

Development of Agricultural Cooperatives for Revitalization of the Rural Community – Focused on the Case Study of ‘Sunkist’

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Abstract

Cooperatives are a fairly new form of economic system in Korea compared to the western nations, yet, it has caught many attentions since the Fundamental Cooperative Act was enacted in 2011. Korea, once a very traditional community-based society, used to develop similar systems such as dooreh and poomasi. Thus, cooperatives have been astonishingly gaining popularity in various aspects recently although the relevant laws were prone to hastily implementing lacking a complete study on the effects. In this context, this study premises that cooperatives can play a critical role in developing especially the rural areas by giving their members more elaborate services supplementing any setbacks caused by Capitalism and creating jobs as well as providing social welfare and amenity. For a case study, Sunkist is chosen to suggest as a role model of the farmers’ cooperatives.

Keywords: *cooperative, Sunkist, Fundamental Cooperative Act, rural community, revitalization*

1. Introduction

Industrialization has brought a wide variety of modern conveniences. However, the values of beauty of scenic views in the countryside have faded away in accordance with accelerating urbanization caused by development of industries. Consequently, the vacantization, economic hardships and underdevelopment of the rural communities are attributed to the common phenomenon in this industrialized world. In this regard, de facto, the first priority of the implementation of policies is most likely to be focused on the revitalization of the local community. Boosting rural economy is not only involved in the economic activities in the region but also in the residents’ amenity based on the cultural identity and even intangible values such as their pride in the community and the level of education. In particular, sustaining the development of the rural area in various aspects related to the facilitation of tangible and intangible resources require comprehensive support from a majority of the community residents. In this study, it is suggested that agricultural cooperatives can play an essential role as to unify the community by giving the members opportunities proactively to participate in the cooperative activities. Accordingly, the case of Sunkist provides a good example for a long-term plan to help farming businesses undergoing difficulties in finding a market for agricultural products.

2. The Fundamental Cooperative Act and Its Implementation in Korea

Since the Fundamental Cooperative Act was enacted in January 2012, the Korean government has organized a special taskforce called the Bureau of Cooperative Act and Planning under the Ministry of Strategy and Finance. The main tasks of the Bureau are

following: 1) the follow-up researches on the related measures in order to improve and develop cooperatives, 2) the first-hand experiences of the leaders, staff and officials who are in charge of cooperative administration, 3) organizing a committee involving experts, cooperative members, government officials to reflect the demand of the fields, 4) helping expand a job market, 5) conducting basic researches on the cases of the foreign countries, 6) doing researches on the effects of the cooperative system, 7) establishing relevant laws, 8) improving existed laws not to be discriminated against the cooperative laws [1].

Korea is a country of shopkeepers, which has a relatively high rate of small businesses compared to other nations with more than one quarter of Korea's workforce. That is, there are 12.7 retail stores for every 1,000 people in the country. This ratio is four times higher than in the United States, where there are only 3.2 stores for every 1,000 people. It is 1.5 times higher than in Japan where there are 8.9 stores for every 1,000 people.

According to experts, the high number of small businesses raises the competition in Korea and eventually lowers the profits of new enterprises. Most industry insiders say that it takes about three months for a new restaurant to close down, eight months for a hair salon to go out of business and 17 months for a franchise chain to shut its doors for good.

As economic stagnation lasts long, the government has had to come up with an essential measure in response. In this regard, a new form of cooperatives is highly supported to alleviate hardships of small businesses. There is another reason why this sudden propensity has prevailed Korean society. The political leverage in the recent years has been shifted apparently from conglomerates to small and medium businesses focused on economic democracy. Cooperatives are perceived as a new model in completing economic democracy. Also, they are a solution to resolve economic inequality and American Capitalism regurgitated its dogma unilaterally by having their own culture.

Every member in a cooperative is endowed with one voting right regardless of amount of his or her investment. Thus, the cooperative prioritizes faith over profits. Namely, the fundamental structure is absolutely different from non-cooperative businesses pursuing more profits by differentiating their members depending on the scale of the investments. Consequently, to sustain the development of cooperative, it is required for every member to build up trust and support each other instead of asserting their right.

