

LAW OF COOPERATIVES
—2008 Agricultural Outlook—

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The year 2008 should see strong economic results in the U.S. agricultural sector. High land values, a worldwide surge in the use of grains and oilseeds for biofuels, increasing affluence in developing countries, and a weak U.S. dollar all promise to bolster the economic well-being of the sector.

Notwithstanding these factors, 2008 will also see an increase in economic risk within the sector. Agricultural input prices are expected to rise sharply in the coming year. The same is true of land rental costs. As margins tighten, the agricultural sector will become increasingly vulnerable to price volatility and other economic shocks, particularly in the absence of a governmental safety net.

The dichotomy of increased potential risks and rewards should result in increased business expansion as well as increased risk management. We can expect increased investment in the agriculture sector as well as increased use of such risk management strategies as hedging, diversification of investments, and balance sheet strengthening.

On the cooperative front, the trend of farm and grain supply cooperative consolidation should continue. Due to the maturity of the industries in which many farm and grain supply cooperatives operate, we can expect this trend to continue into the foreseeable future.

One area of significant uncertainty is politics. The federal government is currently tallying massive deficits. The 2007 Farm Bill, as of the time this article goes to press, is working its way through the legislative process. The coming year will see a new administration elected to the White House and a potential change of the balance of power in Congress, not to mention state governments. All of these factors may significantly change the role of government in agriculture.

Perhaps the most promising trend in agriculture and for cooperatives in particular is renewable energy development. The world's increased focus on carbon dioxide emissions and rising energy prices, and the United States' push for energy independence, have created strong demand for renewable energy development. The U.S. agricultural sector is uniquely positioned to meet much of that demand, as many of the emerging renewable sources (*e.g.*, cellulosic biofuel) require locally grown feedstock.

In sum, 2008 is a year that will see increasing rewards and risks in the U.S. agricultural sector. The rewards will come from favorable macroeconomic conditions and continuing renewable energy development. The risks will come from shrinking profit margins and political uncertainty. Cooperatives should focus on capturing the profits to be had as well as managing the increasing risks.