

Approved Feb. 25, 1992
Date

MINUTES OF THE HOUSE COMMITTEE ON AGRICULTURE

The meeting was called to order by Representative Lee Hamm at
Chairperson

9:17 a.m./~~p.m.~~ on Tuesday, February 18, 1992 in room 423-S of the Capitol.

All members were present except: Representative Rock
Representative Wisdom
Representative Heinemann (all were excused)

Committee staff present: Raney Gilliland, Legislative Research
Jill Wolters, Revisor of Statutes Office
Pat Brunton, Committee Secretary

Conferees appearing before the committee: Rebecca S. Rice
Amoco Production Company

Joe Lieber
Kansas Cooperative Council

Terry Bertholf
Kansas Cooperative Council

Al LeDoux
Committee of Kansas Farm Organizations

Raymond Fowler
Emporia, Kansas

Father John Stitz
Catholic Rural Life
Archdiocese of Kansas City, Kansas

Ivan Wyatt
Kansas Farmers Union

Rebecca Rice, representing Amoco Production Company, appeared before the committee requesting legislation be introduced that deals with compressed natural gas. There needs to be some technical changes in the statute.

Representative Lloyd made a motion to introduce such legislation. Seconded by Representative Reinhardt. Motion carried.

Chairman Hamm opened hearings on **HB 3043** - the cooperative marketing act.

Jill Wolters, Staff, reviewed the legislation with the committee. (Attachment 1).

Joe Lieber, Kansas Cooperative Council, appeared before the committee in favor of **HB 3043**. Mr. Lieber stated the reason for asking for the added provisions is that the "Act" was enacted 71 years ago and there have been a lot of changes in cooperatives and farming during that time. He further stated that in a lot of communities, the cooperative is the largest tax payer and the largest employer. The proposed changes to the "Act" will not save all cooperatives but it will give some of them an opportunity to adjust and grow if necessary. (Attachment 2).

Terry Bertholf, a cooperative attorney, testified before the committee in favor of **HB 3043**.

Al LeDoux, Committee of Kansas Farm Organizations, testified before the committee in support of **HB 3043** and asked for favorable consideration and passage. (Attachment 3).

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON AGRICULTURE,
room 423-S, Statehouse, at 9:17 a.m./~~p.m.~~ on Tuesday, February 18, 1992

Raymond Fowler, a semi-retired farmer of Lyon County, testified in opposition to **HB 3043**. (Attachment 4).

John Stitz, Catholic Rural Life, appeared before the committee in opposition to **HB 3043**. Father Stitz encouraged the legislature to give consideration to helping farmer owned cooperatives in several specific areas. (Attachment 5).

Ivan Wyatt, President, Kansas Farmers Union, testified before the committee in opposition to **HB 3043**. (Attachment 6).

A question and answer period followed the testimonies.

Hearings on **HB 3043** were closed.

A motion was made by Representative Correll to approve minutes of February 11, February 12, February 13, and February 14, 1992. Representative Bryant seconded the motion. Motion carried.

The meeting adjourned at 10:00 a.m. The next meeting of the House Agriculture Committee is scheduled for 9:00 a.m., Wednesday, February 19, 1992, in room 423-S, State Capitol.

MEMORANDUM

TO: House Agriculture Committee
FROM: Jill Wolters, Assistant Revisor
RE: HB 3043, Amendments to the Cooperative Marketing Act

This memorandum is a review of HB 3043 stating the current law, as well as reviewing the proposed changes in the bill.

Section 1 amends K.S.A. 17-1601, which is currently, and will remain, the purpose section of the act. Briefly, this section states that the purpose of the act is to promote, encourage and develop the marketing of agricultural products and to distribute the agricultural products efficiently.

Section 2 amends K.S.A. 17-1602, the definition section of the bill. The first three terms are not amended; however, the term "person" should be amended to include trusts; it was inadvertently left out. The terms "patronage", "equity" and "cooperative" are added and defined.

Subsection (b) states that associations that organize under this act shall be nonprofit. The act shall be referred to as the Cooperative Marketing Act.

Section 3 amends K.S.A. 17-1603. Currently, under subsection (a), it takes 10 persons engaged in agricultural production to form a coop. The bill changes that number to five.

Subsection (b), at present, allows a corporation, organized under this act, to join with four other members or stockholders of the corporation to form a corporation under this act, to act as a subsidiary of the original corporation and conduct any business of such corporation. The amendment strikes the four-member requirement and would allow a corporation to form a new corporation to act as a subsidiary and conduct business.

Subsection (c) amendments are technical. This subsection states that all cooperatives who organize under this act shall have the benefits and be bound by the provisions of the act.

Subsection (d) states what "this act" includes.

The first paragraph of section 4, K.S.A. 17-1604, states what an association may be organized to do. Such activities include

HS. AG.
2-18-92
ATTACHMENT 1

the marketing or selling of agricultural products of the association's members, as well as those activities listed on the top of page 3, lines 1 through 12.

Paragraph 2 makes it clear that an association shall not engage in banking. It further states that, unless prohibited by the articles of incorporation, associations may deal in products of nonmembers and provide services to nonmembers. The amendments in lines 18 through 21 allow the association to supply to nonmembers services, products, etc., whether or not supplied to members and otherwise engage in business with nonmembers. The last sentence states that the association shall not market, deal, etc., services or supplies to nonmembers in an amount greater in value than the association provides for members. The amendments to that sentence are the same as stated above, so they are included in the amount of value of services to nonmembers.

