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The Potential for New Cooperative Models in Wyoming

Recent changes in agricultural markets have created many challenges but also opportunities for innovation and profit. Agricultural producers in some areas on the northern plains have successfully used cooperatives to increase farm income through joint ownership of processing and marketing facilities. In a final analysis, a broad shift towards integrated, direct, and niche markets in the food industry has created a need for organizations that can help producers adapt and compete. New processing and marketing cooperatives may provide one means for Wyoming producers to profit in this new market structure.

Despite deep-rooted independent values, the weak market position of many individual producers creates a strong incentive to join forces. Developed out of economic need, American cooperative models are pragmatic and market minded. Through voluntary membership, democratic control, and ownership traced to individuals, cooperative businesses have long allowed individual producers collective access and power in capitalist markets.

Agricultural cooperatives have never been widely used in Wyoming. With a comparable land area and population, North Dakota is

ranked second in the nation with 268 farmer cooperatives while Wyoming's mere 13 puts it near the bottom (USDA RBCS 2001). However, recent pockets of interest on the part of producers, development agents, and lawmakers in the state have raised questions about the potential of new cooperative models as a tool for producers to adapt to changing markets.

New aggressively competitive value-added cooperative ventures have recently emerged in North Dakota and Minnesota. Dakota Pasta Growers, which erected its state-of-the-art plant in 1991 and today produces a third of U.S. pasta, has been touted as the Cadillac of this new generation of producer cooperatives. Such organizations have demonstrated the potential to generate hefty profits (and sometimes losses) by giving producers direct access to integrated food markets.

A recently completed study in the Department of Agricultural and Applied Economics (Nagler 2002) explored the potential for new agricultural cooperatives in Wyoming. The study attempted to identify factors that have hindered cooperative development in Wyoming. Several historical, cultural, and legal factors were uncovered that together may explain a lack of ag-

ricultural cooperative development. None of these factors negates the potential for cooperative development in the state, but they do point to a need for education, possible legal reforms, and improved coordination of development resources.

Tradition: Regional Histories of Cooperation in Agriculture

“Strong cooperatives develop mainly where social movements succeeded in creating a sense of obligation for people to support the cooperatives.”
Fairbairn 1984

Cooperative activity among farmers and ranchers on the northern plains of North Dakota, South Dakota, Nebraska, Montana, and Wyoming has been varied. Parts of this region have long traditions of innovation and success in forming cooperative businesses while agricultural cooperative development has been rare in other areas.

Cooperation in Eastern Northern Plains States

As territorial, state, and county governments took shape on eastern portions of the northern plains, farmers organized politically to gain access to capital, open markets, and fair prices. Radical left-wing, agrarian-based political parties such as the Non-Partisan League and Peoples’ and Populist Parties pulled in members by promising collective power over monopolized markets. The Republican-aligned Farm Bureau and its Democratic cousin, the Farmers Union, gained popularity and lobbying power in the 1920s and 30s (Dyson 1986). These organizations acted as incubators for new cooperative businesses.

A few early independent cooperative businesses operated on the plains, but most were directly affiliated with farm organizations. Grange and Farmers’ Alliance cooperative stores and ware-

houses appeared on the plains before 1900. The Non-Partisan League sponsored Consumers United Cooperative Stores. The Farmers Union and Farm Bureau opened a gamut of cooperative grain elevators and farm-supply stores. These cooperative ventures expanded in the 1920s and 30s under favorable antitrust and tax policies.

Cooperation in Wyoming

The high plains and basins of Montana and Wyoming differ from eastern northern plains states in the intensity and type of cooperative development. These differences may be one key to understanding the factors that determine patterns of cooperative development in the present time.

In Wyoming, despite optimistic demonstration gardens and the promotion of both irrigated and dry-land farming in the early 1900s, the reality is that a typical 40 acres of Wyoming’s high semi-arid prairie will barely support one mule. In most areas at least 5,000 acres are required for a successful ranch. Even the most generous federal land grant—The Desert Lands Act of 1877—allotted only 640 acres of non-irrigated land for a homestead. As a result, large cattle companies and land speculators fared much better in Wyoming than the family-sized homesteads that dominated wheat-farming regions to the east. Successive booms in cattle and sheep industries attracted an itinerant, non-landowning agricultural labor force (often working for absentee-owned companies). Independent ranchers who were successful acquired land along waterways, controlling grazing access on adjacent federal lands. On a typical Wyoming cattle or sheep ranch today, a third to a half of the grazing requirements are met by BLM or U.S. Forest Service lands (Moline et al. 1992).

