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January 12, 2001

The Honorable Tim Finseth
517 State Office Building
100 Constitution Avenue
St. Paul, MN 55155

Dear Representative Finseth:

I am writing to provide the sixth 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

FarmConnect's mission is to improve the profitability of farmer owners by aggressively identifying, creating, and meeting market needs through strategic relationships with processors and end users. The coop intends to offer farmers improved profitability through production of higher value 'made to order' products. The coop would offer buyers an effective way to access a reliable supply and quality of desired product.

Total funds granted to FarmConnect are \$225,000. The first disbursement of \$125,000 was made by MDA in February 2000 to achieve a membership drive. The second disbursement of \$100,000 was made in August 2000 after receipt of a preliminary business plan and budget approved by the Board of Directors.

FarmConnect's Web site is: www.farmconnect.com

Risk Management

To help ensure that farmers receive good risk management help, and to give professionals a broader knowledge in farm risk management planning, the MDA and the Minnesota State Colleges and Universities Adult Farm Business Management Program are looking for professionals to participate in the new Minnesota Certified Risk Management Program. This is a voluntary certification program that offers professionals such as crop insurance agents, commodity brokers, farm lenders elevator managers, educators and others who work with farm families in risk management to become certified risk management planners.

To become a certified, program participants must meet three requirements. First, they must attend a 40-hour basic certification course. Second, they must sign onto a 12-part Code of Ethics. Finally, they must pass a basic certification exam. Producers are faced with an expanding array of risk management tools such as revenue insurance, hybrid contracts, and trade options in addition to the traditional crop insurance, forward contracts, futures and options. The program offers producers the ability to evaluate and utilize these tools.

MDA has contracts with six Minnesota State Colleges and Universities Adult Farm Business Management Programs to develop the voluntary certification program. Copies of the Curriculum Guide 'Minnesota Certified Farm Risk Management Consultant' are available at the Legislative Reference Library. Total funds directed to Risk Management Activities is \$240,000.

Minnesota Wheat Council

MDA approved a grant contract in the amount of \$12,000 to assist the Minnesota Wheat Council in Developing the Toolshed Project. Grant funds will be used for the development of the futures market, local market and basis charting section of the web site. Funds will also be used to develop and print educational material to be used in educational seminars. The Toolshed demonstration site may be viewed at: www.agnewsonline.com

State Meat Marketing

Minnesota's State Meat Inspection Program was established by the MDA in November of 1998. The State Meat Inspection Program continues to facilitate growth in small to medium-sized processors in rural communities. The Agricultural Utilization Research Institute (AURI) concluded a survey of the state's processors to determine industry needs. Key issues raised include: The shortage of labor supply in rural areas; Writing and monitoring HACCP plans; Business planning initiatives; Marketing and promotional skills; and Financing needs for business upgrades.

Finalization of the work plan on this project was delayed due to a staff resignation. A new Agricultural Marketing Specialist will be hired this month to continue the project.

Agricultural Marketing Services Division

Last quarter, Commissioner Hugoson announced the creation of a new division, Agricultural Marketing Services (AMS), to serve the evolving needs of Minnesota farmers in a global agricultural marketplace. Developing domestic and global markets for Minnesota agricultural products will be the primary goal of the new division.

Staff of Agricultural Marketing Services will focus early efforts toward three objectives. First, identify domestic and international market priorities for Minnesota agricultural products. Second, write market plans (a road map) for priority markets. Third, meet with stakeholders, customers, technology suppliers, and the Minnesota Trade Office to determine responsibilities of these stakeholders in meeting market objectives. The product of this effort will be a written plan for market priorities that spells out obligations of participant in executing the marketing plan.

Grant funds will be directed to qualified public and private entities to meet these objectives. Efforts will be targeted to domestic markets and developing markets such as Mexico, Japan and China.

Ellison Meats

Closed on a \$22,500 grant contract with Ellison Meat Company. The project goal is to identify the superior performance characteristics of premium Minnesota farm raised pork that foodservice operator segments find most desirable. The project has private funds to match the state appropriation.

Consideration for all services performed pursuant to this grant contract will be:

- \$ 5,000 to identify the foodservice market structure.
- \$12,500 for market research to determine foodservice operator interests.
- \$ 2,500 to write a briefing paper of test research findings
- \$ 2,500 to write a briefing paper of Findings and Conclusions

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

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. A second project involves production and certification of identity preserved grains through the Minnesota Crop Improvement Association.

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. MDA requested outside expertise to develop a compliance mechanism for MNCERT proposals that will have credibility with customers of Minnesota agricultural products.

Minnesota Department of Agriculture closed on a \$5,000 grant contract with Global Resources Associates Inc. The project goal is to enable the Department to determine the steps necessary to move toward development and implantation of a third-party certification program.

Consideration for services performed pursuant to this grant contract is:

To identify and examine relevant certification processes currently being used; To define the certification requirements of some likely end customers; To identify potential liability issues; To determine fees associated with various aspects of a certification program; and To determine how fees are paid and who pays them. MDA did not require a non-state match for this project.

MDA has a \$50,000 grant contract pending with the Department of Animal Science at the University of Minnesota. The project goal is to promote and test market superior quality pork products, traceable back to the farm(s) of origin, produced by independent farmers, guaranteeing a minimized risk of food-borne threats to human health through standardized, audited, and certified production procedures. The project has private funds to match the state appropriation.

Consideration for all services performed pursuant to this grant contract will be:

- \$ 5,000 to develop 5,000 MnCEP consumer brochures for Japanese retail stores.
- \$ 7,187 for in-store demonstrations of MnCEP products to 50 Japanese retailers.
- \$ 4,000 to develop 5,000 MnCEP consumer brochures for U.S. retail stores.
- \$ 5,188 for in-store demonstrations of MnCEP products to 50 U.S. retailers.
- \$15,000 to promote superior quality pork products in Japan.
- \$ 6,000 for six MnCEP promotional advertisements in selected retail magazines.
- \$ 7,625 to promote superior quality pork products in the US.

The \$480,000 appropriation for FY 2000 was largely directed to Farmconnect and Risk Management initiatives. The \$420,000 appropriation for FY 2001 will be directed to public and private organizations that aggressively identify and develop markets for Minnesota agricultural products.

Please feel free to contact me with any questions.

Sincerely,

Jim Boerboom
Assistant Commissioner

cc Gene Hugoson