The powers of the association are set forth in section 5, K.S.A. 17-1605. Subsection (a) allows the association to engage in any activity in connection with marketing, selling, processing or handling of any agricultural products, as well as agricultural education and research.

Subsection (b) permits the association to collect dues; the ability to borrow money and make advances to members is granted in subsection (c).

The association may act as the agent of the members in subsection (d).

Subsection (e) discusses the association's rights with respect to the shares of the capital stock or bonds.

Subsection (f) has an amendment to note. Current law allows the association to become a member of a corporation engaged in any "related activity". The proposed amendment would allow the association to engage in any "lawful activity".

Subsection (g) permits the association to establish reserves and invest funds.

The association, pursuant to subsection (h), may own real and personal property as is necessary to conduct its business.

Subsection (i) currently allows the association to do all that is necessary to benefit the association, as well as to exercise all powers and privileges "necessary or incidental to the purposes for which the association is organized", in addition to other rights under the laws of Kansas that are granted to corporations. The amendment strikes the incidental language and allows associations to do all that ordinary corporations in Kansas may do.

Section 6, K.S.A. 17-1606, states who may be a member of an association. A member must be engaged in the production of agricultural products. This section currently allows the association to accept associate or sustaining members, without voting power, to anyone regardless of occupation. The amendments strike the use of "sustaining" member and insert a participating nonmember and participant as nonvoting members.

Subsection (b) currently permits a member who is not a natural person to be represented by an individual or officer if authorized in writing. The amendments insert "stockholder" along with member and allows a trustee to represent a stockholder or member who is not a natural person.

Subsection (c) allows the association to become a member or stockholder of any association organized under this act.

K.S.A. 17-1607, section 7, sets forth that an association must file an application for charter stating the name and purpose of the association. Current law requires that the application state where the association's principal business will be transacted; the bill strikes that language. Presently, the association's charter can have a term of existence not to exceed 50 years. This language is redrafted to allow perpetual existence, or a set term. The association shall have five or more directors. The charter of the association shall further state that, if organized without capital stock, the property rights of each member shall be determined and fixed. The association may admit new members in accordance with the association's general rules, but the provisions of the application for charter cannot be altered, except by the vote or written consent of 3/4 of the members. If organized with capital stock, the charter shall state the amount of stock and the number of shares, as well as its par value.

Subsection (b) allows the stock to be divided into preferred and common stock. This section further states that the application to charter must be witnessed and acknowledged by the incorporators and duly filed.

Section 8, K.S.A. 17-1608, discusses when a charter may be altered or amended. An amendment must be first approved by 2/3 of the directors and then adopted by a vote representing a majority of all members. In lieu of this vote, the amendment may be adopted by 2/3 vote of voting members attending the annual or a special meeting. The remaining language provides that notice of the meeting must have been mailed at least 10 days prior to the meeting. The changes in the bill draft allow "voting stockholders" to vote and be counted in the majority of the association. At the meeting, the voters (members and stockholders) must be present and voting to be counted in the 2/3 majority.

Section 9, K.S.A. 17-1609, states that an association, 30 days after incorporation, shall adopt bylaws. The association may include in its bylaws, such things as the time and place of meeting, penalties for violations, membership fees and the number of directors to constitute a quorum.

The amendment in subsection (b) [page 6, line 31] allows the bylaws to state the number or voting power of stockholders or members to constitute a quorum. Current law allows the bylaws to set the number of stockholders or members.

Subsection (i) provides other items the bylaws may contain. The current law requires an association to pay a member who withdrew or was expelled from membership an equitable amount for such member's interest within one year of withdrawal/expulsion. This language has been deleted in the bill draft.

Subsection (j) currently sets a limit of 8% interest on annual dividends paid on stock. The amendments allow the interest rate to be higher, as set forth in the contract interest rate. (Currently 10.24%). An association will want to be very careful here; to meet the requirements of the Capper-Volstead Act, an association must have the one-member one-vote rule or limit the dividends on stock to 8% per year.

Section 10, K.S.A. 17-1610, requires the bylaws to provide for an annual meeting, as well as setting standards for calling a special meeting. The amendments to this section require the special meeting to be held within 60 days of receipt of demand. Notice shall be mailed to members at least 10 days prior to the meeting. The amendment strikes the provision that allows the bylaws to instead provide for notice by publication in a newspaper.

Section 11, K.S.A. 17-1611, currently mandates a board of at least five directors elected by the members or stockholders from the membership. The amendments allow the members and "voting" stockholders to elect the directors. This section further allows the bylaws to state how elections will be carried out, the compensation for officers and directors, and how a vacancy on the board will be filled.

Section 12, K.S.A. 17-1612, provides for officers to be elected. The amendments allow the president to be referred to as the chairperson and the vice presidents to be referred to as the vice chairpersons.

Section 13, K.S.A. 17-1613, discusses the payment of membership fees and the certificate of membership. Currently, no stockholder, except another association, shall own more than 5% of the common stock. The association, through the bylaws, may

limit the amount of common stock a member may own to less than 5%. The amendments to the bill allow 20% ownership of the association by one person.

Subsection (b) states the bylaws may require the one-person one-vote rule. The amendments allow voting to be based on patronage or patronage equity, or both. If based on patronage, in no event can this vote exceed 5%, unless the member is another association. Here again, note that a violation of the Capper-Volstead Act may occur if the association enacts this provision, as well as exceeding the 8% limit on dividends.

In subsection (c), the bylaws shall prohibit the transfer of common stock of the association to persons not eligible to be members.

Currently, subsection (d) provides that except when the debts exceed 50% of the assets, the association may buy its common stock at book value within a year. The amendment strikes the debt/asset ratio language, as well as inserting par value along with book value as the purchase price and further, strikes the requirement of paying within one year.

