

**REPORT OF THE
HOUSE SUBCOMMITTEE
STUDYING**

Ways To Improve Virginia's Farm Economy

**TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA**



HOUSE DOCUMENT NO. 61

**COMMONWEALTH OF VIRGINIA
RICHMOND
1989**

MEMBERS OF SUBCOMMITTEE

Glenn B. McClanan
Robert K. Cunningham, Sr.
J. Robert Dobyms
William F. Green
Raymond R. Guest, Jr.
Gladys B. Keating
Mitchell Van Yahres

STAFF

Legal, Research and Clerical

John T. Heard, Staff Attorney
Martin G. Farber, Research Associate
John B. Branscome, Research Assistant
Cleola G. Wilkerson, Executive Secretary

Report of the
House Subcommittee Studying
Ways to Improve Virginia's
Farm Economy
To
The Governor and the General Assembly of Virginia
Richmond, Virginia
February, 1989

TO: Honorable Gerald L. Baliles, Governor of Virginia,
and
The General Assembly of Virginia

I. INTRODUCTION

The 1988 House of Delegates adopted HR 6, which established a House subcommittee to study ways to improve Virginia's farm economy. This study was initiated because the profitability of Virginia's farm economy has been declining over the last decade.

The subcommittee was charged with the task of looking at means of improving Virginia's farm economy, including nontraditional uses of farm property for recreational activities, interstate and intrastate cooperatives, and agricultural opportunities hotlines.

During the course of the study, the subcommittee heard testimony from experts on public access to private property and recreational injury liability, farmers, rural landowners, and representatives of Virginia Polytechnical Institute and State University, George Mason University, the Department of Conservation and Historic Resources, the Department of Game and Inland Fisheries, the Department of Economic Development, the Department of Agriculture and Consumer Services, the Virginia Employment Commission, the Department of Labor and Industry, the Virginia Farmers' Market Board, agricultural cooperatives and the Cooperative Extension Service.

II. SUBCOMMITTEE DELIBERATIONS

A. NONTRADITIONAL USES OF RURAL AND AGRICULTURAL PROPERTY

At its first meeting, the subcommittee received testimony from a variety of individuals concerning nontraditional uses of rural and agricultural lands in the Commonwealth. For purposes of this report, the information received by the subcommittee regarding nontraditional uses of rural and agricultural property will be categorized under the following headings: barriers to recreational access, public awareness of opportunities, and examples of other states' efforts.

1. Barriers To Recreational Access

The public's demand for outdoor recreation has increased rapidly in recent decades. For example, the national demand for outdoor recreation tripled from 1962 to 1977. Use of Virginia's state parks from 1964 to 1985 increased by fifty-two percent. However, results of a recently conducted Virginia Landowners Wildlife Management Study indicate that approximately 1.5 million acres of Virginia's rural lands are being taken out of agricultural production each year and used for construction or development purposes. Nationally, fifty to seventy-five percent of the remaining open space under private ownership is being closed to public use.

These figures bode well for private landowners in Virginia who wish to generate income by leasing or charging fees for recreational use of their land. Results of the aforementioned study indicate that currently in Virginia, 1.5 million acres of corporately owned land is open to public access. Twenty-nine percent of this acreage is leased to clubs or other entities and approximately sixty-eight percent is open for use through permits or other similar systems. Approximately twenty-five percent of the non-corporately held private land in Virginia is available for public access with no restrictions.

Fee recreation in Virginia was also shown by the study to be well above the national average. Where only approximately seven percent of private landowners across the nation conduct some sort of fee-generating recreational activity on their property, thirteen percent of all private landowners in Virginia do so. Landowners in Virginia conduct fee-generating recreational activities on approximately 2.8 million acres. Hunting activities account for a majority of the fees generated.

According to an expert from the Center for Recreation Resources Policy at George Mason University, the leasing of privately owned property for recreational activities could have a large positive impact on rural economies. For leasing to be successful, there need to be large blocks of land, sufficient quantities of the natural resource in question, and an ability to exclude trespassers. Results of the study indicate that landowners prefer leasing because they believe that those who lease their property will be better stewards of the land than the general public. Leasing also means that the property owner only has to deal with a small number of people, rather than the entire public.

