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20 Years' Progress

of

AU SABLE

Forest Products Association *X+3a*

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FARMER COOPERATIVE SERVICE
and FOREST SERVICE
U. S. DEPARTMENT OF AGRICULTURE

INFORMATION 35

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FARMER COOPERATIVE SERVICE
U. S. DEPARTMENT OF AGRICULTURE
5a WASHINGTON, 25, D. C.

Joseph G. Knapp, Administrator

The Farmer Cooperative Service conducts research studies and service activities of assistance to farmers in connection with cooperatives engaged in marketing farm products, purchasing farm supplies, and supplying business services. The work of the Service relates to problems of management, organization, policies, merchandising, product quality, costs, efficiency, financing, and membership.

The Service publishes the results of such studies; confers and advises with officials of farmer cooperatives; and works with educational agencies, cooperatives, and others in the dissemination of information relating to cooperative principles and practices.

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20 Years' Progress of

AU SABLE

Forest Products Association

by Eliot W. Zimmerman and
Clyde B. Markeson

Au Sable Forest Products Association, East Tawas, Mich., has demonstrated what can be done when a small group of woodland owners is willing to sacrifice some individual independence and work together to solve a mutual problem.

This publication discusses the history and organizational features of the cooperative and appraises its accomplishments in terms of operating results. It also suggests some fundamental principles necessary for the successful operation of timber marketing associations in general.

Such information can serve as guidelines to woodland owners interested in organizing a forestry marketing cooperative. It can also help State foresters and extension foresters in their work with small woodland owners. And the information will be of use to

Note: Eliot W. Zimmerman is Small Woodlands Specialist, Division of Cooperative Forest Management, Forest Service. Clyde B. Markeson is Chief of the Special Crops Branch, Farmer Cooperative Service.

those interested in Rural Areas Development by pointing out the contributions that cooperatives can make by providing employment and added income.

The Cooperative Today

Au Sable Forest Products Association is a cooperative business organization controlled and operated by woodland owners. It was formed to improve timber marketing conditions and to provide a source for supplies needed by woodland operators in their farm businesses.

The sale of pulpwood is the association's primary source of income. However, the cooperative does market other wood products whenever it is thought advantageous for members.

Au Sable members cut timber on National forest land in conformity with requirements of the U. S. Forest Service.



In arranging for sales, the cooperative acts as an agent for its patrons. Representatives of the association, usually the manager and some directors, negotiate with buyers on volume, price, and other terms of sale.

After representatives of the association "feel out" the market, contracts are drawn up between the individual member and the cooperative. The member agrees to cut a specified volume of wood, deliver it to the association, and load it on a railway freight car. The cooperative agrees to collect the money, deduct costs involved in making the sale plus any advance payment, and return the net balance to the member.

Au Sable members are woodland owners in Alcona and Iosco counties, Mich. The area served includes Tawas and Harrisville Ranger Districts of the lower Michigan National Forest and the privately owned forest lands in the vicinity.

How It Began

Although the cooperative was not organized until 1940, the reasons for its formation stem back to conditions prevailing during the 1930's.

Privately owned lands in the area were small woodlands with some "hunting club" ownerships. The forests had been heavily logged, largely for red and white pine. Many agricultural lands were of low productivity so that

farmers could find little use for them other than to maintain woodlots. It was an area of underemployment and low per capita income.

Late in the 1930's, Forest Service personnel became concerned over the woodland owners' lack of progress toward more stable marketing and management practices. They sold to commercial logging and sawmilling operators who tended to cut the best timber on private lands and who were uninterested in all products. This practice left many private stands with unmarketable timber of poor quality since market outlets were not available for poorer trees, which should have been cut in a stand improvement program.

An analysis of these sales suggested that under existing conditions timber resources were not making their maximum contribution to (a) the local population, (b) the wood-using industries, and (c) good forest management.

Jackpine pulpwood sold from national forest lands, for example, was not of the size or character needed to satisfy the economic requirements of even a typical small-scale operation in most parts of the country. Merchantable timber was in small patches scattered over a wide area and a sale seldom exceeded 2,000 cords.

Consequently, timber operators had difficulty obtaining the volume needed to build a stable, adequately financed business. While large paper companies

financed these operators to some extent, it was a risky business, not only for the operator but also for his employees.

