

# Co-ops: Member base gets smaller as number of farms declines

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The number of supply and service and marketing cooperatives has dropped by about one-third from 2007 to 2016 while the combined net business volume for the 1,953 that remain rose by 28.5 percent, USDA reported. There were 1,871 cooperatives last year, down from 6,736 in 1976.

"And the projections are that there will be even fewer over the next few years," said Ken Blakeman, general manager of CHS Primeland in Lewiston, Idaho. "It mirrors the changes in our production-agriculture world."

The trend toward fewer, larger players includes farming in general. An example is when economic or other factors prompt sons and daughters not to return to their family's farm, which in turn rents or sells its ground to a neighbor, he said.

"You don't see too many people getting smaller, and it's tough," Blakeman said.

Because of the shrinkage in the number of farms, USDA found there has been a nearly 23 percent drop in cooperative memberships from 2007 to 2016.

As many farms get bigger, Blakeman said, "there is a need for cooperatives to update facilities and build things that are bigger and faster, to take care of today's and tomorrow's high-volume producers."

"We really had to recapitalize the industry," he said. "One of the challenges to the small, independent cooperative is access to capital. You need to build for the producers' need and scale."

Purdue University agricultural economist Michael Gunderson said that as cooperatives' member base gets smaller as the number of farms declines, those farmers who remain are different. "Even two or three generations ago, most farmers looked pretty similar and farms had similar acreage, crops and needs."

Today's larger farms can be very different from one another with much different needs, he said, "so the opportunity for a cooperative to serve them efficiently could be pressured."

For example, some farms are big enough to run their own chemical application equipment instead of leasing cooperative-owned equipment as needed.

As older farmers retire and new decision-makers take over, "that loyalty and that relationship may come under pressure during that transition," Gunderson said. "Cooperatives are paying attention to their marketing programs, and how to build programs meeting the needs and wants of today's farmers."

## Drive to merge

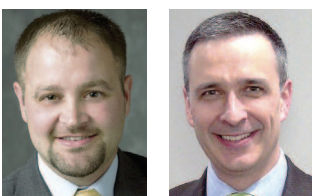
The tight labor market is one factor driving cooperatives to merge, said Hood River Supply President and CEO Pat McAllister in Oregon. As co-ops get larger, they often need fewer middle and upper managers.

Jerome, Idaho-based



Brad Carlson/Capital Press

Farmers Cooperative Ditch Co. board vice president Bill Hartman warms a spindle with an acetylene torch in the Hartman Farms shop near Parma, Idaho.



Michael Gunderson

Justin Darisse

Valley Wide Cooperative has grown twenty-fold since forming 20 years ago through the merger of two small co-ops. CEO Dave Holtom expects more growth and change.

"As our customers change, we have to change to remain relevant," he said.

Holtom expects continued growth for Valley Wide — likely by around 30 percent in the next five years due to mergers, he said — amid challenging market conditions.

Competitors include large multinational companies and newer businesses using an online, price-discovery model that adjusts prices for the size and needs of individual customers.

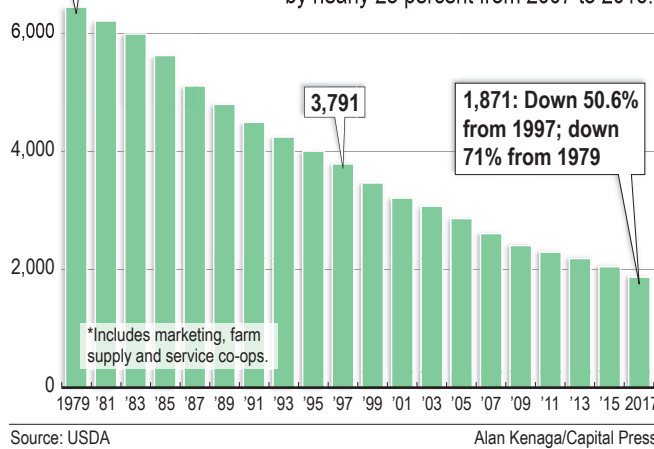
Valley Wide formed in 1998 when the Menan and Madison cooperatives merged in eastern Idaho. It now has about 900 employees and operations in 40 communities in Idaho, Oregon, Washington, Wyoming, Utah and Nevada. Members grow about 200 different crops compared to four at the outset 20 years ago.

"We have tried to incorporate the history of the cooperatives that have merged into us, the legacies, recognizing their unique place in their communities and the cooperative system," Holtom said.

All of the mergers aimed to maintain Valley Wide's influence and market relevance, he said. They also provided some risk aversion by broadening and diversifying geography, business units

## Ag co-ops\* on the decline

The number of cooperatives in the U.S. dropped by nearly 25 percent from 2007 to 2016.



Source: USDA

Alan Kenaga/Capital Press

and the crop portfolio.

Annual sales exceed \$500 million and are tracking about 10 percent higher than a year earlier, Holtom said. All segments — agronomy, retail and energy — are contributing.

"Because of our diversity, customer base and talent, I think we will be successful," he said. "We are going to be here for a long time."

Cooperatives remain effective for reasons including personal service and just-in-time delivery at brick-and-mortar locations, transparency, customer input on business direction, and member profit-sharing, Holtom said.

Adam Clark, who farms and raises cattle near Menan, Idaho, and chairs the Valley Wide board, said cooperatives provide value beyond members eventually being repaid a portion of their purchase volume and potentially building equity.

"There is member input as well, and it helps," he said. "When people tell me something, I can take it back to the boardroom. And a co-op is a little more service-oriented in that it takes feed-

back directly. The people on the board are using these products."

## Bigger voice

National Council of Farmer Cooperatives spokesman Justin Darisse said the group lately adds one or two co-op members per year. They join because they want to tap its services, although "the pool of organizations that make up that membership is not that large."

