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HOUSE AGRICULTURE COMMITTEE
SUBCOMMITTEE ON CORPORATE FARMING

Preliminary Report
1971-1973 Interim

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The Corporate Farming Subcommittee of the House of Representatives, Minnesota State Legislature Agriculture Committee met four times during the 1971-1972 interim. The first meeting was held in Fergus Falls, Minnesota, on January 26, 1972; the second in Hutchinson, Minnesota, on February 1, 1972; and the third at the State Capitol in St. Paul, Minnesota, on April 19, 1972. The final meeting was held on December 20, 1972, at the State Capitol for the purpose of receiving and approving the following report of the Subcommittee. All meetings were held under the Chairmanship of Representative John Bernhagen of Hutchinson, Minnesota. Members of the Subcommittee were as follows:

Representative John Bernhagen, Chairman
Representative Douglas Carlson
Representative Frank DeGroat
Representative Willis Eken
Representative Dale Erdahl
Representative Bertram Fuller
Representative Thomas Simmons
Representative Andrew Skaar
Representative William Walker

Objective of Subcommittee's Work

The Agriculture Subcommittee on Corporate Farming heard testimony from food processors, growers and growers associations, farm organizations, and other interested parties specifically on the matter of "vertical integration" in agriculture. For the purposes of the Subcommittee, vertical integration was used to refer to an agricultural system in which a person or group of persons combine into a closely coordinated corporate system to produce, process and distribute an agricultural product. The Subcommittee attempted to hear testimony on the extent of such vertical integration in Minnesota, the implications of it for the state's agricultural industry, and what action the 1973 Legislature should take toward regulation of its use.

The following report will briefly review the testimony heard by the Subcommittee and enumerate the various suggestions made by those presenting testimony. The suggestions and recommendations contained in this report are not those of the Subcommittee, but those presented to it for consideration. The Subcommittee makes no recommendations to the 1973 Legislature, but rather approved the following report to be presented to the appropriate committee and/or subcommittee of the 1973 Legislature as an aid to information and education of the issues of corporate farming in Minnesota.

SUMMARY OF TESTIMONY

January 26, 1972

Mr. Carl Schumacher, Director of Corporate Planning and Development of Land O'Lakes, Inc., explained that his organization is a producer-owned coop and that legislation designed to regulate vertical integration agricultural systems should not affect Land O'Lakes, Inc. because its system of coordination does not manifest a vertical integration approach.

Mr. Leben, representing Swift Dairy and Poultry Co., Detroit Lakes, also indicated that his organization does not practice vertical integration as such. Growers (of turkeys in this case) operate independent of Swift, though there may be a contract between a grower and the company that insures a minimum price for turkeys bought by Swift.

Mr. Carlson, of West Central Turkeys, Inc., explained that his organization, a grower-owned cooperative organized in 1956, is a member of a 10 plant federated marketing cooperative called Norbest Turkey Growers Association. Mr. Carlson stated that the system of cooperation practiced in his organization does not follow a vertical integration model.

Mr. Harold Peterson spoke as a representative of Peterson-Biddick Co. at Wadena. He explained his organization's activities in growing turkeys with provision of food services by the company itself, but without processing of the birds. Mr. Peterson expressed the belief that a 1971 session bill [H.F. 2215] regulating corporate and vertical integration farming would put his organization out of business. [But Representative Carlson, an author of the bill, said that Peterson-Biddick would have been exempt.]

Mr. Vern Ingvaldson spoke for the Minnesota Farm Bureau Federation. He submitted a written statement. In summary, the main points of that statement were:

1. The Farm Bureau favors amendments to the Federal Tax Reform Act of 1969 to further discourage non-farm corporations and individuals from using a farm loss to offset their non-farm income.
2. Farm Bureau favors further study of vertical integration before any type of regulations are adopted or suggested to the 1973 Legislature.
3. Farm Bureau favors this subcommittee in reviewing the results of the Registration and Reporting Law.
4. Farm Bureau is opposed to legislation to regulate the corporate farm.