To improve recreational access to private lands through methods other than leasing, experts stated that it would be necessary to eliminate certain disincentives, including fears of property damage, liability, trespass and littering. These fears cause landowners to believe they have lost control over their property and influence their decision on whether or not to allow public access to their property.

Results of the study indicate that concerns of property damage, liability and littering are most worrisome to private property owners. The majority of private property owners surveyed indicated that they would prefer liability insurance and income tax relief as incentives to open their property for public access. However, the results indicate that more acreage would be made accessible to the public if additional law

enforcement and cash payments were to be provided.

Testimony indicated that farm cooperatives could play a role in encouraging the development of recreational opportunities on agricultural lands. Many small farmers do not want to be bothered with the additional administrative chores required to operate recreational activities on their property. Cooperatives could provide more efficient and successful management of such enterprises while allowing the farmer to pursue his agricultural efforts. Cooperatives might also be able to provide further security so as to alleviate fears of trespass and property damage.

With regards to liability, the subcommittee heard testimony from an attorney who is an expert in recreational injury liability. He indicated that recreational use statutes, such as § 29.1-509 of the Code of Virginia, are the major statutory means by which liability concerns can be addressed and through which recreational opportunities on private lands can be enhanced. Under § 29.1-509 of the Code of Virginia, which is patterned after the Model Recreational Use Act, a landowner is immune to liability for simple negligence resulting in personal injury or property damage arising out of certain recreational activities specified in the statutes, unless the landowner accepts consideration or a fee for such activities. It was suggested that by amending § 29.1-509 to change the word "consideration" to "fee," liability could be lessened. The expert also explained that in other states utilizing similar recreational use statutes, landowners who lease their property to public agencies for use by the public and receive a fee from the public agency are held immune from liability.

The expert went on to suggest that another mechanism to help dispel landowners' perceptions regarding liability would be a "no control, no liability" option. Landowners who are not in control of their premises cannot be held liable. He suggested a leasing arrangement whereby the landowner would give up his control of the premises to the state for a specific amount of time in exchange for the state holding the landowner harmless and providing for his defense should a liability suit develop.

Finally, the expert suggested that liability could also be avoided by simply providing access to land instead of providing access and programming some sort of activity on the land. According to the expert, were all of his suggestions to be implemented, and were landowners to require that appropriate waiver forms be signed by the public entering onto the landowner's property, the potential for simple negligence liability would be greatly reduced.

Although the implementation of these suggestions would go a long way in reducing the potential liability of landowners, the expert explained that the suggestions do not address the landowner's major concern regarding liability: whether landowners can be sued in the first place. Even if the landowner could not be held liable, he would still have to take the time required to appear in court to defend himself in a liability suit.

2. Public Awareness Of Recreational Opportunities

The Virginia Cooperative Extension Service conducted a survey of its agents in 1988 to determine the potential for use of Virginia's

agricultural lands for recreational activities. The results of this survey indicated that consumers in general were not aware that these recreational activities exist, and that agricultural and rural landowners were not aware of the range of enterprises possible. The Associate Director of the Virginia Cooperative Extension Service suggested that a directory of farm related recreational enterprises in Virginia should be developed with the assistance of the Department of Agriculture and Consumer Services. The directory would be useful in marketing and promoting these enterprises and would also assist farmers in deciding whether or not to engage in such enterprises. Testimony indicated that the information contained in this type of directory would (i) promote the industry effectively, (ii) avoid increasing supply to the extent that the market for such activities becomes saturated, (iii) help farmers make decisions about pricing, location, marketing strategies, etc., and (iv) enable the potential impact of this industry upon the different regions of the state and the Commonwealth as a whole to be determined.

According to an extension specialist in the wildlife area, the number of requests for information concerning recreational enterprises possible on agricultural and forested lands in the Commonwealth has continually increased over the last decade. He predicted that the interest in conducting these activities on agricultural lands will continue to grow due to the decline in profits derived from traditional farm enterprises and the increasing demand for outdoor recreational opportunities. The specialist suggested that in order to capitalize on this demand, the following actions should be taken:

(1) liability of landowners who charge fees for recreational use should be limited when such fees are supplemental to other income and provide needed recreational opportunities for the public;

(2) lands upon which recreational activities for fees are conducted should continue to be considered productive agricultural lands for land use taxation purposes; and

(3) the Virginia Department of Agriculture and Consumer Services should publish and distribute brochures describing the location and services offered on agricultural and forested lands.

