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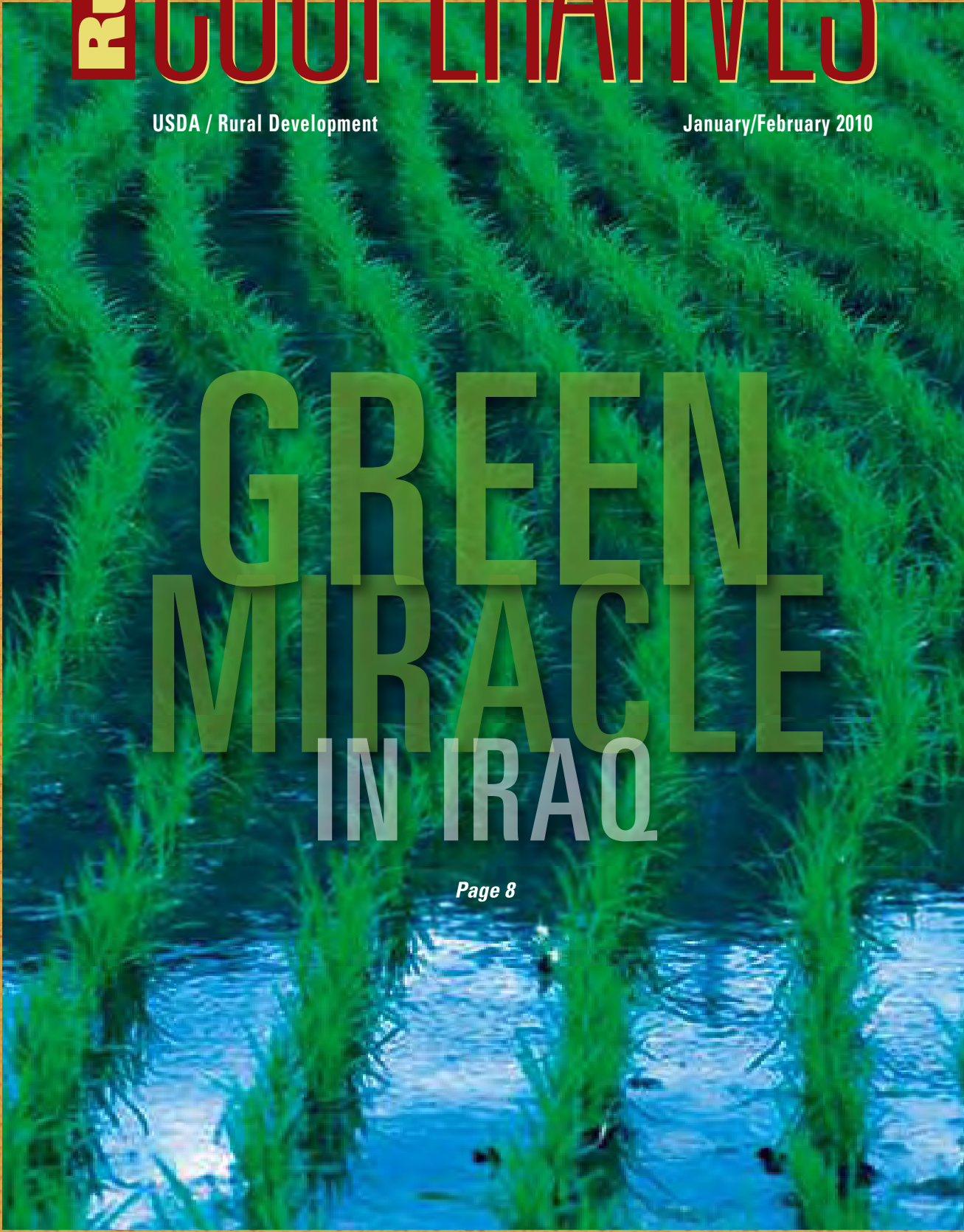
Rural COOPERATIVES

USDA / Rural Development

January/February 2010

GREEN MIRACLE IN IRAQ

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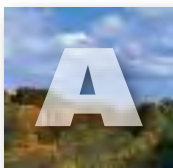


Commentary

Co-op role in rural development

By Judy Canales, Administrator
Rural Business & Cooperative Programs
USDA Rural Development

Editor's note: The following is based on remarks Canales made at the Farmer Cooperative Conference in Minneapolis in November. Canales also served previously as Texas State Director for USDA Rural Development. For other conference highlights, see page 18 of this issue.



Agriculture Secretary Tom Vilsack has challenged USDA Rural Development to help build rural communities that “can create wealth, are self-sustaining, repopulating and thriving economically.” To accomplish this, seven priority areas have been set: alternative energy; strategic partnerships; regional collaboration; broadband development and continuous business creation; capital markets; community building and regional food systems.

Cooperatives can play a role in all of these efforts. They're not only effective tools for conducting business and securing needed services for their members, they also can play a role in community building and in all types of rural development efforts, ranging from the development of local food systems to broadband access.

Consider rural utility cooperatives, which work closely with the USDA Rural Utilities Service (part of USDA Rural Development). Electric co-ops reach more than 45 million customers. That's a huge capacity to affect change.

Through our Rural Business-Cooperative Service (RBS), we support farmer cooperatives, which play a key role in creating new business opportunities for rural America's 60 million people. Farm and rural economies are interdependent, and value-added agriculture drives sustainable development across the board.

While most farmer co-op leaders are well aware of the co-op education, research and development work we do through our RBS Cooperative Programs office, you may not be as aware of some of our other business programs, which co-ops are encouraged to participate in. For example, our Rural Business Enterprise Grants (RBEG), Rural Economic Development Loans and Grants (REDLG) and the Intermediary Relending Program (IRP) can play a big part in

reviving rural communities around the nation.

The RBEG program provides funds for small and emerging rural businesses, distance learning networks and employment-related adult education programs. The REDLG program provides zero-interest loans and grants to our electric and telephone borrowers for development and job creation projects. Under the IRP, 30-year loans are provided at 1 percent interest to local organizations to establish revolving loan funds.

A great example of these efforts can be seen in South Dakota and Minnesota, where the IRP and REDLG programs are supporting 21 electric cooperatives that have created a special fund to promote economic and community development. This fund helps provide electricity to co-op consumer-owners and stimulates economic growth through business development and expansion. It allows small cooperatives to share capital, common-credit policies, materials, processes and personnel to serve eastern South Dakota and western Minnesota, an area of about 500,000 people.

The fund is governed by a board that sets policy and serves as the loan-review committee. By pooling more than \$1.9 million from their members, the fund has attracted more than \$25 million in public and private investment loan capital.

This type of collaboration maximizes the fund's ability to leverage resources and expand its regional impact. To date, it has collaborated with more than 100 banks, 20 development corporations/loan funds and 15 government programs to achieve more than \$315 million in project investments in the region. During the past 13 years, it has helped advance 194 projects, created 6,000 jobs and supported community development initiatives.

This is what rural cooperatives can do for economic development! Cooperatives are a great way to encourage community buy-in for development projects.

Farmer cooperatives should also be aware of Rural



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Features

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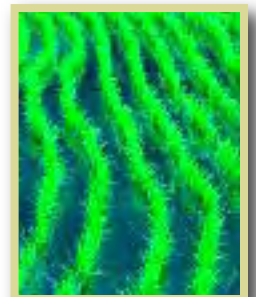
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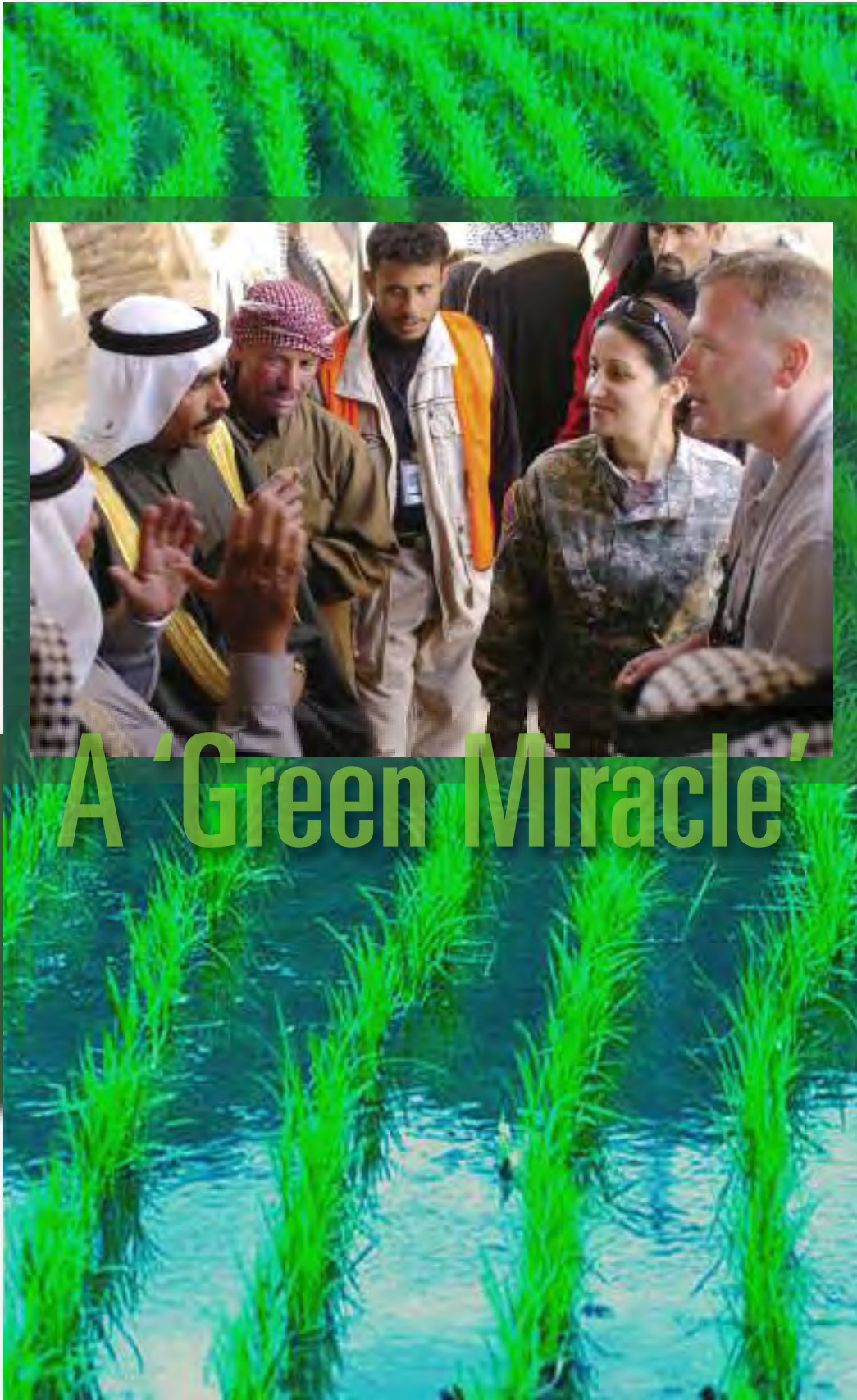
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Agricultural production in Iraq, including important crops such as rice (seen here) and dates, has been hurt by the years of war. USDA farm advisors have helped launch new co-ops, such as one near Baghdad that is providing farmers with technical assistance and farm supplies, resulting in what some co-op members call "a green miracle." Photo courtesy USDA Foreign Agricultural Service

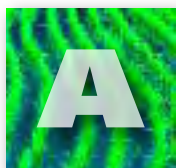




A 'Green Miracle'

Former USDA Agricultural Advisor Mike Stevens (right) confers with a group of Iraqi farmers and sheikhs. Advisors such as Stevens work closely with cooperatives and similar producer associations and have played a major role in helping to reignite the nation's farm economy. Photos courtesy USDA Foreign Agricultural Service, except where noted

By Linda C. Habenstreit
Public Affairs Specialist
USDA Foreign Agricultural Service



An Iraqi farmer cooperative is helping to revive the war-torn nation's agricultural economy by providing farmers with technical assistance, farm supplies and credit. In December the co-op celebrated the grand opening of

its new office and warehouse facilities and held its first board of directors meeting. Playing a crucial role in the launch of the cooperative is a team of three USDA Provincial Reconstruction Team (PRT) agricultural advisors, who offered vital guidance and advice.

The not-for-profit cooperative — the Green Mada'in Association for Agricultural Development (GMAAD) — provides free technical assistance and training to farmers in four townships in Mada'in Qada, east of Baghdad in

Baghdad Province. The co-op also provides access to low-interest lines of credit to purchase or rent agricultural equipment and supplies — such as seed and fertilizer — and to secure needed farm services. The co-op does all this at lower costs than the farmers could otherwise find.

Membership in the cooperative is growing by 10 percent per month, with more than 800 members to date.

With the support of 47 agricultural associations in Mada'in Qada, the Iraq

Fred Woehl, agriculture specialist for the Ninewa provincial reconstruction team, talks to a Kurdish farmer before an agricultural association meeting. His team has helped farmers in Qaraqosh, Nimrud and Qosh acquire greenhouses, tractors and seedlings. Before coming to Iraq, Woehl worked in Harrison, Ark., as a loan manager for the USDA Farm Service Agency. Farmers who receive greenhouses and training agree to turn over a portion of their profits to their agriculture associations to fund more greenhouses for members. Photo by Staff Sgt. Melanie Trollingier, courtesy U.S. Army

Co-op playing key role as Iraq rebuilds farm sector

Ministry of Agriculture and Iraqi Prime Minister Nouri al-Maliki, USDA PRT agricultural advisor Floyd Wood began guiding efforts to organize the cooperative in 2008. In 2009, two more USDA/PRT agricultural advisors — John Ellerman and Glen Brown — arrived in Iraq and began working with Wood, who extended his 1-year voluntary deployment to a second year to see the project through to fruition. This proved to be key for the cooperative, which has accomplished a great deal in a short period of time.

