



## FOCUS ON DAIRY

### Penn State Cooperative Extension Capitol Region Dairy Team

#### SAFEGUARDS FOR SPECIALIZATION Roland P. Freund Regional Farm Management Agent

In an earlier article I discussed the advantages of specialization for small farming operations. This enables individuals to concentrate capital on one major enterprise, do what they do well, and increase the volume of their profit center. One example might be where one farmer raises replacement heifers for three dairy operators, one farmer raises crops for the heifer operation and the three dairy families, while the dairy families combine resources in one operation with efficient buildings and parlor.

Specialization is great in theory! But it could be a disaster in practice. People could fail to maintain commitments, communications between parties could break down, and disputes could arise over ownership or any number of details. Parties involved could lose their shirts if any one of these businesses fails. Before entering into such arrangements, all parties need to be aware of the potential pitfalls.

#### Potential Solutions/ Safeguards

It is possible to make arrangements which protect all of the people involved. To do this it might be necessary to create appropriate business structures, create comprehensive operating agreements, create legal rental/lease agreements, and define exit and dissolution procedures. Let's briefly explore each of these safeguards.

- Business structures. Remember, handshakes are not good enough! The future of the family and the farm is at stake. Informal arrangements will not suffice — even within a family of parents and children. A partnership is the simplest business structure to organize and operate. It can work well in a family situation, but it may not protect everyone against financial risk.

A limited partnership might provide a little more protection, but it might not work where all parties are actively engaged in the business.

A newer structure is the Limited Liability Company (LLC). This has much of the flexibility of the corporation (or Subchapter S), but it is less costly to organize and operate.

Select what best fits the relationship between the parties and the complexity of the business. Fortunately the law requires better financial record-keeping and accounting of companies and corporations. This also serves to protect the interest of all the parties involved.

- Operating agreement. Handshakes are not good enough! Regardless of the chosen business structure, every one of them must have an operating agreement. It is important to define each party's



ty's contributions, each party's responsibilities, and each party's rewards. It should also define what dispute resolution procedure will be used. All these things are vital because they create a relationship of trust between the parties.

- Rental/lease agreements. Handshakes are not good enough! It is necessary to define lease conditions for the use of another person's capital assets. This includes land, buildings, livestock, and equipment. In joint business arrangements it might be beneficial to build a structure owned by a business on a different person's land. Special legal and lease arrangements need to be drawn up which will satisfy the bankers and protect the business asset from ending up in Grandma's estate. This will help to create a relationship of trust between the parties.

- Exit/dissolution procedures. More problems and disputes arise over dissolution of business arrangements than over their formation. Handshakes are not good enough! It is important at the time of formation to agree on how a business will be terminated or how individuals can withdraw.

If a person or his heir is forced through death or injury to withdraw, that might be considered involuntary withdrawal. One arrangement for financial settlement might be defined for that situation. But if one party just decides he wants to get out and take his equity with him, then this could be considered a voluntary withdrawal. The agreement might define the payout to the latter as 70 percent (or some such percentage) of the payout in the case of involuntary exit.

Dissolution provisions need to be defined so that they protect the business from serious financial crisis but still protect the heritage of those individuals who have invested equity in it. This will help to create a relationship of trust between the parties.

- Seek professional advice. Those considering specialization or any business arrangements need a team of professionals to guide the process. The accountant or CPA who will maintain the records is a key person. Others to be consulted include farm

## 2002 Swine Progeny Test Under Way At Livestock Evaluation Center

UNIVERSITY PARK (Centre Co.) — Agriculture Secretary Sam Hayes recently announced that the state Department of Agriculture is conducting the 2002 Swine Progeny Test at its Livestock Evaluation Center in University Park, Centre County.

"The swine progeny test is a very effective tool provided by the Department of Agriculture at a minimal cost to the producer," Secretary Hayes said.

"The test provides comprehensive data and the ability to identify desirable traits which are attractive in today's marketplace."

The Department of Agriculture's livestock evaluation center swine progeny test evaluates pens of barrows and gilts for 60 days in a controlled environment. Then the pens are judged at the Pennsylvania Farm Show, and a carcass evaluation will take place at Hatfield Quality Meats.

A total of 20 pens are on test this year. The 77 Pennsylvania-owned barrows and gilts on test this year represent a diverse

cross-section of Pennsylvania's swine industry.

Producers will be eligible for premiums at the 2003 Pennsylvania Farm Show based on the placings in the live and on rail evaluation of the entries.

To accelerate and elevate the Pennsylvania Department of Agriculture's support of the livestock industry, the department has embarked upon the construction of a new, world-class Livestock Evaluation Center.

"This construction project, in excess of \$6.4 million, is moving toward completion," Secretary Hayes said. "Agriculture is our No. 1 industry in Pennsylvania, contributing over \$40 billion annually to our economy. To keep Pennsylvania's livestock species out-front in the quest of genetic excellence, we need to provide 21st century facilities."

To better serve the swine breeders of Pennsylvania and the nation, this new center will provide the necessary facilities to test for superior genetic traits.

"Now it is time for a test facility that better reflects what our livestock producers need," Secretary Hayes said. "This new complex is 10 times larger than the current facility operated by the Department of Agriculture. Our new Livestock Evaluation Center is over 178,000 square feet and will include learning venues for students of agriculture and a meeting place for agriculture conferences."