K.S.A. 17-1614, section 14, allows members to bring charges against an officer or director. The removal and filling of the vacancy shall be voted on by a majority of the members. The amendments to this section allow voting stockholders to bring charges and vote under the one-person one-vote plan. It also allows a vote of a majority of the outstanding shares of voting stock.

Subsection (b) provides that the person against whom the charges have been brought shall be informed of the charges and have an opportunity to be heard.

Section 15, K.S.A. 17-1615, provides that if, 1/3 of the board so demands, any matter approved by them shall be referred to the entire membership. The amendment provides that the meeting shall be held not less than 15 but not more than 60 days after the board's action.

Section 16, K.S.A. 17-1616, allows the association to make marketing contracts. Included in the expenses currently is the 8% limit on interest. The amendment changes the interest to a greater amount and the Capper-Volstead concerns apply here, as well.

Subsection (b) permits the bylaws to fix sums, as liquidated damages, if a contract breach occurs.

Section 17, K.S.A. 17-1617a, allows any association to have an interest in, or become a member of, any association. It

further allows any association to have an interest in, or become a part of, another corporation. The language stricken on page 12, lines 9 through 12 is redundant.

Section 18, K.S.A. 17-1618, is technical, merely adding "and amendments thereto".

Section 19, K.S.A. 17-1621, allows associations or corporations organized under other statutes by 2/3 vote of the stockholders or members attending the annual meeting, to accept the benefits and be bound by the provisions of the Cooperative Marketing Act. The amendments include, "voting" stockholders or members "voting" at an annual meeting to by 2/3 majority accept the provisions of this act.

Sections 20, 21, 22 and 23 are technical, merely adding "and amendments thereto".

Section 24, K.S.A. 17-1629, currently allows a corporation organized under this act to increase its capital if approved by 2/3 majority of the outstanding shares of voting stock or 2/3 of members, if one-person one-vote. In lieu of the above, the 2/3 vote may be of those voting and present at a meeting. The amendment allows the increase in capital, but it must first be approved by 2/3 of the directors and then approved by 2/3 of the voting stock or voting stockholders.

Section 25, K.S.A. 17-1630, states, unless otherwise provided by the bylaws, the stockholder meetings shall be at the corporation's principal office. The amendment replaces "principal office" with "the corporation's registered office". Current law further allows the stockholders to hold the meetings elsewhere; but, requires them to maintain a principal office in the state, as well as to have a resident agent. The amendments do not require the corporation to have a principal office in Kansas, just a resident agent.

Sections 26, 27, 28 and 29 are technical.

Section 30, K.S.A. 17-1636, permits a corporation to dispose of its property and assets for consideration as determined by the board. These transactions shall be approved by a 2/3 vote of the members or stockholders, or, in lieu thereof, by a 2/3 vote of members or stockholders at a meeting.

Testimony on HB 3043
House Agriculture Committee
February 18, 1992
Prepared by Joe Lieber
Kansas Cooperative Council

Mr Chairman and members of the Committee, for the record I'm Joe Lieber, Executive Vice President of the Kansas Cooperative Council.

The Council has a membership of nearly 200 cooperatives which have a combined membership of nearly 200,000 Kansas farmers and ranchers.

We appreciate the Committee's willingness to introduce HB3043 that updates the Kansas Cooperative Marketing Act which was enacted in 1921.

As most of you remember we appeared before this Committee last year asking for your support for SB 73. You gave us that support, and we felt the bill, as amended by this Committee, had over 100 supporters in the House. Unfortunately, we could not get the bill moved up the calendar and we were willing to accept a compromise in order to get the more pressing parts of the bill passed.

The part that did pass was all new language and had to do with guidelines for mergers and consolidations (Section 17-1637 to 1642).

Hs. Ag.
2-18-92
ATTACHMENT 2

Thanks to your support several cooperatives have used this provision to consolidate and many others are in the process.

We're asking for your support on all the proposed changes we didn't get last year except Section 17-1611, which has to do with allowing non-members to serve on the board.

Several of our members stated that they, "didn't see anything wrong with this provision but they probably would never use it."

Because of this and because it was a point of contention we felt in the spirit of compromise we would not ask for it.

The reason we are asking for the other provision is that the "Act" was enacted 71 years ago and there have been a lot of changes in cooperatives and farming during that time.

Another way of looking at it is to imagine what farming and agriculture will look like in the year 2063, 71 years from now.

If farmer-owned cooperatives are going to continue to provide services for their member-owners, they must be able to diversify and become more flexible.

What does the proposed changes do to help the farmer-owned cooperatives to prepare for the 90's and beyond?

1. It makes technical changes such as modern spelling, new terms and definition.
2. It allows five persons to form a cooperative instead of ten.
3. It allows cooperatives to form cooperative subsidiaries or invest in other corporations.
4. It allows cooperatives to engage in business with non-members as long as the majority of their business comes from members.
5. It amends the language to increase control of the association by members who attend and vote at meetings.
6. It leaves the decision on payment for a member's stock to the discretion of the board of directors.
7. It allows cooperatives to pay higher annual dividends on common or preferred stock.
8. It designates a special time that the directors must call a special meeting and the notice of that meeting must be mailed.
9. It allows cooperatives to call their board presidents, chairmen, and the manager, president of the cooperative if they want to.

10. It allows voting to be based on patronage if the members want it, but no member will have over 5% unless it is another cooperative.

11. It requires that if the cooperative's bylaws provide for election of directors by district, then a petition to remove a director must be signed by 20% of members residing in that district.

