oats, Field corn, Pop corn, Rye, Triticale, Grain sorghum, Sunflower seeds, Flax, Buckwheat, Rapeseed, Safflower, Millet, Mustard, Dry peas, Dry beans, Lentils, Malt, and by-products resulting from the conditioning of these commodities (D. Michelbook, personal interview, October 30, 2002).

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<sup>4</sup> Donald Michelbook is Program Manager at the Washington State Department of Agriculture Warehouse Audit Program in Spokane, Washington.

## **U.S. Warehouse Act**

Grain owners who store grain in public warehouses need to be assured that their investment is protected against loss. The federal government began regulating public warehouses with the passage of the U.S. Warehouse Act in 1916, which required public grain facilities to have a state or federal operating license. To obtain a federal license under the U.S. Warehouse Act a warehouse operator must 1) have a properly equipped warehouse which is determined by an inspection; 2) submit a financial report—net assets must be equal to the greater of \$50,000 or \$0.25 times the warehouse capacity in bushels; 3) a bond must be filed with the Secretary of Agriculture; and 4) a tariff for receiving, loading out, storage, insurance, and conditioning must be submitted for approval (Oehrtman and Schnake, 1993).

President Clinton signed the U.S. Warehouse Improvement Act of 2000 into law November 9, 2000. The USDA published the final regulations in the Federal Register implementing the new law August 5, 2002. New regulations under the U.S. Warehouse Act of 2000 exempt federally licensed warehouses from all state merchandising laws. Washington State laws encompass merchandising (buying and selling), and warehousing (storage) of grain (D. Michelbook, personal interview, October 30, 2002).

A federal licensed operator is not obligated to comply with any state merchandising laws, which is causing great controversy in the grain industry. A section under the act states: "Compliance with state laws relating to the grading, weighing storing, merchandising or other similar activities is not required with respect to activities engaged in by federally licensed warehouses" (as cited in Gordon, September 16, 2002, para. 2). Therefore, federally licensed warehouses do not have to be licensed as state grain dealers, pay state licensing fees, or comply with state merchandising laws (Gordon, September 16, 2002).

USDA officials say the U.S. Warehouse Act, superseding state grain dealer laws, is based on precedence. The U.S. Supreme Court ruled in 1947 in the *Rice v. Santa Fe Elevator Corporation* case that, "the federal scheme prevails though it is a more modest, less pervasive regulatory plan than that of the state" (as cited in Gordon, September 16, 2002, para. 8). USDA contends that even though the U.S. Warehouse Act is less specific than state grain dealer laws, all activities of federally licensed warehouses are controlled (Gordon, September 16, 2002). Positive improvements in the revised U.S. Warehouse Act include: authorization to issue electronic warehouse receipts, the use of arbitration as a tool to solve private sector disputes, and the acceptance of bonds, letters of credit and treasury notes for financial assurance (Gordon, August 8, 2002). In summary it is each grain cooperative's prerogative whether to be state or federally licensed.

## **U.S. Grades and Standards**

Grain firms must adhere to the laws discussed below to buy and sell grain. Maintaining grain quality incurs a cost. Those who guarantee quality by class, grade and quantity earn rewards. As the grain industry developed in the U.S. there was need for uniform grades and inspection, so buyers and sellers could trade without an exchange of samples. This led to the passage of the U.S. Grain Standards Act on August 11, 1916, which provided: 1) the establishment of official U.S. grain standards; 2) the federal licensing and supervision of grain inspectors; 3) the

establishment of an appeals board for complaints on grades issued; and 4) a requirement that all interstate and export shipment be inspected according to U.S. grain standards (Hill, 1993).<sup>5</sup>