Initial funding of \$6 million came from the U.S. State Department to start the cooperative. Subsequent funding came from the U.S. Commanders' Emergency Response Program (CERP) to pay for reconstruction projects, with additional contributions made by members of the cooperative.

Using \$2 million of the State Department funds, the cooperative first established and trained its board of directors and staff, constructed facilities and began operations. The co-op then

began building drip irrigation systems and greenhouses for its members throughout the region.

“With the funding we obtained from the U.S. Department of State, we were able to systematically take the cooperative through the steps it needed to follow to become a sustainable organization,” says John Ellerman, USDA PRT agricultural advisor.

The co-op subsequently obtained more than \$4.5 million from CERP to install nearly 600 additional drip irrigation systems and more than 400 greenhouses in Mada'in Qada. These successes convinced farmers in Mada'in Qada that the cooperative was sustainable. As a result, more farmers began joining the cooperative.

With the remaining \$4 million from the State Department, the cooperative established a revolving credit system that is primarily being used to provide farmers with access to short-term credit. The cooperative is now receiving and processing credit applications, making it possible for farmers to

purchase critically needed agricultural inputs and services. These functions were especially important to help farmers prepare for the fall plowing and planting season.

Future projects, pending funding, include construction of a poultry feed mill, cattle chutes and a date-processing plant.

“Members of the cooperative call it the Green Miracle in Mada'in Qada,” says Ellerman. “They never thought they would get this type of support or that they would have the opportunity to get their land back into production.”

Having completed its first year of operation, the cooperative is demonstrating to farmers that it is able to meet their needs. The co-op is becoming a dynamic force in the development of modern, sustainable agricultural practices in Mada'in Qada.



A USDA Provincial Reconstruction Team meets with officers of the Green Mada'in Association for Agricultural Development, which is helping farmers in the area east of Baghdad. The co-op recently opened a new farm supply warehouse and office.

Iraqi women learn poultry production from USDA advisor

David Greaser, USDA Farm Service Agency county executive director for Huntingdon/Blair Counties in Huntingdon, Pa., recently returned to the United States following a 1-year voluntary assignment, helping to rebuild Iraq's agricultural sector. He was part of the Provincial Reconstruction Team (PRT) in Istiqlaal Qada, 20 miles north of Baghdad along the Tigris River.

Greaser worked on a variety of projects, including small poultry flock management and beekeeping training for Iraqi women, many of whom are widows and are members of local farm organizations, which would be the equivalent of former co-ops in the United States. Recently, a group of 75 women from

month, the women will allow the eggs to hatch to ensure a future supply of hens for egg laying.

This training is making a difference in the lives of the women, their families and their neighbors, as evidenced by demand for future training. The branch manager of the Rafedain Foundation told Greaser he could not go to his office for 2 days because of the number of women stopping by to get into future classes.

The fact that many of the women were war widows with little other source of income made this not just an economic development project, but a true humanitarian effort, says Greaser. "I think we accomplished a lot. The goal in all these efforts is to build capacity and sustainability, and I think we achieved that.

"When I first arrived, I thought, 'what have I gotten myself into,'" Greaser recalls. "But once I got to know the people and started interacting with them, it was very rewarding. I can't say I enjoyed



After they receive training, women co-op members receive 10 hens and a rooster to start their own poultry flocks.



The goal of the poultry project is to build production capacity and sustainability.

the Rafedain Foundation/al-Rashdiyah Branch completed 20 hours of poultry training.

After completing the course, these women received 10 hens, one rooster and 110 pounds of fodder to start their own small poultry farms. A local veterinarian who taught the course will make follow-up visits to each woman's home. One week per

every day of it, but I did enjoy the overall experience."

So far, three poultry sessions have been held with 200 women being trained. The training is continuing, even though Greaser is now back home. Funding for this project was obtained from the U.S. Embassy's Quick Response Fund ■

Co-op Governance

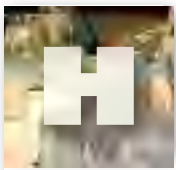


Cooperative directors should regularly review the benefits that members derive from belonging to the co-op. Here, members of New Zealand's cross-sector cooperative association discuss issues facing co-ops in their nation. Photos Courtesy New Zealand Cooperatives Association

Aligning member interests and democratic control

By Peter Harris
pharris@paradise.net.nz

Editor's note: Harris is a former director of PSIS, a cooperatively owned bank in New Zealand, and is currently a member of New Zealand's Electricity Commission. He is an economist with an extensive background in research, analysis and advocacy. This article is reprinted courtesy "Cooperatives News," the member publication of the New Zealand Cooperatives Association (NZCA). It is based on a talk he gave at a seminar for co-op directors, organized by NZCA. For more information about co-ops in New Zealand, visit: www.nz.coop.



Historically, cooperatives and mutuals have played a massive part in the New Zealand economy. Despite this, the standard governance texts and best practice manuals "fudge" the distinction between different forms of commercial incorporation.

Specifically, cooperatives form to correct imbalances that develop when traditional investor-owned companies operate in market economies. The goals are to:

- Protect members from poor quality, unsafe services and overpriced goods that result from weak competition;
- Gain access to markets where infrastructure is weak or expensive (such as packaging, transportation, distribution);
- Provide services that are not profitable to commercial operators (such as in remote areas);
- Capture a share of value added from commercial provision;
- Secure economies of scale with buying or selling power.

Duty of care

Cooperatives pursue mutual interests as users of services, as opposed to the investor interests of service providers. Therefore, they form and persist as an alternative to the delivery of service through conventional, investor-owned enterprises.

Both types of business are owned.

Both are governed. Both must have regard for commercial disciplines or else they will go broke. Both need to be aware of the interests of other stakeholders in order to retain patronage and support.

Where they part company is where the directors focus their attention when they exercise a necessary "duty of care." Commercial company directors do develop a set of tools that are of benefit in a cooperative company: audit and risk oversight, remuneration of senior managers, investment of treasury type funds, legal compliance disciplines and so on.

However, those common competencies are not sufficient. There is a need for an almost 180-degree reorientation of the duty of care in relation to promotion of the interests of the owners as users, as opposed to owners as investors.

In checking whether co-ops are being governed in a way that is fully aligned with member interests and democratic control, I think we can develop some tests. Here are 10 questions to consider, but this is by no means an exhaustive list.

1. Do the directors ask whether there is more value to the owners from continuing in business and accumulating assets, or selling up and distributing them?

If they do, they don't get it. They are operating outside the primary area of responsibility as directors of a cooperative, elevating the interest of investors to the cardinal interest. In fact, most co-op members have very little "skin" in the game as investors, but have a lot at stake as users.

By way of example, owners of a fertilizer co-op do not really care what the value of their shares is: they care passionately that the co-op delivers the right quantity and quality of fertilizer on time at a good price.

If directors ask whether there is still a market imbalance that needs to be addressed, or whether the interests of co-op members are being met by conventional enterprises, they are still

focusing on the cardinal interests of the owners.

2. How often do directors review the shape and form of the benefit that their members get from participating in the co-op?

If the co-op simply matches the competition in form and price of service, it is not correcting a market imbalance: it is perpetuating it. The competition leads, the co-op follows. It competes essentially by using the margin created by its "free capital" (owners' equity and accumulated reserves on which it does not have to pay a dividend).

Nominally anyway, a "real cooperative" does pay owners market rates on capital left in the business: it just does not give voting rights pro rata with capital contributed, and it distributes surpluses (above those needed to sustain adequate reserves) on the basis of level of participation in co-op activities.

In practice, accumulated reserves are an undifferentiated wash-up from past activities, so payment of a market rate to contributors is not a realistic option. But this should not detract from the need to keep member interest top of mind, or else the co-op is largely benefiting directors and staff, not members.

3. Do directors regularly assess the extent to which their service configuration and price ensure that returns to members are pro rata with their participation in the trading activities of the co-op?

If they do not, they can easily see the co-op drift as members who cross-subsidize others react to another form of market imbalance (administered imbalance) and walk away.

4. What innovations has the co-op introduced in recent times?

Market outcomes change in a modern dynamic economy, so the member benefits that the co-op can capture will alter as competition and technological change both reduce old

imbalances and create opportunities for new benefits.

Innovations can be quickly imitated, so an effective co-op is innovating ahead of the competition. If it simply imitates market innovations, it loses that fundamental driver of its reason for being: to do things divergently.

5. Is there an explicit succession plan for directors?

Co-ops need to be democratic and accountable. In a profit-maximizing company, shareholders who are dissatisfied with the performance of directors can simply sell their shares, extract their capital and walk away.

The threat of a hostile takeover bid tends to apply incentives to investor-owned company directors to maintain performance (although spectacular failures are still very frequent). However, because co-op shares can be issued with a nominal value and can be redeemed, capital market disciplines on directors are virtually nonexistent. There is nothing wrong with that: it is just a consequence of the orientation of a co-op.

Especially in larger co-ops with diffuse memberships, it is very hard to articulate an effective member voice. Hence, democracy, transparency and accountability have to be worked on and led.

6. Is there a regular review of whether the organization has been captured by a minority or special interest — be that an activist group within the membership, management and staff, or the incumbent directors themselves?

It is very easy in a large organization, where owners have very little investor interest in its asset base, for complacency to set in, and for directors and managers to overlook the vested interest of minority activist groups. They are the ones that need to be pacified, so it is easy to build up a comfort blanket that says that the activists are the members.

7. Are there formal limits on the



Co-ops have long played a crucial role in New Zealand, including one that helps its members market deer antler velvet.

scope and level of trading with non-members?

Some form of transaction with non-members is inevitable in any co-op. The question becomes whether non-member transactions start to dominate the financial affairs of the cooperative to the extent that they subordinate the interests of members.

This is particularly acute when various covenants are placed on the terms of loans and when constraints are placed on the discretion of the organization as a contractual condition of some other transaction.

The risk is that there can be a tipping point, beyond which the non-members, by virtue of financial weight, become de facto cardinal stakeholders, and the fundamental character of the co-op is lost.

8. What processes are in place to ensure capital adequacy to underpin possible expansions of activity and to ride through periodic difficult trading conditions?

There is a delicate balance to be struck. With relatively few exceptions (Fonterra being a major one!), members of co-ops do not have a fundamental commercial interest in the co-op: it is a part of their lives, not the center of them.

Hence, they will pay (sometimes reluctantly) a joining fee in the form of a capital contribution but cannot be expected to regularly subscribe to new capital issues, especially since the co-op is not designed to serve their interests as investors.

There are many options for capital raising: retained surpluses, joint

ventures, preference shares, subsidiary investor-oriented companies, capital notes and the like.

The point here is that it is usually too late to seek capital to ride out a crisis, but over-capitalizing “just in case” runs into demoting the member service orientation of the company. A formal recognition of where the capital adequacy boundary lies, how it is to be sustained and how capitalization strategies support the member-interest focus of the co-op is required: capital management should not be a default outcome of governance.

9. Are special steps taken to reinforce a sense of belonging among members, to reinforce and refresh the “common bond”?

A robust cooperative relies partly on individual members seeing personal value in the collective benefits that flow out of their joint activities, but that attachment can be weak and fickle. The co-op can be reinforced if there are routine reviews of what binds members as opposed to simply what benefits them.

10. Is there a director-approved program for induction of managers and staff to reflect the member-benefit orientation of the organization?

Organizational values penetrate management and staff slowly and unevenly and can be a source of tension within the staff (especially among managers) if they are not formally communicated and supported. Fundamentally, the question that directors need to ask is whether the co-op is a membership mutual benefit



organization, an insider's support facility or a directors and staff benevolent society.

Shortcomings

The Institute of Directors has assembled a framework for the governance of companies that brings together values, principles and practices. On the face of it, they seem like the sorts of values that might sit easily with any co-op: integrity, enterprise, fairness, transparency, accountability and efficiency.

What is missing is a clear specification of what the interests are of the "shareholder." There is not a robust recognition that the very reason for owning an enterprise can reflect different and divergent dimensions of the personal interests of the shareholder.

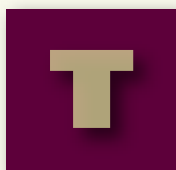
It is covered in the overall "wash-up" of achieving the mission and purpose of the organization, and — to be fair — that can be something other than maximizing value. My question, though, is — in practice — whether co-op directors' natural orientation leads them, as a matter of principal, to question the fundamental orientation of the interests of the owner.

Even if it happens, I really doubt that it is pervasive, but for co-ops to be fully on mission, that orientation needs to be pervasive. If it is, all is well. If not, the question becomes how to overhaul cooperative director induction, training, assessment and compliance routines and manuals to achieve it. ■

Legal Corner

Co-ops faced numerous challenges in 2009

By Stephanie M. Smith,
Senior Legal Advisor
Cooperative Programs
USDA Rural Development



The last decade has brought a sea change in how we, as Americans, do business. We have been through a severe economic recession, which, at this writing, seems to be abating. But our collective eyes have been opened to new business realities.

In 2009, in particular, there were many developments that got us talking and thinking about how cooperatives can thrive in this ever-changing economy. A few examples of issues affecting the co-op sector in 2009 are revealed by a quick glance back at some of the headlines seen in this and other co-op publications:

- *Co-ops Face Challenges of Global Supply-Chain Economics;*
- *Proliferation of Worker Co-ops and ESOPs;*
- *Growth of the Organic and Local Food/Beverage Markets;*
- *Changes in the Application of the Section 199 Deduction for Subchapter T Cooperatives;*
- *The "Greening" of Cooperatives;*
- *Creation of Urban Farming Cooperatives;*
- *Finance and Equity Structure Concerns of Cooperatives;*
- *Understanding the Economic Impact of U.S. Cooperatives on the U.S. Economy;*
- *Best Practices for Cooperative Training and Development;*

- *Implementation of Anti-Trust Workshops Hosted by the Department of Justice and the Department of Agriculture.*

Clearly, this is just a small sampling of the types of issues and developments swirling around co-ops in the past year, but it gives an idea of the scope and variety. Each issue provides fodder for cooperatives to re-evaluate the reason why they do business the way they do, outside of the investor-owned corporate model. From a legal and tax perspective, these issues often bring us face to face with those dreaded "what ifs" that we, as professionals, must constantly ask in order to ensure cooperatives are in compliance with state and federal laws.

