"AMERICAN RICE FAMILY"

COOPERATIVE CONSOLIDATION STUDY

A Task Force Report
for
American Rice Growers Cooperative Association
and
American Rice Inc.

Prepared by

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THE TEXAS AGRICULTURAL MARKET
RESEARCH AND DEVELOPMENT CENTER

in cooperation with
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The Texas Agricultural Extension Service
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THE TEXAS AGRICULTURAL MARKET RESEARCH AND DEVELOPMENT CENTER

An Education and Research Service
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Robert E. Branson
Coordinator

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Introduction

In the fall of 1974, leaders among producers in the Texas and Louisiana rice industry requested that the Texas Agricultural Extension Service and the Texas Agricultural Market Research and Development Center undertake a study of the six organizations in the "American Group" of rice cooperatives and recommend a comprehensive consolidation and reorganization plan.

Management personnel of both the American Rice Growers Cooperative Association and American Rice, Incorporated recognized the need for outside help in their attempt to reorganize the various Texas and Louisiana rice and soybean marketing, service and supply cooperatives. The study was approved under a memorandum of agreement by the presidents of both American Rice Growers Cooperative and American Rice, Incorporated.

The study was conducted by the Extension Service staff in the Market Research and Development Center of Texas A&M University.

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Purposes and Functions of the American Group of Rice Cooperatives

The "American Group" of rice cooperatives refers to six organizations which serve rice and soybean producers of Texas and Louisiana. These six organizations are: the American Rice Growers Cooperative Association (ARGCA), founded in 1928; the American Rice Growers Exchange (ARGX), founded in 1940; the American Grain Association (AGA), founded in 1965; the American Growers Transport Company (AGTC), founded in 1966; the Mermentau Grain Corporation (MGC), founded in 1969; and, American Rice, Incorporated (ARI), founded in 1969.

All of the American Group of rice cooperatives seem to have been patterned after the parent organization, ARGCA. That is, all but ARGX are patterned to perform functions similar to those of ARGCA. In addition, all were organized to serve basically rice producers.

Specifically, the functions that ARGCA is authorized to perform are the storing, grading, drying, milling, processing, packaging, marketing, buying, selling and otherwise handling of rice and rice products. Each of the other members of the Group (excluding ARGX) are authorized to perform these same functions not only with rice, but with soybeans and any other grain produced by its members.

However, even with the declared purpose of each of the Group being stated as they are, the specific reasons for the organization of each of them appear to have been primarily to supply or perform an individual or special service. These individual or special services, however, were meant to serve basically the same member-clientele.

The more definite reasons each was organized are as follows:

ARGCA: This may be termed the parent organization. Its basic function was to obtain rough rice samples from its members to present to mill-buyers and also to act as legislative representative for the rice producer-member. Today ARGCA functions basically in this legislative and representative capacity.

ARGX: This association is the only one whose stated functions are not patterned after the parent organization. The primary reason for its organization was to deal in agricultural chemicals, fertilizers, insecticides and other such supplies. ARGX owns $1.5 million of capital stock in Mississippi Chemicals. The organization is represented in 17 of the 24 divisions of ARGCA. This ownership gives the member-producer rights to urea and other scarce supplies.

AGA: The next cooperative among the Group that was formed is AGA. This association is referred to as the "soybean division", and its primary function is to handle and sell soybeans. It is a centralized organization made up of individual farmers plus the Dayton Cooperative, which is also a "producer."

AGTC: This particular association came into being due to problems with fertilizer transportation. It acquired an operating permit from the Texas Railroad Commission to haul fertilizer obtained from Mississippi Chemicals, in which ARGX owns stock. AGTC operated for three years, but is now dormant. Its $20 of original common stock is still held and it retains its operating permit. Transportation arrangements have been made by AGTC between Mississippi Chemicals and a private trucking firm, which now performs that function.

MGC: This is a corporation, rather than a cooperative. However, AGA owns 51 percent of the stock and ARGX owns 49 percent of the stock. MGC was formed to give members as well as nonmembers of AGA a facility to handle and load soybeans for transportation by barge. Its facilities are in Mermentau, Louisiana, on the banks of the Mermentau River. At this facility soybeans are loaded on barges for transportation down the river, through Lake Arthur, into the Intracoastal Waterways and on to deep water ports on the Gulf of Mexico. During the fall of 1975, AGA purchased all of ARGX's stock in MGC and became full owners of the facilities which they now operate as part of the total corporate function. MGC has not been dissolved, however, but remains in an inactive corporate status similar to AGTC and thus could resume operation in the future.