Coupled with an unsatisfactory marketing situation were other factors that held employment and wages to a minimum. Laborers were classified as independent contractors which prevented them from receiving unemployment compensation and Social Security benefits. This reduced costs to the timber operator. Also, operators employed minimum-sized crews to avoid State legal requirements for carrying Workmen's Compensation. Work opportunities were intermittent.

Local people rarely were interested in employment as wages were not attractive and the timing of timber sales did not fit part-time farming or other work opportunities.

Because of the low wages, intermittent character of the work, and other factors, the transient workers employed in the harvesting operations often were more of a burden on the community than an asset. Sickness or other difficulties frequently resulted in costs to local governments for medical care or other services.

Selling public and privately owned timber, therefore, rather than helping the community, tended to create rural slums and community problems.

The U. S. Forest Ranger on the Tawas District discussed this situation

with many rural residents, mostly part-time farmers, throughout the district. They generally agreed that something had to be done and that an organization owned and operated by woodland owners offered the best solution to their problem.

Preliminary Steps to Organizing

Before the association was organized, local Forest Service personnel studied the conditions under which it was to operate. County Agricultural Agents, State Agricultural Experiment Station personnel and Farm Security Administration people also were called on for assistance.

The study determined that: (1) There was sufficient interest to form the association, (2) principal pulpwood purchasers would do business with the cooperative, (3) an unsecured loan of \$3,000 for operating capital could be obtained from the Farm Security Administration, and (4) the Detroit and Mackinac Railroad would request reduced freight rates for rough pulpwood shipments.

A general meeting of local woodland owners and interested residents was then held and a decision was made to organize.

Some Organizational and Operational Features

Au Sable Forest Products Association thus came into existence in the

fall of 1940. It was incorporated and received a charter from the State of Michigan authorizing it to conduct operations in keeping with stated objectives and purposes. In addition, bylaws were adopted to provide rules for regulating its affairs. Provisions included membership requirements, rules governing financing of the cooperative, and duties of management.

Membership and Control

With respect to membership and control, bylaws of the association cover qualifications for membership, voting privileges, and the use of contracts or agreements.

Qualifications for Membership

Eligibility for membership is explained in the following extract from the bylaws.

"Any person, firm, partnership, corporation or association, including both landlords or tenants in share tenancies, who is a producer of forest products in the vicinity of the Huron National Forest handled by the association, or a cooperative marketing association, may become a member of this association upon application accepted by the board of directors upon signing any contracts or agreements in use by the association and upon agreeing to comply with the requirements of the bylaws."



Association members use chain saws in their harvesting operations.

The board of directors is authorized to determine which persons or firms are eligible for membership in the association. The board is also authorized to terminate and cancel the membership of any member who moves from the territory, ceases to patronize the association for a period of 1 year, or fails to comply with the rules, regulations, and bylaws of the cooperative.

As one condition for membership, a woodland owner, or other member, is required to pay an annual service fee of \$2.

Voting

The affairs of Au Sable Forest Products Association are conducted

by members who elect a board of six directors and vote on organizational questions at an annual meeting. In addition, special meetings can be called upon request of a majority of the board of directors or one-tenth of the members.

The basis for voting is one vote per member in good standing. Voting by proxy is not permitted.

Grower-member Contract

A contract establishes the relationship between the member and his association. The woodland owner agrees to guarantee title to the timber covered by the agreement and to defend it against all claims at his expense. He also agrees to grant freedom of entry and right of way to the association and its members and grant privileges usually extended to other purchasers of stumpage.

In return, the cooperative agrees to pay the member in a specified manner, to do complete cutting before a given date, and to carry on timber harvesting in general conformity with requirements of the U. S. Forest Service.

Any dispute over the terms of this agreement are settled by an arbitration board of three persons; each party to the contract selecting one, and these two, in turn, selecting a third.

Financing

The cooperative was organized on a nonstock basis with membership

fees, annual dues, authorized deductions, and retention of savings on operations constituting the sources of equity capital.

Bylaw provisions permit authorized deductions either in the form of a uniform charge per unit marketed or a percentage deduction from the sale price. The cooperative currently (1961) uses the percentage deduction plan. Under this arrangement, the association deducts a certain percentage of the gross receipts as full compensation for its services. The rate is not fixed but varies with the association's capital position.