The year 2010 will surely present just as many challenges and opportunities as did 2009. In fact, my goal here is to encourage you to reflect on those issues you think are most important to your co-op members. These issues will likely be sources of discussion for years to come and present new challenges on a variety of levels. Tax and legal problems that arise relating to these issues generally shape policy that could permanently affect cooperative development.

Hopefully this column will help support the cooperative community with knowledge on how to face legal challenges and provide creative solutions to help them thrive as successful businesses for years to come. Please do not hesitate to contact me if you have legal and tax issues you would like to see addressed in this space in the coming year: stephanieM.smith@wdc.usda.gov, or (202) 690-1411. ■



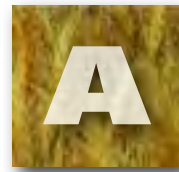
Flour Power

NW wheat growers find success with eco-marketing strategy



By Stephen Thompson, Assistant Editor

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A small group of farmers in the Spokane, Wash., area has developed a local niche market for sustainably grown wheat products that is adding to their incomes, helping stabilize their prices and encouraging environmentally friendly farming.

The value-added marketing business they formed, Columbia Plateau Producers LLC, today has 32 member-farmers and sells high-quality flour under the Shepherd's Grain brand to bakeries from Seattle to Northern California. It's a member of the Food Alliance, which certifies food producers for sustainable practices and rang up \$4 million in sales last year.

The venture began in 1999 when wheat farmers Fred Fleming and Karl Kupers decided to try growing hard red spring wheat in an area where soft white wheat was the norm. Soft white wheat is generally used for pastry and specialty flours, while hard red is more suitable for making bread. Growing hard red wheat would allow diversification, and they hoped to develop a differentiated product that could command a premium price.

Fleming and Kupers figured that a new strain of red wheat developed at Washington State University — combined with improved nutrient packages and precision farming methods — might make the grain feasible in an area formerly considered unsuitable for it.

No-till proponents

Both men are enthusiasts of “no-till” farming, which eschews plowing, leaving the soil as undisturbed as possible to reduce erosion and run-off. As they became more involved with the no-till movement, they became aware that their earth-friendly method of farming could

Fred Fleming, with wife Vicki on their Washington wheat farm, helped start Columbia Plateau Producers, which has forged a successful niche market for its Shepherd's Grain brand flour. Photo by Kristen Dvoracek

be used in a marketing strategy in the environmentally conscious Pacific Northwest region. “We wanted to market good food that’s been produced in an environmentally safe way,” says Fleming.

For 3 years, they experimented with different varieties of hard red spring wheat, working with a nearby bakery to test the flour produced from their grain. By 2002, they had worked out most of the kinks and settled on a hard red spring wheat variety that did well in the region and yielded a high-quality flour that baked into flavorful breads and other products. Later, a hard red winter wheat was also adopted.

Together they formed Columbia Plateau Producers in 2002 to handle the milling of their product. The LLC contracts with a facility owned by Archer Daniels Midland (ADM) to mill the grain into flour. “They have the size and ability to mill the quantities of flour we need,” Fleming says, “And we’ve developed a good working relationship

organization recruits new members only when the market has developed enough to support them.

In 2007, Fleming and Kupers received a \$50,000 Value-Added Producer Grant (VAPG) from USDA Rural Development to conduct a feasibility study and create a business plan to develop a new line of consumer packs of flour under the Shepherd’s Grain brand. (For more information on the VAPG program, visit: www.rurdev.usda.gov/rbs/coops/vadg.htm).

Non-traditional co-op

Columbia Plateau Producers is not a traditional farm co-op. Each member-farmer has a share of voting stock and votes at an annual meeting to elect board members. The board consists of four member-farmers and three at-large members drawn from the baking industry. “Farmers are pretty sharp when it comes to business,” says Fleming. “But they don’t have

However, Fleming sees no-till farming as especially appropriate for his area.

“The topography and the soil here are really conducive to erosion,” he says. “I remember when I was young, a heavy rain would leave ditches in your fields, and lots of topsoil would end up on the roads and in the water system.” Every farm is inspected by the Food Alliance to ensure that it adheres to sustainable farming principles.

Today, says Fleming, soil on no-till farms is healthier and thicker. “It’s a nice healthy compost, and it acts as a scrubber to clean runoff water.” Combining no-till with precision farming techniques, he says, allows farmers in the area to reduce their inputs 12 percent and their fuel use by a whopping 38 percent.

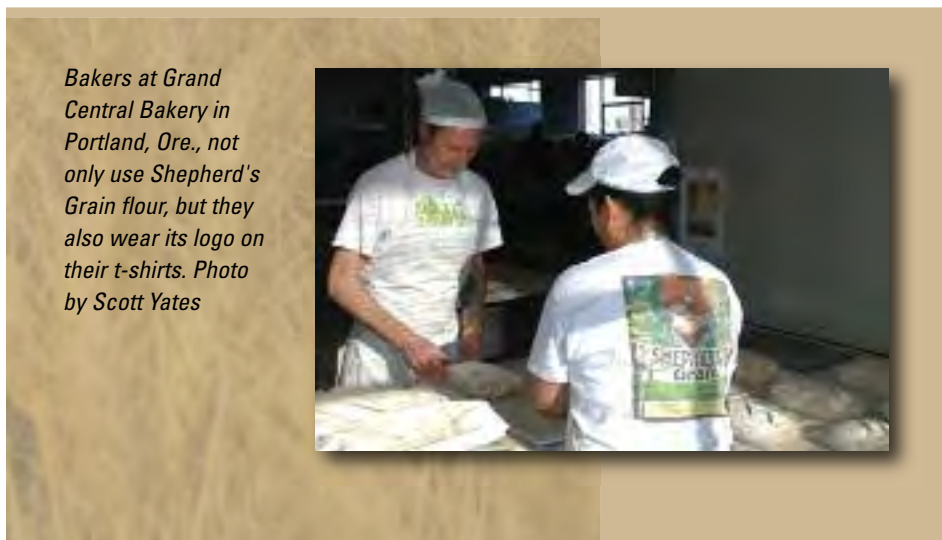
Pricing strategy

Member farmers typically grow about 15 to 30 percent of their annual crop for the cooperative, with the rest grown as typical soft white commodity wheat — much of which goes for export.

Shepherd’s Grain offers customers in the baking industry high-quality products at stable, pre-agreed prices calculated to bring a reasonable rate of return to the farmers. “Our customers can plan around the agreed price, and it’s also good for us to know what we’re going to get for our product,” Fleming says. “We try to shoot for about an 8-percent margin every year.” The co-op also recently signed an agreement to supply flour to Stone Buhr, a Food Alliance flour retailer located in San Francisco.

The cooperative offers four varieties of flour: a high-gluten, unbleached flour for bread; an all-purpose flour; a whole wheat flour with a unique, sweet flavor; and a soft white flour for pastries.

Sustainable practices are all well and good, but success depends on a good-quality product. Kupers says Shepherd’s Grain flour more than meets the test. “Recently I was told that our flour has the most integrity that the baker has seen in his 30 years of baking.” ■



Bakers at Grand Central Bakery in Portland, Ore., not only use Shepherd's Grain flour, but they also wear its logo on their t-shirts. Photo by Scott Yates

with them.” Fleming says that ADM, which is certified by the Food Alliance, was eager to work with them because it wants to promote sustainable farming.

The growers also set up the LLC to operate as a cooperative — originally with six members. “We saw a farm marketing co-op go out and recruit a bunch of farmers for a venture a while back,” says Fleming. “But they couldn’t develop enough of a market to sell everybody’s product.” Instead, their

experience retailing. We’re trying to enlarge the brainpool.”

Farmers must practice no-till farming to be invited to participate. No-till methods decrease erosion, encourage moisture retention and reduce soil compaction and nutrient loss, but they require new seed drills and other equipment and can increase the use of herbicides. It can also take a few years to become profitable after switching from conventional methods.

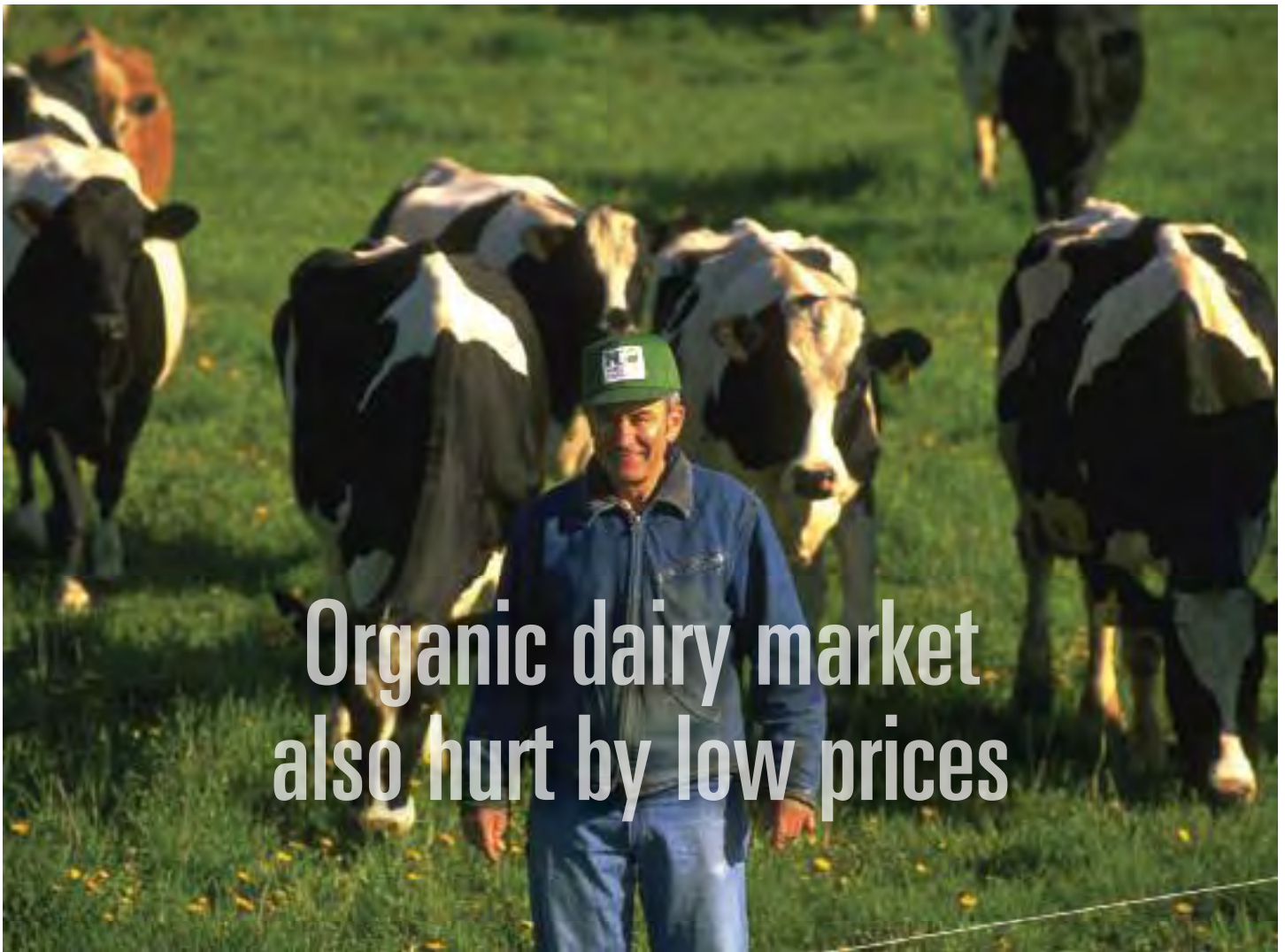


Photo courtesy Organic Valley

Organic dairy market also hurt by low prices

By **George L. Siemon, CEO**
Organic Valley



The economic side of being a dairy farmer is very frustrating! First and foremost, the pay price that defines the gross income of the dairy farmer is not connected to cost of production. Second, the pay price goes up and down beyond logic. Imagine, the conventional dairy farmer does not know what he/she is making until a check arrives in the mailbox.

Today, the economic crisis has resulted in low global export sales, hence we have an overproduction of milk. The pay price of milk to conventional dairy farmers is at a 30-year low. As many as 20,000 family dairy farmers are expected to leave the dairy sector during this crisis.

These realities were foundations that the farmer-owners of CROPP Cooperative, producers of Organic Valley products, used when developing the organic dairy market. The vision of CROPP Cooperative in forming the first organic dairy pool in the United States was that organic must be sustainable for the land and be economically sustainable for

family farmers. We insisted that the price be fair and stable, and in our first 20 years we accomplished that goal. The conversion to organic dairy has been a life line for many conventional farmers.

Like many businesses, dairy supply and demand fluctuates depending on the market, the seasons and the weather. In our 20-year history, supply has fluctuated many times between too much milk and not enough milk to keep up with the growing market.

About 2004, organic milk was in short supply for an extended period, and organic dairy production experienced double-digit growth. During the tight supply situation, many new competitors entered into the organic dairy marketplace, hoping to cash in on the growing market. Many of these were traditional dairy companies with hopes that organic could help save their farm or company.

These new players procured large quantities of organic milk at time when it seemed the market would continue its dramatic growth. This era should be called the “organic dairy gold rush.” The new competition caused high prices. Just as the recession set in, the organic dairy supply was over-

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Co-op Development Action

University course promotes co-op development to meet community needs

By Christina Clamp,
Professor, School of Community Economic Development
Southern New Hampshire University



Rising unemployment, frozen credit markets and an epidemic of foreclosed properties have combined to create a perfect economic storm for many Americans. These conditions have resulted in an economic climate that merits greater exploration of the cooperative business model.

