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# Rural COOPERATIVES

USDA / Rural Development

January / February 2011



Doing business  
with the new neighbors

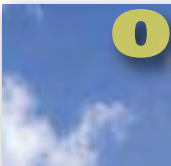
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# Commentary

## Know Your Farmer, Know Your Co-op!

By **Kathleen A. Merrigan**, Deputy Secretary  
U.S. Department of Agriculture



On Sept. 14, 2009, we publicly launched the Know Your Farmer, Know Your Food initiative, a USDA-wide effort that aims to create new economic opportunities and promote healthy eating. At a time when more Americans than ever are becoming interested in where their food comes from and how it is produced, we are also seeing mid-sized farmers struggling to maintain solvency. The Know Your Farmer, Know Your Food initiative seeks to capitalize on this first trend while reversing the second.

As I look back on our efforts over the past year, it is clear to me that the initiative would not be what it is today without the vibrant partnership USDA has long enjoyed with various cooperative businesses. Many of the co-ops highlighted in each issue of this publication are particularly well-suited to advancing the goals of the Know Your Farmer, Know Your Food initiative.

Whether they take the form of mobile slaughter units, food hubs or a myriad of others, these cooperative businesses are making it easier for consumers to purchase healthy foods and develop a relationship with the farmers and ranchers who help put that food on their plates. In addition, because the cooperative business model makes it more likely for wealth to remain in local communities, these co-ops are helping rural communities maintain economic vitality.

The enduring relationship that USDA and rural cooperatives enjoy is exemplified by the Hillside Farmers co-op in southeastern Minnesota, the recent recipient of a Small, Socially Disadvantaged Producer Grant from USDA Rural Development (see page 13). The grant will help the co-op —

a partnership between new Latino farmers and established farmers in the region dedicated to producing food in sustainable ways — develop the network of producers and consumers that is necessary for them to flourish.

Another example of a cooperative advancing the goals of the Know Your Farmer initiative is the Oklahoma Food Co-op, which began as a small buying club in 2003 with 20 local producers and sales of \$3,500 on its opening day. Today, thanks to a choreographed distribution system and an

Internet ordering program, the 200 participating Oklahoma-based producers generate roughly \$70,000 in monthly sales to a membership base that exceeds 3,000.

Some consumers are not just satisfied to know that their food has been produced locally. These consumers also want to know exactly where their food was produced and by whom. A growing number of co-ops are responding to consumer demand.

The farmer-owned Prairie Farms Dairy co-op, for example, recently held a casting call for family members of its producers. Winning entries of the photo competition will be featured in promotional material advertising Prairie Farms products. In addition, the grower-owned Florida's Natural orange juice co-

op includes a “meet the growers” section on its website, featuring biographies and photos of some of its members. Not only do these efforts satisfy the consumer's thirst for knowledge, they are also helping producers generate repeat customers.

I look forward to the challenges and successes that await the Know Your Farmer, Know Your Food initiative in 2011. Thanks in part to the enduring partnership between USDA and cooperatives across the country, I am confident that it will be a very good year. ■



*Deputy Secretary Kathleen Merrigan visits Feroibink Farm in Warwick, R.I., where she announced a conservation easement, made through USDA's Farm and Ranch Lands Protection Program. Feroibink Farms is involved with a farmers' cooperative that sells local Rhode Island potatoes — branded as “Rhode Island Royal Potatoes” — to independent supermarkets.*

# Features

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**ON THE COVER:** Gerald Schneider, a warehouseman at the Leavenworth County Cooperative Association in Kansas, loads bags of horse feed for a customer. Like many co-ops in urbanizing areas, Leavenworth has had to adjust its mix of products and services to adapt to a changing marketplace. Photo by Prudence Siebert



# Ownership Succession

*Co-ops can play role in helping keep farms and ranches in producer hands*



**By Bruce J. Reynolds**  
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**A**lthough non-agricultural business is providing an increasing share of economic activity in many rural areas of the nation, succession of land ownership to a new generation of farmers remains a vital issue for many rural communities. Furthermore, independent farmers and ranchers are essential to cooperatives and other membership organizations. Likewise, farmer cooperatives — both traditional model co-ops and new generation co-ops — can help keep farms and ranches in the hands of more producers, including more beginning producers.

Commodity programs and technological change over several decades have provided incentives for farmers and ranchers to increase the size of their operations, including investments in land and equipment. A parallel trend is the greater longevity of ownership, as the average age of U.S. farmers and ranchers has risen. Taken together, these trends render the succession in farm ownership more financially challenging than in previous periods when farms were smaller, less capital intensive and there was faster inter-generational turnover.

Many retiring farmers and ranchers remain in their homes and lease their land to active producers. Leasing keeps their land as an income-producing asset and a source of business for the community.

When retiring producers sell their

farms and ranches, it is usually better for the local economy when ownership is transferred to independent farmers, rather than to investors.

While many land investors continue agricultural production, they often operate as absentee landlords. They are usually less involved in the local economy than are owners who reside in the community. Where farms or ranches include forestland, ownership is sometimes transferred to hunters from urban areas. These former farms and ranches are typically used for recreational hunting on weekends. Such uses create less local economic activity than farms and ranches that continue operating with resident producers.

Succession planning is critical for ownership transfers to younger generations. There are several steps in a succession plan. Determining the



# Crucial for Rural America



USDA photo by Stephen Thompson

commitment of young family members, or other beginning farmers, to operate a farm or ranch is the first step. Another major step in transferring ownership is a financial plan that usually involves access to credit. This article reviews some of USDA's financial programs available for beginning farmers and ranchers and considers policies for financing member succession in cooperatives.

## **USDA programs**

The Agricultural Credit Improvement Act of 1992 began targeting loans for beginning farmers and ranchers. Support for beginning farmers from conservation programs began in 2002. In the Food, Conservation and Energy Act of 2008, this support was expanded in both conservation payments and loan

programs. The 2008 Act also targeted socially disadvantaged and limited-resource farmers for increased access to these conservation and lending programs. In addition, USDA's National Institute of Food and Agriculture was authorized to initiate the Beginning Farmers and Ranchers Development Program to provide grants for training and mentoring.

Since passage of the Act in 2008, idle land that is one year from being released for farming under the Conservation Reserve Program is made available for beginning farmers. These farmers can then make preparations for planting in advance of their either assuming ownership or making lease payments. In making these lands available to beginning farmers, participants in the Conservation Reserve Program can receive payments

for two years following the expiration of their individual programs. Other outreach and support programs for beginning farmers offered by USDA are described in Economic Research Service (ERS) Economic Information Bulletin 53.

The Farm Service Agency (FSA) administers USDA's lending program for beginning farmers and ranchers. It includes both direct lending and loan guarantees in support of borrowing by beginning producers for buying and operating a farm or ranch. FSA loans and guarantees are only available to applicants who are unable to obtain loans from commercial lenders and who are able to meet the program's credit standards, whether or not they are beginning farmers.

Direct lending limits are \$300,000 each for either ownership or for

operating loans per applicant, up to a maximum of \$600,000 if both types are fully used. Loan guarantees are made for either ownership or operating, up to just more than \$1.1 million, with adjustments for inflation. Annual participation by beginning farmers and the dollar volume of both types of loans and guarantees are reported for the most recent 11-year period in table 1.

Participation in FSA's beginning farmer program is trending upward, increasing from 8,109 in 2000 to 15,294 participants in 2010. Beginning farmers represent more than 30 percent of loans made under FSA's farm program, up from 20 percent at the start of the decade (table 1). But it should be noted that since 2008, higher percentage shares of loans and guarantees are

principal and interest on a loan. The Farm Credit System, a producer-owned cooperative, is the largest lender for financing ownership transfers to beginning farmers and ranchers. In 2009, more than 40 percent of its beginning farmer loans used the FSA guarantee program. Other institutions such as Farmer Mac, Small Business Administration and state governments also provide loan guarantees for beginning farmers, but FSA is by far the largest provider of this type of program.

A report by the Government Accountability Office (GAO) in 2007 pointed out that more research is needed for better measurements of the reach, scope and success of the program. Subsequent research by the ERS has addressed some of these

beginning farmer population. These data are a general indication of potential to assist more beginning farmers in successfully establishing and sustaining farm or ranch businesses.

At a USDA farm policy hearing in September 2010 in Fort Morgan, Colo., participants from both the local farm community and government concurred that FSA lending programs for beginning farmers are of insufficient scope to accomplish the objectives of transferring farms and ranches to the next generation of producers. Mary Kraft, co-owner of a local farm, said: "In this age, ag producers must embrace technology and efficiency in order to make it, but young farmers can often spend all the aid they can get on one sprinkler system. That leaves nothing to get the rest of the operation going." Participants emphasized that the programs need to reach far more beginning farmers and to support more continuity in lending services over several start-up years (Fort Morgan Times, June 10, 2010).

One farm owner at the meeting described a succession plan for his farm workers whereby they gradually earn ownership. Another aspect of his plan involves mentoring these workers to help them gain farm management skills. Others pointed out the importance of continued access to credit and high-quality succession planning for creating successful transfers of farm and ranch ownership.

One way to use FSA programs to better meet credit needs in some cases is to guarantee loans for transferring ownership in stages. Financing ownership in stages more readily works in tandem with succession planning and mentoring than a one-time, 100-percent transaction. FSA may allow loan guarantees to be applied for purchase of partial interest in a farm or ranch. In partial ownership transfers, all owners, buyer and seller, must be signatories in securing the loan.

### Guarantees for rural businesses

The challenges for beginning farmers are analogous to those involved

**Table 1 — FSA loans & guarantees for farm and ranch purchases and operations, Fiscal 2000-2010 (millions of dollars)**

Year	Beginning farmer loan dollars obligated	Number of beginning farmer loans	Total loan dollars obligated	Percentage of loans to beginning farmers
2000	8,109	716.2	3,571.3	20
2001	8,003	706.6	3,168.5	22
2002	8,691	839.5	3,496.8	24
2003	8,633	851.2	3,502.9	24
2004	8,572	867.5	3,073.6	28
2005	9,592	1,030.3	3,022.9	34
2006	10,677	1,082.8	3,073.6	35
2007	10,640	1,110.8	3,133.3	35
2008	10,992	1,249.9	3,307.7	38
2009	14,523	1,587.4	4,474.4	35
2010	15,294	1,706.2	5,283.6	32



reserved for beginning farmers. These set-aside reserves are relaxed near the end of a fiscal year if beginning farmers have not fully used the allocations available (ERS Bulletin 53).

### Loan guarantees

FSA loan guarantees support direct lending to beginning farmers and ranchers by the Farm Credit System and other agricultural lenders. FSA guarantees up to 95 percent of loss of

concerns. Specifically, census data were used to develop an estimate of the beginning farmer population in 2007.

Of those producing in 2007, there were 305,964 that were principal operators off arms and 446,121 that were classified as beginning operators on active farms (ERS Economic Information Bulletin 53). Table 1 reports 10,640 FSA beginning farm loans and guarantees made in 2007, which is a relatively small share of the

in transferring ownership of non-agricultural businesses. Some of the tasks in transferring family businesses to the next generation of owner/operators have been discussed in previous issues of *Rural Cooperatives* magazine (Jan./Feb. 2009, page 10). While farmland usually continues in some type of economical use, many non-agricultural businesses permanently close after their owners retire, which is economically detrimental to rural communities.

USDA Rural Development provides loan guarantees in its Business & Industry (B&I) Program for transferring ownership of businesses. However, under its regulations, a loan guarantee can only be used for financing a total ownership transfer. This restriction protects against non-borrowing owners benefiting from loan guarantees, but there is recognition that it inhibits effective succession planning.

Discussions are underway to have flexibility for loan guarantees with partial ownership transfers to either the children of a family business or to its employees when forming a worker cooperative. There is also potential for revisions in the B&I program so that loan guarantees could be applied to the financing of stock transfers from those who are retiring to new members of either worker or agricultural new generation cooperatives.

## New generation cooperatives (NGC)

Neither beginning nor experienced farmers will stay in business for long if they are not profitable. Cooperatives contribute to the profitability of many farmers and ranchers, and organizational innovations in the co-op business model in recent years have been aimed at better achieving that objective. One such innovation is the NGC.

Members of an NGC invest in stock shares with delivery-rights that can be transferred to others. If an NGC is successful, farmers have appreciated stock shares that upon their retirement from the cooperative can be sold to new

members.

The challenge is that most beginning farmers, especially those with farm debt, cannot afford to buy appreciated shares in an NGC. In recent years, many value-added enterprises have been functioning as NGCs, but have been formed as Limited Liability Companies (LLCs). In this way, farmers have a larger market for selling shares, one that includes non-farmer investors. Ownership and control of these businesses will become increasingly unavailable to beginning farmers, or to any farmers, for that matter.

Thus, the new generation cooperative may not become the cooperative for the next generation of farmers.

