Trends in Value-Added Agriculture
A Supplement to Michigan Farm News
April 15, 1997

From the President
As producers, we learned long ago there are two obvious ways to increase our bottom lines - reduce costs per unit of production or increase the price we receive for our product. Controlling our costs has been a challenge all of us to manage every aspect of our operation carefully to increase profitability. But what do you do if you have a product you can to control your farm's input costs? Finding or expanding a new market for your commodity is a way to add value to the commodities that we produce - whether it's milk, corn, soybeans, cherries or any other commodity grown in Michigan.

While the term "value-added agriculture" may at first glance seem intimidating, it's really nothing new. The biotechnology industry, for example, has applied the value-added concept for years, simply by taking common commodities such as corn, soybeans and potatoes and using them to produce milk and meat products. The fruit and vegetable industry utilizes value-added processing as well as direct marketing to improve greater returns. Thanks to new technology and new products, we now have opportunities to explore and implement the value-added concept in other ways and improve the value of our commodity beyond the farm gate.

What you hold in your hands is a guide to value-added agriculture. I urge you to use this information to your advantage. I believe the time is now to aggressively pursue the new-value-cooperative concept in Michigan. Our ongoing efforts to revitalize the state's livestock industry with a 20 million investment at land grants university has put our state for economic and social development in the biotech sector.

We are equally committed to the cropping sector as well, through Project GREEN which has a strong food processing component. Our state's microclimates, diverse commodity base and close proximity to markets create incredible opportunities for a wide range of value-added processing operations that aren't typically available to producers in most states.

I urge you to take advantage of this information to your advantage. Farm Bureau also has resources, such as our Public Affairs Division and our Commodity and Environmental Division, geared to provide you information on legislative, regulatory and economic issues. Most importantly, I urge you to view the Michigan Farm Bureau and your country Farm Bureau as a catalyst that can provide you with the networking so often necessary to take these ideas into the concept stage to reality.

Sincerely,

Jack Laurie
President
Michigan Farm Bureau
Governor Announces Tax-Free Renaissance Zones

Michigan has done the unthinkable by creating the Tax-Free Renaissance Zones. Business and residents who locate in one of these zones pay virtually no taxes for up to 15 years. The 11 Renaissance Zones — six urban, three rural and two former military bases — are located throughout Michigan.

The urban Renaissance Zones are located in the Detroit/St. Joseph area of southwest Michigan, Detro, Flint, Grand Rapids, Lansing and Saginaw. The rural zones are in Gogebic/Ontonagon/Houghton counties in the western Upper Peninsula, Manistee in northwest Michigan and Montcalm/Gratiot counties in the heart of the state. The two former military bases are Warren Tank in southeast Michigan and Wurtemburg in northeast Michigan.

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A guide for food exporters

Michigan can help food exporters.

E xport of food products, food processing equipment and agricultural commodities are the growth markets in the 1990s and beyond! While the U.S. has a strong agricultural presence in the food market, many other countries have a strong and growing presence in the food market as well. To take advantage of these growth markets by looking beyond our borders, and the world moves toward a global economy, successful Michigan companies will be prepared to sell in the international marketplace.

To help companies compete in the world economy, the Michigan Department of Agriculture and the Michigan Jobs Commission have put together the following slate of services.

Export development

The key tool for industry exporters is the Michigan Food and Agricultural Export Directory. It lists all suppliers and distributors of canned, frozen, fresh and frozen fruits and vegetables, meat, fish and other food products. The directory also includes telephone numbers.

Research and education

MDA-International staff also provide assistance on export-related services, export marketing and other related issues.

Information companies should perform their own cultural and product research of an intended foreign market, but MDA can help determine which markets are generally the most promising.

For information on how to access Michigan MDA-International can help you locate good resources for information such as agricultural contact in U.S. international trade offices, Michigan international offices and other agencies.

Export education programs are organized annually for Michigan food producers.

10 International Offices

Michigan Joms Commission's six international offices can be a tremendous asset to exporting companies. The state has staff in the following regions:

- Tokyo, Canada
- Mexico City, Mexico
- Brussels, Belgium (including United Kingdom and Germany)
- Johannesburg, South Africa
- Tokyo, Japan
- Shanghai, China

These offices can provide targeted lists of foreign distributors, identify competitive products and markets, and assist in the development of sales for Michigan food products.

