

# Maximize Your Fiber Income: There is Strength in Numbers

By Daryl W. Goodrich, JD

The frozen snow crunched under our feet as my wife and I walked to the barn. “Good morning,” I called out as I opened the door. All heads looked intently at us. We guided the alpacas out of the barn and closed the bottom half of the stall doors.

As I put hay in the hay feeders, my wife put feed in the feed troughs. Vanna was unusually vocal. She maneuvered her way to the front of the crowd to peer over a closed stall door. Vanna watched every scoop of feed

being put into the troughs.

My wife opened the stall doors. The alpacas raced to the troughs. Vanna lifted her head to chew a mouthful of feed. Panda came near to Vanna for feed, too. Vanna was again vocal. She spit her mouthful of feed at Panda. Feed hit Panda and the wall behind while also spreading across the floor.

Panda spit back. A neck wrestle ensued. Lilly quickly came over and ate the feed left behind in the trough. Soon, Vanna and Panda stood still in

stalemate. They looked silly with their lower lips hanging down. Now, there was no feed left for either of them.

It was curious to watch. My mind became analytical.

When maneuvering to the front, Vanna acted to feel good by being first. When Panda came to share in the feed, she saw Panda as taking from her and became defensive.

Vanna seemed to go beyond defense to actually make a dominance statement so she could feel good by being



A brief history of cooperatives,  
why they work, and why  
you need to join AFCNA.

in charge. It was interesting Vanna sacrificed her food to serve her feeling good. Vanna seemed really motivated by feeling good. Vanna, though, was keenly aware she could not exist alone. She was always part of and supported the herd in the pasture and barn. It was as if she realized her safety, fun, and well-being came from the alpaca community.

“But, being first in line, having the feed for herself and being in charge is inconsistent with the notion of alpaca community,” I reasoned. “If alpacas serve only their individual interests, there would be no community,” my mind continued.

“Community” is defined as an interacting group of people. It became clear to me Vanna did not understand she is part of the alpaca community by definition. And, therefore, by serving her community she, too, is served.



I wanted to tell Vanna that working together to serve every alpaca's interest builds community. And, that it feels good to serve community because community in turn serves her needs. “It's like being on a baseball team. If you wish to win, you have to play

for the team – not for yourself,” my mind added.

“Many people have been like Vanna,” shot across my mind. “Maybe that's just the way of life,” I concluded. My mind wandered into thoughts about American history.

The American Industrial Revolution is of interest to me. In the 1800s, the entrepreneurial spirit inspired people to build businesses around their invented products and manufacturing methods. They felt good – making money and serving society with quality of life enhancers. However, balance between these “feel goods” was sometimes lost.

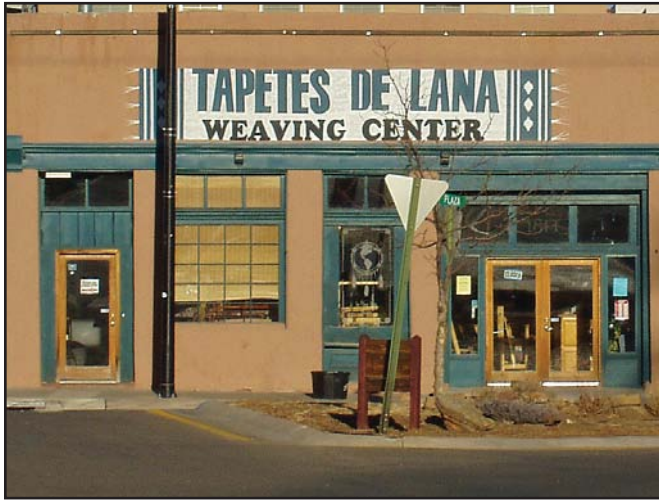
After the Civil War, American industry thrived. More and more businesses were started. Businesses became more productive and enlarged their markets. Competition soon became fierce. Rivals feared loss of profits and risked their survival. Business leaders realized being alone in the jungle of competition did not work as well as working together. They realized the value of community – the community of business leaders.