Historical Conclusions

One traditional explanation for the relative lack of cooperative business in Wyoming is simply that livestock production is not suited to cooperative business. Livestock sales account for more than 80 percent of the market value of agricultural products sold in Wyoming (USDA-WASS 1997)—a much higher concentration than surrounding states—and nationally, livestock production is not associated with cooperative activity. This correlation is interesting, but it does not explain deeper causes behind the relative lack of cooperative development in Wyoming.

While farmers to the east organized collectively to gain power over markets, Wyoming producers formed protective organizations. Land needs for agricultural production suited to high, arid, western plains were not accommodated under property rights' institutions transplanted from the East. Kraenzel contrasts northern federal land acts with the Spanish tradition where property rights were granted based on the type of land and on "providing a settler with some land along a stream supplemented by considerably larger grazing use of adjacent state-owned land" (1955, 83). Wyoming homesteaders who adopted this strategy often had to do so outside the law. The need to control land was a strong motive behind the formation of protectionist organizations like the Wyoming Stock Growers and Wool Growers associations.

Wyoming agricultural producers have little tradition of successful empowerment in markets to draw on when making decisions today. Historically, producers in the state have given relatively little attention to proactive actions to influence markets or to opportunities for profiting from market changes. As seemingly inexhaustible rangelands began to suffer from overgrazing, big cattle companies pinned losses on rustling

homesteaders. Small ranchers blamed vigilante raids for their failures rather than the sparse natural resources that mandated that operations be large in order to be profitable. Both large and small cattlemen saw encroaching sheep herds as a threat, and cattle and sheep ranchers alike fought to keep land out of farmers' fences. More recently, imported meat and wool, predator loss, and endangered species' protections have all been blamed for market troubles.

A lack of cooperative traditions may be one reason cooperative organizations have been slow to develop in Wyoming. Distinct cultures of cooperation on the northern plains from east to west remain as an important factor in northern plains' producers' decisions today. Radical agrarian movements in North Dakota may not have a direct lineage to current cooperative development, but comfort with cooperative organizations runs deep. Once they are widely adopted, organizational conventions are slow to change.

Current Attitudes Regarding Agricultural Cooperatives in Wyoming

"Most human interactions, even those taking place in 'economic' contexts, have a primarily social character: talking with friends, relying on advice from knowledgeable acquaintances, working together with colleagues, living next to neighbors." Arthur 1997

A survey of Wyoming agricultural producers was conducted for this study regarding the influence of current beliefs and attitudes towards cooperatives. The results provide evidence to support the proposition that compatible beliefs and attitudes regarding cooperatives are necessary for successful development. Insights from survey results were consistent with expectations from historical patterns. They did not, however, indicate any significant block to cooperative development in the state.

- Survey results supported historical findings on east/west patterns of cooperative use within the northern plains region. Producers from eastern counties of Wyoming were more likely to be cooperative members and reported more interest in joining new-generation cooperatives than those in the western region of the state. Likewise, crop producers were more likely to report membership or interest than livestock producers.
- A strong correlation between measures of familiarity with cooperative use (through friends, neighbors, and family members) and cooperative membership and interest were found, reinforcing the impact of a cooperative tradition in facilitating involvement today.
- When asked about changing agricultural markets, respondents consistently rated “commodity marketing,” “cooperation to gain value from processing,” and “cooperation to gain bargaining power” as presenting the best opportunities in Wyoming. “High-volume, efficient commodity production” was consistently rated least important. These market views are in line with the value-added and marketing goals of new processing cooperatives and indicate that producers’ views of Wyoming markets are not a constraint on cooperative development in the state.
- Responses to a set of questions regarding financial investment in new-generation (closed membership, value-added) cooperatives indicated a low level of knowledge regarding potential risks and returns associated with these ventures. More than half of respondents either left these questions blank or marked “don’t know.”
- Respondents consistently agreed with favorable statements regarding agricultural cooperatives and disagreed with negative statements (Table 1). Respondents were most emphatic when asked about the future role of cooperatives. Sixty-two percent agreed that “cooperatives will become increasingly important” while only 7.3 percent agreed that “cooperatives were helpful in the past but not today.” Less than 5 percent of respondents reported that they would never consider joining a cooperative.
- Development agents often cite producer independence as a roadblock to forming cooperatives in the state. However, the majority of respondents in this survey did not agree with the statement that “cooperatives reduce producer independence.” Also, no relationship was found between a belief that “independence is incompatible with cooperatives” and a respondent’s age, location, production type, or cooperative membership status.