Food bacteria office

MDA-International occasionally organizes positions at international food shows, such as the U.S. Food Export Showcase in Chicago and the World of Women in the United States. For more information, please contact the MDA-International office in Chicago.
GREENE to meet needs of processors and growers

by Fred Poston, vice provost and dean, College of Agriculture and Natural Resources, Michigan State University

Michigan plant commodity groups and food processors asked Michigan State University to develop a plan to prepare them to meet the economic and environmental challenges of the coming century. Working with MSU, these groups developed GREEEN (Generating Research and Extension to meet Economic and Environmental Needs), a plan to generate new research and educational programs to meet a wide range of economic and environmental needs identified by growers and processors.

Plant agriculture and processing industries want a rapid, integrated response from MSU to develop and implement improved management programs that will increase profitability while reducing undesirable environmental impacts and improving food safety. They want research on new processing techniques that will add value to Michigan raw commodities, as well as studies that will help them gain access to new markets for current and subsequent products.

GREEEN has awarded grants aimed at enhancing production of Michigan specialty crops have been funded through GREEEN, including studies on using low-calorie control in fine blights in apples, testing and evaluating a tunnel sprayer for high-density fruit crops, using facultative thrips in transgenic potato plants to engineer Colorado potato beetles, controlling bacterial and fungal diseases of tomatoes, evaluating alternative apple orchard management systems, developing alternatives to Limon to control the onion maggot, and controlling potato late blight. Several new projects soon will be identified as a result of a call for proposals this past February.

In January, the GREEEN advisory group decided that the next group of funded projects should focus on value-added initiatives. The term value-added includes not only the development of new food processing systems, but also the revitalization of existing industries that play a key role in Michigan's economy.

The advisory group felt that it was necessary to take a two-pronged approach to develop value-added opportunities for Michigan's plant industries. A long-term strategy that will allow MSU scientists and food processors to identify, develop, and promote value-added programs for small and medium-sized processors was proposed.

The advisory group also identified potential short-term strategies that will help them gain access to new markets for their products. The projects the group will initially allocate resources toward are:

1. A one-year project to develop a feasibility analysis to determine the potential of a Michigan potato late blight control project.
2. A three-year project to develop a feasibility analysis to determine the potential of a Michigan potato late blight control project.

In addition to the value-added programs, GREEEN is working on new processing techniques that will increase profitability while reducing undesirable environmental impacts and improving food safety. They want research on new processing techniques that will add value to Michigan raw commodities, as well as studies that will help them gain access to new markets for current and subsequent products.

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Future developments in value-enhanced Corn

The growth of the value-enhanced corn (VEC) market depends upon developments occurring in two areas: the development of cost-effective marketing technologies (means of getting to end-users) and the development of improved types of VEC. Continued introduction of innovative VEC hybrid types is vital for market growth.

One of the primary technologies that will allow corn producers to document and market their corn is geospatial positioning systems (GPS). GPS uses satellite positioning technology to allow producers to align the exact genetic strain of the crop, such as fertilizer, insecticide, herbicide use and yield, and tillage practices automatically at the time of application. All of these GPS can be monitored crop yields during harvest. It is anticipated that producers will eventually be able to give a premium (or some similar type of compensation) on each unit of corn sold. The data generated by the GPS will be passed through the marketing channel with the corn and will allow for easy segregation of corn to specific user requirements based upon hybrid type or specific end-use.

A second technological factor, which will increase the growth of VEC, is the increasing awareness of end-users of the value of consistency in their corn. A major breeding company has indicated that the genetic modification industry has been a leader in practicing the process of having value consistent hybrids in their lines. Certain U.S. corn processors have used selective purchasing to ensure hybrid consistency, and they desire a major hybrid corn snacker food processor has an extensive connecting system to produce the desired hybrid types. A major eating corn purchaser only purchases corn that meets their stringent processing standards. They publish a yearly list of acceptable hybrids begin to select the corn they use. Each level of corn delivery to their facility is tested by a list of proprietary procedures. A key to VEC's success over the next five years will be the ability to increase the number of value-enhanced corn acres used.