With the expansion of the Livestock Evaluation Center, an estimated 140 boars can be placed on test, providing more proven genetics to the swine industry.

Pennsylvania is home to 3,000 swine farms. Gross income for Pennsylvania pork production in 2000 was \$156 million, an increase of \$48 million from 1999.

For more information on the Livestock Evaluation Center, the Swine Progeny Test, or Pennsylvania's swine industry, contact the Department of Agriculture at (717) 787-4737 or Glenn Eberly at the Livestock Evaluation Center (814) 238-2527.

## Managing The Hispanic Workforce Conference Scheduled

UNIVERSITY PARK (Centre Co.) — Agricultural managers employing Hispanic or multicultural workforces will want to be present for one of the 2003 Hispanic Workforce Management conferences sponsored by Cornell and Penn State universities.

Building on the success of the 2001 conference, the 2003 conference features a dynamic program and nationally prominent speakers who will offer useful insight into practices and attitudes that will help ensure success with a multicultural workforce. Featured topics include:

- Exploring cultural characteristics: What should I know and why is it important?
- Blending cultures in the workplace.
- Four factors for success with your Hispanic employees.
- Mentoring and coaching new managers: how can I help my best Hispanic employees move into supervisory positions?
- Expanding employee skill sets: moving your workers into different parts of the operation.
- Language barriers: how can I best overcome them?
- Gaining multicultural acceptance in the community: what

can I do to help my local community accept this new and necessary workforce?

- Hiring a legal workforce.

In addition to meeting and talking with speakers, conference participants will have the opportunity to meet and compare management strategies with other successful business managers.

This year, the conference will take place in two locations. The Pennsylvania site will be Jan. 28-29 at the Grantville Holiday Inn. The New York site will be Jan. 30-31 at the Canandagua Inn, Canandagua, N.Y.

For registration information, call Robin Huizinga at (607) 255-4478, or e-mail Robin at dmconf@cornell.edu. You can see the agenda and register online at [www.ansci.cornell.edu/prodairy](http://www.ansci.cornell.edu/prodairy).

## NCBA Asks Congress To Intervene On Australian FTA

WASHINGTON, D.C. — National Cattlemen's Beef Association (NCBA) President Wythe Willey recently sent a letter to members of Congress urging their support and input as the Administration prepares to negotiate a free trade agreement (FTA) with Australia.

Willey, a cattle producer from Iowa, says, "The U.S. is already the least restricted and largest beef import market in the world, and NCBA sees no net benefit for the U.S. beef industry from an FTA with Australia."

The letter to Congress is the latest in a long line of correspondences from NCBA and other ag-

riculture groups to the Administration and Congress urging caution in trade negotiations with Australia, and suggesting that more efforts be focused on the current World Trade Organization (WTO) negotiations.

"We continue to believe that the multi-lateral WTO negotiations provide the best strategy for reducing unfair trade barriers and opening markets for U.S. agricultural products," says Willey.

"Only through multi-lateral negotiations can the challenges and opportunities for the industry be observed simultaneously."

NCBA says trade negotiations must address the current challenges being faced by U.S. agriculture such as reducing tariffs, expanding Tariff Rate Quotas, export and production-distorting subsidies, and Technical Barriers to Trade issues to prevent further disadvantage to U.S. beef producers.

"I strongly encourage you to express caution to the Administration about launching FTA negotiations with Australia or New Zealand, and to reject any final agreement with either of these countries that results in tariff reductions or expansion of Tariff Rate Quotas on a faster timeline or to a greater magnitude than is agreed to through the multilateral WTO negotiations," says Willey.

business advisers and bankers. Attorneys should be engaged to draft the necessary agreements and other legal documents. Remember, there should be a different attorney to represent each party to any agreement.

All these safeguards are necessary to create a relationship of trust between all parties. The future will be bright for farm families engaged in specialized and cooperating business arrangements where trust, cooperation, and communication are maintained.

For more information on this topic, I can be reached by calling the Cumberland County Extension Office at (717) 240-6500.

## Office Closed Christmas, New Year's

On Christmas Day, Wednesday, Dec. 25, Lancaster Farming office is closed. The office will reopen Thursday, Dec. 26.

For the Dec. 28 issue, there are some deadline changes: Public Sale and Mailbox ads, 5 p.m., Friday, Dec. 20.

Classified, Section D ads — 3 p.m., Monday, Dec. 23.

Classified, Section C, Farm Equipment ads, 3 p.m., Monday, Dec. 23.

Sec. A ads, 9 a.m., Thursday, Dec. 26.

General news — noon, Thursday, Dec. 26.

On New Year's Day, Wednesday, Jan. 1, Lancaster Farming office is closed. The office will reopen Thursday, Jan. 2.

For the Jan. 4 issue, there are some early deadline changes:

Public Sale and Mailbox ads, 5 p.m., Friday, Dec. 27.

Classified, Section D ads — 3 p.m., Monday, Dec. 30.

Classified, Section C, Farm Equipment ads, 3 p.m., Monday, Dec. 30.

Sec. A ads, 9 a.m. Thursday, Jan. 2.

General news — noon, Thursday, Jan. 2.