Refunds retained are operating margins on savings held by the association as an addition to capital. Such amounts are allocated on the books of the association to the account of an individual member in proportion to his patronage. Payment to the patron is made in the form of a certificate but payment of cash is deferred until some future date.

Membership capital retained by the cooperative may be returned to the member only when the amount reserved for working capital purposes exceeds the amount of paid-in membership fees. If the reserve falls below this amount, the association can set aside 10 percent or more of the net savings until the board of directors decides that ample funds have accumulated.

Savings in excess of the amount set aside for working capital are dis-

tributed annually among members in proportion to their patronage. At the discretion of the board, patronage refunds may be allocated or paid more often.

Method of Paying Members

Payment for products is made to members of the association on receipt, by the cooperative, of the sales proceeds. The association acts as an agent for the patron, negotiates the sale, collects the money, deducts the costs involved in making the sale, and returns the net balance to the patron.

Definite purchase and price agreements are reached before the grower relinquishes title to the wood. Any advance payment made before final settlement usually constitutes some percentage of the market price prevailing at the time the agreement was made.

Management

The bylaws of this cooperative specify the number and qualifications of directors, term of office, and other details relating to management.

Directors

A board of six directors representing the three communities of Hale, Wilber, and Mikado supervises and controls the affairs of Au Sable Forest Products Association. The board makes all rules and regulations for the management and guidance of the

officers, employees, and agents of the cooperative.

Board members serve on a rotating basis. At the first annual meeting, two directors were elected for a term of 3 years, two for 2 years, and two for a term of 1 year. Annually, thereafter, two directors have been chosen to serve 3-year terms. This arrangement is designed to give continuity to the board.

Whenever a vacancy occurs on the board, other than from expiration of a term of office, the remaining members appoint a member to serve as a director until the next annual meeting.

At least three directors are necessary to constitute a quorum for transacting business.



Some members of Au Sable peel their wood before shipping it to market. Compared to rough wood, peeled wood dries faster and is cheaper to haul, and pulp mills prefer it.

Six important duties of the board of directors are: (1) Electing officers, (2) employing a manager, (3) bonding employees responsible for the custody of the association's funds, (4) providing adequate property and accident liability insurance, (5) having an annual audit made of the books and accounts of the association, and (6) carrying out all agreements between the association and individual members so that they will be advantageous in every way to the membership.

Officers

Officers of the association consist of a president, vice president, secretary, and treasurer. They are elected annually by and from the directors, except that the secretary may be elected from outside the board of directors.

The president presides over all meetings of members and of the board, calls special meetings of members and of the board, and performs all the usual acts and duties of an executive and presiding officer.

In the absence or disability of the president, the vice president performs his duties.

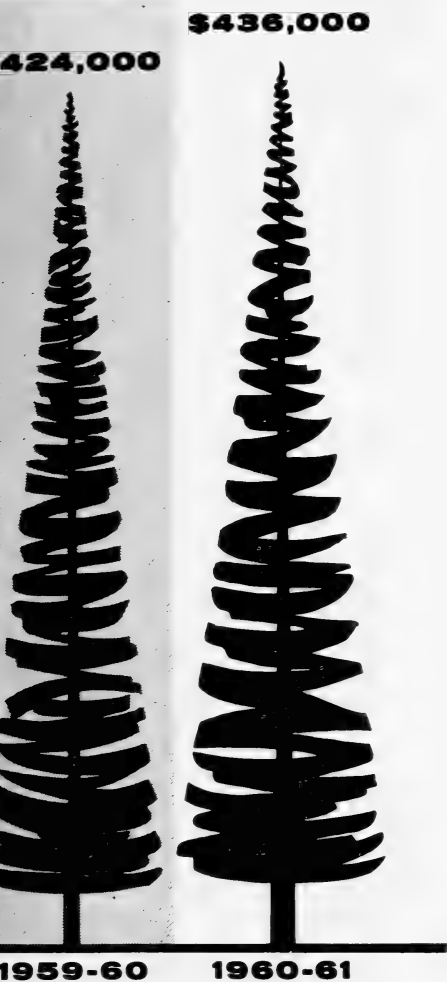
The secretary keeps a complete record of all meetings, maintains the books and records of the association, keeps the corporate seal and affixes it to all key documents, serves all notices, and makes a full report on the activities of his office to members at