The cooperative movement has long helped average Americans in many ways, with periods of intense co-op development often corresponding to periods of difficult economic conditions. From marketing their crops and livestock via farmer co-ops to securing crucial financial services through credit unions and finding safe, affordable homes through housing co-ops, the solutions to life's challenges have often been found in the form of producer- and user-owned cooperatives.

Master's program focuses on co-ops

Universities can play a key role in exposing more people to the potential of cooperatives. A prime example is the School of Community Economic Development (SCED) at Southern New Hampshire University, in Manchester, N.H., which offers a Master's Degree program in community economic development.

This program integrates co-ops into a "tool bag" of options for future community developers. Students can earn an advanced certificate in cooperatives and credit unions, during which they learn how to create and sustain new co-ops both in the United States and abroad.

Founded in 1982 and with more than 2,500 graduates from over 100 countries, SCED is recognized both nationally and internationally as a leader in advancing the creation of sustainable communities. A variety of advanced degrees are offered at the main campus in New Hampshire and satellite campuses in Los Angeles, Tanzania and the Philippines.

Alumni build affordable housing, run community-development financial institutions, promote cooperatives and micro-enterprise programs and develop commercial projects and small businesses in low-income communities.

All students in the program are required to complete a project in Community Economic Development. Students

with a focus on cooperative solutions are developing cooperatives and co-op policies.

Students address real-world needs with co-ops

A sampling of projects that students are engaged in reveals how adaptable co-ops are to meeting a variety of community needs. Tanya Gracie, from Canada, is currently working with the Canadian Cooperative Association and the Ontario Cooperative Association to assess how to recruit a new generation of cooperators, both for existing co-ops and for co-ops that specifically serve youth.

During an introductory course on co-ops, Dick Patterson asked how one could create meaningful ownership for members in limited-equity housing co-ops. He then went to work to supply an answer, developing a financial model that would pay patronage refunds to members in limited-equity housing co-ops.

Michael Bowie was employed at a Community Economic Development Center that was looking for ways to deal with a surge of empty homes in Worcester, Mass., a city that suffered more than 2,000 foreclosures during the past year. He felt that his hometown would benefit from a cooperative solution, but a prior effort to develop co-op housing there had failed. So his employer and others were quick to shrug off yet another proposed co-op.

Bowie felt this attitude made no sense. After all, when there is a rash of private business failures, few people will say that America's system of business is out-dated. So why, Bowie asked, do people reject co-op solutions just because one co-op has failed?

He rolled up his sleeves and went to work, conducting a survey of young community activists, which revealed strong interest in developing co-op community housing. He is now working with a group of young people to acquire property for a new housing cooperative. He is also working to develop a small housing cooperative for the Stone Soup Artist Activist Collective and Community Resource Center.

Lisa Stolarski and Andi Shively, both from Pennsylvania, are trying to identify new ways to meet community needs with cooperatives. Shively is interning with SCED's Center for Cooperatives and Community Economic Development, where she is creating a Web-based resource site for cooperative developers. Stolarski, a consultant with the

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Members of Stone Soup Worcester hold a block party at the Community Center in Worcester, Mass. Renovations were led by Mike Bowie to add a resident cooperative in the attic, as well as a commercial kitchen for all to share. Photo by Mike Bowie

Co-ops can thrive in uncertain times

Farmer Co-op Conference sees opportunity for co-ops that adapt to structural changes



A member of the audience poses a question to one of the panels at the annual Farmer Cooperative Conference. Opposite page: Panel members discuss biomass energy opportunities. From left are: Anne Reynolds (UW Center for Cooperatives), Randy Kyle (Kyle Consulting), Larry Johnson (Inbicon AS) and Wallace Tyner (Perdue University). Photos by Richard Orndorf, courtesy UW Center for Cooperatives



By Lynn Pitman
University of Wisconsin
Center for Cooperatives

Although these are times of economic uncertainty, there are still significant opportunities for agricultural cooperatives. This was one of the key messages of the 12th Annual Farmer Cooperatives Conference, Nov. 9-10 in St. Paul, Minn. Speakers from the cooperative business community, government and academia provided perspectives that addressed the conference theme: Thriving in Uncertain Times.

Terry Barr, CoBank's senior director of industry research, kicked off the conference with his outlook for the world economy, focusing on agriculture. He described how the economic rebound that has begun will be different than those of the past, and will necessitate structural changes across the global economy. Capital markets will not act as a safety valve for excess leverage, Barr said, predicting a more protracted recovery period. Some policy proposals that would support an economic recovery have increased the level of uncertainty

in key economic areas, including finance, energy, tax and entitlement programs.

Agriculture is not exempt from this risk and uncertainty, but — in the longer term — the farming sector may emerge stronger if it can adapt to the structural changes on the horizon, Barr said.

Future world economic growth will be driven by China and India, and will be accompanied by the volatility associated with a “resource-challenged world,” Barr said. Firms will be more vulnerable as they become more export-dependent and face increasing competition in the global marketplace. Farmers can expect to see volatility in prices, both paid and received.

Quoting economist J. M. Keynes, Barr reminded the audience that “the market can stay irrational longer than you can stay solvent.” Increased working capital and optimal risk strategies will be needed to manage more limited capital market access, policy uncertainties and changes to currency exchange and interest rates, he said.

More risk means more management

Managing risk is nothing new for cooperatives, said Jim

Hoyt, vice president of Growmark's Strategic Planning and Corporate Services. For many cooperatives, however, the risk profile has significantly increased, requiring more management time. Strategic planning must include a stronger risk management component, he stressed.

Marshall Bohbrink, Growmark's vice president of risk management and treasurer, described strategies for forecasting and mitigating credit and counterparty risks. Risk analysis must look at both the quantitative and subjective characteristics of a firm or individual. A cooperative that proactively analyzes risk factors on a regular basis has the flexibility to accommodate changing scenarios, such as last year's extremely volatile input markets.

In those circumstances, it is especially important to know the limits of vendors and customers and to understand which requirements are non-negotiable for the cooperative, Bohbrink said. Policies that describe these limits and internal communication requirements support the effective execution of these strategies.

If a cooperative's best efforts to manage counterparty risk fail, what might happen in the event of a counterparty bankruptcy? Brandy Sargent, an attorney with Stoel Rives, described how the bankruptcy process may move very quickly in the initial stages. Early legal notices may include motions that will affect the cooperative's ability to protect its interests, so it is important to monitor the situation closely.

A cooperative can better minimize losses and protect or enhance its position, Sargent said, if it can quickly gather information on all counterparty business transactions, including recent history, current accounts and contracts and upcoming commitments.

Lenders positive on ag outlook

Given the trends in emerging markets, most lenders and mid- to long-term investors have positive views about agriculture, according to Antony Bahr, senior managing director with the Capital Markets Division of Cobank. As part of his update on capital and credit markets, Bahr noted that commodities are seen as a good internal hedge to other institutional investments. Nonetheless, current trends affecting business deals include lower leverage and higher equity levels, tighter covenants, original-issue discounts and higher fees.

Although credit pressure has emerged in the dairy and ethanol sectors, the Farm Credit System is in a relatively strong position, said Bahr. CoBank has been successful in attracting other banks and investors into customized financing structures. Strong risk-management policies at a cooperative make its loans more attractive for syndication.

However, continued economic uncertainty will affect the credit markets, Bahr stressed. Significant pressure on commercial and investment banks because of higher minimum capital requirements is likely to continue well into 2010. Banks will be rethinking their risk management models, and internally restructuring and deleveraging.

Many agricultural cooperatives are feeling the impact of the past year's economic downturn through changes in market demand. Consumer food-purchasing patterns have shifted. Consumers are eating more meals at home, while sales of value-priced products have strengthened, said Frank Bragg, CEO of MBG Marketing. However, MBG – which primarily markets fresh and processed blueberries for growers in the Upper Midwest and the South — is well-positioned to respond to these shifts in consumer preferences.

To meet the growing consumer focus on health and wellness, the cooperative has partnered with a South American firm and growers in California to market fresh berries year round under the Naturipe Farms brand. Last year, MBG capitalized on the interest in fresh local foods with a successful program involving Walmart. It plans to expand the program during next summer's peak growing season. The co-op is also focusing on "value retailers" by offering larger packages of frozen berries.

Marketing sustainability

Consumer preferences have also contributed to an increased focus on sustainability within the business world. David Darr, vice president of sustainability and public affairs at Dairy Farmers of America (DFA), described how the co-op has identified sustainability as a competitive strategy that helps deliver value to its cooperative members. Sustainability has moved to a holistic view of a product's life cycle and encompasses the "triple bottom line" perspective of impacts on the environment, the economy and society.

Conducting business through the lens of sustainability will require more information and a greater degree of transparency with consumers than in the past, Darr said. DFA has a large environmental footprint, so being proactive on sustainability issues is an integral part of the co-op's strategic plan.

Michael Cook, an ag economist at the University of Missouri, presented a conceptual framework that links a cooperative's marketing, strategy and governance. These activities are more integrally connected in cooperatives than they are in private or investor-owned firms, he observed.

Co-op directors must have the ability to probe and ask hard questions if their cooperative is to navigate challenging economic times, Cook continued. Such questions are driven by a clear concept of the cooperative's strategy: the integrated, externally oriented concept of how the cooperative will accomplish its objectives. Cook discussed the components of strategy development, including market and product definitions, structures, timing and the economic logic and results.

Energy and environmental issues

Agriculture's link to the energy sector is providing a significant set of opportunities and challenges for farmer cooperatives. David Ladd, manager of government affairs at AgriBank, FCB, provided an assessment of the current

political considerations affecting ongoing efforts to create energy policy legislation.

Legislators are grappling with questions about the trade-offs between cropland and forested acreage for carbon sequestration, the influence of policy on farmers' cropping decisions, and the pass-through costs that could potentially be incurred by farmers. The election cycle and the focus on the health care debate are presenting significant challenges to the passage of an energy bill, Ladd noted.

An "on-the-ground" perspective of environmental credits and how they can work was presented by David Miller, director of research at the Iowa Farm Bureau Federation and chief science officer for AgraGate, an Iowa Farm Bureau entity that aggregates carbon credits. AgraGate is the first



Jerry McGeorge of Organic Valley discusses the co-op's new preferred stock plan. Brent Hueth (seated) is director of the UW Center for Cooperatives.

licensed aggregator on the Chicago Climate Exchange (CCX), handling about 6 million carbon credits annually.

Miller explained that while 7 percent of U.S. greenhouse gas emissions are generated by agriculture, agriculture and forestry account for 11 percent of the nation's carbon sequestration. This gives the sector a net 4-percent sequestration rate that could be used for credits in a cap-and-trade program adopted to manage environmental performance. U.S. farmers have currently volunteered about 16 million acres in CCX, or only 1.4 percent of the potentially eligible working lands.

Many issues surround carbon offsets, such as quantification methodology, verification, permanence and enforcement. As the carbon market matures, continued opportunities are likely to emerge for the agriculture and forestry sectors.

Biofuel opportunities

Biofuel development continues to be part of the mix of energy-related opportunities for agricultural cooperatives. Randy Kyle, of Kyle Consulting Group Inc., described his efforts on behalf of Landmark Services Cooperative, exploring the market potential of aggregation and processing of biomass for commercial electricity generation. Landmark has responded to overtures from the nearby University of Wisconsin-Madison about providing biomass for a campus energy plant retrofit. Favorable transportation and storage options exist, but there is uncertainty around the program's ability to offer member returns that would be sufficient to consistently attract the acreage needed for aggregation. The interplay of prices for oil, corn and beans, other inputs, the program's financial viability without Biomass Crop Assistance Program (BCAP) payments, and alternate uses for crop residues are uncertainties that would need to be addressed.

Larry Johnson of Inbicon, a biomass technology development firm, provided an industry perspective on biomass potential. He based his comments on experiences with Inbicon's wheat-straw biomass refinery operating in Denmark. Johnson suggested that a separate cooperative structure that procures feedstock from the farmers and sells to the end user may be an effective way to deal with the many harvesting, quality, storage and pricing considerations.

Ethanol production continues to be significantly directed by federal and state policies. The existing corn ethanol capacity already exceeds the demand for fuel with a 10-percent ethanol blend, explained Wally Tyner, an ag economist at Purdue University. Production costs in the near future for cellulosic ethanol — refined through either biochemical or thermochemical conversion processes — are likely to remain more costly than are those for corn ethanol, he noted. Market uncertainty will stymie investments in second-generation biofuel plants unless new government programs for fixed or variable subsidies, purchase contracts, or loans and grants are developed, Tyner said.

Adjusting to slow down in organic market

Adapting equity strategies to support cooperative growth opportunities requires a clear understanding of the interests of the cooperative members. A central goal of Organic Valley, the nation's largest organic foods marketing co-op, is to provide pricing that supports farmers based on ecological and economic sustainability, said Jerry McGeorge, the co-op's director of cooperative affairs. Maintaining this focus has been facilitated by sales growth rates of 20-50 percent during the past 12 years. However, organic sales nationwide leveled off this past year, and Organic Valley is not optimistic that double-digit growth rates will return soon (see page 15 of this issue for Organic Valley CEO George Simeon's view of the market).

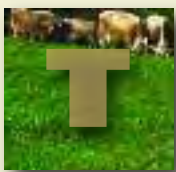
Organic Valley's capital base plan requires that members make equity investments in preferred stock, based on the

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Dairy co-op survey reveals financial performance trends

By Carolyn Liebrand, Agricultural Economist
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Editor's note: This article is based on a USDA survey that gathered 2007 financial and marketing data for U.S. dairy cooperatives. More of the financial results can be found in Research Report 219, "Financial Profile of Dairy Cooperatives, 2007" published by USDA and available online at: www.rurdev.usda.gov/rbs/pub. For a hardcopy of the full report, call (202) 720-8381, or e-mail: coopinfo@wdc.usda.gov. The marketing operations information and some broad financial figures presented here were also reported in the July/August 2009 issue of Rural Cooperatives ("Dairy co-ops maintain steady market position.")