A spokesperson for the Department of Game and Inland Fisheries indicated that there was tremendous potential for leasing agricultural lands for fishing and hunting because sportsmen are currently prepared to pay significant access fees for recreation. The Director of the Division of Tourism stated that his organization would be willing to assist in any effort to promote the recreational uses of private lands. The Dean of the College of Agriculture and Life Sciences of Virginia Polytechnic Institute and State University told the subcommittee that at the present time, the school had no full-time personnel charged with the responsibility of developing recreational resources on rural and agricultural properties. This task is currently being shared by the Department of Agriculture and Consumer Services, the Department of Economic Development, the Division of Tourism and Virginia Polytechnic Institute and State University.

3. Programs In Other States

The subcommittee was told that artificially stimulated non-agricultural development in rural areas will not provide significant levels of off-farm employment or improve local economic conditions. The opportunity for true rural revitalization is more likely to be realized through concerted efforts to promote diversified, small scale or family-sized ventures. Efforts should focus on capitalizing upon the unique attributes of rural areas, specifically agriculture and natural resources, and the skills and cultures which already exist among rural Virginians. National figures show that three out of five rural counties are economically dependent upon their natural resource base, including such activities as agriculture, forestry and mining. Therefore, rural revitalization efforts should be focused on the concepts of natural resource-related rural development. These efforts should foster economic activities directly related to the aforementioned activities and other pursuits compatible with them.

According to the Director of Field Operations for the American Farmland Trust, a nonprofit organization dedicated to the preservation and wise use of America's farmland and soil resources, including the development and preservation of profitable farming and natural resource-related economic opportunities, the Commonwealth could utilize the following three methods in bolstering its agricultural economy:

- (1) use land preservation programs to economically stimulate rural areas while allowing agricultural production to continue;
- (2) gain maximum leverage in its use of public funds by coordinating state programs with existing federal programs; and
- (3) coordinate the related functions of different state agencies, including fish and wildlife, natural resources, tourism and economic development, so as to more effectively promote the nontraditional recreational uses of Virginia's rural and agricultural lands.

The subcommittee was provided with a number of examples of how other states have encouraged recreational uses of agricultural and rural lands by utilizing these methods. Massachusetts and Connecticut operate farmland preservation programs which compensate landowners who agree to restrict their land to open agriculture uses. While these programs spend between \$5 to \$10 million per year, a survey showed that most of the income received by participating farmers in exchange for conservation easements is reinvested in the farm operation through purchases from local retail businesses.

Minnesota's 1985 Reinvest in Minnesota Act includes a Conservation Reserve Program which retires marginal farmlands from production. The Act also provides for a fish and wildlife planning process and a critical habitat development and funding program. Easements under this program are designed to extend the duration of similar contracts under the federal Conservation Reserve Program. As a result, the program provides long term contracts for the conservation of environmentally sensitive land at a cost

to the state of only one-half to two-thirds of what it would have been without the ability to piggy-back onto the federal program. The issuance of long term conservation leases also makes it feasible to promote the program's species, habitat and forestry options as economic opportunities for landowners. By leveraging state and federal programs, Minnesota has been able to dramatically lower its costs, reduce agricultural pollution, provide habitat and forestry resources, put money in the hands of farmers, and enhance the prospects of outdoor recreation, which generates \$1 billion in the state annually.

Testimony indicated that Illinois' Rural Affairs Council is the nation's best example of a state's efforts to link and coordinate all state programs which have implications for rural areas. The Council developed the Place to Hunt Committee and the Rural Development Resource Guide. The purpose of the Place to Hunt Committee is to combine the knowledge of state agencies, farm organizations and private groups in order to link hunters with landowners who offer hunting opportunities. The Rural Development Resource Guide combines all economic development options, including recreational opportunities, under one cover. It lists the names and phone numbers of agency staff so that farmers, landowners and rural government officials can be walked through the maze of state bureaucracy when attempting to gain information as to how best to develop their property.

Information was also provided to the subcommittee regarding the existence of two federal programs which have received little publicity. The first program provides that when the Farmers Home Administration has already foreclosed on farmland, state and federal agencies are permitted, at no charge, to take resources which were part of the farm operation and which will specifically be used by such agencies for wildlife, recreational or conservation purposes. The second program allows farmers to prevent foreclosure on their property. In exchange for farmers granting conservation easements on their highly erodible property or wetlands, the federal government will forgive the outstanding principal of the delinquent loan. Therefore, this program allows a farmer to remain on his land while the federal government is given a fifty-year easement on the farmer's highly erodible property or wetlands.