Several NGCs have established programs for gradual transfers of stock shares to new members. A potential tax policy action to help transfer NGCs to farmers would involve deferral of capital gains on stock sales to farmers but not if shares are sold to non-farmer investors. A retiring farmer from an NGC would have a deferral from taxes by re-investing in stock, financial instruments or some type of account that would satisfy criteria of the Internal Revenue Service.

This type of capital gains tax deferral would parallel the Internal Revenue Code 1042, which applies to the sale of a business to employees to form either an Employee Stock Ownership Plan or a worker cooperative. There is also a specific provision, 1042(g), for an agricultural processor to obtain tax deferrals on the sale of processing plants to farmer cooperatives.

Since it is public policy to provide tax deferrals on the sale of a business to create either a worker or a farmer cooperative, it is logical to extend the same benefits to retiring members when they sell stock to new employees or to farmers. This will help ensure that ownership remains with farmers or workers, rather than transition the business to non-cooperative status in the future.

Together with flexible B&I loan guarantees, a 1042 tax deferral would

make NGCs more financially attractive for farmers and contribute to the longevity of all types of transferrable stock cooperatives.

## Future ownership of farms

The ownership of farms in the future may take a variety of forms other than the tradition of a single family as sole proprietor. Some of the high-value fresh product farms near urban areas provide ownership shares to their customers. For some of the large commodity farms that are often relatively far from major urban centers, various methods of shared ownership and partnerships are being applied to manage the high cost of farming. In addition, commodity farmers will increasingly need to make investments for delivery rights to food, fiber or bio-energy businesses.

Future needs for USDA lending programs to assist beginning farmers to achieve ownership in farms and ranches will likely persist. Making these start-up agricultural enterprises sustainable may involve more lending program flexibility to support gradual ownership transfers. In addition to lending, training on succession planning and offering supportive tax policies on ownership transfers can have a positive impact. Lastly, cooperatives — both traditional and NGC — can make a significant contribution in helping beginning farmers create a financially sustainable enterprise.

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# Groomed for Success



*Kansas farm supply co-op  
adjusts to urbanizing market  
with new goods, services*

**By Stephen Thompson, Assistant Editor**

*Editor's note: Many farm supply co-ops have had to shut their doors when large- and medium-size production farms have been replaced by hobby farms and housing developments. Other co-ops, such as the operations featured below and on page 11 of this issue, have learned how to supplement their traditional farmer business with sales and service aimed at the "new neighbors."*



What do you do if you're a small rural service co-op and the area in which you operate is getting less rural?

That's the question that faced the Leavenworth County Cooperative Association in Kansas, which operates in an area that used to be farm country but has become progressively urbanized during the past 20 years. The cooperative faced the choice of becoming increasingly irrelevant, or changing the way it does business. It chose the latter course and has found a way to attract a new customer base while still serving its traditional market.

Leavenworth was founded in 1963 as a traditional service cooperative to provide fuel, agricultural chemicals, seed and other necessities to member farmers, filling an important niche in the local agricultural community. It had a filling station and convenience store at its headquarters, as do many similar rural cooperatives.

However, the situation began to change in the 1980s, says Roger Brandt, a farmer whose family has been with the co-op from the beginning. Drought and high fuel prices coincided with a boom in demand for residential lots, he says, as people from nearby Kansas City sought to live in the outer suburbs.

Many farmers decided they'd be better off taking advantage of that demand. "A lot of guys would sell 80- and 160-acre parcels to developers," Brandt says. "It changed the whole community."

## **Cropland replaced by housing**

Soon there were housing tracts where there had been row crops. Hog and cattle operations were replaced by horse stables. The cooperative's traditional business began to dry up. By 2004, says General Manager Sue Elniff, the corner on which the co-op's headquarters stood — which originally was "out in the country" — was part of an urban area. The agronomy department had been moved eight miles away into more rural surroundings in 1997, but the headquarters property presented a problem.

"It's hard to run an ag co-op when you're sitting in a residential area," Elniff says. "The property is on a very high-traffic corner, so we had to decide whether to sell it to realize its value, or to exploit its advantages."

*Clockwise from upper right: The addition of a pet grooming service has been a successful adaptation to the Leavenworth County Co-op's urbanizing market. Here, Cassandra Elkins clips a customer's dog. Josh Demaranville, a co-op truck driver, attaches a propane hose to his truck at the co-op's main bulk plant in Lansing, Kan. Patty Delpercio calls the feed warehouse to request bags of milo for a customer. All photos by Prudence Siebert*



*“Once you get them in the door, you can offer them all kinds of things,” says co-op manager Sue Elniff (left). The co-op also provides some part-time clerk jobs for high school students (below).*



As Brandt puts it, “They had to decide whether to go with the flow or do something different.”

In 2002, part of the property was sold as the site of a new grocery store. The rest, including a 24-hour filling station and convenience store, was retained. With many new horse farms in the area, the co-op decided to include tack and other equine-related items in the farm store section, and to offer gardening supplies. At the same time, it opened a pet supplies department, which soon began to do well.

In 2008, the property was remodeled, combining two adjacent buildings into one larger space. A small kitchen and café with four booths, called “Good News,” was built in, and a pet grooming business was started.

The tack shop has languished in recent years, apparently due to the dip in the economy. “People are staying away from large animals,” Elniff says. “We’re just not getting the horse-hobby traffic.”

One the other hand, the pet business has taken off. “Customers who are having a hard time financially will still spend money on their pets. And 50 percent of the people living around here have pets.”

The pet grooming business has proved to be a real money maker. The cooperative has three groomers working for it, with the service available six days a week, 12 hours a day. Even so, its popularity means customers have to make appointments up to three weeks in advance.

Elniff says the service also helps sell more pet food and supplies. People hang around the co-op while their pets are being washed and groomed, giving them the chance to wander aisles packed with pet goodies of every description.

### **TV advertising draws business**

The café, open for breakfast and lunch, is also making a difference, and there are plans to expand it with additional tables. “We serve a lot of breakfasts, especially,” Elniff says.

One of the biggest obstacles the transformed co-op store

faced was a perception on the part of some members of the public that the cooperative only sells to members.

“Once you get them in the door, you can offer them all kinds of things,” says Elniff. “But you have to get them in the door.” The co-op’s answer was a television ad campaign, first aired in 2009. Five spots resulted in a notable increase in traffic, as did a follow-up spot in the summer of 2010 touting the café. The co-op has also aired some radio advertising.

Meanwhile, the cooperative’s more traditional business continues. Five trucks run full time delivering propane and bulk fuel to urban and rural customers. A new fuel salesman has successfully gone after new business, says Brandt. “And he makes sure you don’t run out.”

Seed and farm chemicals have also seen increased sales: “The agronomist was given the room to take the initiative, and he’s done it,” says Brandt. “He and his employees are doing a heck of a job.”

Leavenworth’s experience offers hope for other small supply and service co-ops caught in similar circumstances. If changes in your neighborhood hand you a lemon, make lemonade. ■





The co-op's grand opening celebration drew a large crowd. Photos courtesy Marshall County Co-op

# Expanding Your Customer Base

*Kentucky supply co-op adapts  
to serve “mini” farms, homeowners*

By Kara Keeton, Keeton Communications

The Kentucky Center for Agriculture & Rural Development (KCARD) fosters business success and growth by developing and delivering technical assistance and by providing education opportunities for agriculture and rural businesses seeking to enhance their economic opportunities in and around Kentucky. For more information, contact Larry Snell at 270-763-8258 or [lsnell@kcard.info](mailto:lsnell@kcard.info).



In Marshall County, Kentucky, when you hear someone talking about the co-op, it isn't a commodity receiving station he or she is referring to. It is the long-standing farm supply store. During the 70-some years it has been in operation, the Marshall County Co-op has moved around the area and gone through several marketing changes, but its status as a member-based cooperative remains.

## Building a cooperative

The Marshall County Co-op — the official name is the Marshall County Soil Improvement Association — began in 1935 as a part of a program between the Tennessee Valley Authority (TVA) and the University of Kentucky Extension. The objective was to test newly developed fertilizers produced by TVA.

The local organization incorporated in 1940 and began providing agriculture supplies to farmers, along with the TVA fertilizer for testing.

In 1946, the farmer-owners and the board of the cooperative decided that there was a need and a desire to expand the farm supply services. That fall, the co-op hired a full-time manager and



*Rick Carrico (left) and Brad Fest of Land O' Lakes Purina Feed helped out at the grand opening of the co-op's remodeled store.*

purchased a warehouse to accommodate the initial operations of the supply business.

Enthusiastic cooperation from farmer-owners led to the co-op's growth over the next 30 years. By 1975, the co-op had grown to an annual sales volume of more than \$1 million, and it enjoyed a solid financial rating. The co-op had more than 2,300 members and operated in one of the finest farmer-owned cooperative facilities in the entire area.

The next 20 years saw a dramatic change in the area's agricultural operations, which had an impact on the co-op. High interest rates in the 1980s led to the collapse of farms throughout the area, and many of those that remained were large commercial farms. Although the co-op suffered several years of losses during this period, it was able to maintain its position as a viable agribusiness in the area and continue to grow into the new millennium.

### **Cooperative in transition**

In 2005, Tim Ferrell, the co-op manager, began looking to the future. He was seeing more and more changes in his customer base as the agriculture industry continued to change.

"We had large commercial farmers who were going to larger farm stores or direct to a dealer for their needs," explains Ferrell. "What we were seeing in our store were more and more mini-farmers, people who own 5, 10 and 20 acre parcels with a few animals and a garden."

One day, while Ferrell was having lunch with Lincoln Martin, the Marshall County Extension agent, Martin suggested that KCARD might be a good resource to help in the planning for the future of the co-op.

Ferrell contacted KCARD and, after an initial meeting with staff, it was determined that a business management and operational audit would be the first step in the collaboration.

"KCARD came in and spent three days with our staff and customers, reviewing information, doing competitive

shopping in the area — it was just much more than I expected," says Ferrell. "Then they presented the results to our board on that Thursday, it was a great experience."

Beyond the efficient and thorough evaluation process, Ferrell was impressed by the information KCARD presented in the report. Ferrell, a former stock broker, felt the financial analysis was a key component in explaining business recommendations to the board.

"A cooperative is a business, and for a business to survive it has to make money," says Larry Snell, executive director of KCARD. "In a business management operational analysis, we try to show this to a board by explaining the finances of the cooperative."

Ferrell says the co-op has used the analysis results to improve on pricing at the store now that the staff has a better understanding of the price points for the main products. It has also allowed them to branch out beyond the traditional items carried in the store, to meet the needs of the changing clientele.

"The one thing that was extremely helpful for me was that the KCARD study showed that our cooperative had major name recognition in the area," said Ferrell. "We had been considering a name change, and these results kept us from committing [a major error]."

### **Community cooperative**

Ferrell has continued to work with the KCARD team over the last several years as he and the staff at the co-op have transitioned from the traditional commodity cooperative to include a lifestyle market to reach out to an urban customer base.

In 2009, the retail market was expanded and renovated allowing the co-op to meet the growing demands from its new urban customer base.

"I think our farmer base is only 20 percent of our customer base today; this is a big change," says Betty Traghber, the co-op bookkeeper. "Our gift department and our pet department are probably two of our biggest and growing departments."

While the co-op has diversified its products and expanded the retail market, it continues to focus on providing services to those individuals who were the foundation of the business: area producers.

The co-op is still the source of information for the agriculture community. The hay bulletin posted at the store continues to be the best place in the area to find hay for sale.

Special educational seminars and demonstrations are held throughout the year to provide a service to the community. There is also Ferrell's daily agriculture radio show on a local radio station that mixes agriculture news and entertainment.

"Meeting the needs of the co-op's members is the main focus of the co-op," explains Ferrell. "It has also been instrumental in the survival and is critical to the growth of the co-op. ■"



# Climbing the Hill

*Hillside Farmers Co-op helps Latino producers*



The Hillside Farmers Co-op is helping Latino immigrants rent farmland for gardening and poultry production. Above: María Sosa and her family work their garden plot near Northfield, Minn. Photo by Natascha Shawver. Below: (from left): Reginaldo Haslett-Marroquí, Todd Prink and Eladio Carpio-de-Evans. Photo by Morgan Sheff Photography, courtesy Edible Twin Cities

## By Adam Czech

USDA Rural Development  
Minnesota State Office  
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**T**he Hillside Farmers Cooperative has some big goals for Latino farmers in southeastern Minnesota. With the help of a Small, Socially Disadvantaged Producer Grant (SSDPG) from USDA Rural Development, Hillside Farmers Cooperative has taken another step toward reaching some of those goals.

Hillside Farmers Co-op includes Latino immigrants and established



farmers in southeastern Minnesota who are committed to producing sustainable foods and building healthier communities. Immigrant families are matched with established area farmers who rent out their land for gardening and poultry production.

The SSDPG will help the co-op conduct a feasibility study, develop a

business plan, provide training and help pay for other related expenses in developing a network of Latino-owned businesses in the free-range poultry industry. The primary objective of the SSDPG program is to provide technical assistance to small, socially disadvantaged agricultural producers through eligible cooperatives and associations of cooperatives. This is the first SSDPG awarded in Minnesota.