Some Koreans understand cooperatives to a certain degree of radicality as a panacea for possible cures for problematic capitalism, however, with an empirical-positive approach, cooperatives can be an effective means of inspiring civitas and improving democracy. Accordingly, for successful cooperatives, sound social capital has to be accumulated embedded in faith.

3. The Impact of a Cooperative in Various Aspects

Although the perception of a cooperative in Korea has not been well-known to the public, it has become common in Europe and North America. Cooperatives have been closely related with their local community and have consistently created a new form of business such as Consumers' Cooperative, Housing Cooperative, Laborers' Cooperative and so on. According to the International Cooperative Alliance (ICA), about 1 billion individual members participate in any forms of cooperatives resulted from the statistics conducted in ICA's 277 members from 98 countries as of December 2012. Considering this figure, the global representative body for cooperatives is likely to be one of the largest non-governmental organizations today by the number of people it represents. The following table 1 shows how many people get actively involved in cooperatives built to sustain the community economically, socially and environmentally. The interesting fact is that the economic status of the country does not play a critical impact as to building cooperatives nationwide. For

example, the United Kingdom has 11.5 million individual members and Bangladesh follows not far behind with 11 million.

The largest number of individual members represents America with 305.6 million members. There are nearly 30,000 co-operatives in America. The next countries are in Asia. China is following next behind America with 160.8 million members and then India with 97.6 million. As a result, in total, these three countries make up for nearly half of the members.

Table 1. The number of Individual Members of Cooperatives by Nation (million)

Name of the country	No. of the members
America	305.6
China	160.8
India	97.6
Japan	75.8
Indonesia	40.6
France	32.4
Iran	25.5
Canada	18.1
UK	11.5
Bangladeshi	11

ICA 2012 Statistics

As for the economic impact of cooperatives, the result from a study conducted by University of Wisconsin in 2009 describes and quantifies the magnitude of economic activity accounted for by U.S. cooperative businesses. As seen above, America boasts its most active cooperative business sector. The results are following: nearly 30,000 U.S. cooperatives operate at 73,000 places of businesses throughout the nation. These cooperatives are worth 3 trillion dollars in assets, and generate 500 billion dollars in revenue and 25 billion in wages. Also, the study estimates that cooperatives earn nearly 654 billion dollars in revenue, 2 million jobs, 75 billion in wages and benefits paid, and a total of 133.5 billion in value-added income [2]. In addition, the study manifests that cooperative firms are based on a new form of business organization.

For farmers' cooperatives alone, the majority of 2 million farmers are members of the nearly 3,000 farmer-owned cooperatives. They provide over 250 thousand jobs and annual wages of over \$8 billion according to The National Cooperative Business Association.

France as well as America attests the economic effect by providing over 1 million jobs in roughly 21,000, which represents 3.5% of the active working population in the year of 2010. In Japan, the agricultural cooperatives report outputs of 90 billion dollars with 91% of all Japanese farmers in membership. In 2007 consumer co-operatives reported a total turnover of 34.048 billion with 5.9% of the food market share [3].

Table 2. 7 Cooperative Principles adopted by the International Cooperative Alliance in 1995

1. Voluntary and Open Membership
2. Democratic Member Control
3. Members' Economic Participation
4. Autonomy and Independence
5. Education, Training and Information
6. Cooperation among Cooperatives
7. Concern for Community

Dated back to 1844, the first modern cooperative was formed in England based on the principles shown in Table 2 [4].

4. The Case of Sunkist Cooperative: ‘United We Stand’

Many Koreans have misunderstood Sunkist as an American agricultural company, but it is a cooperative organized in 1893, which consists of about 6,000 farms fighting against large enterprises and wholesalers. According to the official web site, Sunkist is introduced as a not-for-profit marketing cooperative entirely owned by and operated for the California and Arizona citrus growers who make up its membership. Sunkist is principally engaged in the sale of fresh oranges, lemons, grapefruit and tangerines, and the manufacture and sale of citrus juice and peel products. Cooperatives aim to help producers develop how to succeed in today's competitive international market as an independent grower is hardly geared up with appropriate skills. As a member of a cooperative, each grower joins with other growers to gain a mutually larger market share. A cooperative of growers as a whole makes many things possible. For instance, it enables the growers to focus on a global market, finds better ways to promote a brand name and develops comprehensive research capabilities, and gains governmental access to overseas markets.