B. FARMERS MARKETS AND FARM COOPERATIVES

Farmers markets and farm cooperatives provide agricultural producers with a more effective means of marketing their products. The subcommittee received testimony from a variety of persons as to the necessity of having farmers markets and farm cooperatives in Virginia.

1. Farmers Markets

According to the Director of Virginia Farmers' Market Board, the changing consumer is the most dynamic force affecting future marketing of Virginia's agricultural products. With the country's population growing older and the development of increasing concern over proper diet, nutrition and health, consumption patterns have changed considerably in the last fifteen years. From 1971 to 1985, the per capita consumption of fresh vegetables increased twenty-two percent, and the per capita consumption of

fresh fruits rose seventeen percent. Currently, Virginia residents consume 1.8 billion pounds of produce annually, of which eighty-five percent is imported. Today, the economic value of fruits and vegetables produced in Virginia is estimated to be \$92 million.

For a farmer to effectively compete in the produce market, he must have the necessary volume and quality of a product to attract the buyer. Virginia's competitors utilize the latest technology in grading, waxing, hydrocoolers, vacuum coolers, slush ice machines, packaging and cold storage facilities. For Virginia's farmers to compete, a tremendous amount of capital is necessary in order to purchase or construct state-of-the-art machinery and facilities. Small farmers are unable to compete individually because they do not have the necessary capital. However, centralized facilities that can assemble produce in large volumes from numerous producers and provide the necessary grading, processing, packaging and cold storage, could enable these farmers to have access to the equipment and facilities necessary in order to be competitive with other producers.

Testimony indicated that Virginia's total production of fruits and vegetables would increase by approximately ten to fifteen percent were a network of farmers markets to be established. Based upon 1985 prices, this would increase the market value of Virginia's fruits and vegetables to approximately \$103 million in 1995. This \$11 million dollar increase, combined with a multiplier factor of 2.66, would add \$30 million to Virginia's economy.

The Director of the Division of Marketing within Virginia's Department of Agriculture and Consumer Services told the subcommittee that establishing a network of farmers markets is very important. Independent but unconnected markets will not provide as great a benefit to Virginia's farmers. He explained that the role of the Division of Marketing is to provide farmers with information on what crops there are demands for, and then assist farmers in producing those crops. The Division encourages farmers to grow a diversity of products so that the risk factor is reduced. Farmers are also encouraged by the Division to grow products over which Virginia producers have a greater say in the market price.

In 1986, the General Assembly responded to the need for a new marketing alternative by creating the Virginia Farmers' Market Board, which was empowered by the legislature to "identify and implement the development of farmers market needs throughout the Commonwealth." The Board received \$671,342 in operating funds for the fiscal year 1987-1988, which allowed the hiring of two permanent staff members. During 1987-1988, the Board attempted to determine the most feasible locations within the Commonwealth for the establishment of farmers markets and the types of facilities needed at those locations to establish a successful farmers market network. The Board then approached the 1988 General Assembly with a plan to implement a farmers market network which identified the most feasible locations and the types of facilities needed, presented facility illustrations and cost analyses, and explained the importance and impact of the farmers market network.

Budget amendments were introduced during the 1988 Session of the General Assembly whereby the Virginia Farmers' Market Board received

\$4,763,773 for markets in Accomack (\$1,700,000), Carroll (\$1,300,000), Halifax (\$790,000) and Central Virginia (\$973,773). An appropriation of \$100,000 was also received for a cooler in the Lynchburg Market. No part of the appropriation could be expended until the Governor approved the location of each proposed site. On November 30, 1988, the Governor authorized the release of funds required to begin acquisition and construction of the network.