The Agriculture Marketing Act of 1946 gave the Secretary of Agriculture general powers and money to further the development and management of standards. This law broadened the responsibility and illustrated the importance of the federal government's maintenance of standards (Kohls and Uhls, 1998). Currently, there are U.S. standards for wheat, corn, barley, oats, rye, triticale, sorghum, flaxseed, soybeans, canola, sunflower seed, and mixed grains. Wheat is defined as containing 50% (after the removal of dockage) or more whole kernels of common wheat, club wheat, or durum wheat, and not more than 10% of other grains (Nago, 1995).<sup>6</sup>

The six basic classes of wheat in North America include: 1) Hard Red Winter, 2) Hard Red Spring, 3) Hard White, 4) Soft White, 5) Soft Red Winter, and 6) Durum (Table 5). Hard means that the kernel has a hard textured endosperm; hard wheat is used to make breads. Soft wheat, on the other hand, signifies that the kernel has a soft endosperm and it is used in cakes, cookies, crackers, oriental noodles, and pastries. Mixed wheat contains less than 90% of one wheat class and more than 10% of one or more other classes. Unclassed wheat is any wheat that cannot be classed under the criteria of the official U.S. wheat standards (Table 2.1) (U.S. Wheat Associates, 2002).

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<sup>5</sup> A competitive marketing system requires a standard description of commodities so that quality and value can be determined. The purpose of grades and standards includes: 1) Buying and selling of commodities by description rather than inspection; 2) Allowing grain to be mixed from many sources into grades with uniform characteristics; 3) Valuing grain based on specific characteristics; 4) Providing market incentives for improvement in quality; 5) Lowering transaction costs; and 6) Improving pricing efficiency (Hill, 1993).

<sup>6</sup> Grades and standards for grain are based on numerical values for a list of factors to indicate quality. The numerical grade is determined by the lowest quality of any of the factors. The number and variety of factors and grades varies with each grain type. Potential grade criteria include: test weight, moisture content, foreign material, and damaged kernels. Wheat standards include dockage and foreign material. Dockage is material other than wheat that can be removed by a sieve; foreign material is the matter in the sample after removal of dockage and shrunken and broken kernels (Hill, 1993)

**Table 1.1. U.S. Classes of Wheat**

	<b>Class</b>	<b>Subclass</b>
1	Hard Red Spring (HRS)	Dark Northern Spring (DNS) Northern Spring (NS) Red Spring (RS)
2	Hard Red Winter (HRW)	No Subclasses
3	Hard White (HW)	No Subclasses
4	Soft White (SW)	Soft White (SW) White Club (WC) Western White (WW)
5	Soft Red Winter (SRW)	No Subclasses
6	Durum (DU)	Hard Amber Durum (HAD) Amber Durum (AD) Durum (DU)
7	Mixed Wheat	Contain less than 90% of one class of wheat and more than 10% of one or more other classes
8	Unclassed Wheat	Any variety, which cannot be, classed under official U.S. wheat standards.

SOURCE: U.S. Wheat Associates. (2002, March). Overview of U.S. Wheat Inspection. Retrieved August, 11, 2005, from [http://www.uswheat.org/USWPublicIII.nsf/0/583c26fbc2c27d9b85256f110057789e/\\$FILE/USW\\_english.pdf](http://www.uswheat.org/USWPublicIII.nsf/0/583c26fbc2c27d9b85256f110057789e/$FILE/USW_english.pdf)

The numerous revisions to the U.S. Grain Standards Act illustrate the importance of guaranteeing consistent quality of a commodity. The Federal Grain Inspection Service (FGIS) was established within the USDA in 1976. FGIS is a unique program comprised of federal, state, and private agencies providing weighing and inspection services (U.S. Wheat Associates, 2002). Their responsibility is to manage all inspection agencies at U.S. export points, to supervise the grain inspection and weighing system, to maintain official standards of grains, and to establish procedures for weighing and inspecting of grain. Before 1976, grain inspectors were individuals licensed by the USDA and paid by the users of grading services (Hill, 1993).