A third technological factor is the integration of biotechnology into the corn industry. Genes can be introduced into hybrid corn in a variety of ways. A major strategy appears to be the development of transgenic corn with improved nutritional traits. By blending different bio-oil sources into corn seed, the protein content of the corn can be increased significantly. This corn could also be modified to be resistant to certain pests such as the corn earworm. Other strategies include the development of corn with enhanced nutritional qualities, such as improved amino acid profiles, increased omega-3 fatty acid content, or reduced phytic acid content. These strategies could be implemented at the seedling stage or at the harvesting stage. However, the development of these technologies is limited by regulatory and economic barriers. The future of VEC will depend on the ability of the industry to address these barriers and develop viable market strategies.

National corn genome initiative

The National Corn Genome Initiative seeks to identify the gene expression patterns that determine the agronomic traits of corn. By understanding the genetic basis of corn traits, researchers can develop new corn varieties that are better adapted to specific environments, have higher yields, and are more resistant to pests and diseases. The initiative involves collaboration between universities, government agencies, and the private sector. The ultimate goal is to develop a detailed genetic map of corn and to identify the genes responsible for different traits. This information can be used to create new corn varieties that are better suited to specific environmental conditions, which will help farmers increase their productivity and profitability.

Alternative Marketing Channels for US Corn

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Sponsored by: Corn Marketing Program of Michigan • Michigan Farm Bureau • Michigan Soybean Promotion Committee
Pencil manufacturer makes soy crayon breakthrough

Dixon Ticonderoga Corp., famous for its No. 2 Ticonderoga pencil, recently unveiled what it called, "the first major advance in crayons in 100 years." This major advance is the introduction of a new crayon composed of 85 percent soybean oil. The soy oil replaces the petroleum oil used in standard crayons. Dixon Ticonderoga claims that the soy-based crayons offer smoother, brighter colors, no flaking and are entirely biodegradable.

Rick Joyce, Dixon Ticonderoga president, says, "Not only is this a completely natural, non-toxic oil base, it produces a clearly better crayon. So, we are eliminating the use of petroleum. "Crayola is unique in its ability to remain on America's farms, who have given us another use for the soybean." The soy crayons were conceived by a group of students at Purdue University as part of an annual contest sponsored by the Indiana Soybean Promotion Council to develop new uses for soybeans.

The new soy-based crayons will be available in packages of 4, 8, 16, 24, 48 and 64 colors, and will be marketed under the name Prang FunProCrayons. The crayons should arrive in stores sometime in early summer.

Soy-based solvent aids in oil spill cleanup

A growing concern regarding the envi- ronmental consequences of oil spills and oil spill cleanup, the United Soybean Board New Uses Committee is funding a soy-based biocer- aminy despair project, which is being developed by Dr. Randall von Wettin of CytoSol, a bioceramic and effective agent in oil spill cleanup while remaining environmentally safe. "Cytisol is unique in its ability to remain non-toxic and biodegradable while extracting petroleum products or because of ground and shoreline vegetation," explains New Uses Committee Chair Yvonne Winn. "The cleanup continues even after the initial application, breaking down materials further and fur- ther until they can be safely washed away." Recovered petroleum and Cytisol mixtures are suitable for recycling as binder fuel in ships and power plants. A single application has proven to be 85 to 90 percent effective, given various conditions. Victor Weidle and his team have tested Cytosol oil spill simulations along the California coast line and the Alaskan North Slope. Reaction from emergency response agents such as game and fish departments and the Coast Guard has been enthusiastic.

Research shows soybean hulls can be used in water treatment

Agricultural products like soybean hulls have often been considered a waste material, not a marketable commodity. Soybean hulls are made from oil mills or are unmodified, or non-carbonized. Because of the unique composition of soybean hulls, they are very effective at absorbing metals. Their affinity for metals also makes hulls effective at softening water and removing magnesium and calcium. Adding non-carbonized hulls also is a new efficient method of water treatment. The use of the hulls is inexpensive in comparison to cur- rent water treatment processes. Currently, non-exchange resins are most commonly used to absorb metals and filter wa- ter. Resins are expensive, says Marshall, and by using the hulls, treatment facilities can reduce costs by not spending as much on resins and investing in soybean hulls.

"This is another example of adding value to the hull and the soybean," explains Marshall. "Non-carbonized hulls can only be used two or three times, but their use in the filtration process does not end with metal absorption. After the useful life as metal absorbers has expired, soybean hulls can be carbonated by mixing the hulls with a suitable binder and compressing the hulls into briquettes. These high density, carbonized briquettes are superior to non-carbonized hulls for absorption of organic compounds such as non-carbonized metals in metals uptake.

