

Agricultural Outlook Forum

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Comments Of  
Mr. Thomas G. Giessel, President, Pawnee County Farmers Union  
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On Behalf Of The National Farmers Union  
At The  
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Farming & Rural America Track: Friday, February 25, 10:30 AM Session  
**Rural Development Programs in the Next Farm Bill**

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Good morning, my name is Tom Giessel and I am a farmer. I farm near the community of Larned in central, southwestern Kansas, a town with a population of about 3,975. It is a pleasure to attend this year's conference and appear on the program on behalf of the more than a quarter of a million farm and ranch family members of the National Farmers Union.

As it relates to needs in a good Farm Bill and rural America, I have specifically been asked to address that topic from the angle of "Are Knowledge Based Government Assistance Programs to Rural Businesses Correctly Targeted?" While we all digest what that means, let me begin by saying that my remarks come from the perspective of a rural citizen... someone who lives, works and earns a living in rural America.

I have labeled my comments, "My View from the Country," and, of course, I will be anxious for any questions and feedback you may have at the conclusion. Where I live, Headline News is important, and as a rural citizen I have access to that. However just as relevant is whose headlights may be coming in and out of my farm yard. Where I come from, for my farming neighbors and my family, our farms come first. Faith, education and co-ops come right after that. Church, school and the local co-op is what ties and brings farmers and our community together.

### **Overview**

Essentially, as with other speakers today, my focus will be largely on the challenges and needs of farm profitability and quality of rural living while we start to look forward to future rural development and to a new Farm Bill. It is especially important that we think about the roles and relationships of USDA programs and personnel, federal farm policies and legislative changes, and farmers and their rural communities. There is no question that USDA's role is largely one from the goal of helping rural residents, especially for greater public understanding of agriculture and better quality of rural life.

This morning I want to particularly offer insight on policy and programs for rural business and cooperative service. I am told that USDA's Rural Business-Cooperative Service exists to expand knowledge. To me that means intellectual capital, and I think all of here today relate to that message. Thus, let us delve into this more now.

### **Co-op Knowledge**

First, the farm family based National Farmers Union (NFU) has a long and rather successful history in the development, operation and support of farmer-owned cooperatives. Co-ops, as many of you know, are given a special focus of the agenda and programs for rural development at USDA. We must all be engaged in acting on that focus. To start, the most important component of co-ops and rural business begins with a knowledgeable and well trained agricultural work force, jobs on and off the farm.

Our Farmers Union co-op know how began with our organization's involvement in cooperatives in 1902. We predate the Capper-Volstead Act by 20 years! Formulated by earlier Kansans, Capper Volstead permits farmers to cooperatively handle, process, and market their agricultural products so long as no association unduly monopolizes or restrains trade. That legal knowledge frames the commitment to cooperation. The tenants of Capper-Volstead remain the main requirement today for successfully developing and operating cooperatives via collective reasoning and associating of farmers who share the vision of improving their marketplace position.

Second, for rural business and cooperatives there is the constant imperative for a variety of support activities to be carried out with the primary aim to assist farmers in both their existing and future organized marketing activities. As a result, both USDA and the current Farm Bill were structured for dealing with this important need in agriculture. The next Farm Bill also must keep that goal.

Historically, cooperatives were established to deal with four needs of agriculture.

They provided a mechanism to address two types of market failure that have existed in rural America throughout our history – providing a broad range of locally available services to production agriculture that were not being made available by the private sector, and fostering market competition within the input, processing and merchandising sectors to reduce the concentration of market power among a limited number of agribusiness companies.

In addition, cooperatives allowed farmers to participate in both the governance and earnings of the other agricultural sectors with which they do business.

Finally cooperatives contributed directly to the functioning of local economies. The vital role cooperatives can play in meeting these needs is even more important today than it was throughout the last century. Co-ops may be the most valuable tool farmers have. There is no question that my neighbors and I trust the business of our local co-op. And other patrons do, too. Certainly, many of the new generation cooperatives that have been formed in the last 15 years and others that are just now taking shape offer “one way” to grow farm income, and connect farmers more with consumers.

Third, everyone shares the answer that times have changed in agriculture. I think we can all agree that the strategy or strategies employed in the public/private partnership for fostering the development and enhancement of agricultural cooperatives should be reviewed and modified to reflect current conditions and future business expectations. However, only Congress can take the appropriate lead in this reexamination process rather than allowing events or other institutions to define a new cooperative model that may in fact sacrifice the characteristics of cooperatives that distinguish it from other business structures in order to resolve one or a few problems that continue to challenge the system.

At the same time a level of restraint must be exercised to provide the opportunity for a full discussion of potential alternatives and outcomes before engaging in a significant modification of the cooperative model. Specifically, the largest single challenge facing existing or proposed cooperative business ventures is access to equity capital.

### **Capital and Technical Needs**

For established co-ops, new infusions of capital are critical to enhancing their capacity to adapt to, and compete in a global setting where market power is becoming increasingly concentrated and integrated through mergers, acquisitions and strategic business alliances. Likewise, all co-op development projects

require information and technical assistance, education for producers, expertise in moving products from the organizational phase to the operational phase, and improved coordination and partnerships with government rural development officials. If you have ever tried to open the door of a new co-op, you also know the challenge of keeping that door open.

