

## BULLETIN

### A BRIEF REFLECTION ON FORESTRY COOPERATIVES IN THE US

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**F**orest management, like all resource management, is an important component of sustainability. Responsible management of our forests helps protect soil and water sheds, provides habitat for wildlife and recreational opportunities, while also generating a sustainable supply of timber for various wood products.

More than half of this nation's 730 million acres of commercial forestland is owned by nearly 10 million non-industrial private forest (NIPFs) owners. Many of these owners control relatively small parcels of land, which means the practice of forest management can be difficult and costly. Data also suggest that the number of owners continues to grow as large forest ownerships are subdivided. Only 10% of NIPF owners actively manage their forests following a written management plan. Forest landowner organizations, including forestry cooperatives, have developed as one method for encouraging landowners to actively manage their land and, in some cases, to jointly market their wood products. Today, Wisconsin leads the nation in forestry cooperative development.

#### *The Rise and Fall of Forestry Cooperatives*

The first forestry cooperatives in the US were established in the early 1900s. Like agricultural cooperatives, their numbers peaked during the depression years of the late 1930s and early 1940s. At their height of popularity, 68 forestry co-ops had been established (Dempsey). By 1965, 45 had already gone out of business. During this first wave of forestry co-op development, the cooperatives were fairly diverse. They included cooperative stores, marketing associations, processing cooperatives, federations of local cooperative associations, and special purpose cooperatives (USDA). Despite their diversity, none of the “first wave” forestry co-ops survived.

Forestry cooperatives have been experiencing a revival in the United States in recent years, particularly in the upper Midwest. In 1998 there were only two forestry co-ops in the United States. By 2000, there were 15-20 at various stages of development. As of April 2002, six of the nine fully established forestry cooperatives in the nation were located in the state of Wisconsin. What can this second wave of forestry cooperatives learn from the earlier cooperatives?

Forestry Cooperatives in the US, 1947		
Type of Forestry Cooperative	Number of recorded cases (1935-1947)	Purpose and Scope of Activities
Cooperative stores	3	Sold forest products for members (and sometimes for others), but were not involved with processing or forest management.
Marketing associations	30	Formed primarily for collective marketing of logs, pulpwood, and other timber products, but strongly encouraged members to follow approved methods of logging and other forestry practices.
Processing cooperatives	1	Processed members' timber production.
Federations of local cooperative associations	11	Engaged in forest products operations to get lumber or wooden containers for members or to help them market timber products.
Special purpose cooperatives	12	Formed to share forestry equipment and to market secondary forest products (e.g. Christmas trees and syrup).

Source: Cunningham 1947.

### History Lessons

According to one study, most of the early forestry cooperatives, those started prior to 1961, went out of business due to one or more of the following reasons: insufficient interest and support by members, inadequate capital, lack of a sufficient volume of business, or inadequate management (Dempsey).

A challenge for all cooperatives is to find sufficient working capital. Cooperatives are constrained by state and federal regulations that limit the return on equity investments and sanction the eligibility of investors. Non-members may only invest equity through shares that give them no control in the organization. In recognition of this issue, new state co-op laws in Wyoming and Minnesota allow more flexibility in the treatment of both member and non-member equity.

Potential members may be reluctant to invest significant amounts of money in a forestry cooperative when the financial returns may not be realized for some time (i.e., at the time of a future harvest). For some cooperatives, operating loans are essential, but can be difficult to secure. Substantial capital is necessary for buying har-

vesting or processing equipment and for advances to members who are supplying timber to the cooperative.

Establishing a market for their products is another big challenge for forestry cooperatives since they often compete in markets dominated by larger, traditional lumber companies that have been in operation for some time and have well-established supply relationships with buyers. This is an especially important issue for sustainable forestry cooperatives. Their focus on environ-



mentally friendly forest practices, combined with the cost of certifying those practices by a third-party organization (Fletcher), narrows the number of market opportunities in which they can compete. Certified markets, particularly for small producers, are only just emerging.

Efficient management is crucial for success in all businesses, but due to the structure of cooperatives, good management can be more complicated and even more important than in other types of businesses. Managers must be effective decision-makers, planners, and especially good communicators. It is vital that they communicate effectively with the membership and board of directors. Managers have to be extra-conscientious of making decisions and following policies that are both economically and ethically sound with regards to the co-op members.

