



Organizing and Operating A FISHERY COOPERATIVE PART ONE

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The organization and operation of a successful fishery cooperative requires a knowledge and understanding of cooperative management and marketing concepts.

This publication provides information about cooperative organization, management, and legal instruments used in organizing and operating a cooperative. It is available in two parts. This portion, part one, provides an overview of cooperative organization and operation. Part two provides greater detail about the legal instruments and requirements of a fishery cooperative.

Questions or suggestions about fishing cooperatives should be directed to the Oregon State University marine economics extension specialist, Department of Agricultural Economics, Oregon State University, or to any of the marine extension agents in Oregon.

Part two (S. G. Number 19a) of this publication is available from Bulletin Mailing Services, Oregon State University, Corvallis, Oregon 97331.

THE COOPERATIVE PRINCIPLE

A fishery cooperative consists of a group of individual fishermen acting together for mutual benefit and is designed to accomplish group objectives. Through the cooperative, members jointly perform or obtain services which individuals usually could not accomplish alone.

Fishermen members own the cooperative by owning capital stock or by paying membership fees. Each



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member usually has only one vote, in contrast to *non-cooperative* corporations. In a non-cooperative corporation, votes are based upon the number of *shares* (stock) held by an individual.

Therefore, in a cooperative, ownership *and* control are equally vested in each cooperative member, guaranteeing equal voice in the affairs of the organization. Management is usually placed in the hands of persons selected by the *board of directors* who, in turn, are elected by members.

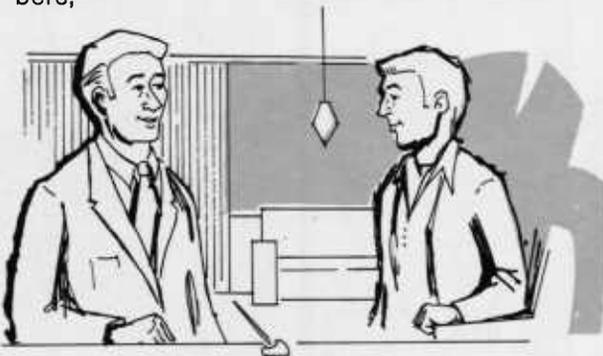
FUNCTIONS OF A FISHERY COOPERATIVE

The creation of a fishery cooperative must be based upon a real economic need. For example, cooperatives may be created to:

- stabilize income from season to season,
- improve quality control,
- pool funds to finance fishing operations at lower interest rates,
- reduce cost of fishing supplies and equipment,
- transport fish products more efficiently,
- establish a competitive market for fish products,
- provide a market for processing waste, and
- provide special harbor and dockside facilities and services.

A single cooperative may perform a number of different functions or may specialize in just one. For example, the more than 75 fishery cooperatives in the United States presently perform one or more of the following functions:

- transportation of fish products to processors or other markets,
- operation of vessel servicing stations,
- operation of vessel repair shops,
- rental of trucks and other equipment to members,
- negotiation with buyers on prices,
- marketing of member's products,
- purchasing of supplies and equipment for members,



A cooperative must guard against hiring a manager from the membership simply because he's a good fellow and needs a job!

- arranging for financing,
- operation of retail outlets,
- operation of freezer and cold storage warehouses,
- provision of docking facilities, and
- operation of seafood processing plants.

In most states there are very few limitations on the functions of a fishery cooperative. However, the functions must be legal.

ORGANIZING A COOPERATIVE

Interested fishermen should thoroughly discuss their common problems and needs. If the fishermen can agree on some common objectives that can be accomplished best by cooperative effort, they should then clearly define the purpose and functions of the proposed cooperative.

From this group of fishermen, a smaller group can proceed to investigate whether it would be economically sound to organize a cooperative with the desired functions and investigate the procedures of establishing a cooperative.

Much assistance can be obtained from the Cooperative Extension Service, Oregon State University Sea Grant Marine Advisory Program, National Marine Fisheries Service, Small Business Administration, some local attorneys, accountants, and financial institutions.