In a question and answer session with Subcommittee members, Mr. Ingvaldson reiterated that the Farm Bureau Federation does not foresee that in the immediate future corporation farming or vertical integration in agriculture will be a threat. However, some Subcommittee members expressed concern over the representativeness of the constituency for which Mr. Ingvaldson spoke.

Mr. Cliff Hagen, Executive Secretary of the Red River Valley Potato Growers of East Grand Forks, Minnesota, spoke of the number of vertical integration associations that have failed in the upper-midwest. He also discussed the Western Potato Service, an interstate vertical integrator, operating part of its organization in Kittson County, Minnesota.

Mr. Hagen explained that his organization attempts to negotiate

for potato growers with processors, but that growers remain totally independent.

Mr. Bill Christianson, a farmer from Otter Tail County, made the suggestion that a committee of the legislature (to wit the Subcommittee on Corporate Farming) study the operation of the Western Potato Service, partially owned by J.R. Simplot Company of Boise, Idaho. (Western was referred to earlier as having some potato operations in Kittson County). He also suggested a study of the vertical integration of the Ralston Purina Subsidiary, Queen Lee.

Mr. Ray Henderson, a farmer from Detroit Lakes said that he took an opposite opinion to that expressed by Mr. Ingvaldson of the Farm Bureau. Mr. Henderson expressed alarm at the rate of growth in corporate farms in Minnesota -- from 158 in 1958 to over 600 in 1970. He questioned the Farm Bureau's position of seeking only federal action and said that the State of Minnesota should lead in meeting these agricultural issues, setting the standard for other states and the federal government to follow.

Mr. Henderson's final suggestion was for the 1973 Minnesota Legislature to "take the necessary steps to pass legislation to control conglomerate corporate agriculture."

Mr. Leroy Hansen, a farmer at Audubon, Minnesota, said that family owned and operated farms should be allowed to freely incorporate so as to better facilitate passing the farm from one generation to the next. But he felt that legislation should work against conglomerate corporate farming and vertical integration

because non-farm funds are used in these systems to drive out family farms.

Mr. Robert Olson, of Moorhead, expressed the opinion that no legislation should be enacted that would deter families from creating a corporation for their agricultural operations. He went on to explain the manner in which his family incorporated and operated their farm. Mr. Olson also recommended that no legislation be enacted that would prevent or discourage farmers (beet growers in his case) from joining into growers associations to more effectively negotiate with processors.

February 1, 1972

Mr. Richard Johnson, Vice President, Secretary and General Counsel of the Red Owl Stores, explained the operation of Red Owl's Big Lake, Minnesota egg farm. He maintained that Red Owl went into the business of egg farming because enough uniform (high) quality eggs could not be found on the open market to service Red Owl's need. Red Owl raises approximately 80 to 90% of the eggs sold under their name. Mr. Johnson further explained that Red Owl sells their chickens at Big Lake (at 54 weeks) to processors.

Mr. Johnson said that he did not believe that the 1971 bill on regulating vertical integration [H.F. 2215] would have caused Red Owl to go out of the egg producing business, i.e. drop its Big Lake operation.

Mr. Vern Ingvaldson from the Farm Bureau again testified -- his comments being largely a repeat of his Fergus Falls statement.

He expanded the Farm Bureau's position in further reforming the 1969 Federal Tax Law to discourage non-farm corporations and individuals from using a farm loss to offset their non-farm income. At the state level, the Farm Bureau would support a bill in the Minnesota Legislature to memorialize Congress to seek such reforms (specifications of reforms given in minutes of meeting).

Finally, Mr. Invaldson reviewed a comparative survey of eleven states and their recent legislative activities attempting to control corporate farming and vertical integration.

Mr. Jerry Helgeson of Jack Frost, Inc. started his testimony disclaiming the title vertical integration for his organization. He said it should be called a program of coordinated production and marketing. He gave a detailed account of the operation of Jack Frost, Inc. Mr. Helgeson emphasized that his company offers 8-year written contracts to growers, and thus insures them of a secure income on the large investment of establishing growing facilities, and even bonuses for work well done. The company supplies the growers with chicks, feed, medication, supervision, as well as insured purchase prices at time of processing and marketing, which Jack Frost also handles.