The nation's major dairy cooperatives had total sales of \$44.2 billion with net margins of \$404 million in 2007, according to a survey of dairy co-op operations conducted by the Cooperative Programs of USDA Rural Development. The survey, conducted every 5 years, shows that net margins over the last three surveys (for 2007, 2002 and 1997) varied only slightly on a per hundredweight (cwt) of member milk basis. The dairy co-ops also reported \$12 billion in assets, \$8.7 billion in liabilities and \$3.3 billion in member equity. [See page 15 for a look at how one organic dairy co-op has been impacted by the depressed milk prices in 2009.]

The 94 co-ops that participated in the survey accounted for 98.5 percent of the assets held by dairy cooperatives, 93.6 percent of the milk volume handled and 60.6 percent of the nation's 155 dairy cooperatives in 2007.

Assets per cwt swell

Balance sheet items were calculated on a per cwt of member milk basis to show the capital used by cooperatives to market members' milk (table 1). In 2007, dairy cooperatives had \$8.41 in assets for each cwt of milk members sold through their dairy cooperatives. By this measure, total assets held by dairy cooperatives increased by more than \$2 per cwt between 2002 and 2007. In contrast, 2002 assets per cwt were less than \$1 per cwt above 1997.

Current assets of \$5.08 per cwt represented 60.4 percent of total assets in 2007. Dairy cooperatives also held \$3.23 in fixed assets (net of investments in other cooperatives) and just 11 cents per cwt of member milk in investments in other cooperatives in 2007.

On the other side of the ledger, total liabilities were \$6.09 per cwt in 2007. Almost three-fourths (72.3 percent) of the liabilities were current liabilities (which may include pending payments to members for their delivered milk). Long-term liabilities were \$1.69 per cwt in 2007. Total liabilities per cwt, as with total assets, increased twice as much between 2002 and 2007 as between 1997 and 2002.

Member equity was \$2.32 per cwt, representing 27.6 percent of these cooperative assets. Member equity per cwt was only marginally above 2002 and

1997 levels – by 22 and 25 cents, respectively.

Net margins hold steady

In addition to marketing their members' milk, some cooperatives may also handle milk received from non-member producers, other cooperatives and/or other firms. The volume of milk going through a cooperative's operations has an impact on efficiency and per unit costs, so the operating statement items are expressed on a per cwt of total milk handled basis. (About 10 percent of the total milk volume handled by the 94 dairy cooperatives in 2007 was milk received from another cooperative.)

Milk and dairy product sales were \$38.8 billion in 2007, or \$23.68 per cwt of total milk handled (table 2). Milk and dairy product sales in 2007 were nearly \$8 per cwt more than in 2002 and almost \$5 per cwt above 1997. These differences generally reflect the changes in the average prices received per cwt for all milk, which were \$19.21 in 2007, \$12.19 in 2002 and \$13.36 in 1997.

The 2007 price per cwt stands in stark contrast to milk prices during the past year, which averaged \$12.79 for 2009.

Other sales and income was nearly \$5.5 billion, resulting in \$44.2 billion in total sales in 2007. This was \$27.03 per cwt — higher than in both 1997 and 2002 by fairly wide margins: \$6 and \$9 per cwt, respectively. Likewise, total expenses of \$26.78 per cwt were also about \$6 more than in 1997 and \$9 more than in 2002.

U.S. dairy cooperatives had net margins before taxes of \$404 million in



Brown Swiss cows graze on Nate Lemire's farm near Soldiers Grove, Wis. The nation's major dairy co-ops reported sales of \$44.2 billion and margins of \$404 million in 2007. Photo by Nate Lemire

2007. In contrast to the wider fluctuations in sales and expenses per cwt between survey years, net margins per cwt varied only slightly between the three surveys. Net margins before taxes in 2007 were 25 cents per cwt — just 4 cents per cwt above those in 2002 and 3 cents below 1997. Cooperatives may pay somewhat higher prices and realize lower net margins, or alternatively they may pay relatively lower prices and show higher net margins, which are distributed to members.

Diverse marketing methods

Dairy cooperatives each face marketing situations unique to their location, membership and philosophy or organizational culture. As such,

structural and operational differences between dairy cooperatives arise as they best position themselves to market their members' milk. The alternative methods cooperatives use to market milk require different levels of capital and yield differing returns.

Dairy cooperatives were thus broadly classified into four groups based on function: bargaining-only, niche-marketing, fluid-processing and diversified dairy cooperatives (see sidebar). Those cooperatives that operate only at the first handler level are known as "bargaining-only" cooperatives. They assist members in the marketplace by negotiating prices, facilitating arrangements between milk buyer and seller, ensuring accurate milk

weights and tests and so forth.

Cooperatives that typically use most or all of their member's milk to make specialty dairy products are, for lack of a better term, "niche" marketing cooperatives. Included in this category are cooperatives that make artisan or branded cheese and those that market organic or specialty products on the basis of how the milk was produced.

Cooperatives that focus operations on the fluid beverage market are classified as "fluid-processing" cooperatives. This category is reserved for the few cooperatives that aim to capture value for their members by processing and packaging fluid milk, with some of these co-ops also producing products such as ice cream,

sour cream, cottage cheese, yogurt and/or butter as well.

The “diversified” cooperatives own and operate plants to make a variety of commodity and/or differentiated products, while also selling a portion as bulk raw milk. They typically make some hard products — such as butter, dried dairy products and/or cheese — and some also make packaged fluid milk and soft products, such as sour cream, dips, yogurt, cottage cheese and ice cream.

The financial data for the fluid-processing and diversified dairy cooperatives were grouped together due to the small number of fluid-processing cooperatives. Fluid-processing cooperatives are more similar to diversified cooperatives in their complexities than they are to niche- or bargaining-only cooperatives.

The specific cooperatives comprising each group differ for each survey year because some may not have provided sufficient data in a given survey year

while others may have changed their operating focus. All the groups (based on operating type) had higher milk and dairy product sales, total income and total assets per cwt in 2007 compared to 2002 and 1997 (tables 3 and 4). However, the 2007 net margins per cwt for all operating types were below those of 1997, but higher than in 2002.

Bargaining-only dairy co-ops

Bargaining-only cooperatives operate at the first-handler level in seeking to secure the most profitable outlets for their members’ milk and leave further processing and sales of dairy products to other handlers. Therefore, they have fewer assets than the other operating types of cooperatives. This type of co-op had just \$1.74 per cwt of member milk in assets in 2007, and most (81.5 percent) of their assets were current assets.

Bargaining-only cooperatives also had the lowest liabilities and member equity — \$1.31 and 42 cents per cwt of

member milk, respectively — far below that of the other types of cooperatives. Current liabilities of \$1.25 per cwt represented 72.1 percent of total assets, a higher proportion than for the other types of cooperatives. However, to the extent that most of the bargaining-only cooperatives’ current liabilities are pending producer payments, bargaining-only members’ claim on assets may be higher than the equity-to-assets ratio of 24.4 percent indicates. Long-term liabilities came to just 3.6 percent of total assets, the lowest level of the operating types.

At the same time, bargaining-only cooperatives generated the lowest milk and dairy product sales, \$18.40 per cwt of total milk handled. Net margins before taxes of 5 cents per cwt were well below those of any of the other types. Net margins showed very little change between the years, being 1 cent per cwt above those in 2002 and 1 cent below 1997.

Net margins before taxes were just

Functional types of dairy cooperatives

Bargaining only:

- The largest group of dairy cooperatives (representing 70 percent of the nation’s 155 dairy co-ops);
- Operate at the first-handler level, and (in most cases) do not own plants;
- Relatively few assets because they (generally) own few, or no, facilities;
- Few of these co-ops handled 1 billion pounds of milk or more;
- Handled nearly one-fourth of U.S. cooperative milk volume.

Niche marketing:

- This group represents 12 percent of all U.S. dairy co-ops and handles just 1 percent of the net volume of co-op milk;
- Most (84.2 percent) handled less than 50 million pounds each;
- Typically, they process all of their members’ milk in the cooperative’s plants;
- Manufacture specialty or branded dairy products in their own plants, or by arrangement with others.

Fluid processing:

- The smallest group, representing 3 percent of U.S. dairy co-ops and 1 percent of co-op milk volume;
- Typically process all of their members’ milk in their plants, primarily as bottled fluid milk;
- May also make products such as ice cream, sour cream, cottage cheese, yogurt and/or butter.

Diversified:

- Perform all, or most, of the functions that other types of dairy cooperatives perform;
- Manufacture a variety of products in their own large plants from member milk;
- Some may sell a large portion of their raw milk supply to other handlers;
- Second largest group (15 percent of all U.S. dairy cooperatives);
- Handled 75 percent of the net cooperative milk volume;
- Three out of four of these co-ops handled 1 billion or more pounds of milk; none handled less than 50 million pounds. ■

0.3 percent of total sales, which is lower than the other operating types of dairy cooperatives. But their 12.8 percent net margins-to-equity ratio was similar to the 13.8 percent ratio of niche-marketing cooperatives and the 12.1 percent ratio of diversified and fluid-processing cooperatives.

Niche-marketing dairy co-ops

Niche-marketing cooperatives typically process most of their members' milk into specialty or branded dairy products for particular market niches. Most handle relatively small volumes of member milk relative to the other types of co-ops. In 2007, they had assets of \$12.54 per cwt of member milk, the highest of the four types of dairy cooperatives.

Niche-marketing cooperatives' member equity of \$4.78 per cwt was the highest among the operating types, both in absolute terms and as a portion of total assets (38.1 percent). These cooperatives' total liabilities of \$7.76 per cwt were about the same as those of diversified and fluid-processing cooperatives.

Niche-marketing cooperatives generated the largest milk and dairy product sales per cwt — almost twice that of diversified and fluid-processing cooperatives. Even though they had very little in terms of other sales and income, niche-marketing cooperatives had the highest total sales per cwt: \$48.30.

Niche-marketing co-ops also had the largest net margins before tax per cwt: 66 cents. Net margins were 34 cents higher than in 2002 but 21 cents per cwt lower than in 1997. The variation between years was wider than for bargaining-only or diversified and fluid-processing cooperatives.

The return-to-total sales ratio (using net margins before tax) for niche-marketing co-ops was 1.4 percent, the largest for any of the operating types. Likewise, return-to-total assets and return-to-member equity for niche-marketing cooperatives were both the

Table 1—Balance sheet items per cwt of member milk

U.S. dairy cooperatives	2007	2002	1997
Current assets	\$ 5.08	\$ 2.81	\$ 2.89
PP&E ^{1/} and other assets	3.23	2.90	1.79
Investments in other cooperatives	.11	.51	.57
Total assets	8.41	6.22	5.25
Current liabilities	4.40	2.39	2.26
Long-term liabilities	1.69	1.74	.92
Total liabilities	6.09	4.13	3.18
Equity	2.32	2.10	2.07
Total liabilities and equity	8.41	6.22	5.25
Member milk (million pounds)	142,865	134,451	112,228
Number of cooperatives	94	80	88
Member milk per cooperative (million pounds)	1,520	1,681	1,275

Note: Totals may not add due to rounding.
^{1/} Property, Plant and Equipment

Table 2—Operating statement items per cwt of milk handled

U.S. dairy cooperatives	2007	2002	1997
Milk and dairy product sales	\$ 23.68	\$ 15.73	\$ 18.75
Supply and other sales	3.13	2.19	2.24
Service receipts and other income	.20	.31	.19
Patronage refunds received	.01	.03	.06
Total sales	27.03	18.27	21.25
Estimated expenses	26.78	18.06	20.96
Net margins before tax	.25	.21	.28
Total milk volume handled (million pounds)	163,683	154,806	121,157
Number of cooperatives	94	80	88

Note: Totals may not add due to rounding.

continued on page 39

Utility Co-op Connection

EJ Water Co-op provides vital service in rural Illinois



*New water lines are extended to homes that are part of the EJ Water Cooperative in southern Illinois.
Photo courtesy EJ Water Co-op*

By Anne Mayberry

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When EJ Water Cooperative was incorporated in 1989, plans were to serve 400 residents. Today, EJ water has more than 7,500 member-households and serves a rural population of 23,000 in seven counties of south-central Illinois, near the state

capital of Springfield.

“People just kept signing up,” co-op CEO Bill Teichmiller says, quoting EJ’s first president, Delbert Mundt, in explaining the cooperative’s success. Teichmiller says that a combination of factors is behind the continued growth of the utility.

“The biggest drivers in Southern Illinois are both quality and quantity of water. Where the glacier stopped, water is not plentiful,” he says, referring to the second of two glacial masses that moved through the region during the

Ice Age, flattening much of the terrain and depositing rich soil in parts of the state.

“The second glacier stopped around Champaign, about in the center of the state,” says Teichmiller. “Ground water is readily available north of this line, but south of the line we didn’t get the glacial till, which promotes additional ground water supply.” Those soil deposits today are the reason agriculture thrives here and plays a key role in the state’s economy. But finding water in this part of the state is difficult,

he says. “In addition, the presence of oil and gas can cause problems with water quality.”

The presence of sulfur and saltwater are often among the issues the utility must address, Teichmiller explains. Area residents who are not members of the water cooperative may get their water from wells, or — more likely — from cisterns.

“Some people haul their drinking water, which is time consuming, expensive and is problematic in winter when it freezes,” he adds. “We have about 700 unserved members, so we typically have one board member from an unserved area. That keeps us focused.” When new households join the co-op, they pay a \$125 membership fee. They don’t pay a monthly water bill until a water meter is installed and they begin receiving service. At that point, they pay an additional \$625 for the meter.