12. It provides that any increase in Capital be first approved by two-thirds of the directors.

13. It removes the section that makes it a crime to spend false reports about the cooperative. Current law limits the amount of damages the cooperative can receive.

It is important to remember that cooperatives are owned by the producers and ranchers of Kansas.

Because of this we felt it was important that we receive their input and support.

In the fall of 1990 and again in the fall of 1991 we contacted the following ag organizations and explained our proposed changes:

| | |
|---|-------------------------------------|
| <i>Associated Milk Producers</i> | <i>Kansas Electric Cooperatives</i> |
| <i>American White Wheat Prod. Assn.</i> | <i>Kansas Farm Bureau</i> |
| <i>Committee of Kansas Ag Organizations</i> | <i>Kansas Livestock Association</i> |
| <i>Farmers Union</i> | <i>Kansas Soybean Association</i> |
| <i>Kansas Agri-Women</i> | <i>Kansas State Grange</i> |
| <i>Kansas Board of Agriculture</i> | <i>Kansas Wheat Growers Assn.</i> |
| <i>Kansas Corn Growers</i> | <i>Mid-America Dairymen</i> |
| <i>Kansas Pork Producers Assn.</i> | |

I am happy to report we have received favorable support from Associated Milk Producers, Committee of Kansas Farm Organizations, Kansas Farm Bureau, Kansas Pork Producers Assn., Kansas State Grange, Kansas Wheat Growers and Mid-America Dairy.

The only negative response has been from the Farmers Union. We're disappointed by that because we feel that the philosophy expressed in these changes in the Kansas Cooperative Marketing Act coincides with the philosophy of the Farmers Union.

I have visited with Farmers Union members, representatives and their board over the last 18 and feel their opposition comes from a misunderstanding and misinterpretation of the proposed changes.

Mr. Chairman and members of the Committee, since September 1980, 67 Kansas cooperatives have ceased to be independent operations. Forty-eight have merged, 12 have been sold to non-co-op companies

and 7 have ceased to operate.

Sixteen of these changes have happened in the last 18 months; five already this year and 12 other cooperatives are in the process of seeking merger negotiations.

If the producers and ranchers of Kansas are going to have their cooperatives in the future, those cooperatives are going to have to be flexible and be able to diversify.

In a lot of communities, the cooperative is the largest tax payer and the largest employer. The proposed changes to the "Act" will not save all cooperatives but it will give some of them an opportunity to adjust and grow if necessary.

I have brought with me Terry Bertholf, a cooperative attorney who wrote most of the proposed changes. Terry is the only attorney in the state that specializes in cooperative law. He works with the Kansas Cooperative Marketing Act every day and he has virtually been involved in every co-op case in Kansas for the last 18 years.

I would like to thank the Committee for your time this morning and for introducing HB3043. We would also like to thank the Revisor's Office and Legislative Research for the work they have done.

Terry or I will be willing to answer any questions.

COOPERATIVES PAY TAXES

(1) Farmer cooperatives are taxed like any other corporate entity with one exception. With respect to earnings which may qualify for distribution to the cooperative's farmer members, such earnings may also be deductible to the cooperative. Even so, such earnings remain taxable to the cooperative's farmer members as part of their overall taxable income.

(2) Earnings by farmer cooperatives thus are not exempt from taxation. Such earnings are taxed either at the cooperative level or as taxable income to its farmer members. And, in some cases, such earnings or income may be subject to taxation at both levels.

(3) According to USDA data, the 100 largest cooperatives paid over \$164 million in income taxes in 1989.

(4) Surveys conducted by the Kansas Cooperative Council for 1988, 1989 and 1990 show:

In 1988 local cooperatives paid, on the average, \$41,182.91 in property taxes.

In 1989 the average was \$44,739.72.

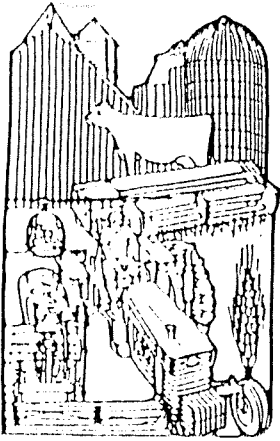
In 1990 the average was \$51,566.78.

(5) The annual payroll average was:

1988 - \$428,801.84
1989 - 439,069.75

(6) The average paid for licenses and fees annually:

1988 - \$4,136.31
1989 - 6,396.58



Committee of Kansas Farm Organizations

STATEMENT OF POSITION OF THE COMMITTEE OF KANSAS FARM ORGANIZATIONS

Al LeDoux
Legislative Agent
Route 1
Helton, KS 66436
(913) 364-3219

RE: HB 3043

HOUSE AGRICULTURE COMMITTEE

February 18, 1992

Committee of Kansas
Farm Organization Members

Associated Milk Producers, Inc.

Kansas Agr. Women Association

Kansas Association of Soil
Conservation Districts

Kansas Association of
Wheat Growers

Kansas Cooperative Council

Kansas Corn Growers Association

Kansas Electric Cooperatives

Kansas Ethanol Association

Kansas Farm Bureau

Kansas Fertilizer and
Chemical Association

Kansas Grain and Feed
Dealers Association

Kansas Livestock Association

Kansas Meal Processors
Association

Kansas Pork Producers Council

Kansas Rural Water
Districts Association

Kansas Seed Industry Association

Kansas Soybean Association

Kansas State Grange

Kansas Veterinary Medical
Association

Kansas Water Resources Association

Kansas Water Well Association

Mid America Dairymen, Inc.