**Table 3. Sunkist Growers, Inc. and Subsidiaries two-year summary
 (in millions of dollars)**

Sales and Other Revenues	2011	2010
Fresh fruit, all varieties		
Domestic sales	\$520	\$555
Export sales	\$256.	\$232
Total sales	\$776	\$787
Fruit products, all varieties		
Total sales	\$864.	\$874
Other revenues	\$155	\$139
Total revenues	\$1,019	\$1,013
Payments to members	\$803	\$789
Cash flows from operating activities	\$6.99	\$.967

Sunkist annual report 2011

Sunkist successfully expands its market through tight quality-control by using its own well-managed brand. As a result, the exportation is growing as well as the actual royalty revenue. This marks Sunkist is a good case in which demonstrates united farmers and cooperatives are not inferior to conglomerates. The recently signed Free Trade Agreement endows Sunkist with another opportunity to improve tariffs into Korea and stimulate its sales as it continues to expand into non-traditional export markets [5].

Its organizational structure can be classified as a mixed system of centralized and federated structure. The centralized structure is focused on the grower-cooperative relationship where the members of a centralized cooperative are the individual growers. The latter structure is formed when two or more centralized cooperatives are united in an organization called a federation, or cooperative of cooperatives.

However, Sunkist structure has changed little over the years-a marketer of citrus products in a federation of both citrus growers and cooperative packinghouses associated with contractual agreements. The Sunkist system is a “pyramid” linked by contractual agreements between three distinct levels: the packinghouse, the district exchange, and Sunkist Growers, Inc. The packinghouse is the fundamental unit of Sunkist’s structure. Most grove care,

harvesting, and packing functions are conducted by the individual packinghouse. The grower has the exclusive right to decide what kind of plants and how much to plant.

Sunkist growers can obtain the services of a packinghouse either through membership in a local cooperative packinghouse or by contract with a commercial packinghouse. Commercial packinghouses wishing to remain with Sunkist have to sign on the contract exclusively to pack only the fruit of Sunkist members and comply with Sunkist standards and regulations. Sunkist, in turn, agrees to market all fruit from the commercial house as cooperative houses. Consequently, about one-half of those handling Sunkist member fruit are licensed packinghouses.

Growers can join Sunkist in two ways: membership in a local cooperative association that is a member of a district exchange; or growers, who because they use a licensed packinghouse, become direct members of the district exchange. The cooperative packinghouse has a membership agreement with both a district exchange and Sunkist Growers, Inc. District exchanges sign membership agreements with Sunkist. Non-profit district exchanges are controlled by boards elected by the cooperative associations and direct grower-members of the exchange. Instead of handling the fruit directly, district exchanges are a mechanism for collecting and disseminating information between Sunkist Central and the local packinghouses, and for coordinating sales orders and shipments.

Another district exchange function is in governance of the Sunkist system by acting as a form of districting through which control of Sunkist Growers is allocated. District exchanges elect the directors to the Sunkist board. Each director represents a specific district exchange. Each district exchange is entitled to one director on the Sunkist board, with additional directors for specified percentage increases in their share of Sunkist's volume. Local association and direct grower-members of the district exchanges elect the director(s) representing the exchange on the Sunkist board.

Sunkist's Contractual Relationships consist of the four main levels of the Sunkist system: the grower, packinghouse, district exchange, and Sunkist Central. Sunkist's Contractual Relationships are following: 1) all growers are direct members of Sunkist Growers, Inc., to ensure compliance with the Capper-Volstead Act.¹ 2) All growers must be affiliated with a district exchange in either of two ways. One is through membership in a local association, which in turn is a member of the district exchange. The other is the grower, who, by using a licensed packinghouse, becomes a direct member of the district exchange. 3) The licensed packinghouse signs a simultaneous licensing agreement with the district exchange and Sunkist. 4) All district exchanges and local associations sign membership agreements with Sunkist. 5) All agreements within the Sunkist system are for 1 year and renewed automatically unless terminated by either party.