## Developing competitive sustainable farms

Many Latino families have strong backgrounds in rural living and

**continued on page 37**



**By Thomas W. Gray, Ph.D.**  
Rural Sociologist  
Cooperative Programs  
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*Editor's note: The author welcomes feedback from readers on this article and on broader topics of family farm survival. Their thoughts may be used in future articles and can be e-mailed to: Thomas.Gray@usda.gov. Supportive research is referenced by author's name and university affiliation.*



**D**uring the past several decades, U.S. farm numbers have increased in two farm categories: those with annual sales of less than \$2,500 and those with sales of more than \$1 million (see chart, page 20). Thus, when measured by sales, only the very largest and very smallest farms have increased in number. This trend reflects the emergence of two parallel food and agriculture systems in the United States.

One farming system produces huge volumes of commodities into a vertically integrated, global and corporate food system; the other is comprised of much smaller and more diverse farms that are oriented primarily to metro-local and regional markets. These small farms cater to organic markets, community-supported agriculture associations (CSA), farmers markets and farm stands, and other direct marketing and local outlets.

Between these two extremes are “farming occupation” farms, or the agriculture of the middle (AOTM) — also referred to as “the disappearing middle.” AOTM farms tend to be commodity based with larger outputs than “metropolitan-local” units, but are smaller than their mega-farm industrialized cousins.

Many of these AOTM farms are struggling for survival, in part because they produce large volumes of a low-value, homogenous product (a commodity), while competing directly with the massive-scale industrialized farms. Further, their large volumes and

distance from metropolitan areas tend to preclude entry into specialized “local” metropolitan markets.

### **Farm loss hurts rural towns**

The loss of these AOTM farms has direct implications on the sustainability of rural communities. A series of studies has found that small- to mid-size farms generally have greater positive impacts on nearby communities than do large industrialized farms.

# Agriculture of the Middle: Opportunity for Co-ops

Such measures as median family income, college education and participation in local civil society were all found to be greater in communities surrounded by a base of small- to mid-size farms, though the most recent studies find a mix of small and large farms having the greatest impacts (Rick Welsh, Clarkson University). These findings have been replicated numerous times by various anthropologists and rural sociologists (Fred Buttel, Olaf Larson, Gilbert Gillespie, and Tom Lyson of Cornell University; Linda Lobao, Ohio State University; and Walter Golschmidt, UCLA).

However, shifts in consumer food demand may be opening expanded market potential beyond commodity production. A series of studies has documented significant shifts in consumer demand toward organic, environmentally sensitive and/or locally produced foods. These studies are broad ranging and include research conducted in Missouri, California, Colorado, Oregon, Washington, Ohio, Tennessee, Illinois, Indiana, Iowa, Kansas, Minnesota, Nebraska and Wisconsin, as well as national studies by the Hartman Group, Health Focus and Whole Foods.

Richard Schneiders, CEO of Sysco Corporation, reports that his customers are “wanting memorable, high-quality food, produced with a farming story they can support [i.e., family farms], and brought to them through a supply chain they can trust.” This underscores a growing preference among many consumers for local and “mid-tier-sized” companies, rather than multinational corporations. As these new markets open, they represent

greater potentials for smaller scale production.

Commodity production, on the other hand, lends itself to output on an industrial scale. The production/marketing strategy is one of large volumes with thin margins. Commodity farms with smaller volumes (AOTMs) simply cannot compete, and thousands drop from financial viability each year. They do not make a sufficient return per unit of output over their total output to survive.

### **Niche markets harder to industrialize**

Differentiated niche products are not as easily industrialized as are commodities. The scale advantages of industrializing production are more muted. Production/marketing emphases are on what some term “craft-growing systems” (Julie Guthman, University of California-Santa Cruz) and, in some cases, products are specifically produced and branded as “family farm raised.”

George Stevenson (University of Wisconsin), Fred Kirshenmann (Iowa State University) and others suggest AOTM survival will depend on moving into this emerging “alternative” food area. Stevenson has developed a flow-

Figure 1

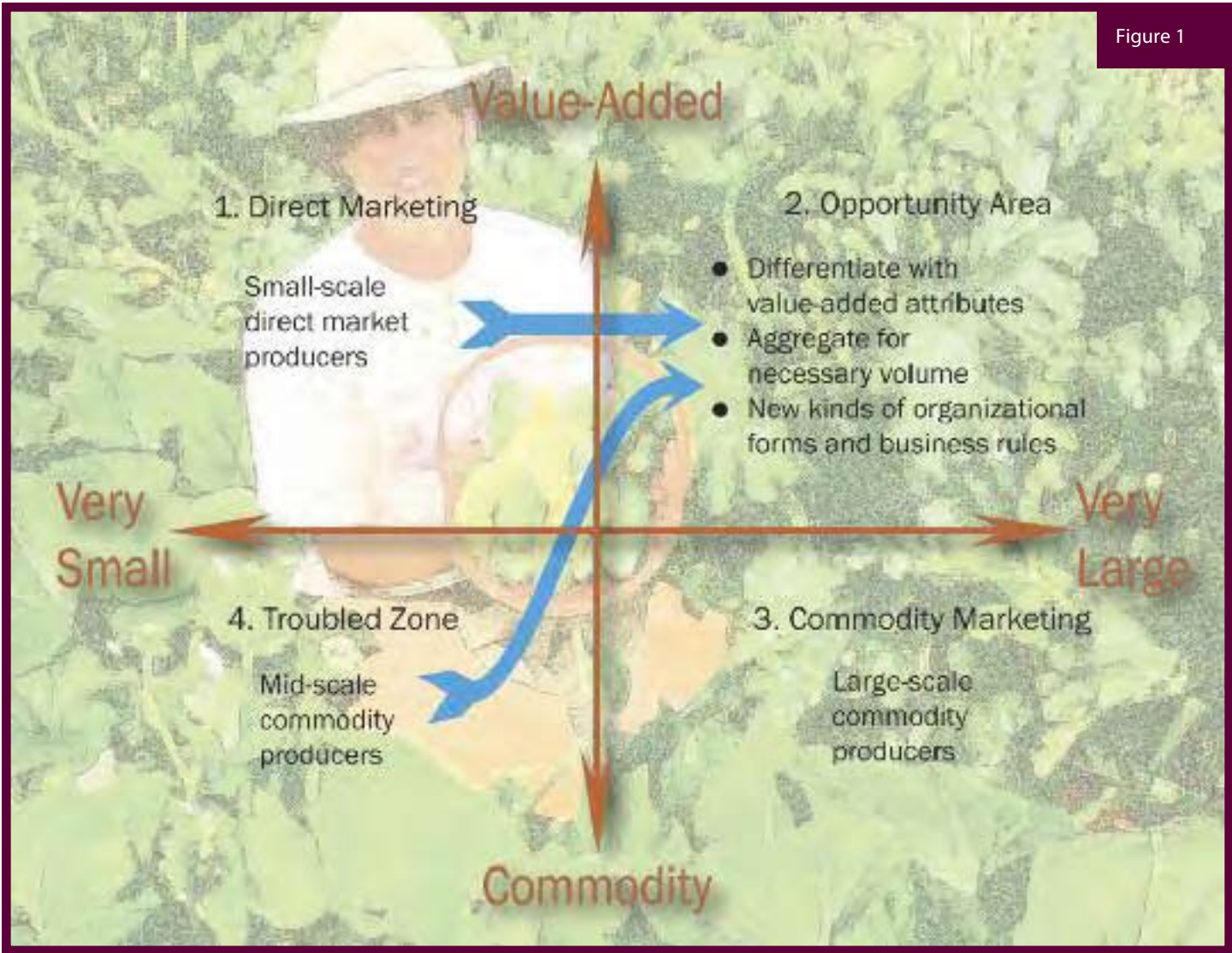


chart (figure 1) to help sort out the alternatives.

In this chart, the lower left quadrant (labeled the “Troubled Zone”), are the AOTM farms. For reasons specified above, farms with a production/market strategy of commodity output will likely not survive. The trends charted on page 16 document their demise.

The social organization of these farms tends to be based on a family farm structure (i.e. labor, management and ownership are held under one kinship group). Individual farms may survive by moving into “very large commodity marketing” (quadrant three) by buying out other farms, consolidating and seeking to produce ever larger volumes of commodities.

The surviving farms then move into the large industrial farm category, with

all the incumbent community and environmental challenges and loss of their family farm structure. Total volumes will likely expand and overall margins may “thin-out” entirely.

Rather than increasing volume of production, AOTM farmers might consider adding value to their output by moving out of commodity production and into direct marketing (quadrant one). This option might include capitalizing on local foods from a nearby metropolitan market, converting to organic production, developing a CSA and/or entering into other direct marketing alternatives (farm stands, Internet sales, farm-to-school sales, farm-to-restaurant and other institutional sales).

Unfortunately, even if AOTM farms are close enough to a “local”

metropolitan market (and most are not), markets in general are not large enough to absorb their large volumes of output.

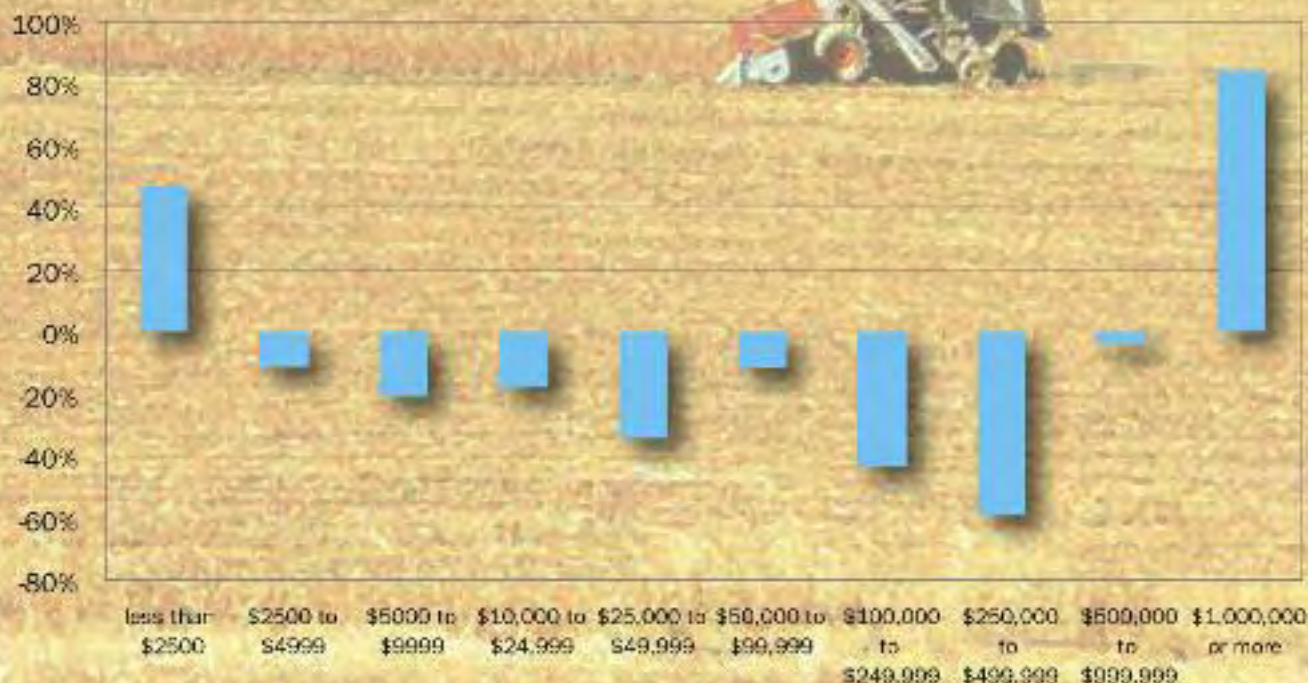
**Opportunity to add value**

Quadrant two of figure 1, “the opportunity area,” may represent the most likely option for the largest number of AOTM farms. This area represents the development of value-added, value chains. However to take advantage of the developing “alternative” food market, Stevenson and Kirshenmann reason the value chains must take shape as “values-based, value chains.”

“Values-based” refers to products and production that incorporate various organic, environmentally sensitive and/or locally identified food. They generally incorporate various aspects of



Change in Farm Numbers by Sales Category, 1997-2007  
adjusted for farm price inflation



economic, social and environmental sustainability.

### Cooperative development

Four cooperative examples that fit within “the opportunity area” are Organic Valley, OFARM, Country Natural Beef and Thumb Oilseed Producers Cooperative. Each of these cooperatives markets its products by emphasizing superior taste, health and nutritional qualities of foods produced by small- and mid-size farmer-members of the co-op. They also emphasize their members’ concerns for environmental responsibility in production methods and in final product characteristics.

As individual producers, the farmers of the middle will continue to struggle to survive economically, as well as socially, to maintain their family farm structure. Shifting to a values-based, value-added agriculture may hold promise and new opportunities, given an expanding demand for high-value differentiated products.