The smaller study group should find at least partial answers to the following questions:

- What services do fishermen need or want in their particular geographical area that are not now being provided adequately by existing business?
- What is the potential profitability of providing such services to fishermen?
- What volume of business can be expected?
- How much money will be required to organize and operate the cooperative?
- What are the managerial requirements of operating the cooperatives?
- Can competition be met and the cooperative remain profitable over an extended period of time?

Answers to these questions will assist the larger group of interested fishermen in deciding whether to go ahead and organize a cooperative.

It is important to remember that a cooperative is a non-profit business only from the legal and accounting standpoint. A cooperative will surely fail if it does not provide services of economic value and its costs are greater than its revenues.

When it has been determined that a cooperative should be organized and its services are identified, consideration should then be given to its legal, capital, and operational structure. The fishery cooperative must organize under state laws and comply with the provisions of the *Federal Fishery Cooperative Marketing Act of 1934*.¹

¹ 48 Stat. 1213; 15 U.S.C., Secs. 521-522.

The cooperative can be *incorporated* or organized as an *unincorporated association*. If the *unincorporated association* is used, it can be further organized under one of the following:

1. General partnership—A partnership is an association of two or more persons who engage in business for profit. Each partner may bind his co-partner to obligations of the business and each partner is personally liable for business debts.
2. Limited partnership—This is the same as a general partnership except the liability of one or more partners is limited.

An *incorporated cooperative* has the advantage of providing limited liability to members, providing a business life independent of the individual members', and encouraging a more business-like organization and operation.

Fishery cooperatives must incorporate under state laws, but they can utilize the protective provisions of the Federal Fishery Cooperative Marketing Act of 1934 in their interstate and foreign commerce activities. This protection is gained through the assistance of the National Marine Fisheries Service of the U. S. Department of Commerce. The provisions of this Act require the cooperative to provide one vote per member, eight percent maximum dividend payment on *capital stock*, and that the cooperative's business with non-members be less than with members.

The organizing fishermen should obtain copies of state statutes regulating the establishment of a cooperative and a corporation and should employ the services of an attorney and a certified public accountant—one preferably familiar with cooperative law and taxation. A simple mistake in organization or accounting procedures can cause problems in operations. Part two of this publication provides some sample fishery cooperative by-laws.

Once the *initial capital* requirements are determined, there are three ways to obtain the necessary capital. The initial capital may be provided by members who buy stock (shares) in the cooperatives—or it can be provided from membership fees. In addition, capital may be obtained from outside sources (non-members) by sale of preferred stock or by borrowing a portion of the required initial capital. Capital is also frequently borrowed from cooperative members as well as non-members.

When determining the initial capital requirements, allowance should be made for at least a year or more of operation with costs exceeding revenues. (It usually takes some time for the cooperatives to get established and develop efficient operating procedures.) Therefore, it is necessary that more capital than required for the initial buildings, inventory, equipment, land purchases, and normal operating needs must be provided.

OPERATING A COOPERATIVE

The *board of directors* is the long range planning and policy making body of the cooperative. The salaried *manager* is responsible for the day to day and week to week decisions, and is accountable to the board of directors, who represent the fishermen members.

Election of the board of directors is regulated by the cooperative by-laws, but they are usually fellow fishermen elected by members at annual meetings.

The board is responsible for hiring the manager, defining his duties, and setting his salary. The board is also responsible for such things as audit of the cooperative's books, execution of purchase, and sales agreements with members. The board creates and has control of special committees dealing with such things as finance and membership.