"Trends that impact agriculture, and impact the farmers and ranchers themselves, also play out on the co-ops," he said. "Mergers in co-ops and the consolidation there reflect what we have seen generally among the producers themselves."

Darisse said prolonged lackluster pricing for many commodities poses concerns throughout agriculture. "Co-ops are an important way to bridge that a little bit" by helping producers receive a slightly higher price for commodities or reduce some net costs, he said.

Oregon, Washington and Idaho have even merged their states' cooperative



Courtesy of Adam Clark

Valley Wide Cooperative Board Chairman Adam Clark, who raises crops and cattle with his family near Menan, Idaho, says cooperatives bring value to agricultural producers.

advocacy groups.

The Idaho Cooperative Council this month joined the Northwest Agricultural Cooperative Council, formed in the past year when the Washington and Oregon councils merged. Blakeman said the states grow many of the same crops, and "we have much more in common than we have that is different."

So far within NWACC, there has been no loss or dilution of Oregon issues, Hood River's McAllister said. NWACC fields separate lobbyists in Oregon and Washington, and continues projects each state worked on before the merger. The council emphasizes education.

NWACC Executive Director Ben Buccholz expects a smooth transition as Idaho integrates.

"They have a pretty strong advocacy arm and a pretty strong educational arm," he said of the Idaho council. "We may try to pick up on some of the educational offerings. They do a big FFA student and

Legislature lunch in January in Idaho. That might be something we try to do in Washington."

College students tour cooperatives in the summer through an Oregon State University-tied program the state's council initiated. Buccholz said NWACC aims to replicate it with Washington State University next summer. Another Oregon-initiated program, an FFA quiz on cooperatives that awards scholarship money, is also targeted for Washington.

Council-led education can help young people understand that cooperatives are great places to work and offer competitive salaries, he said.

"What we are trying to do is cultivate the next generation of employees and of cooperative owners," Buccholz said.

Even with all of the changes, the bedrock value of every cooperative remains, because members have a voice in its operation, advocates say.

Cooperatives' ongoing value can be seen in the more-than-century-old Farmers Cooperative Ditch Co., in the Parma, Idaho, area.

Bill Hartman said it functions as an irrigation district or canal company with water rights, infrastructure and a per-share assessment, "but its irrigators are board members and directors. Local irrigators can change bylaws and the way the company is run by vote."

Farmers Cooperative Ditch earlier this year partnered in a sizable settling-pond project designed to improve water quality.

"A group of directors chose to move that direction, and we pretty easily got that accomplished," Hartman said.

## Dairies: There is absolutely no need for either of these bills

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"The state's oversight of these over-sized facilities is flawed and needs to be fixed," he said. "At a minimum, the state should take a time-out on permitting the very large facilities until a number of changes to the CAFO program are made."

Tami Kerr, executive director of the Oregon Dairy Farmers Association, called the proposed changes "ridiculous" and said dairy farmers were unfairly being targeted after one operator's poor management gave the industry a "black eye."

"There is absolutely no need for either of these bills," she said. "Size isn't the problem, it's management."

Under one of the proposals, Legislative Concept 2718, Oregon regulators wouldn't be allowed to issue permits to build or expand "industrial dairies" unless they comply with local

restrictions, including those on emitting methane into the air or nitrates into water.

The other proposal, Legislative Concept 2706, would completely prohibit the construction of "industrial dairies" until lawmakers lifted the ban when a new permitting system is established.

Local governments would also be allowed to regulate such facilities under this proposal, but it contains numerous other provisions, such as disallowing permits for "industrial dairies" until they've obtained water rights.

The state's Department of Environmental Quality would also have to enact new rules on dairy air emissions under the proposal and to annually report to the Legislature on its regulatory progress, while the Oregon Department of Agriculture would have to study the economic effects of "industrial dairies" on smaller farms.

A task force on dairy ani-

mal welfare would be convened under this proposal and recommend minimum standards to lawmakers.

Maluski said the wastewater problems at Lost Valley Farm directly hurt animal welfare as the manure management system malfunctioned, forcing the cows to stand in their own waste.

"A lot of people were stunned to see the conditions Lost Valley was keeping its cows in," he said.

Kerr said that 98 percent of the milk in the U.S. is produced under the Farmers Assuring Responsible Management program, which sets standards for animal care, environmental stewardship and antibiotic stewardship and enforces them with inspections and audits.

"Our farms are not industrial. Our farms are multi-generational family businesses," she said. "They take it very seriously. They're proud of the work they're doing."

## Hemp: legalization could spur growth in even higher-value uses

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Senate Majority Leader Mitch McConnell, R-Ky., was the bill's chief sponsor. On Tuesday, McConnell tweeted that, "At a time when farm income is down and growers are struggling, industrial hemp is a bright spot of agriculture's future."

Sens. Wyden and Jeff Merkley, both Oregon Democrats, were also vocal supporters of legalizing industrial hemp.

"For too long, the outrageous and outdated ban on growing hemp has hamstrung farmers in Oregon and across the country," Wyden said in a statement. "Hemp products are made in America, sold in America and consumed in America. Now, hemp will be able to be legally grown in America, to the economic

benefit of consumers and farmers in Oregon and nationwide."

Estimates show the total retail value of all hemp products in the U.S. in 2017 was \$820 million in 2017, according to the Agricultural Marketing Resource Center, a national program funded in part by USDA Rural Development.

A report by New Frontier Data, which studies cannabis markets, also shows the U.S. CBD sales grew by nearly 40 percent in 2017, reaching \$367 million.

Moran said legalization could spur growth in even higher-value uses of hemp, such as paper, fiber and construction.

"It's really time we start building our national infrastructure in all aspects of the industry for what this plant can do," she said.