Western Retail Implement and
Hardware Association

Kansas Grain Sorghum Producers

Kansas Association of Nurserymen

Mr. Chairman, Members of the Committee: My name is Al LeDoux and I am speaking to you this morning on behalf of the Committee of Kansas Farm Organizations. As you well know, our group is made up of twenty-five (25) Ag and Ag related organizations operating here in Kansas. A listing of our membership is found on the left hand column of this handout.

Our organization has elected to unanimously support House Bill 3043. We would therefore solicit your favorable consideration and passage of House Bill 3043.

Respectfully submitted,

Al LeDoux

HS. AG.
2-18-92
ATTACHMENT 3

Statement to the House Committee on Agriculture

Mr. Chairman, and members:

I am Raymond Fowler a semi-retired Farmer of Lyon County I want to thank the committee for allowing me the opportunity of expressing my objection to the purposed changes in Co-op Marketing Act of 1992.

I am not going in the details of all the things that are wrong with the changes in this measurer. I think the changes that may come about to my voting rights and the voting rights of every member of a Credit Union in the state as they are also Co-ops and they have more members that now could vote and these people are the one's that vote in general elections.

Yes, I'm as sure as you are that the CEO of these Credit Unions would like to do business with all the people that live in their area regardless of whether they are members or not. Some of these CEO would like to make a large "Shopping Center Loans" even if they had to discount it more than to it's member. This is one of the things that happen when member lose their vote to those with weighted votes.

I have talked to a lot of credit union members and they want their money safe and used in there area. One big mistake with Credit Union money because of this bill and there will be new faces a round the Capital, be cause There are more Credit Union members than Farm Credit Service members, Electric Coop Members and Farm Coop Members put to gather.

Then getting back to rural coop I received a letter tell me that my share of the coop profit for 1991 was so much and it should be on my income tax return and the I.R.S. had a copy of this form. This is just fine I will pay the tax with coop profits , but it don't work that way in a large portion of these coops your profits stay as an investment in your coop. but you pay the tax.

This brings me to the point of us older members. The CEO's and younger members don't want to give our investment back when we want it but only when it is convenient for them since we are the unsecured investor and by this changed way of voting we would have very little input in the voting.

I like many others belong to a coop far from my home, at the present time I allow my fellow farmers to do the voting knowing that our interest are about the same and that a majority of the members must vote not just the ones present at a regular meeting. I think a mail in ballot is the answer instead of letting a smaller number make the decision of major moves by the coops. Many of the younger members have full time jobs and they can't get away but they could vote with a mail Ballot.

Once more don't forget the fastest growing coops are the Credit Unions.

Hs. Ac.
2-18-92
ATTACHMENT 4

Chairman Lee Hamm

House Committee on Agriculture

Statement on changes in the Cooperative Marketing Act

By: John Stitz, Catholic Rural Life

Archdiocese of Kansas City, Kansas

Seventy years ago today, February 18, 1922, the Capper-Volstead Act became law. This Act marked a major development for farmer owned cooperatives in America. However, the history of support given the cooperative movement by the Catholic Church goes back another fifty years to the 1880's when rural parishes were organizing farmer cooperatives in Belgium, Denmark and Holland. In fact, ideas on cooperatives came to the Great Plains for the first time in the late 1800's by immigrants from Belgium and Denmark who settled in the Dakota's. This statement on marketing cooperatives should be understood in the context of this history of support for farmer owned cooperatives over the past 120 years.

In 1939, the Catholic Bishops through the National Catholic Rural Life Conference outlined their support for the cooperative movement in a Manifesto on Rural Life. They recognized the social and spiritual value of the following principles of cooperatives:

1. Each farm family works for the good of the common good. This is at the heart of social justice.
2. The profit motive is subordinated to the general welfare of the members, the common good.
3. Cooperatives are valuable schools for learning in the social virtues, resourcefulness, responsibility, mutual helpfulness, justice, charity and economic democracy.

Hs. Ae.
2-18-92
ATTACHMENT 5

Cooperative movements in Mondragon Spain, Antigonish, Nova Scotia, Credit unions in South Pacific and Peru, marketing coops in Gois, Brazil, the list goes on, connected to the belief in and the preaching of cooperative principles by the church. No one who knows the history of the cooperative movement among farmers can say that the church is not interested in the success and survival of farmer owned cooperatives.

Key to the success of cooperative is education of the members and control by the members. The bishops said during the depression that when a cooperative failed it was not due to the economy but due to a departure from the basic cooperative principle. They warned farmers then and again in their 1987 economic pastoral that outside forces will try to use the cooperatives for political purposes, for ends not in the interests of the owner members.

Unfortunately sometimes cooperatives abandon basic principles and we find that: 1. Members are treated like customers, not owners. 2. Some charge members going prices for services. 3. Dividends are no longer paid. As one farmer, a coop member, said to me when I asked how he was getting along with his coop. "Our cooperative behaves like a corporation. We have become like those we hated the most".

We encourage the legislature to give consideration to helping farmer owned cooperatives in the following areas. 1. Public policies to restore integrity to the guiding principle of cooperatives, one member, one vote. 2. Policies are needed to reduce power and influence of management. 3. Less emphasis is needed on accumulating earnings and expanding, but more emphasis is needed in reducing costs to farmers, and returning dividends to members. 4. Public policies are needed to favor farmer owned cooperatives in their competition with agribusiness corporations.