2. Farm Cooperatives

According to the Director of the Division of Marketing, farm cooperatives are the most effective way of combining the efforts of numerous farmers for the common good of all. Cooperatives maximize returns on products grown by farmers. An individual farmer cannot control a large enough share of the market himself so as to influence the price of that product. However, a cooperative which controls forty to forty-five percent of a particular product grown in a state has a much greater impact on the market price. Additionally, it is much easier for the Department of Agriculture and Consumer Services to assist a relatively small number of cooperatives rather than to attempt to individually assist 2,500 farmers. The Director indicated that as farmers represent one of the most independent segments of society, they will be slow to begin participating in cooperatives. Although farmers markets will encourage the spirit of cooperation, he indicated that most farmers will wait to see if such efforts are successful before joining in.

The most successful farm cooperative organized in Virginia to date is the Southside Virginia Produce Cooperative, Inc., located in Halifax. According to its current manager, this cooperative was organized in 1983 as an agricultural marketing cooperative to produce and market broccoli. Prior to organizing this cooperative, rural leaders in southside Virginia had organized an agricultural diversification task force to find crop alternatives to supplement area tobacco farmers' enterprises. Consideration was given to Southside Virginia soils, climate, production schedules and market windows. Broccoli was found to be the crop with the greatest potential, as it appeared to be compatible with existing crops and had expanding consumer consumption, favorable prices, and a huge market, with the closest competitors located on the West Coast. Thirty-three initial members grew one sixteen-acre crop of broccoli and marketed it successfully. Currently, the cooperative markets over thirty produce commodities and has 140 members located throughout seventeen counties. The primary markets served by the cooperative are the food distribution centers of major supermarket chains. Testimony indicated that the 1988 fall demand of the cooperative's regular customers is estimated to be \$2 million in broccoli alone. The cooperative is supplying about ten percent of this market. Markets are now growing faster than the cooperative's production rate. For a detailed description of the Southside Virginia Produce Cooperative, Inc., see Appendix A attached to this report.

C. FARM LABOR PROBLEMS

In recent years, numerous fruit and vegetable growers have complained about the difficulties they encounter in acquiring the seasonal labor necessary to harvest certain crops. The subcommittee heard testimony from

spokespersons representing the Department of Agriculture and Consumer Services, the Department of Labor and Industry, the Virginia Employment Commission, and growers themselves.

Testimony indicated that local seasonal farm labor has been difficult to acquire in many areas of the Commonwealth since the 1940's. For whatever reason, local persons have opted for other types of employment. As a result, growers have been forced to use migrant labor or H2A workers as the labor force for hand-harvested crops. Hand-harvested crops include tomatoes, sweet potatoes, cucumbers, white potatoes, beans and corn which are grown on the Eastern Shore; apples and peaches which are grown in the Shenandoah Valley; and tobacco grown in Southside Virginia. These crops comprise nearly sixteen percent of the Commonwealth's total cash crop and are labor intensive, requiring a large number of workers for various periods of time. Some crops, such as watermelons, require workers for only three weeks, while other crops require workers for as long as six months.

The subcommittee was told that migrant labor and H2A workers, although they provide growers with a relatively consistent work force, are more costly. Migrant workers, employed through a "crewleader" system, are utilized almost exclusively by growers on the Eastern Shore. A crewleader is employed by the grower and the crewleader recruits migrant workers who work the "East Coast Migrant Stream." These migrant workers and their crewleaders travel the East Coast of the United States, working in states from Florida to New York. The usual employment season on the Eastern Shore runs from June through October and generates between four to five thousand migrants per season. Under federal law, growers must agree to provide the migrant workers and crewleaders with suitable housing. Growers are also required to keep detailed wage records for this type of labor. These stringent federal requirements are responsible for the higher cost of this type of labor.

Growers in the Shenandoah Valley and in Southside Virginia primarily hire workers from the H2A program. This program is regulated by the Federal Immigration and Naturalization Service and the United States Department of Labor. The Virginia Employment Commission is the Commonwealth's coordinating agency for this program. The program allows growers to employ foreign workers for a specified time period at a guaranteed wage rate. This wage rate is above the current legal minimum wage. Under this program, a grower must first ascertain that domestic and local workers are not available to harvest his crop. The program also places costly housing, transportation and wage record maintenance requirements upon participating growers. The majority of H2A workers who pick apples are Jamaicans, while Mexican H2A workers comprise the majority of workers employed by tobacco growers.