However, like any new product initiative, market development is required. No single farmer can take on this kind of development. Agricultural cooperatives are social-economically positioned to facilitate this emerging opportunity with their tradition and close connection to farmers and their communities. The production and market development of this genre of products requires certain basic tasks of purchasing inputs, local assembly, grading, packing, shipping and more. To differentiate the product and protect

it from potential competitors, complex tasks of branding, advertising, packaging, intensive processing and product molding — as well as research and development — are needed.

Small- to mid-size farmers can little afford to perform these functions as individuals. However, their mutual interests as a group can be pursued with the facilitative functions of a cooperative. Agricultural cooperatives have been performing these functions for decades.

Furthermore, a rural development advantage of cooperative organization, different from other organizations, is their member-patron orientation. Benefits flow to the members of the organization, rather than to non-farm absentee owners. To the extent that cooperative members farm locally and regionally, the benefits can flow to local and regional communities.

Historically, cooperatives have had a distinct role in seeking to keep farmers in business. Helping to shift AOTM farmers to a more survivable quadrant of figure 1 may open up greater possibilities for farmers, their cooperatives and their larger communities.

*Author’s note: Readers may also examine the web pages of Organic Valley, OFARM, Country Natural Beef and Thumb Oilseed Producers Cooperative to see what these cooperatives are doing in this area of development. ■*



# Management Tip

## The most important things I learned about running a co-op

By John Dilland

*Editor's note: John Dilland recently retired as CEO of Michigan Milk Producers Association.*

**B**efore relating my perspective on cooperative management, let me provide a brief description of the Michigan Milk Producers Association (MMPA) and how I became involved in co-op management. MMPA is a regional dairy marketing cooperative with around 2,200 members in Michigan, Indiana, Ohio and northeastern Wisconsin. Total annual revenues have recently ranged from \$550 million to \$800 million per year. The total is highly dependent on the price paid for nearly 4 billion pounds of milk marketed for its members each year.

Roughly 45 percent of the member milk is sold to fluid milk bottling companies and other bulk-milk manufacturing customers. About 20 percent of the member milk is sold to a major cheese manufacturer and the remaining 35 percent is processed through MMPA's two manufacturing plants located in Ovid and Constantine, Mich. Member equity in MMPA is roughly \$45 million, which will likely double in the next 10 years as a result of an equity capital-retain program that was approved by members in 2008 to help finance a major capital expansion of MMPA's manufacturing plant in Ovid, Mich.

### Manager pursued value-added strategy

During his 35 years with Michigan Milk Producers Association (MMPA), John Dilland is credited with having helped to shape MMPA into one of the most financially stable cooperatives in the country.

His initial challenge at MMPA was to restructure the balance sheet of the cooperative. He then helped to lead the transition from the fluid market into a high-quality line of value-added dairy products. This move, coupled with streamlining plant production, strengthened the overall economy for Michigan dairy farmers. While serving as the co-op's director of finance, Dilland helped craft one of the first dairy cooperative partnerships with Leprino Foods Inc.

In 2003, Dilland was appointed MMPA's general manager, in which role he fine-tuned the cooperative's marketing structure. In 2005, another landmark arrangement between Leprino Foods, Dairy Farmers of America and MMPA was signed, further solidifying the milk-supply agreement.

Dilland was saluted by the co-op's board for his ability to project long-range goals in a turbulent business environment, allowing the cooperative to take advantage of changing market trends without sacrificing MMPA's mission to market the members' milk to the greatest advantage possible.

In addition to his work for MMPA, Dilland has held leadership roles with the National Council of Farmer Cooperatives, National Society of Accountants for Cooperatives and the National Milk Producers Federation. He also served on the board of the Michigan FFA Foundation and the Michigan Dairy Memorial and Scholarship Foundation.



John Dilland

I have worked for cooperatives for nearly my entire working career. Following military service and graduate school, I began my cooperative career

working for the St. Paul Bank for Cooperatives as a credit analyst and loan officer. In the mid-1970s, MMPA

*continued on page 38*

# TOMATO CO-OPS HELP CRAFT BETTER FOOD SAFETY STANDARDS

**By Julie A. Hogeland, Ag Economist**

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**Y**ears before the Food Safety Modernization Act was passed in December 2010, two grower-owned cooperatives, the Florida Tomato Growers Exchange (FTGE) and California Tomato Farmers (CTF), developed a comprehensive market-based solution to consumer demands for safer food. These cooperatives anticipated the Act's call for science-based minimum standards of food safety for commodity-like produce, including updated good agricultural practices and guidance covering production and harvesting. This article explores the hurdles these cooperatives overcame to become champions of food safety within the fresh tomato industry.

Attention to food safety is an example of how cooperatives legitimize markets by developing rules of conduct benefiting both producers and buyers. Early in the 20th century, Sunkist, Sun Maid and Sunsweet brought order, coordination and predictability to produce markets described as “chaotic” by contemporaries. The cooperatives’ grades and standards showed members the value of what they were selling, providing leverage against unscrupulous buyers and greater access to credit. Through their willingness to go into uncharted areas such as food safety, FTGE and CTF have likewise created and safeguarded a market fundamental — safe food — and given tomato growers a similar control over their destiny.

A key difference between the last century’s collective action and now is that cooperatives are more likely to enlist the support of others in the supply chain to attain their goals. Emphasis on cooperative “difference” and self-reliance — “doing it all” — has diminished. Cooperatives increasingly recognize that grower needs must be situated and solved within the context of the entire supply chain. The shift from independence to interdependence marks a profound cultural change within cooperatives. CTF and FTGE were strongly motivated to streamline and clarify tomato food safety by the needs of key foodservice suppliers, notably Taco Bell and Jack





*Recurring food safety incidents indicated that a more intensive approach was needed.*

in the Box, and retailers such as Wegman's. The result was substantial industry progress toward eliminating food safety claims as a basis for industry competition.

### **Pre-1998 food safety practices**

Prior to 1998, fresh produce was regarded as raw agricultural commodities; as such, it was not addressed by the U.S. Food and Drug Administration's (FDA) regulation of processed foods. In 1998, FDA identified good agricultural practices (GAP) for all produce growers, irrespective of commodity, by publishing the "Guide to Minimize Microbial Food Safety Hazards for Fresh Fruits and Vegetables" (U.S. FDA 1998). The guide relied heavily on industry recommendations for water, manure and municipal bio-solids, worker health and hygiene, sanitary facilities, field sanitation, packing facility sanitation and transportation issues.

At that time, paying attention to the "early" (on-farm) parts of the food-marketing chain was a relatively new concept. In contrast, the microbial processes that ensure product safety in the packing of low-acid canned foods were well understood.

Nevertheless, recurring food safety incidents indicated that a more intensive approach was needed. Between 1996 and 2004, FDA tallied 14 outbreaks of salmonella exposure resulting in 859 cases of food-borne illness from consumption of fresh lettuce or fresh tomatoes. The industry-wide catalyst for change was a letter from FDA, advising lettuce and tomato growers, shippers and handlers to make food safety a top priority.

### **Turning point**

Industry observers cite the FDA letter as a turning point that convinced the tomato industry it needed "new rules of the game."

Harvard Business School analyst Michael Porter says that industries forced to adapt to significant cultural

change (such as consumer pressure for safer food) will resemble new, emerging industries. Firms in such industries compete to identify the technologies and processes that will become the industry standard, allowing the industry to survive and prosper. Since emerging industries lack critical technological and strategic information, firms experiment with different approaches to product/market positioning, marketing and servicing.

Emerging industries experience heightened uncertainty and risk because the consequences of particular choices may not be known for some time. For example, the industrializing pork industry experimented with different breeds to raise productivity (pigs per sow per year) and minimize the potential for PSE syndrome — pale, soft, exudative (watery) meat resulting from animals that could not stand the stress of confinement.

Initially, the produce industry seemed to find the credibility it needed through voluntary third party certification (TPC) providing production process verification through periodic auditing. The public or private organizations conducting TPC used scientific studies and technical requirements to interpret the 1998 FDA GAPs. By 2005, TPC seemed to be an important emerging institution for enforcing both private and public standards.

Nevertheless, imprecise, conflicting and subjective results accumulated over time, suggesting that the independent verification of process, product quality and safety claims offered by TPC might be subject to conflicts of interest. It appeared that the best that could be said was that food was either very safe, safe enough, barely safe or that safety could not be determined.

Retailers drove the adoption of third party certification to ensure that suppliers were in compliance with the 1998 guide. Yet different interpretations of the guide, coupled with ad hoc extensions, made uniformity and consistency among TPC providers a significant industry problem.

The existence of third party certifiers, with varying

claims to authority, made it difficult to identify whether standards were accurate and unbiased. The likelihood that auditing was being used strategically led industry observers to wonder whether audit outcomes were influenced by whether a company was “signed on” or not. Pressure for positive evaluations undermined the credibility of the assessments, contributing to what observers called “a spiral of distrust.”

### “Audit mania”

Outbreaks of food-borne illness in 2004 and 2006 triggered what industry observers called an “audit mania.” Retailers asked: “Can we make our standard stricter than anyone else?” Buyers seemed to believe: “If this standard is good, another will be better.”

Multiple audits fostered the belief that: “My food is safer than yours.”

Retailers, especially those competing for market share in the emerging markets of China, India, Eastern Europe and South America, differentiated themselves by the strictness of the “private standards” they adopted to monitor food safety.

Retailers’ competitive “race to the top” based on ever more rigorous standards resembled a “spiraling food safety arms race.” Private corporate standards fueled “increasingly aggressive on-farm management practices despite a more widely accepted set of standards,” said the Produce Safety Project (2010). As standards were ratcheted upwards by auditors, inspectors and other food safety professionals, normal production risk became high-stakes decisions.

The evolution of norms is not well understood. One potential explanation is that norms undergo a process of competitive selection, enabling the best standard to prevail (Hayek, 1960). Tomato industry experience suggests that conflicting standards prolonged the competitive filtering process.

In the decade following 1998, intense pressure to improve food safety fostered the assumption that it could be accomplished without environmental consequences. Lettuce growers in California’s Salinas Valley were among the first to encounter normative trade-offs. For example, critical habitat for some 80 species covered by the U.S.

Endangered Species Act could be eliminated if growers chose to use bare-ground buffers free of vegetation. Yet, vegetation filters and absorbs pollutants from drainage water and from surface water run-off that otherwise would reach cropland through bare ground. The Produce Safety Project found that farmers seeking to co-manage environmental and food safety risks face “tremendous pressure” by auditors and inspectors to remove wetland, riparian and other habitat, and eliminate wildlife on or near farmland. Grower efforts to protect air, water and soil quality were reduced or discontinued as auditors and inspectors associated particular conservation practices with food safety hazards.

The second phase of industry evolution included increasing awareness of the cost of multiple audits. Growers shouldered the cost of audits with conflicting standards that put them at risk for failing, or for getting results that did not make sense. Ed Beckman, chief executive officer of CTE, saw the pain of audit fatigue getting to the point where people were ready to set aside personal agendas. This provided an incentive to consolidate and standardize (or harmonize) multiple tomato GAP audit forms into a common set of guidelines — the third phase of industry adjustment.



*Growers began demanding science-based standards.*

### Streamlining standards

To establish consistency in leafy green production and handling, Western Growers Association (WGA) supported a national marketing agreement with growers. The consistency provided by a national baseline standard could, reasoned WGA, reduce the cost of multiple audits and criteria and potentially prevent buyers from tightening standards beyond the national level. Without a national agreement, WGA predicted that retailers, food service industries and states would try to improve their competitive position by creating mandatory, but not necessarily scientific, standards.

Growers began demanding science-based standards. Standards became less arbitrary as people began asking questions such as: “Is this a best practice? What controls are you using? What kind of practices are equally acceptable — animal or poultry manure or chemical fertilizer? Should I use strip or overhead irrigation? Is the water of adequate quality? How often do you want me to test it? How far should we be from a grazing area?”



Better industry metrics emerged from this process of determining “how many, how often, how far?” When science was lacking, the experience of people who had “walked the field” was used. One outcome of this process was the California Leafy Green Products Handler Marketing Agreement and a similar program in Arizona.

Although the agreements were not designed for tomatoes, buyers liked the metrics, so standards for green leafy vegetables were indiscriminately applied to tomatoes. From this, tomato growers realized they needed to work harder to let buyers know about how much they had improved traceability and introduced scale-neutral procedures (those not affected by farm size) covering worker hygiene, adjacent land use, water quality and equipment sanitation.

### **Cooperatives transform tomato food safety**

The Fresno-based California Tomato Farmers (CTF) and Maitland-based Florida Tomato Growers Exchange (FTGE) represent more than two-thirds of the U.S. domestic tomato supply. Formed in 1974, the FTGE is a cooperative of 20 first handlers of tomatoes from Central and South Florida. Florida is the largest producer of fresh market round tomatoes in the United States. Total annual value at the farm-gate level ranges between \$400-500 million, depending on tomato prices.