Under the last point, I urge that the legislature recommend to President Bush and to U. S. Trade Ambassador Hill that farmer owned cooperatives be given special trade status in any Free trade agreement. (Negotiators are meeting this week in Dallas.) Farmers across Canada, Mexico and the United States can use this type of consideration. It is within the power of the federal government to give federally funded discounts to any nation doing business with farmer owned cooperatives. We know the government gives this status to some nations which are not democracies and have horrible human rights records. Here is a positive way to help the cooperatives.

[This statement was endorsed to be read at this Committee by
Ignatius J. Strecker, Archbishop of Kansas City in Kansas.]

STATEMENT
OF
IVAN W. WYATT, PRESIDENT, KANSAS FARMERS UNION
BEFORE
THE HOUSE COMMITTEE ON AGRICULTURE
ON
THE CO-OP MARKETING ACT (1992)
FEBRUARY 18, 1992

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE:

I AM IVAN WYATT, PRESIDENT OF THE KANSAS FARMERS UNION.

SOME THINGS JUST KEEP COMING BACK. WE USE TO HAVE A TOM CAT THAT WE WOULD HAUL OFF A COUPLE TIMES A YEAR, BUT HE ALWAYS CAME BACK.

THAT CAT WAS KIND OF LIKE THIS BILL. LAST YEAR THE PROPONENTS CLAIMED WHAT THEY REALLY NEEDED WAS TO CHANGE THE LAW SO THE CO-OPS COULD MERGE AND CONSOLIDATE, EVEN THOUGH THEY HAVE BEEN DOING IT FOR YEARS, WHILE THE OTHER PARTS OF SENATE BILL 73 WERE MINOR.

AS I READ THE HOUSE, THEY SEEM TO SAY IF YOU THINK YOU NEED THAT, THAT IN ITSELF SHOULD NOT JEOPARDIZE THE MEMBERS VOTING RIGHTS, OR THE OWNERS OF THE CO-OPS PROPERTY RIGHTS.

OUR CONCERN IS THAT THE LEGISLATURE SHOULD NOT START TINKERING WITH BY-LAW CHANGES AND MEMBER VOTING RIGHTS AND OPPORTUNITIES, WITHIN THE PRESENT CO-OP LAW. IF CO-OP MEMBERS WON'T VOTE TO MAKE THESE CHANGES, WHY SHOULD THE KANSAS LEGISLATURE. WHY SHOULD THE LEGISLATURE TAKE SIDES WITH THE MANAGEMENT OVER THE CO-OP MEMBERS.

I KNOW THE CO-OP COUNCIL, AND THE FARMLAND ATTORNEY CLAIM THE MEMBERS HAVE BEEN INFORMED OF THE CHANGES THAT WERE AND ARE BEING PROPOSED IN THEIR LITTLE PAMPHLET. THE PAMPHLET, IN SOME CASES, WAS PLACED ON A TABLE WITH EVERY OTHER SORT OF LITERATURE IN THE LOCAL CO-OP. THAT, THEY CLAIM WAS INFORMING THE MEMBERSHIP.

LAST YEAR, THIS COMMITTEE AND THE SENATE COMMITTEE CHEWED AND CHEWED ON THIS BILL, AND I DON'T KNOW IF ANY ONE

Hs. Ag.
2-18-92
ATTACHMENT 6

CLAIMED TO KNOW WHAT ALL THAT PIECE OF LEGISLATION WOULD DO. MOST WOULD SAY, "WELL, I'M NOT SURE, I DON'T KNOW, MAYBE IT'S ALRIGHT". I THINK MANY SHUT THEIR EYES, SWALLOWED HARD AND VOTED YES. TO ME "MAYBE BEING ALRIGHT" ISN'T GOOD ENOUGH. NOT WHEN YOU ARE MAKING DECISIONS EFFECTING OTHER PEOPLE'S PROPERTY RIGHTS AND VOTING RIGHTS.

I CAN TELL YOU WHENEVER IT WAS DISCUSSED BEFORE THE WHOLE MEMBERSHIP OF A CO-OP IT WAS OVERWHELMINGLY VOTED, "NO SUPPORT".

AGAIN, I REITERATE THAT THERE IS LITTLE CONCERN IN THIS BILL FOR THE MEMBERS INTERESTS AND RIGHTS.

I'M NOT GOING TO CHEW THIS OLD RAG AGAIN ON JUST WHAT THIS BILL WILL DO. WE NEED TO TAKE A LOOK AT PRINCIPALS AND RIGHTS. THE MEMBERS AND OWNERS OF THE CO-OPS SHOULD BE THE PRIME ISSUE HERE.

LET ME READ PART OF A LETTER SENT OUT BY THE CO-OP COUNCIL FROM JOE LIEBER. IT WAS SENT TO CO-OP MANAGERS NOT THE MEMBERSHIP OR THE OWNERS, BUT THE HIRED HELP.

I'M GOING TO HIDE BEHIND JOE'S QUOTATION MARKS. IN JOE'S LETTER HE SAYS "SENATOR DON MONTGOMERY, THE CHAIRMAN OF THE SENATE AG COMMITTEE, SUGGESTED THAT WE GET LETTERS SIGNED BY THE MANAGERS AND ALL THE DIRECTORS, STATING THEY SUPPORT THE UPDATING OF THE 'KANSAS COOPERATIVE MARKETING ACT'."

THEN THE LETTER GOES ON TO SAY THAT THERE IS A SAMPLE LETTER BELOW FOR THEM TO SIGN AND SEND BACK TO JOE.

OUT ON THE FARM, WE CALL THAT BOTTLE FEEDING.

WHEN I WAS IN HUNGARY LAST FALL, A YOUNG FELLOW DROVE THREE HOURS TO VISIT WITH ME IN BUDAPEST.