Testimony indicated that many growers were concerned that the Immigration Reform and Control Act of 1986 will have a negative impact on the supply of migrant workers available in the coming years. A spokesman for the Virginia Employment Commission echoed these concerns, stating that if the Act is strictly enforced, there will certainly be a labor shortage. The Virginia Employment Commission estimates that over ninety percent of Virginia's crops are harvested by illegal immigrants. Should the Act be enforced, growers in the Commonwealth will be forced to utilize legal

migrant labor or H2A workers, and therefore incur higher costs for the labor required to harvest their crops.

Past efforts at involving teenagers in such seasonal labor have failed miserably. Additionally, the Department of Corrections has recently changed its policy on work release for prisoners. As a result, prisoners are no longer available as a potential source of seasonal farm labor.

III. FINDINGS

A. NONTRADITIONAL USES OF RURAL AND AGRICULTURAL LANDS

The subcommittee finds that rural and agricultural lands in the Commonwealth offer their owners the potential of additional income should such landowners desire to develop profit-making activities upon their property. There is a large, unsatisfied demand for outdoor recreational activities in Virginia. While providing additional income to rural people, these uses of agricultural and rural lands also promote improved environmental protection, such as improved water quality and erosion prevention. Many landowners are unaware of the potential profit-making activities which could be conducted upon their property and the public is unaware of the recreational opportunities currently offered by private landowners.

While many landowners would like to generate additional income for themselves by providing these activities upon their land, they have numerous concerns about allowing the public to have access to their property. These concerns include liability, trespassing and property damage fears. Were these fears or disincentives to be alleviated, the nontraditional uses of agricultural lands and rural resources would result in financial and environmental benefits to the people of the Commonwealth.

B. FARMERS MARKETS AND FARM COOPERATIVES

The subcommittee finds that farmers markets and farm cooperatives offer Virginia farmers the opportunity to be more profitable. By pooling their resources and produce, Virginia's farmers could reduce their production costs and maximize their returns.

C. FARM LABOR PROBLEMS

The subcommittee finds that many growers in Virginia are experiencing problems in finding affordable labor to harvest their crops. Many growers in the Commonwealth have for decades been unable to satisfy their seasonal labor needs by employing local workers. These growers have been forced to employ migrant labor or H2A workers in order to harvest their crops.

Federal regulations require growers employing migrant labor or H2A workers to provide suitable housing for such workers as well as maintain detailed wage records. The cost of these federal requirements to growers is extremely high. Therefore, many growers employ illegal immigrants at a lower wage. However, should the Immigration Reform and Control Act of 1986

be strictly enforced, growers will be forced to employ legal migrant workers or H2A workers. Should this enforcement occur, growers may find these alternative labor sources unaffordable.

IV. RECOMMENDATIONS

1. That nontraditional uses of agricultural property and rural resources be promoted by the Commonwealth of Virginia.
2. That legislation be enacted which provides incentives for landowners to conduct profit-making recreational activities on their agricultural lands and rural resources.
3. That legislation be enacted which reduces the potential liability of landowners who allow the public to have access to their property for purposes of engaging in activities which generate a profit for the landowner.
4. That legislation be enacted establishing a joint subcommittee to study the problem of obtaining farm labor in the Commonwealth.

Respectfully submitted,

Glenn B. McClanan
Robert K. Cunningham, Sr.
J. Robert Dobyns
William F. Green
Raymond R. Guest, Jr.
Gladys B. Keating
Mitchell Van Yahres

APPENDIX A

REPORT ON PURPOSES, PRINCIPLES, AND PRACTICES OF
AGRICULTURAL MARKETING COOPERATIVES

Presented to
House Agriculture Committee

by

J. B. Tatum, Manager
Southside Virginia Produce Cooperative, Inc.

December 19, 1988

Sources: USDA-ACS Publications and
Cooperative Management Workshop Materials

Good Morning, Mr. Chairman

In 1982, rural leaders in Southside Virginia organized an agricultural diversification task force to find crop alternatives to supplement area tobacco farmers' enterprises. The focus of the task force was on fresh market vegetable enterprises of high value and high perishability. Studied were Southside's soils, climate, production schedules, and market windows. The major agencies involved in this study were Virginia Tech Cooperative Extension Service, VDACS, and USDA. Broccoli was found to have the greatest potential. It appeared to be compatible with the existing crops, had expanding consumer consumption, favorable prices, and a huge market with the closest major competition to Virginia being the West Coast.