Mr. Helegson strongly emphasized the satisfaction of their growers with the Jack Frost contracts, and invited committee members to attend grower meetings at any time.

Mr. Joe Jovanovich, who accompanied Mr. Helgeson, spoke as a representative of Production Financing Association. He explained that his association had worked closely with growers in financing the construction of buildings in order for them to contract with Jack Frost. He had praise for the Jack Frost operation and

explained that growers who try to operate independently have a very difficult time weathering market fluxuation and meeting the high cost of financing the initial start-up outlays.

Jovanovich and Helgeson both emphasized that growers need to be given extended contracts, otherwise abuses in systems of vertical integration result. The situation in the south was noted as being particularly bad where growers often have only 90-day contracts (with a \$50,000-\$60,000 investment in buildings).

Mr. Norman Larson, a representative of the National Farm Organization, said that the Jack Frost operation was being run quite well, but that vertical integration systems in other areas of the country had manifest very serious abuses. He discussed the Purina Feed Company's market monopolization in the south, where growers ended up making a minus 12¢ on their investments. Mr. Larson also explained the effect of vertical integration on food prices and profit making in the food industry. He maintained that vertical integration will mean lower profits for growers and higher prices for consumers, with food processor, distributors and food chains making profits of 20 to 25%.

Mr. Larson proposed that legislation be enacted that would separate producers, processors and retailers into three separate operations, i.e. to not allow a processor into production, etc.

Mr. George Matson, State President of the National Farm Organization, discussed the ill effects of vertical integration in the south, and also wondered whether large companies like Purina and General Mills (etc.) might not also come into the upper mid-west -- negating the long-term "good contracts" offered

by organizations like Jack Frost. He outlined four phases that could bring on such a take over in an agricultural market. He specially expressed alarm over the current movement of big conglomerates to take over the hog industry.

Mr. Robert Schaffer, West Central Regional Manager of Agricultural Production for Green Giant, stated opposition to legislation controlling vertical integration. He went on to detail the type of arrangements that exist between Green Giant and their growers. Mr. Schaffer indicated that Green Giant contracts with growers for approximately 90% of the products it utilizes. The company owns very little land itself and leases very little, and normally only for experimental farming purposes.

Mr. Jim O'Hagan was introduced by Mr. Schaffer as the Legal Counsel for Minnesota Association of Cannery and Freezers in Minnesota. He answered various questions along with Mr. Schaffer. They both indicated that they see no problems with vertical integration and see no need for regulatory legislation.

NOTE: The Subcommittee asked Mr. Schaffer to supply information on the amount of acreage necessary for Green Giant to conduct experimentation and to provide for disposal of waste products.

Mr. O'Hagan was asked to supply to the Subcommittee an answer to whether or not Stokely Van Camp is running any feeding operations.

Mr. Lloyd Peterson, an independent turkey producer, spoke as a representative of the Minnesota Turkey Growers Association. He reviewed the development of the turkey industry in Minnesota, the growth of vertical integration in U.S. turkey farming and in

Minnesota. Mr. Peterson pointed out that Minnesota has a relatively large number of independent turkey growers; the packers, such as Swift and Company, General Foods, etc. acquire their turkeys through contract and open buying.

In questioning Mr. Peterson emphasized that Minnesota's turkey industry is very strong because of its diversity of operating systems -- particularly strong are its cooperatives. He saw no need to control the use of vertical integration.

Mr. Earl B. Olson, President of Jennie-O at Willmar and owner of Olson Farms. Mr. Olson explained that his operation involves growing and processing turkeys, as well as a feeding service. Also involved in the marketing of about \$30 million worth of turkeys a year through the United States and overseas. Mr. Olson's corporation conducts various research activities, and does process turkeys obtained from independent growers as well.

Mr. Keith Langmo, of Litchfield, indicated that while he considered himself an independent turkey grower, he felt that working under contracts with processors had been necessary for his success.