Prompted by the 2004 FDA letter to produce growers, FTGE developed tomato GAPs (T-GAPs) and best management practices (BMPs) in 2006, in conjunction with producers, the University of Florida’s Institute of Food and Agricultural Sciences, the Florida Department of Agriculture and Consumers Services and FDA. Florida was the first state to develop a comprehensive food safety program with mandatory government inspection and auditing of tomato production, handling and packing.

California also drew on scientific research to formulate and update standards. In 1999, the California tomato industry and the California Tomato Commission conducted food safety research through the University of California, Davis. The group also created an advisory panel of government agencies, customers, university scientists and farm labor advocates.

### **Setting a ‘Fresh Standard’**

The California Tomato Farmers (CTF) and the Florida Tomato Growers Exchange (FTGE) represent more than two-thirds of the U.S. domestic tomato supply. Growers created CTF in 2006 to voluntarily address food safety, social accountability and sustainability through practices mandated for members as “The Fresh Standard.”

CTF’s 54 grower-members supply nearly 90 percent of the fresh market tomatoes produced in California, representing \$250 million in annual sales.

Formed in 1974, the FTGE is a cooperative of 20 first handlers of tomatoes from Central and South Florida. Florida is the largest producer of fresh market round tomatoes in the United States. The total annual value at the farm-gate level is between \$400 million and \$500 million, depending on tomato prices.

Florida was the first U.S. state to develop a comprehensive food safety program with mandatory government inspection and auditing of tomato handling, production and packing. California’s political and regulatory climate was less conducive to establishing state regulations on agricultural produce (Thompson, 2008). Nevertheless, CTF’s Fresh Standard is “compatible with the Florida Best Practices Manual, approved by USDA, and calls for inspections carried out by USDA officials” (Thompson, 2008:41).

Both programs have established food safety guidelines for farmers and handlers and stringent field verification audits by inspectors from their state departments of agriculture.

Packinghouses likewise are subject to random and unannounced government inspections evaluating their ability to conduct tomato tracebacks. The traceback requirements mandated under the Florida and California programs exceed current federal requirements under the Bioterrorism Act of 2002, as well as current California state regulations.

### **Momentum spreads**

To maintain the improvements made at the grower-shipper level throughout the supply chain, an industry task force was created in 2007 to develop commodity-specific food safety guidelines for the fresh tomato supply chain. This covered tomato production in greenhouses and open fields, harvest and field packing, repacking and distribution. The CTF and FTGE cooperatives; retailers, such as Wegman’s; and food service companies such as

Taco Bell, McDonald's, Kentucky Fried Chicken and Subway joined this effort. (Beckman says food service businesses drove the process much more than did food retailers).

Coordinated by the United Fresh Fruit & Vegetable Association (now United Fresh Produce Association), the task force sought to meet FDA's goal of making "best practice into common practice."

To minimize the possibility that those who didn't have a voice could reject the new standards, or that an end user might co-opt the process, United Fresh sought broad industry participation. Identifying how food safety research could produce solutions was a prelude to building industry consensus.

Within nine months, the task force developed a consolidated, yet comprehensive, set of audit standards, followed by auditor training and field testing. In 2008, the Food Safety Programs and Auditing Protocols for the Fresh Tomato Supply Chain were published. Harmonized food safety commodity-specific best practices for growers, re-packers and distributors had been achieved through the food safety model initiated by the FTGE and CTF cooperatives.

### Implications of food safety crises

Growers developed T-GAPs and BMPs through their cooperatives to defend themselves against a potential Salmonella St. Paul "red scare," said *The Grower* (2008).

The potential for erratic product quality is a significant problem confronting emerging industries, however. "A few firms with erratic quality can negatively affect the image and credibility of the entire industry," said Porter. Although only about 1 in 100 cases of food-borne illness are reported in the United States, 1,400 people became sick in 2008 from a rare strain of bacterium known as Salmonella St. Paul.

Epidemiology is difficult and time-consuming because tomato outbreaks are generally associated with intermittent, low-level contamination and dispersed multi-state individual cases of illness. The difficulty of "teasing out" the source of the contamination increases when food products are combined.

Tomato trace-backs are also complicated by supply chain complexity. The vast majority of domestic tomatoes are channeled into value-added processing, not sold fresh.



*"Growers live and die based on product reputation."*

Most tomatoes are sold to re-packers for sorting, then resold to retailers or food service operators, who may chop, slice or dice them before they reach consumers. Tomato re-packers may repack multiple times, reusing the original boxes, and, as product is re-sorted, one kind of tomato may land in a box intended for another.

Epidemiologists from the Centers for Disease Control and Prevention initially attributed the 2008 Salmonella St. Paul crisis solely to tomatoes. Later, jalapeno peppers appeared to have a more conclusive role (Thompson 2008). This ambiguity convinced tomato growers that they needed a better working relationship with the regulatory agencies, including broader diffusion of a fast trace-back method created by the CTF cooperative using electronic recordkeeping.

There were differences of opinion, however. Epidemiologists found that records of tomato transactions, such as re-packing, tended to be either very poor or nonexistent. The industry, in contrast, saw a need for a common language. It was clear to both that more routine information about "who is handling what food and how" was needed.

### Review and conclusions

This case shows that tomato growers sought to maintain public confidence in their product by minimizing risk. "Growers live and die based on product reputation," said CTF's Beckman. Reggie Brown, FTGE's executive vice president, concurred: "The loss of buyer confidence is absolutely lethal." Economic historian Douglass North emphasizes that norms evolve slowly and incrementally. This was true of the tomato industry, where the learning curve was steep and growers needed more than a decade to define the scope of the problem they faced.

Yet, what was possible by 2009 would not have been possible 10 years earlier. The protracted process of identifying where and how pathogens emerge taught tomato growers where they were most vulnerable to contamination. The evolution to "co-management" initiated by the leafy greens industry began to demonstrate, for all produce items, the sometimes subtle and complicated relationship between production and environmental quality.

The transition to commodity-specific standards enabled tomato growers to learn how distribution systems work together. Progress was made in food safety science during this period, and gaps were identified. The 2008



Salmonella St. Paul crisis challenged industry and government to consider the interaction between tomatoes and the many other ingredients frequently combined with them.

The most important accomplishment since publication of the 1998 guide was substantial cooperative and industry progress toward eliminating food safety claims as a basis for industry competition. Together, the large market share of the California Tomato Farmers and the Florida Tomato Exchange provided an incentive to address the pervasive uncertainty typical of industries redefined by new consumer needs, such as an increased emphasis on food safety.

The standards developed in tandem by the two co-ops eventually became a foundation for a universally applicable model of food safety marked by harmonized and auditable standards applicable to each phase of the tomato industry. By eliminating contradictory standards through a uniform audit metric, GAP harmonization led to auditor harmonization. Without this, buyers could not fully trust those from whom they buy goods and services. Costly sanctions and guarantees typically are needed to compensate for wariness and distrust.

Loss of buyer confidence in the aftermath of the 2008 Salmonella St. Paul crisis — tomato sales have yet to rebound to pre-crisis levels — could be considered an industry sanction, measured by the consequences to public health, industry jobs and incomes foregone, as well as the detrimental effect on the national agenda to increase fruit and vegetable consumption. The tomato industry lost \$100 million from the 2008 crisis, says Beckman.

In this context, industry and government no longer dismissed mandatory standards as being “too radical.” Compared with private auditors, FDA had “real teeth” (The Packer, 2009). “They can’t survive without us, and we can’t survive without them,” Beckman said. In July of 2008, both Beckman and Brown testified at the House Subcommittee on Oversight and Investigations hearing to express support for nationwide food safety legislation modeled after the two groups’ mandatory programs.

Profit was less important to Beckman than trying to stay in business. He adds that inadequate attention to food safety meant “you are contributing to the demise of an industry. The industry cannot afford to take these hits.”

Inadequate recordkeeping is a factor that, in the pork and beef industries, prompted structural change through industrialization to capture productivity gains. Because tomato growers want to present the message that tomatoes are safe, food safety crises may similarly prompt the produce industry to adopt a structure more conducive to systematic recordkeeping. At the same time, inspectors and other food safety professionals may progress toward a

common industry language, easing pressure to revise conventional handling practices which have been satisfactory in other respects.

Repeated measures of food safety through frequent auditing became a significant industry cost and an onerous burden for tomato growers, who might be contacted by as many as 20 auditors during a month at a cost of some \$400 to \$10,000 per audit.

Multiple competing standards undermined the credibility of any particular standard. Industry leaders, facilitated by trade association United Fresh Produce Association, formed a task force to eliminate the excess and potentially spurious competition created by multiple sources of food safety standards.

The standards developed by the Florida Tomato Exchange and California Tomato Farmers provided a foundation for developing a new set of harmonized standards legitimated by widespread industry acceptance. Nevertheless, to the extent that gaps in food safety science remain, any set of standards must be considered evolutionary. The challenging and difficult nature of creating commodity-specific food safety standards in the tomato industry raises the question of how possible it is for other commodities to move quickly from limited product guidance to comprehensive standards reflecting broad industry support.

A primary mandate of industrialized agriculture is “the low-cost producer survives.” This normative belief may affect food safety outcomes. When supply is tight, particularly when weather conditions affect supply, buyers are more concerned about sourcing product than about food safety practices. Comprehensive, harmonized and auditable food safety standards recognized as legitimate by major industry stakeholders represent significant progress toward reducing the influence of this competing norm.

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# Sailing Turbulent Seas



*Despite volatile markets, co-ops need to look to long-term competitive advantages*

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**Editor's note:** *More information about the Farmer Cooperatives Conference, including PowerPoint presentations, is available on the University of Wisconsin Center for Cooperatives website: [www.uwcc.wisc.edu](http://www.uwcc.wisc.edu).*



Like ships sailing through turbulent seas, co-ops will likely deal with continued risk and uncertainty in 2011, but there is opportunity on the horizon.

Indeed, despite ongoing structural challenges on the global and domestic fronts, agricultural cooperatives represent a long-term competitive advantage for the United States, CoBank CEO Bob Engel said during the 13th Annual Farmer Cooperatives Conference.

The conference, held Dec. 6-7 in Broomfield, Colo., was presented by the University of Wisconsin Center for Cooperatives. It provided a broad overview of the current issues affecting farmer cooperatives. Challenges range from continuing world economic volatility to issues of sustainability and creating new domestic markets.

Engel's presentation contrasted the strong growth in the emerging economies of China, India and Brazil with expected challenges in the U.S. economy throughout 2011, and perhaps beyond.

Current policies, Engel said, have merely shifted debt from the private to the public sector. But the system still hasn't gone through a necessary deleveraging.

Engel said he expects that uncertainty and volatility will remain for some time, but sees many cooperatives building flexible organizations that are capable of balancing member value with long-term





stability for the enterprise. In the long term, the expanding economies and populations of the countries which pose competitive challenges will also offer an expanding market for the high-quality agricultural products that the U.S. agribusiness sector can produce, he noted.

### **Global competition**

Terry Barr, senior director of industry research at CoBank, expanded on these themes and summarized the global competition, inventory and cost trends that will influence acreage decisions for grain producers. While the weaker dollar will push up the cost

of ag inputs, Barr said, passing on higher costs of production to the consumer will be difficult, given high unemployment rates.

More debates concerning implementing protectionist trade policies can be expected. Barr said he expects increased focus on acreage and commodities investing. However, unlike during the 1970s, the market fundamentals for these investments are solid.

Providing one cooperative's perspective on the global marketplace, Duane Nelson, president of Genex Cooperative, described the benefits of an international presence, from both the board and member perspectives. Genex supplies livestock genetics and consulting services to increase farm profitability and is one of three subsidiary cooperatives that own CRI Inc., a holding cooperative. Genex sells worldwide, maintaining low marketing costs through an in-country distributor network based on commission.

The profitability of international operations offsets the higher domestic costs around member services and has provided some opportunity to import outside genetics. Nelson expects that within five years the units sold globally will surpass domestic volume. This growth is made possible by building relationships and knowing the politics and culture of international customers.

Rick Browne, CHS Inc. senior vice president for grain marketing, observed that a cooperative must be global if it is to compete globally. Global customers want one or two suppliers that can meet their needs year-round. CHS Grain Marketing is moving from contractual relationships with international customers to supply U.S. commodities, to being a global supply-chain manager with multiple sources of supply. Burgeoning demand in China is

especially driving the development of competing global supply chains as new export capacity is built.

Browne described a multi-step process that CHS takes to establish new in-country presences. The process addresses typical challenges that may include local business conditions, sovereign governmental issues, counter party risk and lack of alignment in interests. However, these are outweighed by the benefits of international expansion, which includes access to both human resources and grain supplies, as well as access to global demand for a wider range of CHS business lines, including freight capabilities.

### **Antitrust, health insurance among domestic issues**

The Department of Justice and USDA conducted a series of workshops over the past year to examine competition issues in agriculture. Initial comments about antitrust exemptions caused some concern about the status of the Capper-Volstead antitrust exemption for agricultural cooperatives, said Marlis Carson, senior vice president and general counsel for the National Council of Farmer Cooperatives. NCFC, its members and other cooperative groups launched a strong education campaign regarding the importance of Capper-Volstead to the nation's co-ops.