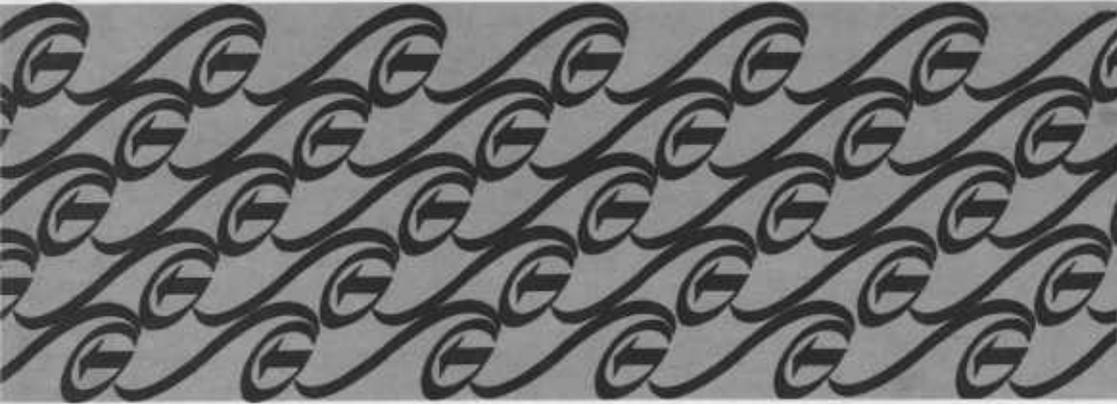
The manager is placed in charge of business operations. He controls the daily flow of funds and is accountable to the board of directors for those funds. The manager maintains records and periodically presents a business report to the board of directors and the cooperative members. He also has full responsibility for cooperative employees. The manager of a fishery cooperative must be a man of many talents and should be paid accordingly.

A 1970 survey of seven successful fishery cooperatives showed that, with one exception, the selection of the manager was the key element in the success of a fishery cooperative, and all surveyed indicated that

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Good membership and public relations should be established and maintained if the cooperative is to be successful.



Cooperative Extension work in agriculture and home economics, Lee Kolmer, director, Oregon State University and the U.S. Department of Agriculture, cooperating. Printed and distributed in furtherance of the Acts of Congress of May 8 and June 30, 1914.

business experience and business management ability was the key to being a good manager.²

Although fishing knowledge is useful and should be acquired by any person managing a fishery cooperative, the cooperative must guard against hiring a manager from among the membership primarily because he is a good fisherman, or even because he is a poor fisherman but a good fellow and needs a job! The same survey also indicated that the board of directors should give the manager enough authority so that he can successfully exercise his managerial ability.

A regular audit and periodic financial reports and analysis of the cooperative are a crucial part of operation. These records will indicate the financial success of the cooperative from one time period to the next, give an indication of the efficiency of the operation, and provide information for more effective control of the organization's activities.

In many cases, the cooperative will be competing with large, aggressive, and well managed private firms that specialize in processing, marketing, and selling supplies and services. The fishery cooperative, on the other hand, depends heavily on the voluntary support of members, and occasionally a contribution of some members' time (serving on committees or the board of directors), and members' capital. The benefits of the cooperative must more than offset the negative effect of these contributions upon the members' first business—fishing. Therefore, an efficient and financially successful cooperative is not an "extra," it is a necessity!

A marketing cooperative may use a variety of methods to pay members who deliver fish. These include:

Outright purchase plan—Under this arrangement, the fisherman is paid the current market price at time of delivery.

Pool payment plan—A plan whereby all catches are delivered to the cooperative and each fisherman is paid on the basis of the average prices over each pooling period for each pool.

Direct payment plan—The terms of each sale are arranged by or subject to approval of the cooperative.

The *outright purchase plan* usually causes less confusion. The *pool payment plan* is especially beneficial when landings are seasonal and of mixed species, or the marketing is erratic over an extended time period. The *direct payment plan* allows the cooperative to evaluate the market situation and cooperative financial picture before payments are finally made to fishermen.

The disposition of profit at year end depends on whether the cooperative is stock or non-stock. For a stock corporation cooperative, dividends are first distributed to *preferred* stockholders and then to *common* stockholders. The balance may then be returned to patrons based upon their rate of patronage. Adequate reserves must be maintained within the cooperative, not only to meet emergencies, but to provide for business expansion.

Another important factor in operating a fishery cooperative is *membership relations*. An educational program that will keep membership informed of cooperative policy, financial condition, and operational and personnel changes will contribute much to cooperative success. In addition, procedures should be established to keep the cooperative in close touch with the current and changing needs of members. Cooperative members are not only the primary investors, they are also the patrons. They are, in fact, *the* cooperative, and it succeeds only to the extent that the members are committed to the cooperative's success.

² Survey conducted by the author and Robert W. Jacobson, OSU Marine Advisory Program extension agent, during 1970 in preparation for this bulletin.