In 1983, area farmers organized Southside Virginia Produce Cooperative, Inc. as an agricultural marketing cooperative to produce and market broccoli. Thirty-three initial members grew one sixteen-acre crop of broccoli and marketed it successfully. We have grown until today we market over thirty produce commodities from a membership of 140 in seventeen counties.

The purpose of SVPC could be summarized in our two-part mission statement which states:

1. SVPC will provide families engaged in agriculture with a series of marketing alternatives to effectively utilize agricultural resources in an economic development program.
2. SVPC will provide wholesale marketing outlets in the eastern United States with high quality produce and supporting services to create an effective marketing program.

The purpose of our production plan is to broaden the agricultural base and to provide job opportunities for current, as well as, future generations. New alternatives will be created for farm families to diversify and opportunities will be made for new entrants into agriculture. The Board of Directors of SVPC operates with the philosophy that we are to serve full-time and part-time farmers who need alternatives to supplement their enterprise mix and better utilize resources in land, labor, and capital.

Our major purpose is to offer new choices for diversification. We are not advocating elimination or replacement of any current enterprise. The crops that SVPC markets are supplemental, not eliminating, commodities.

SVPC is dedicated to providing high quality produce in volume and is packaged to meet or exceed industry standards for the markets in the mid-Atlantic region of over 30 million consumers. Our primary market is the food distribution centers of the major supermarket chains. We have estimated the fall demand to our regular customers to be \$2 million of broccoli alone. We are

currently supplying approximately ten percent of this market. As you can see, our markets are increasing faster than our production.

Our cooperative is organized from principles and practices outlined by the USDA-ACS. There are three types of organization for agribusiness. The proprietorship is owned and controlled by one person and provides goods and services to others. A partnership is owned by two or more, is controlled by one or more, and provides goods and services to others. The third type is a corporation of which there are two types with distinctive characteristics. The traditional investor-owned corporation is owned and controlled by many to provide goods and services to others and the cooperative-corporation is owned and controlled by the people using its services.

SVPC is a Virginia corporation organized as a cooperative-corporation. We adhere to distinctive principles with special characteristics that are outlined in our by-laws. A cooperative-corporation differs from an investor-owned corporation in the following ways.

1. A cooperative-corporation provides service at cost to members. This does not mean that each sale is at exactly the price that the cooperative paid for an item. Cooperatives like investor corporations must generate sufficient income to cover operating expenses and capital needs. This income (margins) belongs to the member producers, not the corporation or stockholders. This is a very important fundamental difference. The income (margins, profit) belongs to the members and not the business.

2. The financial responsibility and ownership benefits of a cooperative are proportional to member-producer use. The more a member uses the cooperative the more he benefits. Earnings are returned on a basis of use and not investment. Our Articles of Incorporation state that we are a non-stock corporation. The member-producer finances the cooperative by membership dues, per unit retains, capital assessments, and patronage refunds. This way members using the cooperative at any given time are the ones financing the cooperative. The margins (profits) that are made on a member's patronage is returned to the members in proportion to their patronage.

SVPC offers its services to non-members also. This avenue was established so that the small farmer could benefit from the cooperative without having to provide a capital investment in membership and assessments. The non-member participates fully as a member with only the following exceptions. The non-member pays no equity, does not have a vote, and pays a five percent additional commission.

3. Cooperatives may only allow a limited return on equity capital. Traditional corporations have stockholders that take

the risk of supplying capital and therefore are paid the earnings. Their stock or capital invested has potentially unlimited returns of profit. The primary value of a cooperative is the service it provides its members. By limiting the return on investment, the service benefit of our cooperative is preserved and the margins are distributed on the basis of use. Our cooperative is prohibited from paying dividends or interest on the membership fee and the capital we retain from growers' patronage. The member's retain from produce that is sold is kept as capital and is to be paid back to the member years later according to an equity redemption plan without interest. Agricultural cooperative corporations are formed to provide services, not to provide speculative stock. The members of SVPC have contributed by memberships, assessments, and per unit retains from their patronage over \$250,000. An important benefit of operating as a cooperative is the access to single-tax treatment of earnings. One Internal Revenue Service requirement for this tax treatment is that the members treat the earnings that are retained in the cooperative as taxable income to the member. Our by-laws require each member to sign a valid consent form as published by the U.S. Treasury Department. Capital that is retained from members' patronage is considered members' income for IRS tax purposes even though they are retained in the cooperative for years before possible redemption and are not bearing interest.