"The briquettes are more costly than non- carbonized hulls, but they can be used more often than non-carbonized hulls," says Marshall. "The non-carbonized hulls are not as durable in bath applications."
Michigan: World leader in food production

The Michigan Beef Alliance is working to expand beef production, processing and marketing while the Michigan Pork Alliance is working to expand production and markets for "other white meat.

- Wines from Michigan's 24 wineries - dry and semi-dry whites, sparkling and dry reds - are taking gold medals in international competition.
- Ranches on Michigan's 25 sheep and 8,000 acres of bunch grass are well suited and the sheep and its cousin, the bison, are a significant alternative to beef.
- Michigan is developing the aquaculture industry already ranks seventh nationally in trout sales.
- Efforts are underway to revive the cranberry growing industry that thrived in Michigan in the 1800s.
- Growers around the state are bringing back commercial production of cherries and walnuts.
- Michigan, 5th in national soybean production, recently opened a soybean processing plant, an 8-8 million facility.
- Pioneering research at MSU in the early 1980s led to federal approval of canola oil as a food product. Today this rich oil is one of the major crop commodities.
- The Meat Export Federation (USMEF), in partnership with the National Pork Producers Council, announced plans to enroll small processors the knowledge they need to develop, manufacture and export processed pork products to Japan. Companies interested in joining the project are not required to participate, although USMEF recommends they participate.

According to Cravens, the project is part of the US Meat Checkoff Program and is open to U.S. and Japanese companies together to develop new products in the United States that are suited for Japanese tastes and specifications. In 1996, frozen or canned pork, coupled with a reduced domestic supply, has dramatically increased the cost of raw materials for Japanese processors. As a result, Japanese meat processors have been looking for alternate and lower-cost flavorings that can be used as fat substitutes and for the development of this project has become a reality.

New cherry paste! (Continued)

The Michigan Cherry Industry annually contributes 75-80 percent of the U.S. production of red tart cherries. The major variety grown in the United States is "pie cherries," but is being grown in the United States for more than a century because it is excellent for pies, preserves, juices and other products. Red tart cherries are generally picked frozen or canned immediately after harvest and are primarily used as a food ingredient. Cherries have a rich flavor and a high acidity. The fruit is an important source of calcium and sodium and high in vitamin A, antioxidants and anthocyanins. At the Cherry Marketing Institute, (CMI), the staff continues to work with manufacturers and marketers to expand the use of red tart cherries in non-traditional markets.

The past year has been a good year to develop a cherry paste, which has widespread applications in the ingredient market. Wholesale numbers indicate that the breakfast bar business is a $200 million category. Breakfast bars using fruit paste products are becoming an ingredient. Most manufacturers today do not offer a new crop.

Agriculture: Shrimp farming in Michigan

The state of the world shrimp farming industry continues to change at a rate unsurpassed just a few years ago. Shrimp prices at all-time record highs and the industry is desperately looking for alternative sources of income to finance the rapidly escalating costs of shrimp farming. In 1994, the United States had a deficit in soybeans of over $5 15,000 metric tons, which is equivalent to over $2.6 billion, or almost 75 percent of the total that was imported was sold, standing at only $450 million. Michigan, the largest producer of shrimp in the United States, is a world leader in developing commercial technologies for the production of marine shrimp. The company has an operating to develop new products in the United States. A unique, environment-friendly, commercially viable marine shrimp production system.

Over the last 20 years, shrimp aquaculture around the world has grown into a multibillion dollar per year business. In 1995, farm-raised shrimp production was estimated to have been 712,000 metric tons, or approximately 1.57 billion pounds.

Agriculture: Shrimp farming in Michigan (Continued)

The United States Meat Export Federation (USMEF), in cooperation with the National Pork Producers Council (NPPC), announced plans to enroll small processors and a number of Japanese firms in the United States to do business with the United States in its push to develop new processed pork products for the growing Japanese market.

"This is a chance for American companies to learn about the Japanese market and capitalize on a significant new business opportunity," says John Cravens, USMEF director of international programs. "We're looking for about 15 U.S. companies, then we'll match them up with Japanese importers, processors and retailers."