THIS YOUNG FELLOW, ROBERT SEBASTION, IS THE FINANCE DEPUTY OF A LARGE STATE FARM IN HUNGARY. HE IS ANSWERABLE TO THE STATE FARM DIRECTOR. BOTH WERE APPOINTED BY THE COMMUNIST STATE GOVERNMENT.

HE TOLD ME HOW HE WANTED TO REORGANIZE THAT "STATE FARM" (SOMETIMES CALLED COOPERATIVES). HE TOLD ME OF HIS PLANS TO RESTRUCTURE THE FARM, MADE UP OF SOME 1500 MEMBERS, 10 TO 15,000 ACRES, A HOG FARROWING AND FEEDING OPERATION, AND A DAIRY.

HE TOLD ME THAT THEY WANTED TO ESTABLISH A CO-OP WHERE THE MEMBERS WOULD SHARE IN THE OWNERSHIP AND PROFITS, AND HOW HE WANTED TO MAKE SOME CHANGES, BUT HE WAS HAVING TROUBLES SETTING IT UP THE WAY HE WANTED IT.

I SUGGESTED THAT HE SHOULD ESTABLISH AN ELECTED BOARD, ELECTED BY THE MEMBERS. THEN HE SHOULD SIT DOWN AND WORK WITH THAT BOARD AND DRAW OUT A SET OF BY-LAWS AND WORK OUT A SET OF PLANS FOR THE MEMBERS TO VOTE ON. HE EXPLAINED, "OH NO, HE COULDN'T DO THAT. THAT WOULD BE TOO POLITICAL. THOSE MEMBERS (OWNERS) MIGHT NOT AGREE WITH WHAT HE WANTED TO DO." HE COULDN'T SEEM TO UNDERSTAND WHY THEY WOULDN'T LET HIM RUN THE CO-OP LIKE HE WANTED TO, SELL OFF SOME OF THE PROPERTY, AND MARKET THE PRODUCTION, WITHOUT MEMBERSHIP INPUT. HE SAID THEY TOLD HIM, "ROBERT, THIS ISN'T YOUR FARM. THIS IS OUR FARM AND WE SHOULD HAVE A SAY IN THE RUNNING OF IT."

THAT IS THE MAJOR PROBLEM IN THESE FORMER COMMUNIST COUNTRIES. THEY DON'T TRUST DEMOCRACY.

THAT'S WHY I AM SHOCKED WHEN I HEAR PEOPLE CLAIM THAT THIS IS WHY WE MUST HAVE THESE CHANGES IN THE CO-OP MARKETING ACT. THEY JUST CAN'T TRUST THESE CO-OP MEMBERS TO VOTE LIKE THEY WANT THEM TO. THAT 'S WHY THEY CAN'T USE A MAIL-OUT BALLOT OR MAINTAIN THE PRESENT LANGUAGE OF THE LAW. PROponents OF THIS LEGISLATION USE THE SAME REASONS GIVEN BY MR. SABASTIAN IN HUNGARY.

LET ME SHARE WITH YOU A STATEMENT OUT OF THE "WORLD'S FARMERS' TIMES" ABOUT THE CO-OPS IN THESE COMMUNITST STATES. IT STATES, "IN THEORY" THE WORKERS AND FARMERS WERE MEMBERS OF THE COOPERATIVES AND OWNED SHARES OF THOSE COOPERATIVES. HOWEVER, IN MOST CASES OWNERSHIP WAS TAKEN FROM THE FARMER-OWNERS AND IT NOW BELONGS TO THE STATE.

NOW WE HEAR UPPER ECHELON MANAGEMENT OF OUR CO-OPS SAY THAT THEY WANT TO MAKE THE CO-OPS INTO CORPORATIONS, OR THAT THEY ARE ALREADY CORPORATIONS. CORPORATE LAW SAYS CORPORATIONS MUST HAVE VERY STRICT VOTING RULES, STRICT RULES ON THE SALE, MARKETING AND TRADING OF STOCK. IF FARMLAND OR OTHER SEGMENTS OF THE CO-OPS WANT TO BE, OR ACT LIKE CORPORATIONS, THEY SHOULD BE OPEN AND SAY SO TO THEIR MEMBERS. WE, AS MEMBERS OF OUR CO-OPS, DON'T WANT TO WAKE UP SOME MORNING AND FIND OUR CO-OPS BELONG TO SOME CORPORATION JUST AS FARMERS IN EASTERN EUROPE FOUND ONE DAY THEIR FARMS WERE OWNED BY THE STATE.

WE NOW HEAR PEOPLE, LIKE UPPER ECHELON MANAGERS AND OUR SECRETARY OF THE STATE BOARD OF AGRICULTURE, SAY WE SHOULD NOT CALL THE PRODUCTION OF GRAIN AND LIVESTOCK ON OUR FARMS AND RANCHES "AGRICULTURE", THEY SAY AGRICULTURE SHOULD BE CALLED AGRI-PLEX.

IN THE ARTICLE I WAS REFERRING TO EARLIER, IT STATES THAT IN THESE FORMER COMMUNIST BLOCK NATIONS, ALL SOCIALIZED FARMS ARE NOW KNOWN AS AGRO-COMPLEXES, ELMINATING ANY REFERENCE TO THE PEOPLE INVOLVED. AUTHORS OF THIS ARTICLE

ARE NANCY COCHRANE AND MARK LANDELL, AGRICULTURAL ECONOMISTS, ECONOMIC RESEARCH SERVICE, USDA.