In the case of start-up cooperatives, access to additional sources of equity is equally important if these new generation cooperatives are to have a reasonable chance of filling the existing void in local and regional market structures in a way that allows their member patrons the opportunity to participate in value-added opportunities and receive the benefits of enhanced market transparency and competition.

What about grants and loans? They are a major facet of farm bill legislation and USDA programs. The 2002 farm bill authorized programs and appropriations to provide grants and loans to facilitate the development of new rural business ventures, including cooperatives. The current farm bill also maintains a mechanism to provide access to loan guarantees in order to facilitate the purchase participation shares in cooperatives by individuals. Full funding of rural development programs that are aimed at helping to form new co-ops and serve existing ones is vital. USDA's financial support translates to truly empowering farmers and ranchers and rural citizens, coupled with policy forms, so that farm income and market concentration issues can be addressed.

### **New Investments, Innovations, and Efficiencies**

While sufficient funding is and should remain the key, the current farm bill additionally created the Rural Business Investment Program (RBIP). The RBIP is designed to encourage venture capital investments in rural enterprises through rural business investment companies that are created to raise capital, provide operational assistance to smaller businesses and participate in a government guaranteed debenture program. The program also ensures that ownership of the rural business investment company is not affiliated with the company's management. For USDA I would suggest that it is wholly important to expedite the implementation of this program.

If the RBIP could be coupled with other cooperative development programs, then an important opportunity would be created for smaller rural cooperatives to access the resources that are vital to their success. Again, Congress should review the technical requirements of the enabling legislation to determine if they are too restrictive in terms of the net worth of the participating enterprise, limitations on participation by financial institutions and the capital requirements for participation in the guaranteed debenture program.

Ways to streamline the whole cooperative development process should be considered and encouraged. In particular, shifting some of the lending authorities, such as the various guaranteed loan programs, to the Farm Service Agency, which has substantial agricultural credit experience, would likely further encourage farmer and rancher participation in new or existing cooperatives and expedite the cooperative development process.

Numerous proposals have been suggested, and in some cases state governments have already acted, in an attempt to enhance the ability of cooperatives to attract outside capital. While such worthy intentions can be appreciated of these efforts to address the equity shortfall experienced by many cooperatives, there remains a concern about the longer term effects of these proposals on the basic cooperative principles.

These include producer ownership and governance of coops. They include, too, the ability of cooperative ventures to provide alternative market opportunities and enhance market competition. Schemes that blur

the lines between cooperatives and other organizational structures may put at risk existing preferential public policy treatment for all cooperatives, including, but not limited, to the issues of the partial anti-trust exemption and tax considerations. Because such proposals could have a substantial impact on the application of numerous federal laws, USDA, Congress, and the co-op community must “get in front” of the issue rather than simply react to the actions being taken by others.

In the developing concerns surrounding new changes or “updating” state laws for co-ops, as well as the ongoing suggestions to encourage equity investment in cooperatives, the main question that will have to be answered is whether such proposals would effectively, if not technically, eliminate the ownership, control and allocation of patronage earnings to “real” producers. Plans to allow any cooperative to accept new means to acquire access to outside capital must have as a prevention that the co-op does not become anything more than a regular stock company where the farmer patrons would be collectively contributing substantial risk capital for venture or ventures that may never fulfill the farmer-members own self interest.

In Kansas, like elsewhere, a lot of farmers and ranchers, over the years, have put a substantial amount of risk and capital into their local agricultural cooperatives. But many of these co-ops are confronting possible dissolution or merging with one another in attempts to continue in business. I suggest that we may wish to consider and not rule out ways to maintain the value of that equity in these times of transition, into either a merged cooperative or other ventures which the local farmers-members seek for their community. It may mean investing that equity in new shared rural housing, community health care, new technology or other rural assets that would remain owned and controlled by the farmers and co-op members.

Congress and USDA should review the definition of farmer as it applies to cooperative ownership and governance. Then, after a thorough assessment, if Congress determines that the benefits of encouraging the type of outside capital investment envisioned by these proposals outweighs and is not inconsistent with cooperative principles and existing statutes, it should establish strict guidelines and limitations on the level of influence these investors may exert over any cooperative business structure.

At a minimum, rules should require diversification among investors, particularly those with interests in competing businesses, ensure an adequate majority of voting power is retained by the farmer-owners and mandate an equitable sharing of any earning distribution among outside investors and those who would be entitled to patronage allocations by the company.

In the 2007 Farm Bill, as in the current farm bill, there should continue to be a working partnership between agricultural producers and the federal government to ensure the success of new and existing cooperatives and their current issues. Yes, change occurs through a process, but the best results come from knowledge and past experience. My farm runs on motivation. In the same way, I feel that we will continue to need not only knowledge but also highly motivated people on and off the farm to advance agriculture and new rural business. It would be very difficult to imagine rural development absent farmer-owned cooperative systems. It would be nice to have a future without rough times in agriculture, but that may never fully occur. Only by acting together can we best use science, our good senses, and partnerships to improve farm profit and quality of life.

Thank you. I will be happy to respond to any questions you have.