20 Years' Progress of Au Sable



Au Sable is proud of its steady growth in dollar sales volume. Income from timber marketing operations increased from \$38,000 in

Forest Products Association

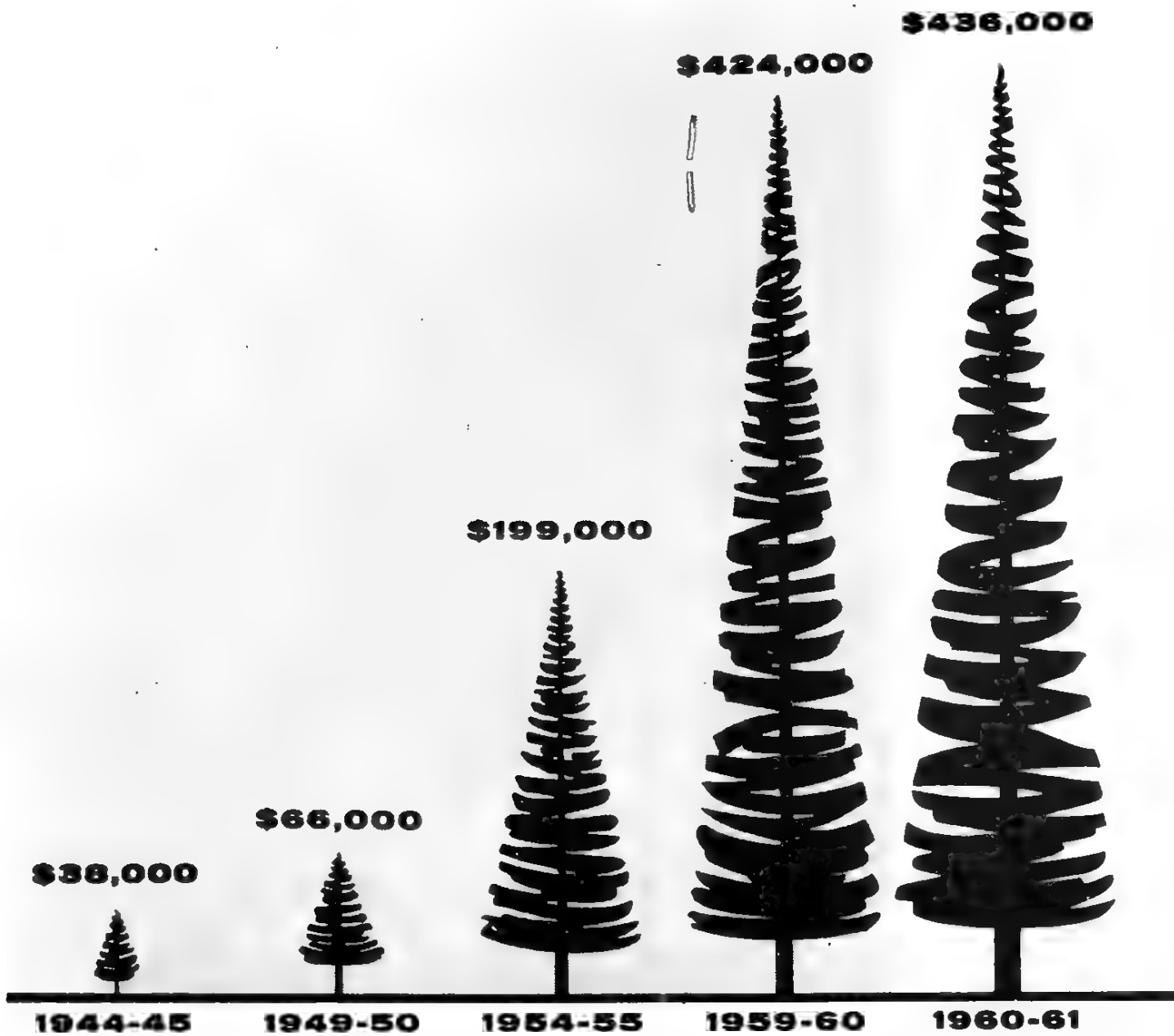


1944-45 to \$199,000 in 1954-55. By 1959-60, this figure had more than doubled and in 1960-61 the total was \$436,000.