NOW WE CAN DO ALL THE FANCY DANCE STEPS WE WANT TO, BUT THIS IS THE NITTY-GRITTY OF THE BILL.

DO WE CONTINUE TO TRUST IN THE DEMOCRATIC PROCESS OF OUR CO-OPS TO ASSURE EVERY MEMBER THE OPPORTUNITY TO VOTE ON MAJOR DECISION BEING MADE BY MANAGEMENT? IT HAS BEEN SAID DEMOCRACY IS A THREAT TO CENTRALIZED POWER. CAN OUR CO-OPS AND DEMOCRACY CONTINUE TO CO-EXIST? THAT IS THE ISSUE.

SECONDLY, DO WE ASSURE THE ACCOUNTABILITY OF CO-OP MANAGEMENT IF WE REPEAL SECTION 17-1622. REPEAL WOULD STRIKE LANGUAGE FROM THE STATUTE THAT MAKES IT A PENALTY FOR ANY ONE INSIDE MANAGEMENT OR OUTSIDE WHO MAKES MISLEADING STATEMENTS OR PROVIDES FALSE INFORMATION ABOUT A CO-OP. DON'T WE EVER LEARN? LOOK WHAT HAPPEN TO THE SAVING AND LOAN INDUSTRY WHEN MANAGEMENT ACCOUNTABILITY WAS RELAXED. WE ALL WILL PAY FOR THAT FOR YEARS. THE EXPLANATION OF SECTION 17-1622 IS TOTALLY MISLEADING, INFERRING A LIMITATION ON DAMAGES OF \$500.00.

I HAVE VISITED WITH TWO ATTORNEYS ABOUT THIS, ONE A FORMER COUNTY ATTORNEY. BOTH STATE THIS SECTION GIVES ADDED PROTECTION TO THE MEMBERS AND A BETTER OPPORTUNITY FOR RECOURSE IF SOMEONE IN MANAGEMENT SHOULD MAKE A FALSE STATEMENT ABOUT THE FINANCES AND ACTIVITIES OF THE CO-OP.

THIS COULD BE VERY IMPORTANT TO INDIVIDUALS WHO MIGHT BE APPROACHED ABOUT STOCK TRADES, OR SALES WITHIN THE CO-OP SYSTEM, OR ANY SIMILAR TRANSACTIONS RELATING TO VALUE OF STOCK.

WE ARE NOT SHOUTING WOLF, WHEN WE RAISE THESE CONCERNS.

SOME OF YOU MAY RECALL THE ISSUE OF THE ELECTRIC CO-OP MANAGEMENT WANTING TO PURCHASE PART OF THE WOLF CREEK GENERATION FACILITY SEVERAL YEARS AGO. EARLY ON, IT WAS PROMISED ELECTRICITY WOULD BE SO CHEAP CONSUMERS WOULDN'T EVEN HAVE TO HAVE METERS.

THAT ALL CHANGED TO THE POINT THAT IF THE CO-OPS WANTED TO BE ASSURED OF A CHEAP SOURCE AND SUPPLY OF ELECTRICITY, ALL ELECTRIC CO-OPS SHOULD BUY INTO THE WOLF CREEK GENERATING FACILITY. THOSE WHO REFUSED CAME UNDER SEVERE ATTACKS OF INTIMIDATION.

THE KANSAS FARMERS UNION OPPOSED THE CO-OPS PURCHASING PART OF THAT FACILITY, SAYING IT WOULD BE CHEAPER FOR CO-OP MEMBERS TO PURCHASE THAT ELECTRICITY AT THE WHOLESALE LEVEL, RATHER THAN OWNING PART OF WOLF CREEK. THAT IS ALL HISTORY.

I BELIEVE ONLY 3 ELECTRIC CO-OPS IN EASTERN KANSAS REFUSED TO BUY IN. A FEW OF OUR MEMBERS DROPPED THEIR MEMBERSHIP IN THE KFU, BECAUSE WE OPPOSED THAT ACTION BY THE CO-OP MANAGEMENT AT THAT TIME.

A FEW YEARS LATER WHEN THESE CO-OP MEMBERS ELECTRIC RATES TRIPPLED OVER OTHER SOURCES, THOSE MEMBERS CAME BACK AND SAID, WE SHOULD HAVE LISTENED. THE FARMERS UNION WAS RIGHT! WE ARE NOW STUCK WITH HIGH ELECTRIC COSTS. THEY REJOINED THE FARMERS UNION.

WE DON'T WANT TO BE PROVEN RIGHT THAT WAY AGAIN, BECAUSE THIS BILL COULD ALSO PROVE TO BE VERY COSTLY TO CO-OP MEMBERS.

ONE CLOSING REMARK ABOUT LISTENING TO MANAGEMENT AND IGNORING THE CO-OP MEMBERS. IN A RECENT PROPOSED MERGER, CONSOLIDATION OR WHATEVER TERM YOU WANT TO USE, THE MANAGEMENT AND BOARDS VOTED UNANIMOUSLY FOR THE MERGER, BUT WHEN THE MEMBERSHIP VOTED, THEY VOTED IT DOWN. THEREFORE, I WOULD SUGGEST THAT THE MEMBERS OF THIS COMMITTEE AND THE KANSAS LEGISLATURE GIVE SOME THOUGHT TO WHOSE INTERESTS ARE AT STAKE HERE. A FEW MANAGERS, AND BOARD MEMBERS. OR THE CO-OP OWNERS, WHO ARE OUT THERE STRUGGLING TO HOLD EVERYTHING TOGETHER.

PLEASE DON'T IGNORE THESE PEOPLE.