The 1986 Grain Quality Improvement Act requires end use value to be considered in grade factors. Also, the law outlined the purpose of grades and standards: 1) to describe uniform terms to assist trade; 2) to provide information to determine grain storability; 3) to measure value processing or other end uses; and 4) to provide market incentives for quality improvement (Hill, 1993).

### **Laws Governing Market Concentration**

Competition is essential for markets to operate and allocate resources efficiently. Increased concentration and market power can erode competition. The goal of antitrust legislation is to protect consumers from unfair business practices and foster competitive markets.

## **U.S. Antitrust Laws**

Antitrust laws were created to promote competition and to reduce the power of trusts, trusts that in the 19<sup>th</sup> and 20<sup>th</sup> centuries controlled products, such as steel, oil, sugar, and grain. Once these trusts eliminated competition, they maximized prices without improving their products or providing better customer service. Consequently, small businesses and farmers were unable to compete, and thus, laws were passed to promote competition (Barnes and Ondeck, 1997).

The primary federal antitrust law is the Sherman Antitrust Act of 1890. Section 1 prohibits “every contract, combination in the form of trust or otherwise, or conspiracy in the restraint of trade . . . .” (as cited in Barnes and Ondeck, 1997, para. 15). Section 2 forbids “monopolization, attempts to monopolize, and conspiracies to monopolize any part of commerce” (Barnes and Ondeck, 1997, para. 15). The Clayton Act is another antitrust law. Specially, section 7 prohibits “mergers and acquisitions . . . that are likely to substantially lessen competition in a market” and geographic area (Ross, 2000, para. 5).

### **Role of the Antitrust Division and Grain Inspection, Packers, and Stockyards Administration**

The role of the Antitrust Division of the Department of Justice is to enforce antitrust laws. They do not have the power to restructure any industry, market, or company, but they do have the power to prevent specific violations of antitrust laws that can be proven in court. After the Antitrust Division brings action, the court decides whether antitrust laws are being violated and corrective action that should be taken (Ross, 2000).

The task of the Antitrust Division is to stop business conduct—mergers, for instance—that will lessen competition in competitive markets. Antitrust laws do not prohibit all increases in concentration, however, as they are based on the belief that competitive market forces should be the primary determinant of the structure of our economy. Douglas Ross (2000) of the Special Council for Agriculture Antitrust Division U.S. Department of Justice states:

The consumer is the primary beneficiary of antitrust enforcement and effective competition among producers of goods and services at all levels in the production process, because competition leads to better quality, more innovation, at all levels in the production process, because that competition leads to better quality, more innovation, and lower prices. That is why it is often said that the antitrust laws protect competition, not competitors (para. 6).

The Antitrust Division works closely with the Grain Inspection, Packers and Stockyards Administration (GIPSA). GIPSA was organized October 20, 1994 to administer the previous Federal Grain Inspection Service (FGIS) Packers and Stockyards programs. This merger combined administrative activities, but FGIS continues to operate as a separate program within GIPSA. GIPSA’s mission pertaining to grains is to:

To facilitate the marketing of grains, oil seeds, pulses, rice, and related commodities by establishing descriptive standards and terms; certify quality accurately and consistently; provide for uniform official inspection and weighing; carry out assigned regulatory and service responsibilities; and provide the framework for commodity quality improvement incentives to both domestic and foreign buyers (U.S. Department of Agriculture, 1996, pp. 197).

GIPSA is part of the United States Department of Agriculture (USDA) and has regulatory authority over meatpackers and grain processors. GIPSA does not have authority to enforce the Sherman and Clayton Act, but they can consider competition issues and refer antitrust

violations for investigation. Its primary role is to maintain fair competition regulations (Heykoop and Segarra, 2001).

### **What Antitrust Laws Prohibit**

The three kinds of violations of antitrust law include:

1. "Conspiracies to deny market access or suppress competition,"
2. "The use of predatory and/or exclusionary conduct to acquire a monopoly in a market," and
3. Mergers and acquisitions that that are likely to substantially lessen competition in a market" (Ross, 2000, para. 5).