Benefiting from location

Part of the area EJ Water Cooperative serves benefits from its location. Two interstate highways — I-57, which links Chicago with the Gulf Coast, and I-70, which connects the East and West Coasts — meet in Effingham, which is among the larger towns in EJ’s service area. The co-op’s name is an acronym for both Effingham and Jasper County, two of the seven counties the utility serves.

EJ’s growth is also due to an overall trend of smaller towns getting out of the water and wastewater business. Increasing costs and the responsibility of compliance with clean water regulations can make it more difficult for areas with dwindling populations to deliver quality water at an affordable price.

The co-op was awarded a \$556,000 combination loan and grant in November with funds from the American Recovery and Reinvestment Act of 2009. The funds will be used to supply unserved areas with water.

“Areas with higher [population]

density and where construction is easy are usually among the first to connect, while others take longer,” Teichmiller says. “We are able to reach areas that would be difficult or costly to serve thanks to the help of USDA Rural Development and HUD [U.S. Department of Housing and Urban Development] funding, which is distributed throughout the state,” Teichmiller says.

Commitment to extend service

EJ’s board remains dedicated to providing water service to as many unserved members as possible, and their work with USDA continues to help the utility provide service to rural areas. “We love Rural Development — we are among the largest borrowers in Illinois for water programs and we would not be able to do what we do without USDA,” Teichmiller says. “This is not just financial — we also use Rural Development’s expertise with rules, rates, regulations and technical assistance. EJ plays a key role in economic development, and we do that with guidance from Rural Development.”

Teichmiller cites USDA’s Circuit Rider and Wastewater Tech programs as being especially useful. These programs are funded through the National Rural Water Association, and offer technical assistance to small villages and rural communities that can lack financial resources or technical expertise.

“It’s hard to find qualified people. We manage and operate three sewer systems in our service area, and small villages often do not have the required expertise. But with the help of Rural Development, communities discovered that working together they can afford to hire a qualified technician, and we’ve gone in that direction.” Today, EJ has a staff of 25 full- and part-time workers.

Utilities in Illinois work closely together, Teichmiller says, and increasing rely on each others’ services. “Broadband and cell service is opening

doors in our ability to use technology. We use systems for remote monitoring and, with the help of broadband, our trucks are e-mailed service orders and can access water-system controls, maps and other pertinent information from a database.”

Why a co-op?

Why a cooperative business model? The utility connection played a role in the business structure of the water cooperative. There are two basic models for water utilities, and Teichmiller says that establishing a public water district — which would have required the annexation of areas wanting service — did not provide the flexibility that the co-op model does.

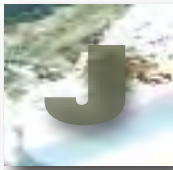
“In addition, Delbert Mundt was on the Norris Electric Cooperative Board and president of the Illinois Association of Electric Cooperatives. Delbert understood the cooperative business model,” Teichmiller explains. Mundt remains EJ’s board chairman.

EJ was the first rural water utility in Illinois to be awarded funding to build a water plant while it was beginning distribution. Most new water utilities purchase water from a third party. The co-op’s water sources are a reservoir and groundwater. The water utility currently pumps 1.4 million to 1.8 million gallons of water daily.

EJ broke ground last July for its Delbert D. Mundt water treatment plant, which ultimately is expected to treat an additional 3 million gallons per day and secure a 30- to 40-year projected water supply to meet projected demand.

Although some counties in this area are declining in population, Effingham continues to grow, Teichmiller says. EJ’s continued growth has helped keep costs affordable for its members. Despite the growth, the area is still rural, Teichmiller stresses. “We drive about 2,300 miles per month to read about 7,500 meters.” ■

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Just as producer-owned co-ops greatly magnify the market clout of individuals through joint action, so do state and regional cooperative councils amplify the efforts of individual cooperatives in areas such as legislative affairs, director education and many other vital member services. These councils stand as a prime testament to the fundamental co-op tenet of cooperation among co-ops.

Through the years, state cooperative councils have been instrumental in keeping their cooperative members “tuned up” and ready to meet challenges, which there never seems to be a lack of.

The first state co-op council was established in 1919 in California, followed 2 years later by one in Oregon. The very early state councils focused mainly on legislative issues. As cooperatives and other cooperative-related associations increased in numbers, the programs of the councils expanded to also include co-op education, member and public relations, promotional efforts and collaborating with other organizations with similar missions. The nation’s largest co-op council (Cooperative Network) was even instrumental in working to form Farmers Health Cooperative in Wisconsin. It now helps to administer this health insurance plan — a very ambitious undertaking for a co-op council.

State co-op councils today focus on most of the same activities as they did in their early years, although the scope of activity varies a great deal, depending on the organization’s structure, program focus and resources. While activities may vary, today’s councils provide an impressive array of services for cooperatives all across the United States. These efforts are constantly being adapted to help

members in changing times. This article explores some of the different structural aspects of the councils and their activities.

Council structure has evolved

The number of state co-op councils expanded until the early 1990s, but has since declined slightly, due primarily to cross-state consolidations. There were 30 state co-op councils in 1948, 37 in 1968 and 38 in 1992; today there are 32. Table 1 identifies the councils and provides their website addresses (where applicable).

These four co-op councils cover more than one state:

- Cooperative Network, serving Wisconsin and Minnesota;
- Mid-America Cooperative Council, serving Indiana, Ohio, Michigan and Illinois (Illinois also continues to maintain its own “volunteer” council);
- Mid-Atlantic Alliance of Cooperatives, serving Maryland and Pennsylvania;
- The Northeast Cooperative Council, serving the New England states and New York.

All co-op councils are led by an executive director, either as a full-time, part-time or volunteer position. Ten of the 32 councils have a full-time executive director, 12 employ a part-time executive and the remaining 10 have a volunteer executive. Some of the councils also have other support staff, especially councils with greater resources. However, not all councils with full-time executives have additional staff, and a few councils with a part-time executive have

additional staff. Staffing levels depend on the available resources, the specific programs the council provides and the number of cooperatives served.

Some councils have undergone significant changes in staffing during the past 10 years or so as they adjust to changing cooperative numbers and a challenging economic environment. Most of these changes involve staff reductions or a change in status of the executive position. In the case of the Mid-America Cooperative Council, “The council moved from a part-time executive and ad hoc board to a full-time executive in 2004; it added a part-time assistant in 2007 and now has an

State cooperative councils adapting to help members in turbulent times

elected board of directors,” says Rod Kelsay, the council’s executive director.

Many of the councils have close working relationships with other institutions or organizations. These may include universities, development centers, cooperative centers, consulting firms, law firms, and others. Some councils formally contract with these outside organizations for various administrative, website, education and lobbying services. In other instances, the relationship is primarily about coordinating activities such as studying a legal issue or performing some type of cooperative technical assistance, such as co-op development work or strategic planning.

Many state/regional councils are affiliated with a university, either directly or indirectly, which allows them to tap into the experience and knowledge of professors and Extension personnel. They rely on these experts for operations planning, to enhance educational programs and to help



Legislative work is a big part of the mission of most state co-op councils. Here, members of the Cooperative Network prepare to visit members of the state legislature in St. Paul, Minn., as part of Co-op Day at the Capitol. Photo courtesy Cooperative Network

identify and solve various cooperative-related issues.

Council funding

Funding comes primarily from the thousands of U.S. cooperatives that belong to a state or regional co-op council. However, it has become increasingly difficult for agricultural co-ops to increase, or even maintain, their membership roles. This is largely due to the changing structure of the agricultural cooperative system caused by co-op consolidations and dissolutions.

“If you go back the past 30 years, every decade we lose about 29 to 33 percent of the local cooperatives in the state, mainly as the result of a redeployment of cooperative assets [via mergers],” says Bob Andersen, president and executive director of the Nebraska Cooperative Council.

For that reason, some councils are accepting non-agricultural cooperative

memberships. These may include utility co-ops, credit unions, food/grocery co-ops and housing co-ops. The expanded councils may also accept co-ops serving the health care/insurance, publishing, housing, investor-owned marketing and purchasing sectors. Even though these cooperatives may serve widely diverse memberships and fill different functions, they also have many overlapping goals and issues (such as director education, public/member relations, legal issues, etc.) that can be more affectively and economically addressed with a larger membership that represents a cross-section of the cooperative community in a state or region. These combined co-op organizations can also provide a greater scope of services to cooperatives.

Many of the councils have associate, or affiliate, members as well. These may include engineering and legal firms, National FFA Organization, 4-H, land grant universities, state and federal

government, trade associations, implement dealers, grain elevator suppliers, crop-input suppliers, accountants, consultants, information technology firms, banks, grain dealers, construction companies, insurance companies, state agricultural boards, inspection companies, printing companies, brokers, cooperative development centers, software providers, media and trucking companies. In some cases, associate members are active on council boards.

Beyond revenue from members, a number of councils also count on fee-based program income, sponsorships, grants and consulting fees.

Education and legislative activities

Most councils conduct cooperative education programs, which they consider essential for improving the performance of cooperatives and for expanding the benefits of the

cooperative form of business.

Councils host a number of co-op educational forums every year, the frequency and scope of these sessions depending on council resources and demand. These forums often tap the teaching expertise and knowledge of land-grant colleges.

Councils also provide co-op education through workshops, publications/DVDs, websites and webinars, etc. Target audiences include cooperative directors, members, management, employees, youth and the general public.

Frequent topics at these workshops include director duties and legal responsibilities, governance, finance and taxes, leadership training, cooperative basics, marketing and customer relations. Programs run from introductory cooperative concepts to advanced concepts and cooperative issue analysis. Some of the councils provide director certification programs.

Dealing with legislative and regulatory issues is another major activity for many councils. Some lobby in their states, and a few even lobby on a national level. Others merely follow legislation and regulatory issues that have to do with cooperatives and report applicable and significant findings to their membership. Those that conduct legislative work see it as a critical way for cooperatives to be involved with agricultural and business policy changes that can impact their members.

A few councils have political action committees (PACs) that members can contribute to for cooperative-related lobbying or to help fund candidates. Councils also take part in national legislative activity via communications and memberships with the National Council of Farmer Cooperatives (NCFC) and the National Cooperative Business Association (NCBA).

Other activities that councils perform for their members include technical assistance, issue analyses, strategic planning, running foundations (for scholarships, educational programs, and other member services) and affiliations with other organizations for coordinated activities and synergies. Many of the councils collaborate with cooperative development centers, university professors, extension personnel, and cooperative centers, as well as other co-op councils.

Communications

Councils communicate with their members through a variety of means: meetings, news releases, newsletters, websites, appearances at cooperative events and other formal or informal channels. More than half of the councils publish a newsletter and more than two-thirds have websites. Newsletters are in hardcopy, online or both. The number of issues produced annually varies from weekly, monthly, quarterly to biannual. Websites vary from very basic sites to very extensive, content-rich sites. Content on these websites often includes the council history, program information, online newsletters, news releases, event calendars, photo galleries, staff contact information, cooperative directories, board of directors information and member-only sections.

Councils sometimes network with other councils to work on program development and share ideas. Some of the councils hold formal meetings just before or after other national co-op meetings, such as the annual meeting of the National Council of Farmer Cooperatives (NCFC). Every other year they also hold the National Conference of State Cooperative Councils meeting, where co-op issues are discussed and analyzed. Council members also share program accomplishments and challenges and look for synergistic

Table 1—State and regional cooperative councils in the U.S.

(Web site listed where applicable)

Alabama Council of Cooperatives
Arkansas State Committee on Cooperatives
Agricultural Council of California http://www.agcouncil.org
Colorado Cooperative Council, Inc.
Florida Council of Cooperatives http://flcoop.com
Cooperative Network http://www.cooperativenetwork.coop
Georgia Cooperative Council http://agecon.uga.edu/~gacoops
Idaho Cooperative Council, Inc. http://www.idahoco-op.org
Illinois Cooperative Coordinating Committee
Iowa Institute of Cooperatives http://www.iowainstitute.coop
Kansas Cooperative Council http://www.kansaco-op.coop
Kentucky Council of Cooperatives
Louisiana Council of Farmer Cooperatives
Mid-America Cooperative Council http://www.macc.coop
Mid-Atlantic Alliance of Cooperatives http://www.maacooperatives.org
Mississippi Council of Cooperatives http://www.msccouncil.coop
Missouri Institute of Cooperatives http://www.mic.coop
Montana Council of Cooperatives http://montanacouncil.coop
Nebraska Cooperative Council http://www.nebr.coop
The Cooperative Marketing Association of New Jersey
Cooperative Council of North Carolina http://ccnc.coop
North Dakota Coordinating Council for Cooperatives http://www.ag.ndsu.nodak.edu/qbee/NDCCC/info.htm
Northeast Cooperative Council http://cooperatives.aem.cornell.edu/partners.htm
Oklahoma Cooperative Council http://www.okagcoop.org
Agricultural Cooperative Council of Oregon
South Carolina Cooperative Council http://www.scco-opcouncil.org
South Dakota Association of Cooperatives http://sdac.coop
Tennessee Council of Cooperatives http://www.tennesseeCouncilofCoops.org
Texas Agricultural Cooperative Council http://www.texas.coop
Utah Council of Farmer Cooperatives
Virginia Cooperative Council http://www.vcfc.net
Washington State Council of Farmer Cooperatives http://www.wscfc.org

Examples of state co-op council activities:

- **Cooperation among co-ops:** The Northeast Cooperative Council holds its Cooperative Leaders Forum and Annual Meeting in conjunction with CoBank's Northeast Customer Meeting; the Northwest Regional Co-op Meeting is a joint effort of the councils in Idaho, Montana, Oregon and Washington.
- **Co-op education:** Co-op councils put on more than 60 educational forums each year, including more than 35 cooperative director programs. These include: the *National Institute of Cooperative Education (NICE) Youth Conference*, held each summer (the 2010 conference will be hosted by the Tennessee Council of Cooperatives with support from state councils in North Carolina, Kentucky, South Dakota and Virginia); the *2009 Telecommunications Director/Manager Training Program*, conducted by the Iowa Institute of Cooperatives; the *Co-ops 101 Workshop*, staged by the Mid-America Cooperative Council, which earned the Association of Cooperative Educators (ACE) award for excellence in cooperative education at the 2009 ACE Institute.
- **Co-op legislation:** The Oklahoma Agricultural Cooperative Council (OACC) acts as a political watchdog to ensure adequate representation for cooperatives on legislative issues and that proposed legislation does not place undue burdens on its members. It fights to protect its members by educating elected officials and state and federal agencies about the importance of agriculture cooperatives not only for their members, but to the state economy. Likewise, Cooperative Network lobbies and follows legislative and regulatory matters in Wisconsin and Minnesota and on a national level on behalf of its member cooperatives. It works on dairy, environmental and health issues and conducts work for Wisconsin electric cooperatives.
- **Communications:** "Cooperation in Nebraska" is published quarterly by the Nebraska Cooperative Council. The South Dakota Association of Cooperatives public relations and education programs include working with youth through FFA and 4-H, and college students through the National Institute for Cooperative Education. Special events and activities, such as October is Co-op Month, the Cooperative Hall of Fame Induction Banquet, AgFest and Co-op Day at the Legislature, all help raise public awareness of the important role cooperatives play in South Dakota's economy. In Wisconsin and Minnesota, Cooperative Network publishes seven newsletters (*Contact, Dispatch, Mutual Interests, Capsule, Dairy Update, Co-op Living and Focus On*) to provide information on issues vital to members. ■

ways to enhance their programs.