Figure 1

20 Years' Progress of Au Sable Forest Products Association



Au Sable is proud of its steady growth in dollar sales volume. Income from timber marketing operations increased from \$38,000 in

1944-45 to \$199,000 in 1954-55. By 1959-60, this figure had more than doubled and in 1960-61 the total was \$436,000.

their annual meeting. He also makes special reports to the president or board of directors.

The treasurer is the custodian of all money belonging to the association. He makes a complete report on the financial condition of the cooperative at the annual membership meeting and prepares such other financial reports as required by law or requested by the board.

Manager

The manager, under the direction of the board of directors, has general charge of the ordinary and usual business operations of the association, including marketing, purchasing, and handling all products and supplies.

The manager has authority to employ, supervise, and dismiss all employees not specifically hired by the board.

He also does field and public relations work. He helps woodland owners plan their marketing program. And he meets with prospective buyers in arranging for the sale of members' timber.

Forest Ranger

In the beginning, officers of this cooperative relied heavily upon the District Ranger and other Forest Service personnel. The Ranger actually served as manager and made important

decisions. Now, as with other grower-owned organizations, the board of directors and manager are the management team for the cooperative. The Forest Ranger primarily serves as a consultant.

Policy Guides

From its early days, the Au Sable organization had definite policies to follow in the form of Bylaws and Articles of Incorporation. These policies were designed to improve the financial position of woodland owners and create employment opportunities for local people.

To discourage developing a number of small itinerant operators, members of the association originally were not permitted to hire any help outside the family or neighbors. The purpose of this policy was to provide maximum returns to the man on the job and to use local resources to the fullest extent possible. There has been some relaxing of this requirement in recent years.

To promote good woodland management, the association adopted rules and regulations on cutting practices. Forest products cut from privately owned lands could not be marketed on the association's contract unless prescribed practices were followed.

To effect economy of operation, the association purchased and pooled logging, trucking, and other equipment for use by all members. As volume

increased, the association helped members obtain financing for the purchase of equipment of their own to harvest and haul timber products. Members, in turn, must agree to make this equipment available to other members at a reasonable fee.

And, to improve its competitive position, a provision was made in the bylaws that the cooperative could affiliate with similar groups.

Operating Results

The growth in dollar sales volume and in number of members demonstrates that Au Sable serves an economic need in the local community.

Dollar Volume of Business

The dollar sales volume of this cooperative has shown a steady growth. Fluctuations have occurred from year to year but there has been a definite upward trend over the years. Variations in income from one year to the next largely reflect changes in local and general business conditions.

Figure 1 shows that income from timber marketing operations for selected periods ranged from \$38,000 in 1944-45 to \$436,000 in 1960-61. Data are not available for individual years prior to 1944.

Membership Growth

Membership is a cooperative's chief source of strength. In this respect,

Au Sable Forest Products Association is no exception. Nearly all of its business has been represented by member patronage.

Membership increased from 20 charter members in 1940 to 187 in 1960. While there has been a turnover from one season to the next, the number of members has been fairly stable since 1957. An average of approximately 169 woodland owners belonged to the association during this period. A review of the association's current membership shows that approximately 60 percent are related to other members by blood or marriage.

Income Per Member

The buildup in the association's timber business reflects members' increasing reliance on the cooperative as a source of income. This is illustrated in table 1 which shows the number of members and the proportion of their total income they received from the cooperative in 1951 and in 1960.

In 1951, 72 percent of the membership derived less than one-fourth of

Table 1. - *Members' reliance upon Au Sable as a source of income, 1951 and 1960*

Year	Number of members	Percent of members receiving various proportions of income from association		
		Less than 1/4	1/4 to 3/4	More than 3/4
1951	150	72	17	11
1960	187	67	15	18

their total income from the association. By 1960, the proportion of members obtaining less than one-fourth of their income from the cooperative had declined to 67 percent.

On the other hand, the proportion obtaining more than three-fourths of their total income from the cooperative increased from 11 to 18 percent between the two periods. The average member income in 1960 compares very favorably with other income opportunities in the area.