ARI: ARI is a centralized association with twelve divisions in Texas and two in Louisiana. Its primary functions and reasons for formation are grading and selling of rough rice. It has recently ventured into the milling and storage functions. Considering its volume of products handled, the value of this volume and the number of its membership, ARI appears to be the most progressive of the Group.

Besides the fact that each member of the Group was organized to supply or perform some basic function, it should also be noted that they all service basically the same member-clientele. This fact is illustrated by looking at the individual boards of directors for 1974-1975. MGC is not considered in this review. However, another cooperative, the Blue Ribbon Mills, Inc. is introduced.

At the time of interview, ARGCA had 33 members on the Board of Directors. Of these 33, six members were also on the Board of ARGX; five were on the Board of AGA; two were also on the Board of AGTC; five were also on the Board of ARI; and six were on the Board of Blue Ribbon Rice, Inc. (BRRI). Two Board members were on the Board of ARGX, AGA and AGTC. Two others were also on the Board of ARGX, ARI and BRRI. One was also on the Board of AGA and ARI. Another one was on the Board of ARI and BRRI and yet another was on the Board of ARGX and BRRI.

ARGX had 17 members on the Board of Directors. Six of these were also on the Board of ARGCA. Six were on the Board of AGA; five were also on the Board of AGTC; four were on the Board of ARI and four on the Board of BRRI.

AGA had 12 members on the Board of Directors. All but six of these were also on the Board of another organization in the Group.

AGTC had five members on the Board of Directors; two of which were also on the Board of ARGCA, ARGX and AGA. One was on the Board of ARGX and ARI and the other two were also on the Board of ARGX.

ARI had 14 members on the Board of Directors. All but five of these were also members of the Board of one or more of the other groups.

BRRI had 11 members on the Board of Directors; of which 6 were also members of one or more of the other groups.

More specifically four members of the Board of ARGCA were on the Board of four organizations, five others were members of three organizations and another eight were members of two organizations in the Group.

Each Board of the six organizations was independent of the other for both policy and operation.

Membership positions on the combined Boards amounted to 92. However, because some members were serving on multiple Boards, the total number of persons involved on all the Boards amounted to 60.

Therefore, it appears that such apparent duplication of effort and the interlocking and overlapping of directors indicate a possible need for reassessment of the functions of each association or even a complete reorganization of all of them under one corporate setup. Indeed, such a reorganization, functioning with separate operational divisions, may bring about increased efficiency in all functions offered to and needed by the membership.

American Grain Association (AGA) was formed primarily to handle and sell soybeans. Recently, AGA obtained full ownership and control of the facilities of the Mermentau Grain Corporation (MGC) from another of the American Group, the American Rice Growers Exchange (ARGX).

This will allow AGA to make more efficient use of these facilities. In this connection it will be possible for AGA to schedule the facilities to full capacity because they have greater control of the product at the producer level.

The New Setup

ARI has recently acquired ownership of the Blue Ribbon mill. This acquisition of Blue Ribbon substantially completes the organizational setup and coordination at the upper end of the eight-step ladder of marketing alternatives suggested in our original study. In obtaining ownership of Blue Ribbon, it has obtained that level of operation which permits it to offer extended services to its members. ARI is now able to mill, process and market a sizeable portion of the rice produced by its members. They are in an improved position of being able to be a factor at all levels of marketing on to the final consumer both domestically and in foreign markets.

Consolidation Recommendations

The study identified four areas of the American rice growers' family of cooperatives that need policy decisions in order to complete the goal of consolidation. These are, what to do about: (1) American Grain Association (grain marketing); (2) American Grain Transport Company (transportation); (3) American Rice Growers Exchange (farm supply); (4) American Rice Growers Cooperative Association (trade association); and, (5) locals that are members of American Rice Growers Cooperative Association, and provide selected services to owner-members (locals).

Grain Marketing

We recommend that American Grain Association be absorbed by ARI and operated as a Division of ARI. Furthermore, when this consolidation is completed, that ARI be in a position to consider expanding its operations to include the marketing of other products produced by farmers in the Texas-Louisiana rice belt.

There are several reasons for this recommendation:

(1) American Grain Association members are, in the main, rice growers, many of whom are already members of ARI. Producers could increase organizational and operational efficiency by consolidating all cooperative grain (rice-soybean-milo) marketing activities into one organization. Similarly, drying and storage facilities can be more efficiently utilized if these operations are coordinated and controlled out of one office. Greater efficiency can be achieved through the coordination of such functions as grading, information dissemination, transporting and use of export facilities.