Within the Sunkist system, the selling and decision-making relationships are different between fresh and processed product marketing. In processed products, Sunkist Growers owns the processing facilities and makes all decisions on processed product pricing and marketing. Under either their membership or licensing agreements, packinghouses must deliver all fruit for processing to Sunkist, and Sunkist is obligated to market it all. All processed pool costs are deducted from the gross revenues, with the net proceeds returned to members on their share of deliveries to processing. With a single processed products pool, ownership of facilities and complete control over marketing, Sunkist Central operates like a typical centralized cooperative in marketing processed products [6].

¹ This law was signed on February 18, 1922 by President Warren Harding. The Capper-Volstead Act has been called the "Magna Carta" of cooperatives in the agriculture industry, and the act has played and continues to play a vital role in enabling agricultural producers⁴ to collectively process, prepare, handle and market their products [7].

Where the Sunkist organization is more unique among cooperatives is in the decentralized aspects of its fresh citrus marketing operations. Sunkist Central owns and operates relatively few assets used to prepare fresh fruit for market in the Sunkist system. Fresh fruit is shipped directly from the packinghouse to the buyer. Neither the district exchange nor Sunkist Central handles the physical product. Costs of operating the packinghouse to sort, grade, and pack fresh fruit to Sunkist's standards is borne at the packinghouse level.

Another aspect of the decentralized nature of Sunkist's structure is the competition created between packinghouses when Sunkist Central disseminates at the same time open-buying offers to all district exchanges. Unlike a centralized or closely coordinated federated cooperative where orders are filled at the discretion of central management, Sunkist packinghouses vie with one another for many of the orders placed with Sunkist. Overall, competition between packinghouses benefits the Sunkist system by creating the incentive for individual packinghouses to become more efficient. This market-based competition would not occur in a more centralized organization where decisions are made by management fiat and all facility costs are pooled and shared as a single expense [8].

5. Conclusion

As seen in the 18th presidential election, economic democracy has become metadiscourse in the Korean society. Cooperatives are considered to be an alternative solution for Capitalism demonized as the cause of economic polarization. Ever since Korea enacted the Fundamental Cooperative Act in Dec. 2011, it has had major repercussions all over that nation. The Ministry of Strategy and Finance has announced that the number of cooperatives would reach up to 10,000 by 2014 or 15 in the news release [9]. The criterion is not hard to meet that a group of 5 people can found a cooperative, which is a main reason for gaining popularity. Such small cooperatives give their members more elaborate services supplementing any setbacks caused by Capitalism and create jobs as well as provide social welfare. Although the Act was prone hastily to implementing lacking a sufficient study, it is no doubt that cooperatives are a new form of fair economic system in favor of the individual members. That is, 'an alternative economic system aiming to overcome any obstacles found in present Capitalism.

However, as Korean cooperatives are relatively new in the market, it may take a long period of time to set up an appropriate system as seen in the case of Sunkist since a majority of the Korean farmers are classified in a low- income bracket. Also, there is an unfair stereotype of farmers because the rural population is aging. According, it is necessary to continue to educate farmers to overcome these difficulties. The Consumer Cooperative or *ICOOP Korea* operates more than 100 educational programs with about 2,000 sub-divisional training courses for its members. As seen in the Sunkist case, farmers' cooperative has a number of advantages regarding controlling quality, reducing costs and marketing by optimizing its efficiency.

Over the decades, capitalism has been a representative in every aspect of Korean economy, but it is not overstated capitalism that prioritizes profits over trust between the producers and the consumers. The most faith they build, the more possibility of success there will be in cooperatives. First of all, as access to cooperatives gets easier than in the past, it is projected to proliferate by propping up Korean economy as a pivot. In a way, Korea, once a family-oriented and community-based traditional society as seen in *dooreh*² and *poomasi*³, is pre-wired to be feasible to develop cooperatives preserving its cultural identity.

² a traditional cooperative farming team

³ an exchange of labor

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