"We're off to an excellent start, but it's important now to expand the program and bring in new participants, particularly small and medium-sized companies that have the flexibility and willingness to customize products that are unique to the Japanese consumer."

The project began last year with 15 U.S. companies and a number of Japanese firms coming together to develop new processed pork products for export to Japan. Each product was specifically formulated, processed and tested in Japan; most are being introduced this week in the U.S. Meat Pavilion at FOOD EX, Japan's largest food show. It includes Subura, the meat portion of sweet and sour pork; Tonkatsu, a battered and breaded pork Sauteed shrimp, which has been imposed for much of the past two years. A number of processed pork products, however, are not subject to this safeguard and can be imported under a flat duty.

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New cherry paste! (Continued)

Cherries are among the familiar sugar beets, powdered sugar, fruit products, vegetable products, dehydrated fruits and vegetables,集中 on an annual basis. The project is part of the US Meat Checkoff Program and is open to U.S. and Japanese companies together to develop new products in the United States that are suited for Japanese tastes and specifications. In 1996, frozen or canned pork, coupled with reduced domestic supply, has dramatically increased the cost of raw materials for Japanese processors. As a result, Japanese meat processors have been looking for alternate and lower-cost flavorings that can be used as fat substitutes and for the development of this project has become a reality.

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Over the last 20 years, shrimp aquaculture around the world has grown into a multibillion-dollar-per-year business. In 1995, farm-raised shrimp production was estimated to have been 712,000 metric tons, or approximately 1.57 billion pounds. This represents about 27 percent of total world shrimp production. Production from shrimp farming in 1992 was 2.7 billion metric tons and has fallen ever since.

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Phil Korson of CMI said, "We are most excited about marketing cherry paste as a fat substitute and to see new markets in the school lunch program, as well as in applications in cookies and breakfast bars. It is a novel fruit product that is able to efficiently remove fats and guarantee fat-free product. Best of all, cherry paste will not compete with any current food base that uses cherries on an annual basis.

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Today's farmers strive to survive

Producers create first South Dakota soybean processing plant

T enenty-one hundred soybean producers combined their resources to create South Dakota's first soybean processing plant. The vision of their facility, located six miles west of Brookings, allows area producers to process their own soybeans, ending the expense of shipping to the nearest soybean elevator.

South Dakota Soybean Processors was the brainchild of soybean producer and board president Paul Casper, along with several other South Dakota producers. Marvin Hope and Richard Negrida, from Valor; Dale Murphy, from White; Gerald Meig, from Arlington; Delbert Tschakert, from Florence; and Corey Schnauber, from Freeman.

Four years ago, the group decided producers in eastern South Dakota were paying too much to ship their soybeans to their own in-state, an economic alternative to shipping the soybeans out of state to process them into meal and oil. It was estimated that farmers could produce soybean meal back to be used in manufacturing livestock feed.

South Dakota producers, who feed their livestock about 400,000 tons of bean meal each year, were paying $10 to $15 per ton for the transport of their processed soybean products. To compound matters, they were receiving $7.50 below the basic price listed at the Chicago Board of Trade: "That's a considerable loss when you consider that we produce about 25,000 bushels of soybeans in southeastern South Dakota," said Casper.

And what better way for these South Dakota producers to improve their profits than to take control of their soybeans? The group decided that their "own commodities" is "the cooperative philosophy and the system message," Casper said. "This is what our plant is all about."

Building the cooperative

To gain support for the soybean plant, Casper and his group spent two years holding producer meetings across South Dakota and Minnesota. More than 7,000 farmers participated.

"Thanks for strong support from the producers," Casper said. "We went on tour to the state of Minnesota for two years, and then to the state of South Dakota and Minnesota, raised $8.5 million and estimated it will cost $22 million to build the plant."

Construction of the facility began in August of 1995. In October, the plant processed its first load of soybeans.

An estimated 55,000 bushels will enter the plant each month, bringing in earnings from South Dakota and Minnesota, with smaller deliveries from North Dakota and Iowa. In its first year of operation, the plant is expected to process 18 to 20 million bushels of soybeans.

"We take it of dedication of every part to make something big happen," Casper said. "We can dream a dream, but with hard work, dream do come true — I think we proved that."

Securing the future

To ensure a viable future for their plant, the 21 producers developed a plan under which their Soybean Processors board of directors have hired what Casper calls "a top-notch team of professionals."