Carson noted that Assistant Attorney General Christine Varney made positive statements about the role of cooperatives during the workshops. However, this is an issue that co-ops must continue to monitor and education efforts must continue, since co-op consolidations may trigger further scrutiny, Carson said.

The cooperative model is being used to address another issue that has

significant impacts on farmer co-op members — the availability of health insurance. According to Bill Oemichen, president and CEO of Cooperative Network, surveys showed that during 1995-2005, when Wisconsin was losing dairy farms rapidly, the primary concern of state dairy producers was the access to affordable quality health insurance, not low dairy prices.

Oemichen described the innovative Co-op Care Project, which was developed to allow individuals and small groups to create cooperative purchasing alliances to contract with an insurer, which was implemented through an amendment to Wisconsin's cooperative statute. As a result of education and advocacy efforts during the health care debates, the new federal health care reform law supports the development of nonprofit health care exchanges. These exchanges have cooperative characteristics and provide the opportunity to build on the health care cooperative model.

### Natural resource management

Resource management issues for co-ops were explored in the context of water use in Colorado. Christopher Goemans, assistant professor at Colorado State University, described water-use trends, noting that water allocations for agriculture inevitably face strong challenges to identify water transfer marketing arrangements to growing population centers without “drying out” rural communities.

James Pritchett, associate professor at Colorado State University, explored how more efficient water use would allow agriculture to do more with less, as decreasing aquifers, urbanization and compacts between states all will increasingly affect water availability. Irrigated agriculture is an engine of economic activity, and a water cooperative to handle farmer-municipal transactions might be one option to support it, he noted.

There are unique challenges to managing and growing a farmer cooperative with member-producers who are dependent on water access, said

Keith Devoe, general manager for Roggen Farmer's Elevator Association. Producer decisions to sell water rights are dependent on individual goals and farm leasing agreements, but the trend is toward more “dryland” farming acreage. This has significantly lowered both agronomy sales and production volume for the co-op.

Devoe asked whether water pricing reflects its true replacement value. He pointed out that municipal financing

mechanisms place the irrigated agriculture industry at a disadvantage. But long term, economic growth might be better served through valuing agricultural use, he said.

### Consumer concerns drive sustainability issues

Resource management is one component in the broader conversation about sustainability and food. While sustainability may have negative



*International operations are becoming increasingly important to GENEX, with foreign sales expected to outpace domestic sales within five years. Here, a technician does fertility monitoring on a dairy herd. Photo courtesy Cooperative Resources International*





Training sessions are held by GROWMARK to help cultivate the next generation of co-op leaders. Photo courtesy GROWMARK

## *Good governance and strategic decisionmaking*

The success of such strategic ventures — at both the enterprise and member benefit levels — is affected by decisionmaking grounded in good cooperative governance practices. Brent Hueth, associate professor and director at the University of Wisconsin Center for Cooperatives, provided the Farmer Cooperatives Conference with an update on the in-depth cooperative governance research project being conducted by the Center.

Cooperative boards usually play an active role in setting strategy, although CEOs and board chairs often have conflicting perceptions on the role of boards in the planning process. Hueth also noted that in an era of significant CEO turnover, more than half of the co-ops surveyed do not have succession plans in place for the CEO/general manager.

Jim Hoyt, vice president for strategic planning and corporate Services at GROWMARK Inc., took a closer look at the succession planning process. This is a strategic issue for cooperatives, especially as their leadership teams begin to retire and take with them their institutional memory and accumulated knowledge. Planning also needs to take into account the unexpected: departures, illness or other factors.

GROWMARK has made succession planning a priority for top management. It will be working with its member co-ops to develop board training programs to cultivate the

next generation of board leadership. Hoyt suggested developing a “depth chart” that identifies the people at the mid-management level and higher that could fill key positions at present, or with additional development training.

There are a variety of individual and experiential types of training programs that can be provided, but the process of selectively offering these opportunities needs to be handled sensitively within the organization. The board should understand the depth of the pool of possible candidates for key positions, whether there is a leadership development process and/or whether the cooperative is attracting an appropriate amount of external talent.

Les Hardesty, a director with Dairy Farmers of America, described the governance structure used at DFA to represent and strategically plan for the needs of diverse member operations, which range from an average of farmers with 55 to more than 3,500 cows. Regional governance issues also exist, given DFA’s national scope and variety of farm services. However, milk marketing is the core business of the cooperative, and other services are only paid for by the members who use them.

The DFA governance structure uses regional delegates to area councils that elect a 51-member board of directors. There is an executive committee and an extensive use of board committees that also participate in regular revisions of the co-op’s strategic plan. ■

connotations for some in production agriculture, the “triple bottom line” — which encompasses profit, people and planet — is something that increasing numbers of consumers and retailers care about, explained Chris Peterson, professor at Michigan State University. Sustainability is an example of a “wicked problem,” in which stakeholders have radically different frames of reference. Cause-and-effect relationships are uncertain, so solutions are not “true or false,” but rather “better or worse,” he said.

*Cause-and-effect relationships are uncertain, so solutions are not “true or false,” but rather “better or worse.”*

Peterson noted that wicked problems are not solved, but managed — from both impact and process perspectives. He discussed how sustainability questions have been addressed in the Brazilian sugarcane industry and in the Netherlands. Managing sustainability requires that all relevant stakeholders be part of the process and that they be willing to leave behind old debates and embrace learning and innovation.

Peterson pointed out that cooperatives, by their nature, represent multiple players in a supply chain and they can be both an enabler and target of sustainability.

Sarah Stokes Alexander, director of Sustainability and Leadership Programs at Keystone Center — a Colorado-based nonprofit that focuses on finding solutions to environmental, health and energy challenges — described Keystone’s Field to Market project. Using a collaborative stakeholder group of producers, agribusiness, food and retail companies and conservation organizations, the project’s goal has been to develop metrics for the environmental and socioeconomic impacts of agriculture.

An online tool is now available for growers to help assess the operational efficiency for their natural resource management decisions, and a new version is in development, based on grower feedback. Work continues on developing benchmarks for other environmental and socio-economic indicators.

A stakeholder perspective on sustainability was provided by Russell Williams, director of regulatory relations for the American Farm Bureau Federation. He described sustainability

as a process, not an end point, based on incremental and continuous improvement. While the development of standards helps consumers make decisions, they are inflexible and costly for producers, said Williams. He called for a grower-driven process and governmental support for transition to sustainable practices.

### **Growth strategies**

The conference also included a look at several strategies that agricultural cooperatives could pursue to expand the benefits they provide to their member owners. Brad Miller, vice president of auctions and competitive bidding for CRA International Inc., a Boston-based consulting firm, described the globalDairy Trade (gDT) auction platform, developed in 2008 for New Zealand-based cooperative Fonterra, one of the world’s largest dairy producers. About 25 percent of Fonterra’s domestic production is now on gDT, which provides reliable, credible prices and market information, benefitting both co-op members and the market place. A similar trading platform has been developed for Ocean

Spray for cranberry concentrate. Miller noted that these platforms can be designed and tailored to meet the needs of both buyers and sellers in a variety of markets.

Growth is also dependent on access to capital. Stefan Shaffer, managing partner with SPP Capital Partners LLC, noted that the current borrowing environment is unique and most likely will not continue.

Mike Jackson, president and CEO for Adayana, a Minneapolis-based consulting firm, described joint venture opportunities as a way to share risk and rewards with a partner while protecting core asset ownership. To take full advantage of the growth possibilities of a joint venture, Jackson suggested looking for partners that provide complementary resources and skills, but have similar cultures and a collaborative attitude.

Detailed venture expectations and goals are critical to successful execution of such deals. Upfront planning for dissolution, including grounds for termination and partner rights, is also a prudent and necessary step when negotiating a joint venture.

### **Interconnectivity: resource and opportunity**

Online connections, opportunities and resources available to cooperatives were also discussed. One example is the national eXtension initiative, which takes advantage of online and social media technologies to deepen the reach of Extension resources.

Greg McKee, assistant professor and director with the Quentin Burdick Center for Cooperatives at North Dakota State University, introduced the eXtension Cooperative Community of Practice. He described how the public will use the site to gain information from cooperative experts, as well as the other resources it will offer.

The collaborative dialog and learning opportunities that digital interconnectivity provides were also the topic of a creative presentation by David Warlick, director with the Landmark Project. ■



# Utility Connection

## Bridging the Gaps: New Mexico co-op expanding broadband in rural West

By Anne Mayberry

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Kit Carson Rural Electric Cooperative in Taos, N.M., is among several rural electric cooperative utilities

that were awarded funding under the American Recovery and Reinvestment Act of 2009 to deliver broadband to rural communities. Just as electric cooperative utilities brought electricity to rural America 75 years ago with the passage of the Rural Electrification Act of 1936, today's cooperatives are delivering broadband to rural communities.

Projects such as that awarded to Kit Carson will directly serve households, businesses, farms, and public safety and community facilities. Rural areas have too often been among the last to receive broadband service. "Much like electrifying the countryside 75 years ago, low population density and geographic features, such as mountains or deserts, are often the challenges with rural broadband projects," according to Jonathan Adelstein, administrator of the U.S. Department of Agriculture's Rural Utilities Service (RUS), part of USDA Rural Development.

Along with the U.S. Department of Commerce's National Telecommunications Information Administration, RUS was tasked with implementing the Recovery Act broadband program. "During the past two years, we've gained tremendous insights into the unique challenges of financing broadband in rural high-cost markets,"

*continued on page 36*



*The vast areas of land — including canyons, mountains and deserts — in the service territory of the Kit Carson Rural Electric Cooperative pose a challenge as it seeks to expand the availability of broadband services to its members. The Rio Grande Gorge Bridge (above), crosses one such canyon. Photo by Chris Dahl-Bredine, courtesy Taos Vacation Guide*

# CO-OP IDEAS CAN HELP EDUCATION



The Minnesota New Country Schools (MNCS) was named one of the “10 most amazing public schools” in the country by “Ladies Home Journal.” Photo courtesy of EdVisions Schools

By Joe Nathan

**Editor’s note:** Joe Nathan is a former public school teacher, administrator and PTA president. He is the parent of three public school graduates and now directs the Center for School Change at Macalester College in St. Paul, Minn. This article is adapted from a column that originally appeared in the “Mille Lac County Times.” He welcomes comments at: [jnathan@macalester.edu](mailto:jnathan@macalester.edu).



For generations, some Milaca (Minnesota) area farmers have been members of a co-op. Now that idea is being applied, with encouraging impact, to public school teachers. That’s a central message of a recent report, “Can Teachers Run their Own Schools? Tales from the Islands of Teacher Cooperatives” (online at: [charlestkerchner.com/cr/uploadImages/Teacher\\_run\\_case.pdf](http://charlestkerchner.com/cr/uploadImages/Teacher_run_case.pdf)).

Written by Charles Kerchner, a Claremont (California) College professor, it’s the story of another Minnesota educational innovation: public schools run like agricultural cooperatives. But if you think about options that doctors, lawyers, journalists and other professionals have, this is not just for rural communities. Kerchner notes: “The use of cooperatives is much more widespread than commonly realized, involving as many as 100 million Americans.”

But don’t schools need school boards and administrators? Isn’t it vital to have school boards at the top, setting policy, hiring administrators who make recommendations to school

boards and are responsible for hiring and firing the teachers? Many would say “no.”

How often have teachers said to themselves, “If I were in charge, here’s how I would do it.” Some teacher-run schools are charters, some are part of a traditional district. The new Minnesota “site-governed law” provides the option for teachers wanting to remain part of a district. St. Paul and Minneapolis Federation of Teachers backed this law.

Kerchner shows that teacher-run schools are appearing all over the nation. He begins with Avalon, a teacher-run charter public school in St. Paul.

He recalls that in the legends of King Arthur, Avalon was “The Fortunate Isle.” The majority of board members at Avalon are teachers in the school. One board member is a former business agent for the Minneapolis Federation of Teachers.

The teacher-run school idea was born in Henderson, Minn., in 1994, with the creation of the Minnesota New Country School (MNCS). (Full disclosure — my organization helped start this school, providing both financial and other assistance). Doug and Dee Thomas, and a number of other public school veterans/visionaries created MNCS, with assistance from Ted Kolderie, a creative Minnesota policy thinker. Ladies Home Journal recently named MNCS one of the 10 “most amazing public schools” in the country.

USDA Rural Development played an important role in this school. It guaranteed the loan that allowed the school building — complete with a grain elevator inside — to be constructed. The large, mostly open-space building provides MNCS students with their own work area. Each of the grade 7-12 students not only have her/his own computer, but also a space that can be decorated (discretely) with pictures of friends, family, animals and other hobbies.