Mr. H. Hugh Benjamin, a turkey grower from Litchfield, also spoke of the need for contracts and had praise for organizations like Jack Frost and Jennie-O.

Mr. Ted Huising, Vice-President of the Willmar Poultry Co., explained the operation of his turkey hatchery business. He pointed out that some turkeys are actually raised by his company for marketing flexibility.

Mr. Jim Hill, from American Milk Producers, Inc., expressed the opinion that dairy farmers must increasingly control other aspects of their industry, e.g., marketing, advertising, lobbying, etc. He strongly supported the expansion of cooperative systems in agriculture, particularly in dairy farming, as a means to better compete with private corporations having vertical integration. Hill even suggested the establishment of a state "Department of Cooperative Development" to help balance cooperative systems with private corporate systems in agriculture.

Mr. Gerald Johnson, of Hector, Minnesota, spoke of efforts to join farmers in southern Minnesota into an organization called the Southern Minnesota Canning Crop Growers. He also strongly disputed the statements made by the representative from Green Giant and indicated some bad results from contract farming with such a large processor.

Mr. August Otto, an area farmer, explained that he had contracted with Green Giant for 28 consecutive years, and felt that the nature of farming a canning crop required contracting.

Mrs. Edward O'Neil of Olivia spoke of the need for farm organizations such as the National Farmers Organization in order to make family farming profitable.

Mr. Randall Thelmann, of Plato, expressed negative opinions about working under Green Giant contracts and asked that legislation be passed to regulate integrators. He felt that much of the agricultural problem could be solved with more government action to raise farm product prices.

Mr. Steve Lang, President of the Owatonna Canning Company and the Goodhue Canning Company, made the point that processors would like to pay more for the raw farm products, but face increased costs in other areas and cannot get increased prices at the distribution market.

April 19, 1972

Secretary of State Erdahl, with the help of his assistant, Tom Frost, reviewed the results of the registration under the corporation farming registration act, Chapter 201, of the 1971 Minnesota Session Laws. (See Appendix I)

He had several suggestions about improving the form of registration so as to reveal more clearly some important statistics (see "Recommendations", this report). Particular interest was expressed by committee members in being able to determine the extent of corporate farming by non-Minnesota enterprises and in being able to differentiate farming in leased or owned land.

Mr. William Dietrich from the Green Giant Company, submitted a written testimony on the record which explained the operation of the Green Giant Company. He expanded on that explanation in questioning from the Subcommittee members. Of particular significance, Rep. Carlson asked Mr. Dietrich to explain why Green Giant and the canning industry opposed his 1971 Session bill regulating corporate farming when the canning companies and poultry industry were exempted. Dietrich replied that they feared the possible loss of their exemptions under future legislatures. He indicated that his industry opposes

all such legislation, but if it is forthcoming they would prefer it to be uniform through federal enactments, rather than statewide.

Mr. Carl Swenson, of Mahnomen Development Company, explained the operation of his wild rice farming company. He particularly stressed the impact of wild rice farming on revitalizing areas of rural northern Minnesota. However, Swenson pointed out that white rice farmers in California and Canada are venturing into wild rice production and may take over the market. He also indicated that to remain competitive and to expand the industry growers will probably have to establish their own means of processing. A state law restricting vertical integration in agriculture would, therefore, damage the prospects for wild rice farming in Minnesota according to Swenson.

Mr. Bob Ray of the Minnesota Farmers' Union presented a written statement explaining the watchdog committees they have established in counties to monitor the activities of corporate and vertical integrator farming organizations. Ray expressed a desire to work closely with the Legislature in following up the registration work done by the Secretary of State. He expressed a desire that the Legislature encourage or even mandate the development of land use policies throughout the counties of the state, as well as enact strong legislation to regulate vertical integration and corporate farming in Minnesota agriculture.