Trusteeships were set up where competitors transferred their business ownership to trusts in which they received an ownership interest. This resulted in centralized control of prices and output within the particular industry. Tobacco, sugar, and many other industries did this. J. P. Morgan is well known for controlling the steel industry and J. D. Rockefeller for controlling the oil industry. The once fearful industry leaders thrived. Soon, the money making “feel good” lost balance with serving society – in this case, the American community.

The trusts gained monopolistic power. It was abused by the industry giants in ways that hurt the American community. Fixing prices at any level, for example, was possible. The American community needed to restore balance or it would be destroyed.



Alpaca farmers  
produce an  
agricultural  
commodity – fiber.  
It can be made into  
consumer products.  
Fiber can contribute  
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Fleeces contributed to the Alpaca Fiber Cooperative of North America are sorted at this Tapetes de Lana facility in New Mexico.

In 1890, Congress passed the Sherman Antitrust Act. Every agreement, combination, or conspiracy in restraint of trade or commerce was declared illegal. Competing industrialists could no longer lessen their competition. Two of the most well known monopoly breakups came in 1911. In that year, the U.S. Supreme Court ordered the dissolution of Standard Oil Company and American Tobacco Company.

In its zeal to restore industrial competition, the Court failed to consider the needs of farmers. Farmers had long worked together in cooperative associations for financial survival. They feared their cooperatives would be targeted by law enforcers and struck down by courts under these antitrust laws. This fear was strengthened by a 1908 Supreme Court decision comment interpreted by many to prohibit the

joint pricing and marketing of farmer cooperatives. In fact, farmers were prosecuted for price-fixing in several states under statutes similar to the Sherman Antitrust Act.

Cooperatives allowed farmers to eliminate competition among them. They were farmers working together to market their agricultural commodities. This was the very concept the early American industrialists used to survive. But it was the industrialists, not the farmers, who abused their position, causing Congress to act in 1890.

Farmers made a lot of noise! The Clayton Act of 1914 gave some relief. But it was not until the Capper-Volstead Act of 1922 that farmers were specifically exempted from the restraint of trade limitations of the antitrust laws. The Capper-Volstead Act and the five Supreme Court decisions interpreting the Act mandated specific business operating requirements for permissible farmer joint activity. The cooperative business model is the manifestation of these operating requirements.

**AFCNA**  
ALPACA FIBER COOPERATIVE OF NORTH AMERICA, INC.

**Maximize by Joining!**

**WISH TO MAXIMIZE YOUR FIBER INCOME?**  
Consider joining the Alpaca Fiber Cooperative of North America, Inc. It is a cooperative corporation formed in 1998 under the laws of the State of Colorado. AFCNA was crafted to comply with all the cooperative legal and tax mandates discussed above. It allows all alpaca farmers to easily benefit from the cooperative business

model. AFCNA has designed an infrastructure for a national large volume fiber industry. It will only maximize your fiber income if you get behind the momentum AFCNA is building.

**Join the over 1,600 current AFCNA alpaca farm member owners to build a fiber industry benefiting all alpaca farmers.**

Becoming a coop member is easy: Just click on "Join AFCNA" in the left menu at: [afcna.com](http://afcna.com).

**Remember: every alpaca farmer wins with a cooperative.**



Friendly staff at Tapetes de Lana will help guide you through the AFCNA submission program, from fleece submission to purchase of end product.

Farmers were able to continue using their cooperatives to jointly market their agricultural commodities without risk of Federal and state legal penalty. Agricultural cooperatives became very important to and widely used by farmers. The Federal government recognized this and included cooperatives in its national farm policy with the passage of the 1926 Cooperative Marketing Act. This Act directed the formation of a Division of Cooperative Marketing within the U.S. Department of Agriculture.

This promoting and serving farmer cooperatives initiative is now the Cooperatives Program of USDA Rural Development ([www.rurdev.usda.gov/rbs/coops/cmdir.htm](http://www.rurdev.usda.gov/rbs/coops/cmdir.htm)). Its website states: "The mission of Cooperative Services Program is to promote understanding

and use of the cooperative form of business as a viable organizational option for marketing and distributing agricultural products."

Congress also gave cooperatives preferential tax treatment with Section 521 and Subchapter T of the Internal Revenue Code. The Code, however, makes these provisions only available to organizations operating on a cooperative basis.