(2) At the present time, approximately seven different cooperatives are engaged in soybean handling or marketing in the Gulf South States. None are sufficiently large or have market power to adequately represent the economic interests of producers in the marketplace. American Grain Association is one of these. Its ability to market members' grain is

limited by the existence of other soybean marketing cooperatives and corporations. The distance to processing plants limits AGA to marketing whole grain (as a commodity).

There is need for strengthening producer marketing of soybeans and milo in the Gulf South States. By combining ARI and AGA, producer-members' market power can be increased. This should reduce the current locational disparity of Gulf South growers for soybeans. AGA, as a division of ARI can become a focal point for marketing soybeans in the Gulf South States.

(3) Riceland Foods, Stuttgart, Arkansas, has already successfully combined marketing of soybeans with rice. The organizational precedent is available. There, as in Texas and Louisiana, many growers produce both crops.

(4) By combining soybeans with rice, ARI has the opportunity to become a multiproduct supplier to its many customers. ARI could then expand into innovative manufacturing of processed foods, feedstuffs and industrial foods. Riceland Foods is already doing this.

Such a move toward further processing fits into the current rice operation and would provide a wide line of foods for the domestic and foreign markets. It would also provide more opportunities for an aggressive marketing staff to serve existing and new customers in more ways.

Texas and Louisiana rice growers may find it necessary to merchandise soybean and rice products together in order to remain competitive with Riceland Foods.

(5) It provides greater diversification to the marketing cooperative and to the grower-member. By handling a multiline of food, feed and industrial products, ARI can reduce its dependency on only products of one commodity. Sales growth potentials could be enhanced. Also, by consolidating AGA and ARI, producers will find greater freedom to substitute one grain crop for another.

(6) Greater internal financial leverage exists by combining the marketing of other commodities with rice. ARI becomes less dependent upon "one-hatch" system of generating cash flow. The revenue generated from one line of products can be used to finance other lines of products. Thus, the possibility for more efficient use of finances exists.

(7) ARI and AGA working together is not new. Each was sired under the guidance of American Rice Growers Cooperative Association and had common management. Also, annual meetings were held concurrently with many members serving on both Boards of Directors.

(8) ARI is the largest agricultural marketing cooperative in the Texas-Louisiana rice belt. It has a highly capable management and marketing staff. Such a staff is capable of marketing additional commodities and would complement the management capabilities of AGA.

There is need for improving the producer-marketing system for other agricultural commodities produced in the region. From a producers' standpoint, it is more efficient and less risky to add the marketing of other agricultural commodities to an existing successful marketing cooperative than to develop a new cooperative. ARI should springboard into a multiproduct, multiservice type of regional marketing cooperative that serves the beneficial economic interests of a large number of producers in the Gulf Coast Region, whether they are rice growers or not.

Transportation

We recommend that the American Grain Transport Company be terminated. If the cooperative grain business is absorbed into ARI, as previously recommended, there is no real need for maintaining a separate transport company. Furthermore, ARI is already in the transportation business with owned and hired equipment.

Farm Supply

Our recommendations regarding farm supply in the consolidation plan is not as clear or firm as the previous two recommendations. Many considerations are different. In the case of AGA, ARI is adding a similar line of business activities. Farm supply represents a dissimilar type of business activity. American Rice Exchange merely acts as a distributor. It operates on the input side of the market. Nonetheless, a decision regarding farm supplies is needed.

To resolve the farm supply issue, the following situations and conditions need to be considered:

(1) Some rice growers are now members of American Rice Growers Exchange and have depended upon this organization for fertilizer and some farm chemicals for many years and would like to continue with this source.

(2) ARGX has a contract with a primary supplier (Mississippi Chemical Corporation, Yazoo City) as the exclusive distributor of fertilizer to rice growers in Louisiana and Texas.

(3) Some producers have sizeable investments in ARGX locals which they would like to protect.

(4) While ARGX has been a distributor of fertilizer and farm chemicals, rice growers have had to depend upon other sources for their other input needs. ARGX is not a full line supplier. ARGX does not exclusively service rice growers who are members of ARI.

(5) There are some members of ARI who are in the farm supply business as independent retailers or distributors. These members would have conflicting interests in an organization that also engages in the farm supply business.

(6) Some locals of ARGCA are now handlers of farm supplies on their own. In some cases, farm supplies represent a significant part of their total business.

(7) There are two large regional farm supply cooperatives currently operating on the fringes of the Texas-Louisiana rice producing area. Each is seeking market expansion and has expressed interest in serving rice growers. Each enjoys substantial efficiencies due to size, supply distribution systems and experience. For example, Farmland Industries is integrated backward into oil wells, phosphate mines, nitrogen plants, etc.; and, thus, has considerable control over supply generation. They can produce basic ingredients for farm supplies.