SUGGESTIONS AND RECOMMENDATIONS
MADE TO THE SUBCOMMITTEE
IN TESTIMONY BY WITNESSES

There were in fact, very few specific suggestions made to the Subcommittee. Witnesses normally stated only a general position either for or against legislation to regulate corporate farming and/or vertical integration systems. There was as well, a fairly even distribution of such for and against opinion expressed by the witnesses. The following is a breakdown of those opinions:

FOR VERTICAL INTEGRATION
REGULATION LEGISLATION:

Ray Henderson
Farmer
Detroit Lakes

LeRoy Hansen
Farmer
Audobon

National Farm Organization
Norman Larson
George Matson

Minnesota Farmers' Union
Bob Ray

Randall Thelmann
Farmer
Plato

Gerald Johnson
Farmer
Hector

AGAINST VERTICAL INTEGRATION
REGULATION LEGISLATION:

Harold Peterson
Peterson Biddick Co.
Wadena

Minnesota Farm Bureau Federation
Vern Ingvaldson

Jack Frost, Inc.
Jerry Hergeson

Minnesota Turkey Growers Assoc.
Lloyd Peterson

Earl Olson, President
Jennie-O,
Willmar

Green Giant Company
William Dietrich

Mahnomen Development Company
(wild rice farming)
Carl Swenson

There were other opinions expressed which have not been classified because of fear of misrepresenting the intention of the statements.

The more specific suggestions that were made in the testimony before the Subcommittee are as follows:

1. The Minnesota Farm Bureau Federation (Mr. Vern Ingvaldson, spokesman):
 - A. Favors further study of vertical integration before the 1973 Minnesota Legislature enacts any regulatory or restrictive legislation.
 - B. Favors the corporate farming subcommittee in any reviewing of the results of the corporate farm registration and reporting law.
 - C. Opposes legislation to regulate the corporate farm.
 - D. Favors a 1973 Minnesota Legislature Memorialization of Congress to reform the Federal Tax Reform Act of 1969 to further discourage non-farm corporations and individuals from using farm loss to off-set their non-farm income.
2. Mr. Bill Christianson (Otter Tail County farmer):
 - A. Requests that the Corporate Farming Subcommittee study the operation of the Western Potato Service.
 - B. Requests a subcommittee study of the Ralston Purina subsidiary, Queen Lee.
3. Mr. LeRoy Hansen (Audubon farmer) and Mr. Robert Olson (Moorhead farmer):
 - A. Suggests that no legislation be enacted that would restrict the ability of farming families to incorporate their operations in order to

facilitate efficiency of management and continuity of family ownership. (This opinion was supported in more general terms by other testimony as well.)

4. Jim Hill, American Milk Producers:

A. Suggests the creation of a state "Department of Cooperative Development" to help balance cooperative systems with private corporate vertically integrated systems in agriculture.

5. Secretary of State Erdahl suggested various reforms in the corporate farm registration form and system:

A. Registration should distinguish between land that is owned and land that is leased (or rented) by the corporation.

B. Each corporation should specify if they are involved in livestock production.

C. A more detailed and specific registration should be made relating to the farming activities of the corporate enterprise, i.e., the type of operation being conducted.

APPENDIX I

Report of the Secretary of State

on

Agricultural Corporations in Minnesota

pursuant to

Chapter 201, Laws of Minnesota, 1971

SPECIAL ANNUAL REPORT OF AGRICULTURAL CORPORATIONS

Final Report

The Secretary of State has received and filed reports from 589 corporations which either own or lease agricultural land in Minnesota.

These reports, received through July 1, 1972, are the first in an annual reporting system established by the 1971 Minnesota Legislature. Provisions of the act are found in Chapter 201 of the Laws of Minnesota, 1971.

The 589 reports include 556 from domestic or Minnesota corporations. The remaining 33 reports are from foreign corporations -- those chartered in states other than Minnesota.

Corporations own or lease agricultural land in 85 of Minnesota's 87 counties, according to the reports. One hundred twelve corporations indicated they own or lease land in more than one county.

The total Minnesota land either owned or leased by corporations is 474,267 acres. This represents 1.7 percent of total Minnesota farm land as reported in Minnesota Agricultural Statistics, 1971, prepared by the Minnesota Department of Agriculture in cooperation with the United States Department of Agriculture.