MNCS and a larger cooperative called EdVisions remain in Henderson, providing assistance and inspiration to educators and families throughout the United States (as well as visitors from a number of other countries.) There are 12 EdVisions schools in Minnesota and 35 others around the country (for more information, visit: [www.edvisions.com](http://www.edvisions.com))

Kerchner is clear that “The range of test score results among the teacher-run schools is very large, and so is the student population served. The schools appear to have better-than-average college test results and college-going rates.” Most EdVisions schools also use the “Hope Study,” which reports: “Students with high Hope Scale scores believe that they have the ability to find workable routes to their goals and that they can meet them.”

Helping youngsters learn to set and reach goals is a central value at these schools. It’s a very important part of education.

Kerchner acknowledges that the approach won’t solve all of education’s problems. But he makes a strong case that they are “worthy of consideration.” ■



# Newsline

## Co-op developments, coast to coast

Send co-op news items to: [dan.campbell@wdc.USDA.gov](mailto:dan.campbell@wdc.USDA.gov)

### USDA's Lewis wins honor

Edgar L. Lewis, an agricultural economist who has been a strong advocate for small, limited resource and socially disadvantaged producers, has been awarded the Booker T. Washington Entrepreneurship and Leadership award. Lewis has been a USDA ag economist for 44 years, most of it spent with the Cooperative Programs office of USDA Rural Development, where he manages rural entrepreneurial outreach partnerships between 1890 Land Grant Institutions and USDA. He also serves as an outreach coordinator for small and beginning farmers and ranchers.

The award was presented during the 15th Booker T. Washington Economic Development Summit at Tuskegee University in Alabama. The theme for the summit, held in September, was: Revitalizing Entrepreneurship and Procurement Opportunities in Small Towns and Rural Communities.

Through his research, technical assistance and outreach work, Lewis has provided an array of services to minority producers, small-scale farmers and cooperatives. He has helped to forge a number of partnerships and collaborative efforts involving land grant and 1890 institutions and others while striving to raise income levels for small-scale farmers and improve the economic viability of small-farm enterprises.

A native of Louisiana, Lewis pursued his love of agriculture at Southern University in Baton Rouge, where he received a Bachelor's degree in ag economics. His graduate studies were done at Ohio State University and the



Edgar L. Lewis

University of Maryland.

Lewis has brought his expertise to many task forces and committees, including USDA's Small Farm Working Group, the 1890s Scholars Program and Partners Meeting. He has also worked closely with USDA's Office of Advocacy and Outreach to promote initiatives that advance the economic position of minority and under-served producers in rural America. He has been a regular participant in the Professional Agricultural Workers Conference and is the winner of a number of other awards for his work with minority and limited-resource producers.

### U.S. Agbank, CoBank pursue merger

U.S. AgBank and CoBank, two of

the five banks in the Farm Credit System, are pursuing a merger. A letter of intent has been signed, setting forth key terms and conditions of the proposed transaction, which also requires regulatory and stockholder approval.

The merged bank would serve as a wholesale provider of financing to Farm Credit Associations, which provide credit and financial services to more than 70,000 farmers, ranchers and other rural borrowers in 23 states. It would also serve as a direct lender to agribusinesses and rural electric, water and communications service providers throughout the country.

The merged bank would continue to do business under the CoBank name and be headquartered outside Denver, Colo., but it would maintain U.S. AgBank's existing presence and operations in Wichita, Kan., and Sacramento, Calif. Robert B. Engel, CoBank's president and chief executive officer, would be the chief executive of the combined entity.

"Over the course of the past year, the U.S. AgBank board has engaged in a strategic review of our business to determine the course that would best serve our associations and the farmers and ranchers in our territory for the long term," says John Eisenhut, chairman of U.S. AgBank. A merger with CoBank will best achieve that purpose, he said.

"The merger will bring together two financially sound, profitable banks to create an even stronger cooperative financial services institution, under a governance structure that will offer associations, cooperatives and other



*More efficient use of their pastureland is helping some dairy farmers reduce their overhead costs. Industry experts and producers shared grazing ideas at a recent Dairy Farmers of America (DFA) conference in Kentucky. Photo courtesy DFA*

customer-owners a fair and equitable voice in the governance process,” says CoBank Chairman Everett Dobrinski.

Wichita-based U.S. AgBank provides wholesale loan funds and financial services to Farm Credit Associations and other financing institutions in Arizona, California, Colorado, Hawaii, Kansas, Nevada, New Mexico, Oklahoma, Utah, southeastern Idaho and the western edge of Wyoming. It has about \$25 billion in total assets.

Denver-based CoBank provides wholesale funds to Farm Credit Associations serving Alaska, Connecticut, Idaho, Maine, Massachusetts, Montana, New Hampshire, New Jersey, New York, Oregon, Rhode Island, Vermont and Washington. The bank also provides retail loans, leases, export financing and other financial services to agribusinesses and rural power, water and communications service providers in all 50 states. CoBank has about \$60 billion in total assets.

### **DFA members learn grazing strategies; co-op acquires Hispanic cheese brand**

About 150 producers and agribusiness professionals attended Dairy Farmers of America Inc.’s (DFA) 2011 Grazing Conference in Louisville, Ky., in January. The two-day event was presented by Dairy Grazing Services (DGS), a wholly owned subsidiary of DFA that provides resources and consulting services to producers interested in pasture-based dairying.

“Increasing input costs and volatile milk prices continue to create uncertain profit margins for dairy farmers,” said Jackie Klippenstein, who oversees DGS. “However, some producers are finding that utilizing existing pastures can help cut costs and create a more secure profit.”

Producers and industry experts shared their strategies and tips for sustaining high-performance, pasture-based dairies. Larry Tranel, a dairy specialist with Iowa State Extension

who assists producers in adapting their operations to intensive rotational grazing, presented a series of case studies on successful grazing dairies.

Phil Wicks, U.S. general manager for the Livestock Improvement Co., a dairy farmer-owned cooperative genetics supplier from New Zealand, provided insight on best practices for designing breeding programs for grazing dairy farms. Eric and Julie Neill, dairy producers who started a seasonal grass-based dairy from scratch in 2010, shared their experiences in planning the dairy, developing the grazing system, building the milk parlor and the first year of operation.

Jay Waldvogel, DFA’s senior vice president for strategy and international development, discussed how grazing producers in the United States fit into the rapidly changing dairy global industry. For more information visit: [www.dfamilk.com/grazing](http://www.dfamilk.com/grazing).

In other DFA news, its recent acquisition of Houston-based Castro



Cheese Co. means the co-op is entering the rapidly growing ethnic dairy product market. Castro Cheese owns the La Vaquita brand product line, which includes Queso Fresco, Panela, Queso Quesadilla and other artisanal cheeses commonly used in Hispanic dishes.

DFA will retain the company's current 72 employees, who will continue to be led by Alberto Bandera, the current operating executive.

### **Urban co-op development initiative launched**

Congressman Chaka Fattah of Pennsylvania, chairman of the Congressional Urban Caucus, is leading an initiative to support urban cooperative business development throughout the United States. Fattah, an eight-term Congressman from Philadelphia, will partner with the National Cooperative Business Association (NCBA), a Washington-based federation of cooperatives from all sectors of the economy, and CooperationWorks! (CW), a national trade association of cooperative development centers and individuals.

"Cooperatives provide an excellent means for economic development and community enrichment," Rep. Fattah says. "This new initiative is catching on in our cities and urban areas. The cooperative movement is a perfect fit with the agenda of the bipartisan Congressional Urban Caucus, and I am pleased to provide this effort with a strong voice in Congress. These cooperatives will create jobs and wealth by helping new local businesses that are owned and controlled by their members."

The new initiative will include seeking authorization of funds for technical assistance for urban cooperatives across the United States.

"A successful authorization of an urban cooperative development program could pass Congress in 2011 and could potentially be appropriated as early as 2012, the year declared by the United Nations as the International Year of Cooperatives," says Lisa

Stolarski, chair of CooperationWorks! Urban Circle.

"NCBA looks forward to working with Congressman Fattah and the co-op community in developing an urban cooperative development program," says Adam Schwartz, NCBA vice president of public affairs and member services.

### **Nilsestuen Fund to promote co-op education**

A new program being established in memory of Rod Nilsestuen will establish a fund to sponsor advances in research, education and outreach in cooperative business and development.

The fund was launched at the Cooperative Network's annual meeting, which also honored the many accomplishments of the former Wisconsin state agriculture secretary this week.

The Rod Nilsestuen Fund has been organized as part of the Ralph K. Morris Foundation, which shares a dedication to the future of cooperatives and leadership development. One of its primary activities will be to establish a symposium devoted to in-depth, thought-provoking presentations on issues affecting cooperatives, conservation and leadership development. The inaugural event is slated for 2012 and will be held at the University of Wisconsin-River Falls, Nilsestuen's alma mater.

For more information, visit: [www.ralphkormorrisfoundation.org](http://www.ralphkormorrisfoundation.org) and click "The Rod Nilsestuen Fund."

### **CHS names Casale president and CEO**

CHS Inc., a leading energy, grains and foods company, has named veteran agribusiness leader Carl Casale as its new president and chief executive officer, effective Jan. 1, 2011. Casale, who most recently was executive vice president and chief financial officer for Monsanto Co., succeeds John Johnson, who retired Dec. 31. In his previous role, Casale was responsible for finance, strategy and information technology resources.

"The CHS board believes that in Carl Casale we've found an individual whose impressive depth of domestic and global agribusiness knowledge, strategic ability, financial acumen and leadership experience will carry CHS forward," says Michael Toelle, CHS board chairman and a Browns Valley, Minn., farmer. "Most of all, we believe we've selected a candidate whose rural roots, active involvement in agriculture, personal style and values are compatible with our culture and our strong, producer-focused company."

The CHS board selected Casale to lead the nation's largest producer-owned cooperative following an



*Carl Casale*

extensive search, which included both internal and external candidates.

"I feel privileged and excited to be part of a company owned by farmers and ranchers and to help CHS embrace new opportunities to add value for producers in a dynamic global marketplace," says Casale. Casale is a native of Oregon's Willamette Valley. He and his wife, Kim, operate a family-owned blueberry farm near Aurora, Ore., which has done business with area supply and marketing cooperatives for generations.

Casale joined Monsanto in 1984 as a sales representative in eastern

Washington. He has held numerous sales, strategy, marketing and technology-related positions with Monsanto. Before assuming duty as CFO in 2009, he was executive vice president for strategy and operations, overseeing its strategy, manufacturing and information technology organizations.

He holds a B.S. degree in agricultural economics from Oregon State University and an executive M.B.A. degree from Washington University in St. Louis, Mo. The Oregon State University College of Agriculture named Casale its 2009 alumni fellow. He has served on the board of the National 4-H Council.

### **Jeff Solberg new CEO at GROWMARK**

Jeff Solberg assumed duty Jan. 3 as the new CEO of Bloomington, Ill.-based GROWMARK. Solberg succeeds CEO Bill Davisson, who retired.

Solberg is a 1974 business administration graduate of Illinois Wesleyan and received an M.B.A. degree from the University of Illinois in 1976. He has held the positions of financial analyst, cash manager, assistant treasurer, treasurer, vice president of finance, and senior vice president of finance for GROWMARK.

Solberg is past president and chairman of the Institute for Cooperative Finance Officers and serves on the board of directors for Citizens Savings Bank.

“GROWMARK is a \$6 billion organization that is experiencing a period of significant growth. Selecting a chief executive is among the most important and impactful actions we are charged with taking,” says Dan Kelley, chairman of the board and co-op president. “Jeff has the skills, knowledge, experience and support to lead GROWMARK successfully into the future.”

In other co-op news, GROWMARK has agreed to acquire Lamb’s Seneca Terminal at Seneca, Ill. The acquisition includes 45,000 tons of dry fertilizer storage, dock and acreage.



*Jeff Solberg*

GROWMARK plans to add liquid nitrogen storage at the site. Financial details of the transaction were not disclosed.

Rod Wells, the co-op’s director of agronomy sales and operations, says acquisition of the facility will enable GROWMARK to sustain its ability to supply fertilizer products to local FS companies and other customers throughout the region into the future, expand storage capacity and product offerings from Seneca with the addition of nitrogen solution storage.

### **April class slated for co-op developers**

CooperationWorks! is accepting registrations for session one of “The Art and Science of Starting a New Cooperative Business,” to be held April 18-22 at the University of Wisconsin in Madison. The five-day, intensive training will address the key steps to starting a new co-op enterprise. The program is designed for new co-op development practitioners, community organizers, economic developers and others who will put the training in cooperative strategies to use in their communities.

Using some of the best practitioners in the country, the program includes lectures, interactive sessions, case study

analysis of existing co-ops and tours to local co-ops to talk directly with co-op stakeholders about the development process.

Registrations are due by March 31 and are accepted on a first-come, first-served basis. Some partial scholarships are available. For more information, contact Audrey Malan at: (307) 655-9162, or cw@vcn.com.