American business entities are set up under state law. States have laws providing for the formation of cooperative corporations along with regular corporations, partnerships, non-profits and limited liability companies. Customarily, farmer cooperatives are set up under the cooperative corporation laws of a particular state.

The U.S. Department of Agriculture

(USDA) reports over 3,300 farmer cooperatives exist, with nearly \$100 billion in combined annual gross business volume. Some of the more familiar cooperatives are: Ocean Spray cranberry juice, Sun-Maid raisins, and Florida's Natural orange juice.

**A**lpaca farmers also produce an Agricultural commodity – fiber. It, too, can be made into consumer products. Fiber can contribute significantly to farm income. The cooperative business model marketing efficiency can maximize this fiber income. The cooperative business model has six major hallmarks that make this possible.

**Market Power** – Farmers working together remove price and output com-

## Greater income arises when farmers combine capital and resources to do what one farmer cannot do alone – make and sell consumer products.

petition among them. The cooperative is the only seller. Working together also empowers farmers to sell their fiber directly to consumers as finished products. One seller and many buyers give the cooperative product pricing and design power. This power leads to greater income.

Competition drives prices down and constrains product design. Setting prices and designs by agreement among competitors, however, allows higher prices and design freedom since there is effectively only one seller. Cooperatives increase the number of buyers by selling member farm fiber in the manufactured state directly to consumers. Farmers joining together to make consumer products allows them to sell to more buyers than when selling their raw fiber to the few independent product manufacturers.

**Strength in Numbers** – Greater income arises when farmers combine capital and resources to do what one farmer cannot do alone – make and sell consumer products. People working together for their mutual benefit can achieve more per person than on an individual basis. Farms joining together in a cooperative can manufacture and sell products in profit enhancing ways individual farms cannot afford and do not have expertise and man power to use.

**Economies of Scale** – Greater income arises when farmers pool their alpaca fiber. Cooperative large volume processing and marketing allows manpower and machines to be used more efficiently and to spread operating costs over more product units. This lowers product unit costs. Lower costs means greater income.

For example, when I served on the Alpaca Fiber Cooperative of North America, Inc. Board of Directors,

I was part of the team building a large volume fiber industry infrastructure. Because of AFCNA's large fiber volume, we were able to move its yarn spinning to a large textile industry spinning mill. This lowered spinning costs by over 50%.



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**Capture Consumer Value** – Most agricultural commodities (including alpaca fiber) are worth more in the manufactured state than raw. Cooperatives empower farmers to capture the raw commodity value plus the consumer value added to their raw commodities by production into consumer products. Cooperatives therefore provide greater income to alpaca farmers than if they merely sold raw fiber to independent fiber product producers.

A prototype 100% alpaca throw I oversaw as an AFCNA Director weighed 2.4 lbs. It cost \$32 to manufacture. The expected retail sales price was \$90. The \$58 profit yields a \$24.17/lb. fiber value. This compares favorably to a world raw fiber value in the vicinity of \$6.00/lb.

Cooperatives distribute their profits to farmers based on the amount of submitted raw commodity. This is how alpaca farmers capture the consumer

value of their submitted fiber. Regular businesses, on the other hand, distribute profits based on the amount of capital invested.

**Service at Cost** – The cooperative distribution of profits to farmers based on amount of submitted raw commodity (alpaca fiber) means farmers buy consumer product manufacturing and marketing services at cost. This is the most favorable income increasing position farmers can be in. Service at cost also removes money, size, and influence of a farm from the determination of a farm's profit share. In addition, service at cost means only farmers benefit from cooperatives. No entrepreneur or Wall Street investor shares in cooperative profits.

**Every Farmer Wins** – Cooperatives are controlled by their member-owners on a one member, one vote basis. As a result, farm size, money, or influence cannot alter cooperative benefits to participating farmers. Participation in cooperatives is also voluntary. Farmer cooperatives cannot have member-owners other than farm producers. As a result, no entrepreneur, Wall Street investor or independent product manufacturer can determine how a cooperative operates or where its profits go.

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Note: This article does not constitute legal or financial advice.