Domestic corporations control 440,796 acres for an average holding of 793 acres. Foreign corporations reported a total of 33,471 acres for an average of 1014. The average amount of land owned or leased by all corporations reporting was 805 acres.

One hundred thirty-six corporations reported holdings of 160 acres or less; 215 reported between 161 and 640 acres; 135 reported between 641 and 1,280, and 103 reported owning or leasing more than 1,280 acres.

The reports are on file in the office of the Secretary of State, 180 State Office Building, St. Paul 55155, and are available for public inspection.

7-1-72

Number of Corporations Filing Reports

Domestic Corporations	556	94.5%
Foreign Corporations	<u>33</u>	5.5%
	589	

TABLE II

Number of Acres Owned or Leased by Corporations

Domestic Corporations	440,796	93%
Foreign Corporations	<u>33,471</u>	7%
	474,267	

TABLE III

Average Amount of Land Owned or Leased by Corporations

By All Corporations	805 acres
By Domestic Corporations	793 acres
By Foreign Corporations	1014 acres

TABLE IV

Number of Corporations by Amount of Land Owned or Leased

	<u>Number of Corporations</u>	<u>Percent of Total</u>
160 acres or less	136	23%
161 - 640 acres	215	37%
641 - 1,280 acres	135	23%
over 1,280 acres	<u>103</u>	17%
Total	589	

TABLE V

Number of Corporations by County

<u>County</u>	<u>Number</u>	<u>Number of Acres</u>
Aitkin	8	5,114
Anoka	13	5,073
Becker	7	2,408
Beltrami	3	1,435
Benton	6	2,572

TABLE V (Continued)

<u>County</u>	<u>Number</u>	<u>Number of Acres</u>
Big Stone	10	9,308
Blue Earth	15	4,606
Brown	6	836
Carver	4	3,347
Cass	4	1,286
Carlton	1	160
Chippewa	9	2,151
Chisago	9	1,935
Clay	22	29,949
Clearwater	4	2,620
Cottonwood	15	6,946
Crow Wing	7	4,391
Dakota	18	9,418
Dodge	12	11,585
Douglas	9	1,294
Faribault	17	10,997
Fillmore	6	2,160
Freeborn	12	5,080
Goodhue	9	4,513
Grant	3	1,563
Hennepin	14	2,972
Houston	4	2,465
Hubbard	2	328
Isanti	6	1,296
Itasca	4	1,975
Jackson	7	3,143
Kanabec	2	241
Kandiyohi	33	15,788
Kittson	4	12,889
Koochiching	1	160
Lac Qui Parle	10	4,997
Lake of the Woods	1	160
Le Sueur	9	3,800
Lincoln	7	3,974
Lyon	10	3,467
Mahnomen	4	8,305
Marshall	16	18,591
Martin	38	26,077
McLeod	12	4,773
Meeker	16	2,396
Mille Lacs	3	546
Morrison	7	1,325
Mower	12	8,293
Murray	7	2,314
Nicollet	5	1,618

TABLE V (Continued)

<u>County</u>	<u>Number</u>	<u>Number of Acres</u>
Nobles	12	3,048
Norman	11	10,531
Olmsted	18	9,180
Ottertail	16	11,425
Pennington	4	5,433
Pine	10	7,104
Pipestone	6	4,446
Polk	22	17,941
Pope	5	3,253
Ramsey	1	7
Red Lake	5	3,525
Redwood	7	4,243
Renville	20	13,608
Rice	9	2,814
Rock	7	7,670
Roseau	5	7,478
St. Louis	1	145
Scott	11	3,604
Sherburne	16	6,329
Sibley	8	4,886
Stearns	29	10,535
Steele	10	5,675
Stevens	3	3,214
Swift	18	8,943
Todd	6	1,846
Traverse	5	9,189
Wabasha	7	4,132
Wadena	4	2,837
Waseca	5	1,715
Washington	12	8,450
Watonwan	9	2,839
Wilkin	8	10,147
Winona	4	1,467
Wright	17	7,382
Yellow Medicine	12	5,135
Steele & Dodge ¹	1	153
Renville & Sibley ¹	1	461

¹Data insufficient to put in one county.