Survey Conclusions

Overall, Wyoming producers’ responses to survey questions regarding market opportunities and perceptions of cooperative business were found to be favorable to cooperative development. Survey results were consistent with findings from an analysis of patterns in the regional history of cooperation in agriculture. Both cooperative membership and interest in new cooperative models diminished from east to west, and livestock producers were less likely to show interest in cooperative membership. Responses to questions regarding financial considerations indicated a lack of knowledge regarding investment in new cooperative models.

Table 1. Wyoming Producers' Attitudes Regarding Agricultural Cooperatives

Statement	Response				Mean*
	Agree	Neutral	Disagree	Missing	
Cooperatives are helping to preserve the family farm.	62** 50.0%	43 34.7%	17 13.7%	2 1.6%	0.37
Cooperatives reduce producer independence.	38 30.6%	46 37.1%	37 29.8%	3 2.4%	0.15
Cooperatives are pacesetters for new technology and marketing.	40 32.3%	59 47.6%	22 17.7%	3 2.4%	0.15
Cooperatives have failed to keep pace with producer needs.	22 17.7%	69 55.6%	30 24.2%	3 2.4%	-0.07
Cooperatives increase bargaining power and value returned to the farmer.	70 56.5%	37 29.8%	13 10.5%	4 3.2%	0.48
Farmers are better off without cooperatives interfering with the market.	9 7.3%	42 33.9%	71 57.3%	2 1.6%	-0.51

*Responses were coded "Agree" = 1, "Neutral" = 0, "Disagree" = -1. A positive mean indicates overall agreement, a negative mean indicates disagreement, and means closer to zero indicate a more neutral response.

**Mode (or most frequent) response is indicated by bold type.

Law and Policy and Cooperative Development

"It is apparent from these statutes that agricultural cooperatives were 'a favorite child of Congressional policy'" Fairdale Farms, Inc. v. Yankee Milk, Inc., 635 F.2d 1037 (2nd Cir. 1980)

A regional comparison of state cooperative laws was conducted to explore the proposition that legal constraints influence the spatial distribution of cooperative development. Cooperative principles have been sanctioned by both federal and state governments through statutes regarding incorporation, antitrust regulation, and taxation and through governmental expenditures designed to promote cooperative development. Existing state incorporation laws have been modified to permit cooperative efforts, resulting in cooperative businesses today that closely resemble for-profit corporations.

Federal law encourages cooperative development through antitrust, securities, and tax exemptions. These incentives grant cooperatives an advantage over investor-owned businesses. A pro-cooperative policy when enacted in the past was intended to limit the monopoly power of large private agribusinesses while allowing independent producers to achieve collective market power. However, lax enforcement of antitrust regulation has reduced the competitive advantage of cooperatives' exempt status. In addition, by acting much like profit-seeking corporations, large federated cooperatives may be in danger of losing their favored tax status.

State statutes govern incorporation requirements, management, membership agreements, and liability. A comparison of Wyoming statutes authorizing cooperative organizations with those of other states in the northern

plains region has identified a few differences that might contribute to low levels of cooperative development in the state. The biggest legal roadblock to cooperative development in Wyoming may be in two statutes that inexplicably assign personal liability for cooperative debts to directors. Limits on out-of-state incorporators may also hamper regional development efforts.