"We hired the right people to take care of that, and the dream lives on," Casper said. •

Cooperation is sweet business

American Crystal is growing

B ronnie K. Johnson

The Red River Valley has become a footnote of the past for sugar beets. With the closing of the American Crystal Sugar Co. sugar beet harvest started, then the sugar processing co-op has been a bold move into the production of sugar by-products such as sugar beets purchased American Crystal. Since then, the co-op has more than doubled in production and size, building out into other markets.

Not only has the co-op realized growth from its inception, it also experiences tremendous growth from year to year, depending on the size and quality of the beet crop. But American Crystal's job doesn't stop at producing sugar and processing sugar beets.

Sugar power

To market sugar more efficiently, American Crystal has teamed up with Minn-Dak Farmers Co- op Cooperative in Wahpeton, N.D., and Southern Minnesota Beet Sugar Cooperative in Renville, Minn.

This union created American Crystal, sugar's marketing arm headquartered in Minneapolis. American Crystal, the $2.4 billion sugar marketing arm headquartered in Minneapolis, is ranked 25 million. thund er-punched tags of sugar capturing a 6 percent of the U.S. market. It is the third largest sugar marketer in the United States.

Daniel McCurry, president and CEO of American Crystal, says the three players that make up American Sugar already own a lion's share of the American sugar market. Crystal sugar is expanding to include other markets.

"We're always looking for potential partners to bring into the United States," McCurry said. "We will work with everyone we can expand our market and expand our geography."

Getting sweet

South Dakota decided to expand its product base to offer consumers high fructose corn syrup, which is used in products such as pop.

To enter this market, American Crystal commissioned $48 million to build a $220 million corn wet-milling facility in Wahpeton, N.D., called ProCel. American Crystal has a 46 percent interest in ProCel.

"I think with ProCel the first priority is to get it up, running and under control," McCurry said. "Right now it's in the investment mode. Beyond that I see expansion of the product line as being a priority."

"We're making a move into the high fructose corn syrup. Midwest Agri-Commodities will market the by-products. Midwest Agri-Commodities is headquartered in Corte Madera, Calif. is another of American Crystal's offshore."

The business is located in California because most of the by-products are exported to Japan, McCurry said.

Expanding the base

The New Orleans American Crystal, Minn-Dak and southern Minnesota's sugar processing by-products, such as sugar beets, pulp, molasses and sugar beets.

"The main initiative that they're charged with is making sure they sell all the by-products from the parent companies and to come up with more profitable uses for their products," McCurry said.

American Agri-Commodities recently branched out by contacting with affiliated producers in northwestern United States. They are now shipping allaf a.

American Crystal also develops and markets sugar beets.

"We are expanding into the Portland, Ore. area that grows sugar beets, and we also develop our own proprietary varieties," McCurry said.

"We sold those two operations, the co-op started work on a new marketing angle in effort to sell all of the commodities its member-brown sugar."

That led to the creation of a brand name "Farmer Direct- Grown, packaged and sold by farmers."

"McCurry says it is still some tweaking to do get the Farmer Direct label into the marketplace."

Trends in Value-Added Agriculture

A Supplement to Michigan Farm News
April 15, 1997
Surfing the New-Wave cooperatives

The St. Paul Bank has helped finance many of them. Most have been, or are being, formed to move older cooperatives in the 1920s and 1930s. But in later years, they served to fill an economic function and purpose. This fundamental purpose—serving an economic need—sometimes was lost or overlooked. Economics fostered formation of cooperatives.

Cooperatives are sensitive to the business conditions of their time. They bring together people, capital, business functions and services, effective, cooperative economic units. Cooperatives have created new organizations and served to fill an economic function and purpose. Economics prompted the Rochdale weavers to initiate the cooperative form of business we know today. Economics fostered formation of cooperatives in the 1920s and 1930s. But in later years this fundamental purpose—serving an economic need—was lost or overlooked.

From the 1950s through the 1970s, lack of economic performance by some cooperatives was often rationalized as a result of lack of cooperative education and understanding. Education and understanding have their role, but the real name of the game is economics. A cooperative’s success or failure depends on how well it performs in its economic purpose.