Some councils also coordinate certain educational and other activities with regional cooperatives, and some partner with regional co-ops for annual meetings and other events. Cooperating in this way enhances programs and creates more benefits for members.

Continuing role

Co-op councils and their services continue to play an important role for their members. As with any association, the members benefit in an amount proportional to their use and support of the council and its resources.

State cooperative councils operating today have some significant strengths, including one or more of the following:

- Well-established operations, resources and governance necessary to serve their members;

- Effective cooperative education programs;
- Robust legislative, regulatory and policy activities;
- Effective communications and member relations programs.

The councils are also facing obstacles such as increasing costs, financial limitations and greater difficulty recruiting members. However, most have strengths that offset weaknesses and are forging ahead to deliver vital programs and services.

Cooperative councils play a critically important role in helping their member cooperatives stay attuned to issues and policies that affect them. Their role in cooperative education is sorely needed. Cooperatives face significant pressures in today's economic environment and co-op councils can help alleviate those pressures through their activities, which

are as important today and into the future as they were in years past.

Working to effectively define and enhance the character of cooperatives and to improve their economic wellbeing are overall goals of today's councils. Indeed, that message resonated among the councils attending the 2009 bi-annual meeting of the National Conference of State Cooperative Councils in Kansas City, Kan., last September. According to Tommy Engelke, executive vice president and director of the Texas Agricultural Cooperative Council: "Councils continue to provide exceptional services on behalf of their members and have a very positive influence on the cooperative environment in the state or region they work within." ■

Newsline

Co-op developments, coast to coast

Send co-op news items to: dan.campbell@wdc.USDA.gov

Flint Energies supports methane gas project

Houston County (Georgia) and Flint Energies have agreed to turn methane gas at the Houston County Landfill into electric power. The co-op says the project will produce benefits for county citizens, for Flint's member-consumers and for the overall environment. Flint will buy gas from the county and power generation from PowerSecure International Inc., which will install, own and operate the power generation plant facilities.

Flint members will gain access to 3.2 megawatts of "green power" and create a new revenue stream from the landfill. "Renewable 'green energy' is an important part of the future of power generation for Flint Energies members," says co-op CEO Bob Ray. "We have been part of Green Power EMC's efforts to build renewable energy generation, including the first landfill gas in Georgia at the Taylor County Landfill in Mauk."

In other environmental news, Flint Energies, based in Warner Robins, Ga., has announced that the Eagle Building at the Robins Air Force Base Museum of Aviation is going green. The Air Force base will now be buying enough green energy from the co-op each month to power the Eagle Building at the museum — one of the largest aviation museums in the United States.

The green energy is generated at the Taylor County Landfill, where the methane generation operation is owned and operated by Green Power EMC, an assembly of electric membership corporations from across the state, including Flint Energies.



The Robins Air Force Base Museum of Aviation in Georgia is working with the Flint Energies cooperative to "go green." Photo courtesy Ken Krakow Photography

Agri-Mark sends \$2 million to struggling dairy farmers

The Agri-Mark dairy cooperative, Methuen, Mass., in mid-November made a second round of early cash payments of \$1 per hundredweight, or about 9 cents per gallon, to help dairy farmers struggling during a period of depressed milk prices. The payment was for September production. Co-op officials say the milk marketing cooperative is having another good year, and the board and management recognized the continued need for cash among its member-farmers.

"Our Cabot and McCadam brands continue to be profitable, to the point that we feel comfortable making this second payout to members," says Neal Rea, a dairy farmer from Cambridge, N.Y., and the co-op's board chairman. He noted that profits from farmer-owned brands, such as its Cabot and McCadam cheeses, go back to dairy farmers.

In May 2009, the co-op sent out a check for 30 cents per hundredweight on a month's production to members to help them cope with the lowest milk prices in more than 30 years. Rea says

Agri-Mark's second cash payout of \$1 per hundredweight in November was again approved unanimously by the 14-member board.

"We clearly recognize that our farmers need immediate help to pay their bills," says Paul Johnston, Agri-Mark's president and general manager. "We still continue to work with other groups throughout the nation to find a long-term pricing solution we can all agree on and move forward with as soon as possible. However, this payment will help in the short-term."

The checks for the average Agri-Mark farm family will be roughly \$1,500 to \$2,000, depending on the size of operation. With the second payment, the co-op paid out more than \$2.6 million to its farmer-members this year from profits generated from its dairy products. Chairman Rea says the co-op will continue to explore every opportunity to stabilize farm milk prices at levels above the cost of production for its farmer-members and to expand its branded product sales in 2010.

"These early-profit payments show how important it is for farmers to invest in and market their own, value-added products," says Rea. "Whether it is from the Cabot cheese we market here in the U.S. or valuable whey proteins we market internationally, our goal is to generate as much income for our farmers as possible each year."

Almond shipments jump 23 percent

More than two dozen innovative almond products contributed to Blue Diamond's 2008 crop return to cooperative growers, President and CEO Doug Youngdahl told 1,200 growers at the co-op's 99th annual meeting in Modesto, Calif. Despite a global recession, almond shipments increased 23 percent. This surge pushed overall shipments to a record 10.2-percent increase over the 2007 crop year for another near-record sales year of more than \$700 million.

While U.S. consumer demand for almonds grew by 4 percent, the Sacramento-based co-op's snack sales in

North America increased 23 percent from the prior year. Sales of the co-op's Almond Breeze (an almond/soy beverage) jumped 43 percent, while its Nut Thins snack sales climbed 24 percent. Overall, Blue Diamond's consumer-branded sales have grown 600 percent in the past 7 years.

"While industry shipments were impressive, grower profitability suffered and declined vs. the prior year," cautioned Youngdahl. "Although the final 2008 crop grower return was the fifth highest historically (on an average, revenue-per-acre basis), rising costs for water and crop inputs severely squeezed grower profits. Grower cost increases make it vital that Blue Diamond continue to develop innovative new products to improve grower profitability."

U.S. export shipments were up almost 13 percent, with more than 70 percent of California almonds exported during the past year. Increased awareness of the nutritional benefits of eating almonds is expected to drive demand upward, co-op officials say, especially in markets such as India (sales up 19 percent), the Middle East (sales

up 51 percent) and China (up 115 percent). "One of Blue Diamond's key strategies to maximize grower returns is to sell a portfolio of new, high-margin almond products that consumers value," explained Youngdahl.

Blue Diamond is cautiously optimistic about a continuing trend toward stronger market price levels. While the 2009 crop is forecast to decline by 17 percent, a carryover from the 2008 crop of 413 million pounds means the total almond supply is relatively even with last season. Improvement in the global economy, historical almond growth rates and lower inventory could see a continuing firming trend in prices, depending on weather conditions during the 2010 bloom and the possible effects of a predicted El Nino (the ocean current linked to some weather patterns).

Youngdahl also reported that Blue Diamond employees voted by a margin of more than two to one in favor of the cooperative in a union representation election in November 2008. The election was supervised by the National Labor Relations Board (NLRB).

Spearman appointed to FCA board

Kenneth A. Spearman of Winter Haven, Fla., joined the board of the Farm Credit Administration (FCA) in October. He was appointed to the balance of the term held by Dallas Tonsager, who is now under secretary of USDA Rural Development. He was subsequently reappointed to a full 6-year term.

"Ken's many years of experience in agricultural cooperatives and financial management will be a great asset to the FCA Board," says FCA Chairman Leland A. Strom. "I look forward to working with Ken to ensure a safe, sound and dependable source of credit to farmers and other rural Americans."

Spearman recently served as an appointed director on the board of AgFirst Farm Credit Bank in Columbia, S.C. He is a former director of internal audit for Florida's Natural Growers, one of the largest cooperatives of



Big crops mean almond growers need to develop new products and markets, such as Blue Diamond's Almond Breeze beverage.

Florida citrus growers. From 1980 to 1991, Spearman was controller of the cooperative Citrus Central, where he was responsible for financial management and reporting.

Before entering the citrus industry almost 30 years ago, Spearman cofounded a public accounting firm in Chicago and worked as an accountant with Arthur Anderson & Co. He also served as chairman of the board of trustees for the Lake Wales Medical Center. He is a member of the Institute of Internal Auditors and the National Society of Accountants for Cooperatives, where he was at one time national president.

Dairy leader Tom Camerlo dies

Dairy Farmers of America (DFA) Board Chairman James P. “Tom” Camerlo Jr., who farmed near Florence, Colo., died Dec. 3. “Tom, who committed a lifetime of service to the global dairy industry and has served as DFA’s chairman since 2003, passed away after a courageous battle with cancer,” the Kansas City-based co-op noted in press announcement.

“Tom’s commitment to the dairy industry ran deep, and was second only to his devotion to his family,” said Rick Smith, DFA president and CEO. “We share in grieving the passing of our colleague, a dear friend and a man whose lifetime commitment and leadership made an everlasting difference in the dairy industry.”

As the former board chairman for one of DFA’s predecessor cooperatives — Western Dairymen’s Cooperative Inc. — Camerlo’s leadership and strong cooperative convictions were instrumental in the formation of DFA. Camerlo provided years of expertise and leadership to the dairy industry in the broader arenas of dairy trade, farm policy, cooperative marketing and dairy product promotion.

For two decades, he had served as chairman of the National Milk Producers Federation and chairman for the U.S. Dairy Export Council. Camerlo served on the board of Dairy Management Inc. (DMI), which

conducts promotion, nutrition education and research for U.S.-produced dairy products on behalf of America’s dairy farmers; the board of Western Dairy Association, a local affiliate of DMI; and the Agricultural Policy Advisory Committee. He also served on the board council for Nationwide Insurance.

Carmelo was named World Dairy Expo’s Dairyman of the Year in 2003, and received the National Council of Farmer Cooperative’s National



Tom Camerlo

Cooperative Statesman Award in 1999; USDA Soil Conservation Service presented him the Conservationist of the Year Award in 1996. In 2001 he was inducted into the Colorado Agriculture Hall of Fame.

A scholarship to honor Mr. Camerlo’s legacy has been established at Colorado State University, his alma mater, where he served on the CSU Provost Advisory Committee.

Korten to address ACE conference

What’s in a name, or a theme? This year’s ACE (Association of Cooperative Educators) Institute theme, “Crossroads: Choosing Cooperation,” is a choice, a directive and an opportunity.

The ACE Institute, to be held in

Cleveland, Ohio, July 28 – 30, will feature keynote speaker David Korten, author of “The Great Turning: From Empire to Earth Community” and “Agenda for a New Economy: From Phantom Wealth to Real Wealth.” As the title of his latest book suggests, Korten offers a road map to community-oriented, collaborative and shared-ownership businesses, recreating the economy by putting real wealth back on main street.

The University Circle area in Cleveland exemplifies Korten’s message. The institute will be looking at new worker cooperatives, such as the Evergreen Laundry. Through speakers and tours, Institute participants will learn how a committed, diverse partnership is rebuilding the community and reclaiming wealth through worker co-ops.

Cooperation is an opportunity. Speakers from the groundbreaking collaboration between the United Steel Workers and Spain’s MONDRAGON will share how their organizations came together to form a historic partnership. The Institute will also feature concepts for attracting younger generations to co-ops, how social media can promote cooperation, best co-op governance practices and innovative local food collaborations.

To find out more about the institute and registration, visit: www.ace.coop, or contact Sarah Pike at: pike@ace.coop or (763) 432-2032.

\$564 million for advanced bio-refineries

U.S. Department of Energy Secretary Steven Chu and Agriculture Secretary Tom Vilsack in early December announced the selection of 19 integrated biorefinery projects to receive up to \$564 million from the American Recovery and Reinvestment Act (ARRA) to accelerate the construction and operation of pilot, demonstration and commercial-scale facilities. The projects are located in 15 states and should help validate refining technologies and lay the foundation for full commercial-scale development of a

Justice, USDA set workshop dates

The U.S. Department of Justice and USDA have announced the dates and locations of joint public workshops that will explore competition and regulatory issues in the agriculture industry. The workshops are the first joint Justice/USDA workshops ever held to discuss competition and regulatory issues in the agriculture industry.