Statutes making cooperative directors personally responsible for cooperative debt are unique to Wyoming. Wyoming Statute 17-10-114 (2001) makes directors liable for excess of indebtedness over assets or capital. Under §17-10-118 (2001), Wyoming cooperative directors are held “jointly and severally liable for all debts of the corporation... and for all such debts incurred while they continue in office” from dividends or apportionments paid when a cooperative is insolvent. In order to relieve this liability, a director must file a written objection to the board of directors’ action with the secretary of the cooperative and with the county clerk. Regardless of what the original intent of these Wyoming statutes might have been, holding directors personally responsible for the debts of an insolvent cooperative could dissuade qualified persons from considering director positions.

A requirement that all Wyoming cooperative incorporators be “qualified electors of the state” (Wyo Stat. Anno. §17-10-103 (2001)) restricts the pool of qualified cooperative leaders to state residents and excludes corporations. This comparatively strict residency requirement may be an additional impediment to development, especially when paired with the already low density of producers and lack of knowledge and experience with cooperative management in the state.

A new Wyoming Processing Cooperative Law (Wyo. Stat. Anno. §§ 17-10-201-253 (2001)) enacted in July of 2001 presents producers in the state with new opportunities but may not be compatible with federal requirements. This unprecedented law is intended to address basic structural impediments to cooperative development in value-added markets, creating a means for cooperatives to raise sufficient amounts of capital to enter vertically integrated markets. This law was probably passed without opposition or much fanfare precisely because of the lack of cooperative development in the state. Under the law, cooperatives are able to disregard detailed federal tax exemption requirements.

These new statutes allow producers to raise capital needed to enter value-added markets by allowing for a class of non-patron investors. Including non-producer members in a cooperative and the violation of one-member, one-vote control, however, may violate federal antitrust exemption requirements under the Capper-Volstead Act. Of course, individual co-ops are free to write bylaws that qualify for exemptions here, but some activities (such as joint marketing) may be foreclosed. Perhaps this federal requirement could be accommodated through joint ventures or by setting up subsidiary corporations.

Wyoming’s new processing cooperative law presents an untested opportunity for producers to form a new type of cooperative. Some attention must be paid to the risk of antitrust violations pertaining to this new law. However, its passage does indicate a positive interest on the part of legislators in meeting contemporary needs of producers in the state.

The Potential for Agricultural Cooperative Development in Wyoming

“The cooperative form of business organization continues to be remarkable for resilience and adaptability. Perhaps the greatest strength of cooperatives is their ability to generate institutional innovations that allow this organizational form to respond to changing conditions and changing needs.” King 1995

Laws regarding cooperative activity have remained relatively unchanged for the past 80 years. However, a major shift in federal policy regarding the wider purpose of cooperative organizations has occurred. Arguments for bargaining power or competitive efficiencies have been replaced by rhetoric touting cooperatives as rural development tools. New-generation cooperatives fit well into rural development goals with their emphasis on local processing and investment and have recently been encouraged through grants for cooperative development centers and stock purchase programs. New policy goals are also not necessarily at odds with the goals of new-generation cooperative investors who hope to profit by connecting rural production to value-added food markets.

Evidence gathered for this study does not indicate that the attitudes or beliefs of Wyoming producers regarding cooperatives or Wyoming law are significant constraints on development. In general, survey results indicate compatible

perceptions of markets and a positive attitude towards cooperative development. With a few significant exceptions, Wyoming cooperative law mirrors the state’s liberal corporate policies. Wyoming has never seen a strong, proactive, coordinated cooperative development effort. Wyoming producers who are interested in opportunities presented by cooperatives would benefit from education and the coordination of development resources.

Wyoming’s deficiency is highlighted when resources are compared with North Dakota’s educational and development assistance programs. For the most part, the federal sources being utilized are the same for both states; however, education and coordination are well developed in North Dakota. The North Dakota state legislature has embraced changes in agriculture as an opportunity, with cooperatives playing a central role in a statewide rural revitalization program.

Though well intended, Wyoming’s resources for cooperative development are scattered with no overall coordination. State and federal development experts and cooperative leaders interviewed during this study expressed frustration in accessing available resources. Coordination of state and federal resources would aid in realizing the development potential that new agricultural cooperatives hold for Wyoming producers.

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