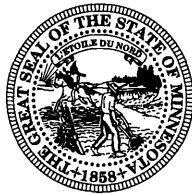


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Minnesota Department of Agriculture

July 17, 2000

The Honorable Robert Ness
509 State Office Building
100 Constitution Avenue
St. Paul, MN 55155

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Dear Representative Ness:

I am writing to provide the fourth quarterly report on the progress of the marketing funds appropriated to the Minnesota Department of Agriculture (MDA) for the 2000-2001 biennium. The 1999 Legislature appropriated \$480,000 for the first year and \$420,000 for the second year to the Commissioner of Agriculture for programs to aggressively promote, develop, expand, and enhance the marketing of agricultural products from Minnesota producers and processors.

MDA continues to direct the appropriation to initiatives with the following objectives:

- Assisting producers in developing alliances with processors;
- Promoting value-added and agricultural processing initiatives;
- Improving producers ability to manage risk associated with production agriculture;
- Facilitating needs of the new state meat inspection program;
- Aggressively promoting Minnesota agricultural products so farmers and processors can benefit from domestic and international markets.

The following summarizes MDA's activities regarding these objectives.

FarmConnect

MDA and FarmConnect closed on a \$250,000 grant contract on January 11, 2000. The grant is payable in three installments. The first installment of \$125,000 was disbursed by MDA in February 2000 to achieve a membership drive.

The cooperative initiated a membership drive on February 11, 2000 and concluded the drive on March 16, 2000. Six hundred and thirty (630) farmers invested \$500 each to join the coop. The coop executed a membership stock escrow agreement between FarmConnect and Crookston National Bank. Documents dated May 26, 1999 provided to the Minnesota Department of Agriculture show that the total subscriptions for the purchase of shares of Membership Stock in the amount of five hundred dollars (\$500.00) per agricultural producer remain in the escrow account.

Disbursement of a second installment of \$100,000 is pending receipt of a preliminary business plan approved by the Board of Directors.

The business plan overview segments the supply and production chain activities into six areas in which the coop intends to offer assistance to farmers. They include: Identity preservation for food manufactures; Certified organic foods to the retail market; Production process control for food retailers; Acquire an existing food production facility; Partner in new technology for consumer products; and Build production process vertically downstream.

Perry Aasness and I have scheduled a meeting with the Executive Committee of the FarmConnect Board for Wednesday, July 19, 2000 to discuss strategies to sharpen the focus of the business plan. A letter to the Executive Director of FarmConnect suggested several ideas to accomplish this result. They include: Write objectives with performance indicators to measure progress of an initiative; Budget for research and development to determine market feasibility in any or all of the six segments identified in the supply and production chain; Determine strategies to compete against established corporate "value chains; or Deployment of an Internet model to facilitate business linkages.

Risk Management

On May 22-26, 2000 David Bullock conducted a 40 hour Regional Risk Management Specialist Basic Training Course. Five of the six MnSCU Farm Management regions sent a qualified individual to attend the one-week basic training course. Applications for a candidate at Northland Community College were posted early this month. David Bullock will conduct a one-on-one workshop for the risk management position before the end of July.

Graduates of the 40-hour workshop are under contract to work with the MDA to develop a voluntary certification program for agricultural risk management professionals and advance risk management education for producers in their respective regions. The program will be tailored to manage risks associated with marketing, production, financing, personal liability and legal risks.

State Meat Marketing

Minnesota's State Meat Inspection Program was established by the MDA in November of 1998. The program is designed to maximize food safety while also making it easier for producers to sell their homegrown beef, pork and poultry directly to consumers. The State Meat Inspection Program continues to facilitate growth in small to medium-sized processors in rural communities. The State of Minnesota has twenty-one state-inspected plants at the current time.

The Agricultural Utilization Research Institute (AURI) concluded a survey of the state's processors to determine industry needs. The executive summary of AURI's Meat Processor Study states that the effort represents a first attempt at measuring the productive capacity of meat processors within the state. In addition, the study represents a first attempt to discover and quantify issues facing meat processors and the meat processing industry.

Findings of the survey were presented to MDA staff on July 11, 000. MDA will work with AURI to evaluate data from state meat inspected facilities in designing a program to assist custom processors in developing new markets.

Minnesota Certified Pork (MNCEP) and Minnesota Certified (MNCERT)

A task force appointed by Commissioner Hugoson continues efforts to create a nonprofit corporation to provide the third-party certification. Two particular projects have been involved in the planning process. First, MNCEP (Minnesota Certified Pork), a farmer owned pork cooperative, has established, in cooperation with the University of Minnesota, a production manual providing producers with guidelines to meet demands of certain market segments, e.g. production without the use of sub-therapeutic antibiotics.

The second project involves production and certification of identity preserved grains through the Minnesota Crop Improvement Association, a producer owned seed certification program with almost a century of certification experience. It is envisioned that MNCERT will provide a process to examine production and compliance criteria, and if the product or process is certified, monitoring and auditing will be provided to assure label integrity.

The MDA would contribute governmental oversight of the certification program to insure that certification standards have been implemented on all farms of the agricultural enterprises that has applied for certification. The long-term vision for the certification procedure is that the MDA, instead of conducting every certification, will certify the certifiers.

Bird Island Area Growers

A group of farmers in Renville County (Bird Island area) are investigating the opportunity to establish long-term marketing relationships with customers seeking "Identity Preserved" crops/products produced with an "ISO 9000" quality specification framework. Sponsoring organizations are the Bird Island Farmers Cooperative Elevator and the Bird Island Soil Service Center. The alliance represents about 200 producers and 100,000 acres of crop production in the local area.

MDA hosted a meeting on July 11, 2000 at the request of Chris Hanson, Administrator for the Center for Alternative Plant and Animal Products, College of Agriculture, Food, and Environmental Sciences University of Minnesota. Other resource people attending the meeting included Gary Beil, Minnesota Crop Improvement Association; Al Anderson, Cenex-Harvest States; and Vern Eidman, University of Minnesota. MDA has invited financial requests from the grower alliance to help determine the feasibility of an area marketing pool.

Within each of these initiatives, the MDA will continue to seek private funds to match or partially match the state appropriation. Please feel free to contact me with any questions.

Sincerely,

Jim Boerboom
Assistant Commissioner

cc Gene Hugoson