

To: Chair Chuck Riley, Senate Committee On Labor and Business

From: Jack Scott, Jack Scott Farms Inc.
33763 Tennessee Rd. Lebanon, OR 97355

RE: Supporting SB 468 & SB 469 – Cooperative Accountability

I served on the Board of Directors of AgriPac for six years in the 1990's. AgriPac was a farmers' cooperative that processed vegetables grown by Willamette Valley farmers. In 1999, AgriPac completely collapsed, taking with it millions of dollars from the pockets of family farmers.

I urge the passage of SB 468 and SB 469 as first steps in reforming ag cooperative management.

I sat on the board of directors for AgriPac and from personal experience can tell you that the CEO's and executives of ag cooperatives withhold vital information from members of the Boards of Directors. They withhold even more information from the regular member/farmers, and they give wildly optimistic estimates and projections on the future of an agricultural cooperative.

Why? CEOs and other executives benefit directly from falsely positive news, and from over-stated financials. Not only do they keep their very lucrative jobs, but many cooperatives connect financial success to bonus structures.

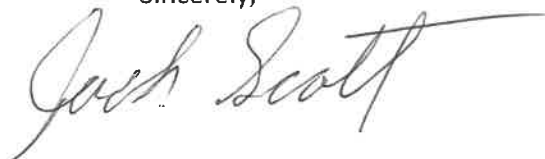
When most businesses reach the end of their life, they quietly close leaving the owner with assets leftover from the going concern. With the failure of AgriPac and other ag cooperatives, they are complete failures, destroying the net worth of the companies and have led to the bankruptcy of farmer/members.

Why? Because the US government allows cooperatives to borrow from a special subsidized bank called "Co-Bank". Co-Bank is part of the US Farm Credit System set-up by Congress in 1916. Co-Bank can use the crop of the farmer as collateral for the cooperative's operating loans. This allows Ag co-op executives to spend all of the assets of the cooperative, and continue to spend the value of the farmers' next year's crop. Failing ag co-ops are allowed to continue to leverage and operate far beyond its own assets until total collapse, and the individual farmer loses. No private business would ever be allowed to do this to farmers and ranchers under current Oregon law.

Please address the failures of ag cooperatives (such as AgriPac and NORPAC) by passing SB 468 and SB 469.

I also believe it would be helpful extend the protections of **Oregon's Crop Lien Laws** to the member/owners of Oregon agricultural cooperative – and that would lead the banks to step behind the farmer and not allow the bank to use the farmer's crop as collateral. Thank you.

Sincerely,



Jack Scott