### **Landmark names Bob Carlson as CEO**

Landmark Services Cooperative’s board has selected Bob Carlson as its new CEO. Carlson succeeds CEO Larry Swalheim. Carlson had served as Landmark’s chief operating officer since February of 2007. During that time, he has been a part of the leadership team that has overseen the creation of Verity Resources LLC, an ag lending and insurance partnership with AgQuest of Morgan, Minn., as well as a large expansion of Landmark’s grain storage facilities and several other strategic growth projects.

Prior to joining Landmark, Carlson was a national sales director for Cofina Financial in St. Paul, Minn., where he



*Bob Carlson*

managed all aspects of its \$82 million producer lending program. During his 25 years as part of the ag cooperative system, he held several key leadership



positions in cooperatives in Minnesota and South Dakota.

After high school, Carlson served four years as a military intelligence analyst in the U.S. Army. He earned a bachelor's degree in business and public administration from the University of North Dakota and an M.B.A. degree from St. Thomas in St. Paul, Minn. Recently, he completed the two-year Leadership Wisconsin development program for leaders at the local, state and international level.

## TFC enjoys turnaround year in 2010

When Tennessee Farmers Cooperative held its annual meeting at the newly reopened Gaylord Opryland Resort and Convention Center in Nashville in November, the event's theme of "Fresh" applied to more than just the remarkable recovery the hotel made after historic spring floods shut it down for nearly six months. "Fresh" also was a good way to describe the new products, programs and growth opportunities that led to a profitable financial performance for TFC and its subsidiaries in fiscal year 2010, co-op leaders say.

More than 800 co-op directors, managers, employees and guests attending the meeting heard TFC Board Chairman Lowry "Whitey" Dougherty and CEO Bart Krisle report consolidated sales of \$567 million for the cooperative, with a net margin of \$10.6 million. Those results were a huge turnaround from fiscal year 2009, when TFC only made a minimal net profit of \$147,000, due to inventory write-downs and lower gross margins caused by drastic devaluations in commodities like fertilizer, feed ingredients and glyphosate.

"In 2009, TFC was barely in the black, which was very disappointing," said Krisle. "We anticipated and budgeted for improved results in 2010, and I am happy to report that our optimism was warranted."

In 2010, all TFC product departments were profitable, Krisle reported, and total patronage paid to



*Tennessee Farmers Cooperative (TFC) CEO Bart Krisle addresses the co-op annual meeting. Photo courtesy TFC*

member co-ops was \$10.25 million, with 30 percent paid in cash.

Chairman Dougherty, a Madisonville dairyman, said he and his fellow directors had asked some hard questions over the past year as they, along with TFC management and employees, worked hard to create new opportunities for the system. "Our TFC board of directors is by no means perfect — no board is," said Dougherty. "But I can assure you with complete confidence that we don't make a single decision without asking the question, 'Is this good for the membership?' If we can honestly answer 'yes,' we move forward. If the answer is 'no,' we move on to something else."

Dougherty's seven-year term on the TFC board ended with the annual meeting. Larry Rice, a row-crop farmer from Covington, was selected by fellow board members to succeed Dougherty as chairman. Wayne Brown, a tobacco farmer from Chuckey, was selected as board vice chairman.

## LO'L updates social responsibility report

Land O'Lakes has adopted a 2010 Corporate Social Responsibility Report (CSR) to demonstrate how the farmer-owned food and agriculture cooperative is carrying out its commitment to community and family, protecting natural resources and working to achieve its goals through cooperation and highly responsible business practices.

"This publication is Land O'Lakes' second CSR report, and I am proud of the strides we have made — both in reporting on our commitments and in the tangible progress we have achieved throughout the organization," says Chris Policinski, LO'L president and CEO. "Although the report covers many aspects of CSR, one underlying theme comes through: at Land O'Lakes, the principles of corporate social responsibility are focused and integral to the way we conduct business and set our priorities."

Along with providing information about Land O'Lakes and its businesses, the CSR report discusses: the cooperative's environmental stewardship and sustainability efforts; how the company supports members through financial returns and responsible practices; and its efforts to influence policies that promote Land O'Lakes' CSR goals. The report also highlights examples of the cooperative's philanthropy and community service, as well as international development efforts around the world.

### **CWT launches membership drive**

Cooperatives Working Together (CWT) hopes a new membership drive will expand participation in the self-

help program during the next two years to at least 75 percent of the nation's milk supply, enabling it to fully fund an export assistance program.

"Focusing CWT's efforts exclusively on helping sell U.S.-made dairy products into foreign markets will have a positive impact on all dairy farmers," says Jerry Kozak, president and CEO of NMPF, which manages CWT. "With the investment in CWT at two cents per hundredweight by all dairy farmers, we believe the export assistance program will be extremely effective in enhancing and maintaining producers' margins."

An analysis of the program by Peter Vitaliano, NMPF vice president of market and economic research,

demonstrates the effectiveness of the export assistance effort in enhancing dairy farmer revenue (his presentation can be viewed at: [www.cwt.com](http://www.cwt.com)). Over the life of the program, every dollar spent helping members export dairy products has returned \$15.53, he found.

CWT expects to carry over more than \$30 million from its 2009-2010 budget to provide funding in 2011 and 2012. These funds will be supplemented by the revenue generated from a two-year commitment by cooperative and individual producers. Kozak says CWT needs a commitment from at least 75 percent of the nation's milk supply at the two-cents-per-hundredweight level in order for the assessment to go into effect. ■

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## **Utility Connection**

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Adelstein said. He notes that the RUS telecommunications portfolio of over \$4 billion was built on more than 60 years of experience in funding rural telecommunications infrastructure. RUS' Community Connect and Distance Learning and Telemedicine Programs have invested about \$500 million in rural underserved areas.

The Kit Carson Electric Cooperative (KCEC) "fiber-to-home" project will allow greater bandwidth, providing the quality necessary for applications such as telemedicine, teleconferencing and video sharing for education, business and entertainment. Once completed, the co-op's project will make broadband service available to 29 communities, reaching about 20,500 households, 3,600 businesses and 183 community institutions, including hospitals, schools and other government facilities. Two Native American pueblos will also receive broadband service once the project is complete.

Telecommunications industry experts note that bandwidth requirements increase rapidly every year, so deploying fiber will provide the capacity needed to meet future needs. For example, KCEC's fiber network will be used to enhance "smart grid" technologies, which can include energy monitoring, load control and automated metering systems.

The electric cooperative utility anticipates the network will also assist with electric power projects and communications between their operations center and regional power substations. In all, the network will span nearly 3,000 square miles of rural New Mexico.

KCEC will use its existing right-of-way to build a fiber-to-home network capable of at least 100 megabits per second for

residential customers and 1 gigabit per second for broadband service for anchor institutions, such as schools, libraries and other community facilities. The smart grid functionality will assist the cooperative utility and its consumer members with monitoring energy consumption, while the broadband network will provide the backbone for supporting smart appliances and managing peak power demands through the use of automated meters at both residential and commercial sites.

"Kit Carson's broadband project is an investment that will boost economic development by attracting new businesses, jobs, health care services and educational opportunities," Adelstein noted. "This will enable the cooperative to further deploy smart grid technologies and help with sustainable energy development. It will better connect New Mexico and the rest of the world."

Bringing high-speed Internet service to unserved rural areas helps meet Recovery Act priorities to invest in infrastructure and technological development and promote economic development and job creation. Kit Carson's \$63.8 million project — which includes additional funds from private sector investment — is expected to create 330 jobs directly, in addition to other jobs that will develop as a result of the new networks.

Adelstein noted that, as with the other 320 RUS Recovery Act broadband projects across the country, the rural New Mexico project will both create immediate jobs and provide a platform for job growth for years to come. "Reliable, affordable broadband service is an essential, but too often lacking, resource in rural communities. Increasing rural broadband deployment and adoption in rural areas will remain a top priority for USDA for the foreseeable future." ■



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## Climbing the Hill

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agriculture. Hillside Farmers hopes to tap into that valuable experience to develop small-scale, sustainable farms that are competitive in a regional economy. The project also aims to help Latino families increase income, improve their community, eat healthier and develop valuable leadership skills.

“We did not come into this with the perspective that someone else will do this for us,” says Reginaldo “Regi” Haslett-Marroqui, director of the Rural Enterprise Center (a program of the nonprofit Main Street Project) in Northfield, Minn. He provides technical assistance and guidance to co-op members.

“We’ve got all these ideas and all of this experience, but we need to turn it into something more competitive,” Haslett-Marroqui says.

So far, Hillside Farmers Cooperative “agri-preneurs” have sold about 35,000 chickens. As each immigrant farmer continues to gain experience and train other agripreneurs, Haslett-Marroqui envisions the co-op expanding into grains production, vegetables, medicinal herbs, soil composting and other areas.

“I didn’t think this would ever be possible,” says Maria Sosa, board chair of Hillside Farmers. “Now it seems possible, with hard work and a little bit of investment.”

## Income can lead to land ownership

Poultry allows for quick turnaround times from chick to market, which means families can earn some income relatively quickly — possibly leading to a position in which they can purchase their own land and develop their own farms. The key is convincing people that it can happen.

“We’ve been successful early and people see that,” says Haslett-Marroqui. “We feel our vision will result in an economic model that empowers people and changes communities.”

Chickens raised by co-op farms are free-range and are fed without antibiotics. As much as possible, the birds are fed with grains and grasses raised directly on co-op farms.

“Hillside Farmers Co-op is the ideal recipient for the first SSDPG in Minnesota,” says Colleen Landkamer, state director for USDA Rural Development. “I believe Hillside Farmers Co-op is helping create the next generation of Latino farmers and entrepreneurs.” ■

## Management Tip

*continued from page 17*

— one of my loan account customers — offered me a position as controller of the cooperative. I later became its director of finance and, subsequently, its general manager. In all, I served more than 35 years with the company.

I have been asked to respond to three related questions. They are:

### ***1. What is the most important thing I learned about maintaining a strong working relationship with the co-op board of directors?***

The development of trust and integrity with board members is critical to a strong working relationship with a co-op board. That can be achieved through full transparency and disclosure of company operations that will illustrate one's efforts to maximize the financial return for the co-op's membership. That means sharing the bad news along with the good news. There should be no surprises at your board meetings.

It is often challenging for some co-op boards to separate the operating responsibilities from the monitoring and policy-establishing responsibilities. Through the establishment of trust and integrity, the board is assured you are working in their best interest to achieve the direction and goals they established for the cooperative.

Including key staff members for direct reporting to the board at its meetings also helps develop confidence in the management team, which further strengthens relationships. The board needs to know that the success of the co-op is not dependent on just one individual, but dependent on a broad-based management team and a committed employee effort.

### ***2. What is the most important thing I learned about meeting the needs and expectation of co-op members?***

Members of milk marketing cooperatives have many expectations, with one key requirement being the desire for the co-op to have the highest possible pay price for their monthly milk shipments. That price expectation is usually measured by comparing prices with their neighbor who may ship to a different company.

Management must balance those expectations with the need to maintain a sound financial base for the co-op. The reality is that no co-op can always be at the top of the pay price list.

Every co-op has a different source for its operating revenues. Co-ops with processing facilities can benefit from rising dairy commodity markets one year and have significant financial burden in years when the dairy commodity products decline in price. Large swings in dairy commodity prices can

have significant impacts on the co-op's operations and on producer pay prices.

Management must manage pay price expectations by winning the confidence of the membership with the understanding that the co-op is being run for the members' benefit and every effort will be made to pay the highest possible price while maintaining the financial integrity of the co-op. That requires looking out for both the short-term and long-term company interests.

Milk marketing co-ops also provide many other services and benefits for co-op members, such as field and testing services, supplies, legislative and lobbying service, all of which can greatly aid and enhance a producer's ability to maintain a profitable dairy farm. A manager that understands the mission of the cooperative and is personally available to respond to all member inquiries also develops a sense of confidence with the members that he is working for their best interests.

### ***3. What is the most important thing I learned about how running a co-op differs from running another type of business?***

All successful businesses must create value for their owners and their customers. In public companies, the owners are investors and expect to gain returns from profitable company operations that provide services or products of value to the company's customers. Cooperative owners are the members of the co-op who not only provide the equity (ownership) capital for the co-op, but are also customers of the co-op through the marketing of their farm's product and the purchasing of necessary farm supplies.

Thus, co-op management has the dual responsibility of serving its co-op member-customer with valued services and products and also providing a long-term return on the members' invested capital. This long-term return of member capital in a dairy cooperative generally involves the retirement of member capital on a revolving basis or after members exceed their base-capital target investment.

A co-op must have consistent annual earnings to revolve member capital on a regular and reasonable term basis. This assures that the financing of the co-op is primarily in the hands of those producers who are currently users of the co-op's products and services. Member commitment of equity capital is also essential for the co-op to develop strong banking relationships, which are necessary for any successful long-term business venture.

In addition to the members' ownership interests, the products being marketed by the co-op must also be of value to the end customer buying the products or services, just like the business of a public company. Co-op management is responsible for balancing these expectations of owners and customers while assuring the long-term preservation of the co-op for current and future member-owners. ■



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