Two factors have contributed to members increasing their reliance on the cooperative as a source of income -- the shift toward specialization in harvesting wood and the declining role of tillable crops in the area.

Since 1951, 11 members have purchased pulpwood peeling equipment which they use to peel their own wood production and that of other members. This has not only increased the average volume marketed through the association, but also has created additional employment opportunities for local people.

Second, a decline in number of farms and in income received from tillable crops has meant that farmers in the two counties have had to depend more on woodland operations for a livelihood. The build up in the association's timber business has thus helped offset the decrease in farm income -- a dividend not anticipated when the cooperative was established.

V. B. Schultz, Manager of Au Sable Forest Products Association, recently explained benefits to members on a more personal basis. Money received from selling woods products has filled a gap in members' personal income, he said. The added income, varying from \$50 a year up to several thousand dollars, has been used for taxes, school clothes, recreation, and for payments on farm machinery and automobiles. It has meant inside plumbing for homes, improved equipment, and better education for children.

So the benefits from this forest products cooperative have spread and multiplied during the past 20 years.

Other Benefits

The operations of Au Sable have been beneficial to the local people, to the timber resources, to purchasers, and to the Forest Service.

To Local People

More orderly and stable marketing has been established to the advantage of woodland owners, processors, and local people.

1. Growers have improved their selling strength by marketing forest products of like grade, size, and species as one lot, rather than selling several lots on the basis of individual ownership.

2. Woodland owners are now performing some of the services formerly provided by itinerant buyers. This has provided additional employment opportunities and income for rural residents as well as a supplemental source of income to growers.

3. Growers have been better able to schedule their work in the woods to fit in with their farming operations.

To Timber Resources

1. Consolidation of sales among growers having mutual interests has encouraged the removal of all products and saleable species from the area in one sales operation. As a result, timber stands in the area are now receiving a more complete silvicultural treatment.

2. Small tracts of merchantable timber scattered over a wide geographic area have been brought into operation. A good many of these small areas were not formerly operable under large sales.

3. The association has helped improve harvesting practices, and develop uniform sorting procedures.

To Purchasers

1. By reducing duplication of services and facilities, the cooperative has helped processors realize savings in field work and in negotiating contracts.

2. The cooperative, by consolidating timber from many woodland owners, has helped processors obtain the supply and flow of products required for an efficient operation.

3. In attempting to arrive at an equitable sales price, both processors and members have become more aware of processing and marketing costs. As a result, prices have become more realistic and stable.

To Forest Service

1. The Forest Service of the U. S. Department of Agriculture is concerned with silvicultural management and forestry practices on National, State, and privately owned forest lands. It



Trucks equipped with mechanical devices facilitate the unloading of logs onto railroad cars. These devices are also used in the loading operation.

is also concerned with the relationship of its programs to other programs in the Department and in other Government agencies. Working with an organized group of farmer-forest owners has helped coordinate the efforts of the various Federal and State agencies.

2. By dealing with timberland owners as a group, rather than on an individual basis, the Forest Service has been able to eliminate a large number of small sales.

General Observations

The experience of Au Sable Forest Products Association emphasizes certain considerations fundamental to all timber marketing associations. To be successful they must: (1) Serve an economic need, (2) be well organized, (3) be well managed, and (4) be well financed.

Cooperative Must Serve an Economic Need

A progressive organization does not exist for itself alone. It exists because it serves a useful purpose, and this is particularly true of cooperatives. If a cooperative is to grow, members and nonmembers must be convinced that it will benefit them more than other outlets. Unless it can demonstrate a greater long run return or saving to patrons, the association will experience difficulty in

effectively meeting economic competition.

Once the initial economic need is satisfied, there is apt to be a tendency for members to lose sight of the benefits of cooperative effort. For example, as an association product becomes established in the trade at improved prices, competitors may be forced to offer higher prices for stumpage. When this occurs, patrons may fail to see any price advantage in marketing cooperatively. The benefits are still there, however, because if the association were to cease operation, prices could well decline to their previous level. Members must, therefore, constantly educate themselves about the overall benefits from cooperation.