Whatever system of farm supplies Texas and Louisiana rice growers adopt, it must be as efficient and dependable in furnishing producers' input requirements as the existing regional farm supply cooperatives.

(8) There is a trend toward developing broad, regionally based farm supply cooperatives in the U.S. Smaller farm supply cooperatives that depend upon other cooperatives or the private business sector for supplies are becoming less and less competitive and less dependable as a supply source. It is critical that commercial producers establish affiliation with dependable, efficient, competitive supply sources now before the next wave of farm input shortages develops.

Alternatives

What are the alternatives for American Rice Growers Exchange? There are five:

1. ARGX operate on its own, much as it does now.

2. Sell ARGX.

3. Merge ARGX and ARI; then affiliate the supply operations with a regional farm supply cooperative.

4. ARGX affiliate directly with a regional farm supply cooperative.

5. ARI subscribe to ARGX stock; then ARGX affiliate with a regional farm supply cooperative.

Given these situations, conditions and alternatives, we recommend that American Rice, Incorporated subscribe to American Rice Growers Exchange, then affiliate the farm supply business with a regional farm supply cooperative. Why?

1. Growers have a continuing and long-run interest in supplies. Supplies are a prerequisite to production. Indeed if supply shortages develop, ARI members will likely turn to ARI for assistance in procuring supplies whether management likes it or not. This becomes especially true when producers are fully committed to the marketing organization by way of a marketing agreement. The marketing agreement encourages, in fact, demands one organization dependency.

To growers, input availability is critical.

2. While short-run shortages can be expected, it is impossible to predict what will be in short supply, nor its severity or timing. Thus, the means for being involved in solving producer needs <u>must</u> be built into the system.

3. If growers are not given adequate assurance of supply from their existing organizations, they will turn to other organizations, or create new organizations to meet their needs. With this development comes potential conflicts between existing rice cooperatives and other or new organizations. Potential conflicts can arise among locals and between members of locals.

4. There is the question of whether ARGX can survive by itself. Can ARGX assure members supplies acting on its own? By investing in ARGX, ARI would retain some readiness to assist producers with their farm supply needs in the future. Likewise, an investment by ARI can stimulate needed investments in a farm supply system that will serve the farm supply needs of Texas and Louisiana rice growers more dependably.

The critical issue in the rice growers farm supply business is not so much which organization serves their needs, but how dependably and completely it is done.

Trade Association

If the consolidation plan as previously set forth is adopted, then all but the trade association functions will be severed from American Rice Growers Cooperative Association. We recommend that the remaining American Rice Growers Cooperative Association functions be absorbed by ARI. Why?

1. Legislative and similar activities can be more relevantly carried out by an operating cooperative.

2. It is best that the cooperative sector of an agricultural industry speaks with one voice.

3. Our other recommendations suggest that the need for ARGCA be re-evaluated.

4. ARI is already performing many functions previously performed by ARGCA.

5. By taking this step, you eliminate duplication.

6. Savings can be achieved.

Locals

The reorganization of locals is not a part of this study. However, any consolidation plan must look at positioning of the locals with the new organizational structure.

The locals are currently autonomous units, each owned by local producer-members and managed separate from the marketing organization. Locals currently serve members of ARI, AGA and ARGX as well as members of locals who are not members of these organizations.

Under the marketing agreement, ARI takes title to each member's rice upon delivery. Thus, ARI is a highly centralized system for marketing rice and other potential products. It, however, does not own or manage the facilities in the production areas that handle and store rice the marketing cooperative has title to. This could surface as a problem in the future.

Another problem is the relationship of locals to American Rice Growers Cooperative Association. The locals are loosely federated with ARGCA. If ARGCA ceases to operate in the future, the federated system also ceases to exist.

In summary, the issues involved in "locals" are:

1. Separate board of directors for each local, that are not formally linked to the marketing organization policy-making body.

2. Facility ownership not held by the marketing organization.

3. Independent management layer at locals.

4. Possible loss in efficiency.

5. Lack of control of the cooperative system by the marketing organization.

6. Possible local member conflicts--between those who belong to the new consolidated marketing organization and those who do not.

It would benefit the cooperative sector of the Texas-Louisiana rice industry to examine and resolve the future relationship of locals to the central marketing organization. Also, there is need to examine the relationship between local members who are, and of those who are not members of the new consolidated marketing organization.