The first violation is collusion, where firms that are competing against each other agree not to compete with each other but instead join forces against their consumers or their suppliers. The result is higher prices for consumers, lower prices to suppliers, and reduced choices in the market place. Collusion can be accomplished by agreements to fix prices, allocate markets, or boycott particular customers, supplier, customers, or competitors (Ross, 2000).

An important exception to collusion is the Capper-Volstead Act which allows producers of agriculture commodities to form processing and marketing cooperatives (Ross, 2000). President Warren Harding signed the Capper-Volstead Act into law February 18, 1922. This act "enables agriculture producers to collectively process, prepare, handle, and market their products" (Barnes and Ondeck, 1997, para. 1). A cooperative is defined as "a corporation or association organized for the purpose of rendering economic service, without gain to itself, to shareholders or members who own and control it" (Barnes and Ondeck, 1997, para. 7). The purpose of the act was to empower farmers to market, price, and sell commodities through cooperative means (Barnes and Ondeck, 1997).

Section 1 of the Capper-Volstead Act exempts farmers from antitrust laws and lists organizational requirements. Section 2 gives the Secretary of Agriculture authority over the activities of cooperatives. This person has the power to stop cooperatives that have restrained or monopolized trade to the point that the price of an agriculture product is greatly increased (Barnes and Ondeck, 1997).

The structure and conduct of agriculture cooperatives is critical for agriculture cooperatives to receive exemption. Cooperatives must be composed entirely of farmers who are engaged in production of commodities. Plus, cooperatives must follow these structural requirements to come under Capper-Volstead protection:

1. The cooperative must be operated for the mutual benefit of the members,
2. One vote per member or dividends paid on capital may not exceed 8% annually
3. Not handle a greater amount of products from nonmembers than from members (50% Rule)
4. Not operated for profit

Finally, the activities exempted by the Capper-Volstead Act include: processing, preparing for market, handling, or marketing (Barnes and Ondeck, 1997).

Secondly, antitrust laws prohibit attempts to monopolize a market. An example of monopoly behavior would be a dominant firm in an industry attempting to drive its competitors out of business by interfering in their ability to engage in business. The law requires proof that a firm has engaged in restrictive behavior to acquire or maintain a monopoly, and that the firm possesses an extremely high market share all to itself. Also, monopolization cannot be proven just

because a market is highly concentrated. Antitrust laws allow a firm to have a monopoly, even 100% of the market, as long as it was not acquired through restrictive conduct. As Judge Learned Hand states, a monopoly is legitimate when obtained: “by virtue of superior skill, foresight, and industry” (Ross, 2000, para. 19).

Finally, antitrust laws prohibit mergers that will lessen competition of a particular product or geographic area. This violation does not require proof that the conduct has already occurred. The focus is on whether the merger would alter market structure to such a degree that competition would be hindered (Ross, 2000).

## **Summary**

In the early 1930s and 1940s, country elevators were established in the Pacific Northwest. They arose in most every town that railroads passed through. The coordination of these country elevators contributed to the subsequent structure of Washington’s grain cooperatives. Most grain firms are multiplant firms where they operate several grain receiving stations or houses with in the farm. This was originally to provide convenient haul times for producers at harvest. Short haul times were necessary to keep trucks available so that combines would be able to continue harvesting. Over the past century a complete transportation system implying the availability of rail, road, and river transportation has developed in the PNW. Cost-efficient transportation, which continues to take place following transportation infrastructure advancements, increases the competitiveness of commodities and provides access to international markets.

Cooperatives are more than a business; they are a philosophy. This is evident in their governing principles. These principles describe what cooperatives are not what they do. A cooperative is user-owned and user controlled business that distributes benefits on the basis of use. Cooperatives enjoy the special privilege to act and bargain collectively. The Capper-Volstead Act of 1922 recognized them legislatively as a unique form of business in stating that farmers can organize marketing associations without violating antitrust laws

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