Cooperative Must Be Soundly Organized

Care must initially be taken to study and appraise such factors as potential membership, possible volume, prices, alternative marketing outlets, availability of transportation facilities, and sources of financing.

Assistance available from Forest Service personnel, County Agricultural Agents, State Agricultural Experiment Station personnel, and others familiar with the timber industry and cooperative marketing can be most helpful at this time.

The bylaws should specify the objectives of the association; conditions of membership; date of the annual meeting; and the number, method of



During the 1960-61 season, Au Sable marketed pulpwood valued at \$436,000.

selection, and duties of directors and officers. Special rules to be observed in the operation of the cooperative should be stated and other provisions included that are necessary to safeguard both the rights of members and of their association.

Cooperative Must Be Well Managed

The function of management is to plan, organize, direct, control, and coordinate the varied activities of the cooperative. This involves participation of members, the board of directors, and the manager and key employees.

Members, through their voting privilege, decide important policy issues as well as the composition of the board of directors. Failure to exercise this privilege can result in an ineffective organization.

The board of directors is responsible for formulating policy and seeing to it that the interests of members are best served. This includes selecting a manager and seeing that operational policies are carried out effectively.

In its early stages, a forest products cooperative might operate with a manager serving voluntarily on a part-time basis, but as soon as volume is adequate a full-time manager is needed.

The manager must understand the commodity and the industry. He must try to meet the needs of members and have the interest of patrons at heart. Unless an association can afford to hire a capable, full-time manager, it is unreasonable to expect the organization to provide the maximum number of services.

Cooperative Must Be Well Financed

No timber products marketing association can have a stable existence unless it has ample operating capital, adequate capital facilities, and reasonable reserves for meeting contingencies and for other necessary purposes. In the case of small woodland owners, obtaining the required capital can prove

difficult since many are hard pressed for personal funds.

Under such conditions, retaining part of the net return on each unit sold has proved to be an effective method for obtaining capital. When enough money has been accumulated the cooperative may begin to revolve the fund by paying returns first to those members from whom the margins were received. This technique is known as the revolving fund method of financing.

Recognizing the need for credit to strengthen the financial stability of cooperatives, Congress provided for the creation of 13 banks for cooperatives -- 12 district banks and the Central Bank for Cooperatives -- in the Farm Credit Administration Act of June 16, 1933. These banks make available to farmers' associations a permanent source of credit on a business basis. They have been important in helping cooperatives expand their activities and in becoming stronger and sounder business organizations.

To help develop long-term job opportunities in those parts of the Nation suffering most from unemployment and underemployment, Congress passed the Area Redevelopment Act in 1961. This legislation is designed to encourage existing industries to expand and new industries to get started in designated economically depressed areas. Loans and grants are made to qualified applicants unable to locate other sources of financing at reasonable terms.

The consolidated Farmers Home Administration Act of 1961, as amended in 1962, provides for loans to eligible individual farmers and to associations serving farmers in communities having a population of 2,500 or less. These loans can help farmers develop new income-producing opportunities including timber resources.

For Additional Information

Woodland owners and others desiring additional information about farmer cooperatives should contact the forest ranger, the local State service forester, the county agent, their State agricultural college, the State department of agriculture, or write to the Office of Information, U. S. Department of Agriculture, Washington 25, D. C.

Farmer cooperatives desiring information concerning loans should write to the Bank for Cooperatives in their district. Circular 6, Loans to Farmers' Cooperatives, published by the Farm Credit Administration, Washington 25, D. C., provides the addresses of these Banks and the States served by each.

Other Publications Available

Financing Farmer Cooperatives, FCS Educational Circular 5.

How Farmer Cooperative Service Works, FCS Information 26.

Organizing a Farmer Cooperative, FCS Circular 18.

Co-ops Have a Place in Rural Community Progress, FCS Information 23.

Forming Farmer Cooperatives, FCS Educational Circular 10.

Cooperatives - A Force for Stronger Rural Communities, FCS News for Farmer Cooperatives. Reprint 248.

Co-ops Can Join in Renewed Push on RAD, FCS News for Farmer Cooperatives. Reprint 221.

A copy of each of these publications may be obtained upon request while a supply is available from --

Information Division
Farmer Cooperative Service
U. S. Department of Agriculture
Washington 25, D. C.