The rise of new cooperatives in the Upper Midwest began in the 1980s. Cooperatives in the early 1980s have become a virtual explosion. New cooperatives for processing and marketing grains have appeared throughout the United States along the mid to late 1970s. The 1980s brought further expansion and new cooperatives for such products as cattle and sheep, new marketing wine and providing financial services.

The 1990s have already brought new cooperatives with all kinds of resources, new and expanded processing of corn into ethanol and corn syrup, milling frozen bread dough, chicken, pork, potatoes, poultry and egg production, sugar production and marketing, vegetable processing and more.

The resurgence of cooperatives (as least as we know them in the Upper Midwest) is the late 1980s and in the 1990s has been driven by economics, pure and simple. Opportunities are great, but successful new cooperative ventures do not spring up overnight. Large amounts of due diligence, time and hard work precede the startup of operations.

Characteristics of successful new-wave cooperatives

Value-added investment orientation to process commodities into higher-value products, moving producers further up the food chain. Significant: outstanding: pocket investment by members to provide the initial equity. Defined or selected membership rather than open membership. Long-term delivery rights and obligations of a specific commodity, with assessment level tied to delivery rights. Recognition that delivery or membership rights have value and can be eliminated. Feeding of commodities and products with value-added payments to the members only as they exist. Expansion typically funded by new investment related to the additional delivery or membership rights.

For more information:

Michigan Farm Bureau
6855 W. Blue Mound Rd., Suite 900
West Allis WI 53226
(414) 272-7900, ext. 2223 • Fax: (414) 325-9541

Corn Marketing Program of Michigan
Keith Mowald, Executive Director
(517) 324-4680 • Fax: (517) 324-4330

Michigan Department of Agriculture
Predator Research, Office of Animal Agriculture
(517) 335-5660 • Fax: (517) 335-1425

Michigan Soybean Promotion Committee
Keith Riedow, Executive Director
(517) 632-1224 • Fax: (517) 632-1296

USDALRural Development Agency
Jamest热情, Commercial Loan Specialist
(313) 327-1000, ext. 2226 • Fax: (313) 397-6787

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Organizing steps

Surfing a cooperative is a complete project. A small group of prospective members discuss a common need and develop an idea of how to fill it. Depending on the situation, generating the idea for a new cooperative may be cooperated with enthusiasm or may meet with vigorous competition.

The proponents, leaders must be prepared to confront various strategies of competition, such as price changes to retain potential cooperative members’ business. New cooperatives must attract members and hold on to them. New cooperatives must avoid attracting people under pressure, using public benefits, and members attracting the cooperative business function.

Regardless of the business climate for the proposed cooperative, leaders must demonstrate a combination of expertise, enthusiasm, practicality, dedication, and determination to see that the project is completed.

Figure 1 - Sequence of events outline

Potential pitfalls for new-ops

A word of caution may be appropriate in the next few paragraphs. Combining the cooperative form of business organization with the concept of adding value to farm products through further processing is NOT an automatic formula for success.

These kinds of projects can work well, but they can also fail. They can be done right, they can also be done wrong. Below is a list of ten potential pitfalls that new cooperatives should avoid.

1. Lack of a clearly identified mission

A new cooperative should not be formed just for the sake of forming a cooperative. Instead, it should be formed to achieve specific goals, and so accomplish a mission that has been agreed upon and accepted by its members.

2. Inadequate planning

Planning is necessary. Once a mission and goals have been identified and accepted, detailed plans must be developed to guide the formation and growth of the business.

3. Failure to use advisors and

It is essential for a new cooperative to assemble a team of competent advisors and consultants.

4. Lack of member leadership

If a project is not going to be undertaken within the group, then from outside the group.

5. Lack of member commitment

If a venture is to succeed, it must have a broad base of support among its members.

6. Inadequate management

Choosing a manager, establishing the goals that the manager should be working to achieve, and supervising the manager during the process of achieving these goals are some of the most important functions of a cooperative’s board of directors.

7. Failure to identify and minimize risks

New ventures are inherently risky. Risk cannot be eliminated entirely, but it can be minimized to some extent, once identified.

8. Overly optimistic assumptions

Care must be taken to overlook a new venture with overly optimistic assumptions and speculative promises of economic future.

9. Not enough money

It is often better to start a new venture with too little money than to overextend a cooperative’s financing package is adequate.

10. Inadequate communication

New cooperatives need to be clear and concise in a new cooperative, and also during all of the years of its existence.