FEATURE

INSIGHTS FROM PIPELINE FOODS' BANKRUPTCY: LESSONS FOR THE FUTURE

By Harriet Behar

The stunning business failure of Pipeline Foods hit the organic community in the upper Midwest hard. For five years, Pipeline specialized in buying, cleaning, and selling of organic, and non-GMO corn, soybeans, and small grains for the food and feed markets. Founded in 2017 and located in the Twin Cities area of Minnesota, the original founding partners, by most accounts, wanted to help build and strengthen the sustainable agriculture supply chain. They also saw the rapidly growing niche organic market as an opportunity to build a thriving domestic business, especially since much of the organic grain used in the U.S. is imported. The company reported $189 million in assets and $147 million in liabilities at the time they sought Chapter 11 protection under the federal bankruptcy laws in early July of 2021. At the time of this article, more than one bankruptcy lawsuit is still pending, including one that states the value of their assets was overvalued when applying for loans.

From its beginning, Pipeline Foods moved aggressively to place themselves as the business of choice for farmers and grain buyers, with a stated goal of investing $300-500 million over time. They started by **offering higher-than-market-value prices to attract farmers to sell to them.** In addition, they acquired numerous facilities to process and store the grain by buying their strongest competitors. Eric Jackson, the original CEO of Pipeline Foods, was quoted by PRNewswire in Sept 2017: "We will put more profits back into the hands of the farmers, create dependability and transparency for food companies, and offer unique investment opportunities for financial partners."

In addition to their presence in the U.S., they also had a regional headquarters in Winnipeg, Canada and Buenos Aires, Argentina.

Their stated business values included a strong commitment to environmental and social outcomes through investments in assets, people, and encouraging the adoption of organic and regenerative farming practices, as well as offering full traceability and transparency. This optimism drew employees, suppliers, and buyers to work with Pipeline.

Their ambitious business model resulted in Pipeline hiring a large staff, including support for farmers with production issues, especially for those transitioning to organic. They offered help with seed and fertility choices, and then provided a ready buyer for the farmer's organic grain. Their rapid growth included the purchase of grain cleaning facilities in Canada and the U.S. specialty grain division of SunOpta, among others. The SunOpta acquisition in 2017 cost Pipeline Foods over 65 million dollars. SunOpta was well established in the region, with loyal farmers/suppliers and buyers.

To grow quickly, Pipeline Foods obtained funding from AMERRA Capital Management, an asset management firm that provides capital to the agriculture sector. Rabobank provided capital as well, and offered financial help to farmers to transition to organic. Compeer Financial was also a significant lender, supporting much of the infrastructure purchases.

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STRATEGIES TO PROTECT YOURSELF FROM A BANKRUPTCY CLAWBACK

- **Sell smaller amounts to multiple buyers rather than one large sale**
- **Be aware of the rules and protections in your state, and the state into which you are selling**
- **Organize with other farmers within your state to gain additional protections**
- **Seek an attorney who is familiar with Use the "ordinary course of a business relationship" statement to avoid the clawback payment**

At the time of the bankruptcy, Pipeline Foods owned facilities in Hope, MN, Moorhead, MN, Ellendale, MN, Lignite, ND, Cresco, IA, Bowbells, ND, Atlantic, IA, and two facilities in Saskatchewan, Canada (Wapella and Gull Lake). In 2020-2021, Pipeline had contracted with 1,460 growers and was promoting its services to another 1,800. They also had agreements and investments with railways.

Pipeline was an aggressive competitor in the marketplace, and pushing into the established organic market took capital. As the company borrowed more and more, their lenders became more concerned. AMERRA personnel were in the office weekly and slowly took over the running of the company. In 2019, a new CEO, Anthony Sepich, was installed, which gave AMERRA more confidence that their money was being handled by a more seasoned leader. Sepich came from Compass Minerals (under review for violations of Federal Securities laws), with limited experience in the niche organic market. Former Pipeline employees (who prefer to remain anonymous), state that the overall growth of the organic sector was used as a benchmark to gauge the expected growth of Pipeline's business.

Comparing the consumer marketplace comprising all sectors of the food industry, to an expectation of the growth and profitability for the organic grain market was problematic. Each sector in agriculture has its own challenges and opportunities, and it seems this supply-chain-focused company should have been savvier to know that using consumer demand for the wider industry as an indicator of potential success would not be a true picture of what should be expected for profitability in their smaller commodity sector of that industry.

When SunOpta was purchased, many of those employees came to Pipeline. Since organic grains are limited in their availability, those employees learned over time to build strong and trusted relationships with their farmer-suppliers.

Many of those former SunOpta employees stated that they felt farmers they worked with were their friends, and that they worked hard to build and retain their trust. This led to SunOpta having a reliable pool of high-quality grains. Unfortunately, this was not the culture at Pipeline. As the company's debts rose, Pipeline did not pay on time, lowered the prices they offered to farmers, were picky with charging extra fees or discounting grain for the smallest infraction, such as a little bit higher moisture content than contracted. Many of the employees that came from SunOpta, or who were enticed to join Pipeline by their support of organic agriculture, became disillusioned and left. They were replaced with employees who had very little knowledge of the organic marketplace, and no reason to challenge Pipeline's actions by advocating for a better deal for farmers. Many of the former SunOpta employees expressed how badly they felt to see the farmers be treated so poorly by Pipeline. They were saddened to watch the relationships they built with farmers over decades be destroyed.

The rapid growth, the unrealistic expectations of the organic marketplace and normal supply chain challenges, as well as those brought on by the COVID-19 pandemic, caused the two main investors, AMERRA and Rabobank to become nervous. By some accounts, these two entities did not have the same goals for the company, and did not get along. As the finances became shakier, the relationship between these two lenders became strained. This then caused Pipeline Foods to declare bankruptcy, since their line of credit to run the business was no longer sufficient to do day-to-day business. At the time of the bankruptcy, many farmers had delivered grain and were waiting for payment. Many farmers had also received payment, but some of those whose payment was made within the 90 day period before the bankruptcy declaration received clawback letters. These letters were meant to require farmers to return those payments to Rabobank.

There are many lessons to be learned from the Pipeline bankruptcy and some are self-evident. Avoid fast growing companies that are funded by outside capital who will want quick payback, for example. Organic farmers and businesses need to be careful to not assume that everyone we work with has the same understanding and commitment to organic as the farmer who has deep beliefs in organic agriculture. Perhaps this Pipeline bankruptcy also illustrates that the financial aspect of organic business cannot function within the conventional financial model, just as organic production methods do not fit well within the non organic system of agriculture.

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