Cooperatives may also fail for non-business related reasons. Cooperatives are democratic organizations, owned and controlled by their members. The board of

directors is comprised solely of members (some states allow non-member, non-voting directors who offer specific expertise). The board hires a general manager, who should carry out the directives established by the board. If the manager's priorities appear to be different from those of the members, as represented by the board, it is more likely that the members will not be as committed to or supportive of the cooperative, especially over the long-term.

Cooperatives with a diverse membership can become quickly mired down in their decision-making process as they try to achieve some type of consensus among members with opposing views and priorities. Without a general consensus within the membership, the managers and/or board of directors do not have a clear indication of where to focus the cooperative in order to best serve the membership.

### *Today's Cooperatives*

The forestry cooperatives that have been started over the last couple of decades are as heterogeneous as their predecessors. No one model of a successful forestry cooperative has emerged. As the three examples below suggest, different cooperatives have chosen different paths to meet their members' need with varying degrees of success.

The Western Upper Peninsula Forest Improvement District (WUPFID), located in Hancock, Michigan, was established in 1985 by the state of Michigan under the Forest Improvement Act. While initially subsidized by the State, WUPFID currently operates as an independent forestry cooperative. They currently have 900 members owning approximately 148,000 acres of forest. Membership is open to private landowners, businesses and some governmental agencies located in nine counties of the Upper Peninsula.

The three goals of WUPFID are to provide (1) the sustainable management of members' land while providing economic gain; (2) service that can be provided at a reasonable cost; and (3) management that ensures a forest resource for future generations. WUPFID offers

their members an array of services from management to marketing, including preparing management plans, timber sale preparation and administration, and marketing harvested products. They have chosen to certify their lands under management according to Sustainable Forestry Initiative (SFI) and Organization for International Standard (ISO) Environmental Management System standards. The transition from public funding to a private business has not been easy, and WUPFID staff and members have struggled to find new sources of income or ways to restructure the co-op. The co-op is currently at a crossroads, and the staff is working with the members and the local community to redefine the role WUPFID should play in forest management and future revitalization of the local economy.



The Living Forest Cooperative (LFC) of northwestern Wisconsin was established in 2000. Working with development professionals from outside the area, a handful of local landowners worked to establish the co-op. The objective was to empower landowners to make more informed decisions for their woodlands so as to help preserve forest land cover in the area. Three years later they have 81 members with about 9,000 acres of forest and are still growing.

LFC focuses on providing education and management services. They provide their members with newsletters and workshops covering a variety of topics from making maple syrup to alternative harvesting techniques. Additionally, they work with individual landowners to create Forest Stewardship Council (FSC) certified management plans and to set up and coordinate timber sales. LFC had formerly provided processing

and marketing services, but found that management services were a higher priority for its members. Additionally, the initial low intensity of management by members did not ensure a steady supply of wood products. They are among a growing number of forestry co-ops to put a hold on the co-op's value-added operations and concentrate instead on management services for members.

The Sustainable Woods Cooperative (SWC) of southwestern Wisconsin, established in 1998, was ultimately unable to surmount the challenges discussed above and went out of business in the spring of 2003. Their members and management have been gracious enough to share the valuable lessons they learned in order to help other cooperatives (see the entire *Lessons Learned* report at <http://www.sustainablewoods.com>).

Since SWC decided to pursue value-added wood processing, which required at least \$250,000 in capital to get started, they faced an uphill battle from the beginning. They were only able to raise a portion of their start-up capital from members, meaning they were required to carry an unhealthy debt-load. They were also staking out a new business (with no developed market) in a fairly competitive industrial sector where margins are thin. To make matters worse, SWC did not employ a full-time General Manager until four years into their operations. Within the last year or so of operation, it became apparent that SWC members were more interested in access to forestry services than they were in value-added production.

### *A Second Chance*

Despite the challenges, there is clearly a need and opportunity for forestry cooperatives. These co-ops have the potential to help increase forest management and help landowners harvest and market their timber. Through cooperatives, landowners can share expensive equipment and tap expertise who will help educate them about harvesting and marketing

techniques. Forestry cooperatives can also bring money and jobs into rural areas. The second wave of forestry co-ops in the US will hopefully learn important lessons from the past as well as from each other and create a more successful future.

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#### **Additional Information**

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