4. The members of SVPC operate under democratic control. Our by-laws provide for one member, one vote. The small producer and the large producer have the same vote. Membership is open to those who have reasonable use for the services we offer. Our by-laws provide for the acceptance of patronage from non-members to accommodate the needs of the areas' small farmers.

5. Continuous education is a major principle that we practice. SVPC recognizes that the member producers will not value and support something they do not understand. This support is imperative to the viability of our cooperative. All principles and practices of a cooperative revolve on the use and support of its members. Education of the cooperative form of business is essential due to the changing membership. The idea of cooperation will deteriorate without continuous re-education of new and old members. The cooperative idea of doing business and the accompanying principles are not a natural reoccurring idea. It is different from the corporations we are accustomed to. Technical skills are needed to operate an efficient business with competent directors, employees, and management.

6. SVPC practices cooperation among cooperatives. Cooperatives share the same nature and the same problems. We receive needed strength through mutual support. Our cooperative belongs to the Horticultural Producers Federation Cooperative which is a cooperative of cooperatives for the entire southeastern U.S. Marketing, production, and technical assistance are obtained from membership in the HPF Cooperative.

7. Limited special anti-trust protection is provided to cooperative corporations. Collective marketing (cooperative marketing) by farmers is authorized by the Capper Volstead Act of 1922. Farmers who market products through an association that is not organized and operated according to Capper Volstead are likely to be in violation of federal anti-trust laws. To qualify for Capper Volstead protection cooperatives such as ours must limit membership to persons engaged in producing agricultural products and operate for the mutual benefit of the members and must provide services related to farm products. No member may be allowed more than one vote and the value of products marketed for members must exceed that of products marketed for non-members. The Capper Volstead Act gives farmers major benefits in cooperative marketing that would otherwise be subject to challenge as violations of the anti-trust laws. Farmers, both small and large, are allowed under the agricultural cooperative format to agree among themselves on prices they will receive for their products. The farmers produce is pooled and sold as one large unit, thus allowing many farms access to markets they otherwise would be too small to enter. Cooperatives can collectively market their products with farmers who are members of other cooperatives and may integrate forward throughout the marketing chain. Land O' Lakes, Ocean Spray, and Welches are examples of agricultural marketing cooperatives that put members products right on the grocery shelf. Reasonable restraints are placed on the Capper Volstead powers. Predatory actions, anti-competitive agreements with non-cooperatives, and the unduly enhancing of prices are not allowed.

As you can see, there are numerous details in the proper organization to an agricultural cooperative so that farmers can gain maximum benefits from membership. We rely extensively on the Virginia Tech Cooperative Extension Service, the Virginia Department of Agriculture and Consumer Services, and the USDA Agriculture Cooperative Service for their expertise in organizing our Articles of Incorporation, by-laws, policy manual, and five-year production marketing plan. The newly created Virginia Farmers Market Network can offer area producers the stability of a modern state-owned produce facility backed with the marketing expertise and commitment from the state to promote Virginia agricultural products. Our cooperative is very proud of the progress it has made since 1983 and is extremely excited about the opportunities that lie ahead with participation in the Virginia Farmers Market system.

I would like to reemphasize a few of the major points of cooperative purposes, principles, and practices that have been outlined this morning. SVPC is organized to provide more choices of enterprises for Virginia farm families of current and future generations whether large or small. We are not advocating the elimination of any Virginia agricultural enterprise. The income of a cooperative belongs to the members according to their amount of use of the cooperative's services and does not belong to the

corporation. The Capper Volstead Act of 1922 allows farmer cooperatives to collectively market through organized cooperatives without fear of anti-trust violations. SVPC is a democratic organization with the one member, one vote rule. Our services are available for members and non-members, large or small. We provide continuous education to keep the idea of cooperation among the farmers viable. We have received major support from local, state, and federal agencies without which our success to this date would have been seriously hampered. A renewed interest in our cooperative can be directly attributed to the Virginia Farmers Market system.

The major outline I have used this morning on cooperatives principles and practices was taken from sources provided to our cooperative by the USDA-ACS publications and specific cooperative workshops provided by Mr. Jerry Ely, Specialist USDA-ACS.

Thank you for your interest in our cooperative and your attention this morning.