The workshops will address the dynamics of competition in agriculture markets, including buyer power (monopsony) and vertical integration. They will examine legal doctrines and provide an opportunity for farmers, ranchers, consumer groups, processors, agribusiness and other interested parties to provide examples of potentially anti-competitive conduct and to discuss any concerns about the application of the antitrust laws to the agricultural sectors.

Some of the issues to be examined are: the impact of agriculture concentration on food costs; the effect of agricultural regulatory statutes or other applicable laws and programs on competition, and issues relating to patents and intellectual property affecting agricultural marketing or production. Market practices will also be examined, including price spreads, forward contracts, packer ownership of livestock before slaughter, market transparency and increasing retailer concentration.

Each workshop will feature keynote speakers, general expert panels and break-out panels that will address more narrowly focused issues. At each workshop, the public will have an opportunity to ask questions and provide comments. The workshop discussions will be transcribed and placed on the public record, along with submissions and written comments received.

Dates and topics for the workshops are:

- **March 12, 2010 — Issues of Concern to Farmers; Ankeny, Iowa.** This session will serve as an introduction to the workshops and focus on issues facing crop farmers, which may include seed technology, vertical integration, market transparency and buyer power. Location: FFA Enrichment Center, 1055 Southwest Prairie Trail Parkway.
- **May 21, 2010 — Poultry Industry; Normal, Ala.** The focus may include production contracts in the poultry industry, concentration and buyer power. Location: Alabama A&M University Auditorium, James I. Dawson Cooperative Extension Building, 4900 Meridian St.
- **June 7, 2010 — Dairy Industry; Madison, Wis.** The focus may include concentration, marketplace transparency and vertical integration in the dairy industry. Location: University of Wisconsin Great Hall, Memorial Union, 800 Langdon St.
- **Aug. 26, 2010 — Livestock Industry; Fort Collins, Colo.** The focus will be beef, hog and other animal sectors and may include enforcement of the Packers and Stockyards Act and industry concentration. Location: Colorado State University.
- **Dec. 8, 2010 — Margins; Washington, D.C.** This workshop will look at the discrepancies between the prices received by farmers and the prices paid by consumers. As a concluding event, discussions from previous workshops will be incorporated into the analysis of agriculture markets nationally. Location: USDA headquarters, Jefferson Auditorium, 1400 Independence Ave., S.W.

Attendance and participation by the public is encouraged. Workshops will involve farmers, ranchers, processors, consumer groups, agribusinesses, government officials and academics. This collection of stakeholders will create a forum for discussion and will ensure various industry perspectives.

Additional updates and information, including agendas and speakers, will be posted on the Antitrust Division's events website: www.usdoj.gov/atr/events.htm. ■

U.S. biomass industry, they said.

The projects will produce advanced biofuels, biopower and bioproducts using biomass feedstocks at the pilot, demonstration and full-commercial scale. The projects are part of the ongoing effort to reduce U.S. dependence on foreign oil, spur the creation of the domestic bio-industry and provide new jobs in many rural areas of the country.

Vilsack also noted that USDA Rural Development has selected San Diego, Calif.-based Sapphire Energy to receive a non-ARRA loan guarantee for up to \$54.5 million through the Biorefinery Assistance Program to demonstrate an integrated algal biorefinery process. The process will cultivate algae in ponds, and will use de-watering and oil-extraction technology to produce an intermediate that will then be processed into drop-in green fuels such as jet fuel and diesel. The actual project will be constructed in Columbus, N.M.

DotCoop announces Global Award winners

DotCoop, the sponsor of the .coop Internet domain name, has announced the winners of the first-ever dotCoop Global Awards for Cooperative Excellence. The three winners are:

- **Indian Farmers Fertilizer Cooperative Limited**, a fertilizer production and distribution cooperative based in India. IFFCO won in the category for large cooperatives, those with more than \$50 million in revenue or assets.
- **National Cooperative Grocers Association**, a business services organization for retail food co-ops. NCGA won in the category of medium-size cooperatives with \$1 million to \$50 million in revenue or assets.
- **Pachamama Coffee Cooperative**, this U.S.-based co-op is owned by 150,000 coffee farmers worldwide. Pachamama won in the category of

small cooperatives, those with less than \$1 million in revenue or assets.

The dotCoop Global Awards are given to those cooperatives that demonstrate a strong commitment to the cooperative business model. DotCoop also looked for co-ops with missions and practices that clearly demonstrate cooperative values, especially in their website.

DotCoop awarded honorable mentions to Cabot Creamery Cooperative of the United States and Cr dit Coop ratif of France in the large business category; The Phone Co-op of the United Kingdom and the Wedge Community Co-op of the United States in the medium-sized business category; and CAC Santa Maria Magdalena of Peru and FESAN (Federacion Nacional de Cooperativas de Servicios Sanitarios, Ltda) of Chile in the small business category.

Judges also awarded a special recognition award to the Cooperative Press Limited, which received recognition for its overall contributions to the cooperative movement in the United Kingdom and which publishes the oldest cooperatively owned newspaper.

CHS crafts long-term direction

More than 2,500 CHS Inc. member-owners gathered Dec. 3-4 in Minneapolis for the cooperative's annual meeting, where the theme was "Perspective" and speakers explored long-term directions for the nation's largest member-owned grain and energy business. CHS leaders said the producer-owned cooperative has a solid financial and strategic foundation from which to craft long-term success.

"We must look far, far ahead and ask ourselves what CHS needs to be and where we must go 10, and even 20, years from now," CHS President and CEO John Johnson said. "Our objective is to create long-term enterprise value for our owners, customers, employees and the others stakeholders in a rapidly evolving global marketplace."

CHS reported its fourth-best earnings in its nearly 80 years, with net

income of \$381.4 million for fiscal 2009. That compared with a record \$803 million for fiscal 2008, a year during which the energy, grain, crop nutrients and food products the company handles reached record prices. Revenue for fiscal 2009 was \$25.7 billion, down from \$32.2 billion the previous year. During fiscal 2010, based on fiscal 2009 results, CHS will distribute an estimated \$220 million in cash to its owners, its fourth-largest return.

Chief Financial Officer John Schmitz said the diversity of the CHS business portfolio allowed the company to achieve overall strong performance even as some of its operations grappled with



the weak global economy in 2009. "The strong CHS financial foundation we've built in recent years has served us well and positions this company to take advantage of new opportunities," Schmitz said.

CHS Chairman Michael Toelle, a Browns Valley, Minn., farmer, told the delegates and guests that the economic climate, coupled with public scrutiny of corporate America, has heightened the CHS board's already strong commitment to its roles in oversight, governance, strategic planning and legislative outreach. "It is our responsibility to our owners to ensure that effective strategic planning keeps this company on a long-term path of success," Toelle said.

He added that the CHS board will continue to speak up on key issues, such as climate change legislation — including a proposed "cap and trade" carbon credit program — and encouraged other cooperative leaders to become involved.

2009 CHS operations highlights included:

- Strengthening grain origination presence in the Black Sea region

through joint ventures in state-of-the-art port facilities at Odessa, Ukraine, and Novorossiysk, Russia.

- Opening a grain office in Buenos Aires, Argentina.
- Completing two refined fuels terminals at Missoula and Logan, Mont., to meet needs of customers in the region.
- Acquiring a major Mississippi River terminal, CHS Winona (Minn.) River and Rail, to boost crop nutrients distribution efficiencies in the region.
- Forming Wabash Valley Grain, LLC, with Superior Ag of Huntington, Ind., to create the CHS system's first origination point on the Ohio River.

NCBA theme: Transforming the Economy with Co-ops

The National Cooperative Business Association (NCBA) will hold its 2010 annual meeting May 4-6 at the Capitol Hilton in Washington D.C., where the theme will be: "Cooperatives Transforming the Economy." The conference will focus on the role cooperatives have played during the economic crisis and how co-ops can create their own economy by leveraging the 6th co-op principle: Cooperation Among Cooperatives.

Among the breakout sessions are: Collaborative Networks: Building



Cooperative Bridges to a Sustainable Tomorrow; Transformational Communication that Builds Group Cohesiveness; and Cleveland's New



The annual Race for Cooperative Development in Washington, D.C., was one of many events held around the nation in October to draw attention to cooperatives during National Cooperative Month. Photo by Rita Yurov

Evergreen Employee Cooperatives, among others.

The NCBA meeting is the only cross-sector national conference offering educational breakout sessions on how all cooperative sectors can work together to create positive change and offering networking opportunities to meet co-op leaders from all over the United States. This year's meeting introduces a new Best Practices session, during which participants have the chance to share what works at their co-ops and to learn from peer successes. Attendees will also be making trips to visit their elected officials.

For more information, visit: www.ncba.coop or contact Pia Duryea at (202) 383-5440 or pduryea@ncba.coop.

In other NCBA news, association President/CEO Paul Hazen has been re-elected for a second term on the International Cooperative Alliance's board of directors. Hazen is the board's only current U.S. representative.

New leadership program for co-op executives

The University of Wisconsin Center for Cooperatives, in partnership with the Center for Advanced Studies in

Business at the Wisconsin School of Business, is launching a new program for cooperative executives and senior management. The Cooperative Executive Leadership Program will be a 4 ½-day, intensive program focused on successful cooperative business leadership. It will be offered June 13-18 at the Fluno Center for Executive Education on the University of Wisconsin-Madison campus.

The sessions, led by University of Wisconsin faculty and industry experts, will be thought provoking and pragmatic, sponsors say, and will involve group discussion, cooperative case studies and action-learning components. The program is designed to challenge participants to examine and develop successful cooperative business strategies.

Topic areas include: Cooperative Governance and Finance; Strategy Formulation and Execution; Strategic Leadership; Building a Change Management Discipline; and Creating Value Propositions for Member Owners. Program participants will include board executives, CEOs and their leadership teams from all cooperative sectors across the country. The Cooperative Executive Leadership

Program will be limited to 30 participants in order to ensure an intensive high-quality learning experience.

The program is intended to help participants increase their ability to develop and execute complex strategic plans; discover new ways to lead and manage change; find ways to engage all stakeholders in value creation; acquire insights on using cooperative finance to achieve results; network with executive leadership from other cooperatives.

Wisconsin Executive Education is a global leader in executive education, making the *Financial Times*' list of top executive education programs for the fourth consecutive year.

For registration information, visit: www.exed.wisc.edu/coopleadership, or contact Anne Reynolds at (608) 263-4775 or atreynol@wisc.edu.

Riceland sets sales record

Riceland Foods Inc., Jonesboro, Ark., reported record sales of \$1.3 billion for fiscal 2009, 8 percent higher than the previous record set a year earlier. Riceland's farmer-members received a record \$776 million in 2008-09, up 11 percent from a year earlier.

"During the past 3 years, crop production has been less than earlier in the decade, but grain values have been higher during the past two years," Danny Kennedy, president and CEO of the farmer-owned cooperative, said at the co-op's annual meeting in Jonesboro.

Carl Brothers, senior vice president for international rice, said prices for long-grain rice declined during most of the 2008-crop year, "in contrast to the euphoria in the spring and early summer of 2008 when reports of rice shortages in the world dominated news media. The tight U.S. medium-grain rice supply situation, drought conditions in Australia and the Egyptian rice export ban kept medium-grain rice prices extremely attractive all year, particularly as compared to long-grain prices," he said.

Riceland and its farmer-members are

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Organic dairy market also hurt by low prices

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stimulated and this era came to an end. The recession had an immediate impact on the organic dairy market, which dropped from a 25-percent growth rate down to no growth.

Exacerbating the situation, the non-organic conventional dairy pay price hit a 30-year low and has stayed there for an extended period. The conventional dairy farmer is losing money as never before with grain cost being held high due to the new ethanol market.

This low farm pay price brought the retail price of conventional milk to an all-time low, resulting in an organic premium three times that of conventional milk. This wide gap premium has contributed to the erosion of organic dairy sales, and it is now estimated that the organic dairy market is, at minimum, minus 5 percent below last year.

These factors have all caused harm in many ways for the organic dairy farmers. Many organic dairy processors are now withdrawing or reducing their supply, both in an ethical and unethical manner. Many contracts that came to term are not being renewed, and many of those farmers are being left stranded without an organic dairy market.

Other organic dairy farmers are being paid on a utilization basis, which means if half of the processor's milk is used conventionally, then the producer will get the conventional price for half of their milk.

CROPP Cooperative is supplier to its own farmer-owned brand (Organic Valley), to other organic dairy processors and to private label (store brand) customers. Our supply-demand balance is also out of balance.

As a cooperative we are reacting to it from a community perspective, and our farmer-owners, farmer board and management are implementing a mandatory supply reduction of 7 percent from the average of the last 3 years of milk production.

We have never done this before, but we feel it is critical to keep all of our family farms on the land farming organically. We are all cutting back together, so we can maintain our sustainable pay price and not leave any of our farmers stranded.

Today, all organic dairy farmers are challenged as we deal with this "perfect storm." The farmer-owners of CROPP Cooperative are being very cooperative in working with the supply reduction program. It is a learning journey for us, and we will learn and be better prepared for such dramatic shifts in the future.

The hardest hit farmers are those outside our cooperative who are being stranded without a market or being forced to an unsustainable pay price. Today, cooperation is the most important value we can hold dear as we face this challenge together. ■

Co-ops can thrive in uncertain times

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value of annual deliveries. This plan was not supplying sufficient equity to support Organic Valley's growth, so a preferred stock series was marketed to outside investors who support the goals and values of the cooperative.

The co-op preferred stock offers an annual dividend at a fixed rate. While stock redemption is made at the board's discretion, the board has honored redemption requests and maintained investor confidence. It has been an extremely successful equity program for Organic Valley, and now comprises 45 percent of its equity mix, McGeorge said. This higher level of non-member equity has been acceptable to the board because the preferred stockholders do not have member voting rights.

McGeorge noted that because Organic Valley's focus is on serving its current and future professional farmers, consideration of Organic Valley's market valuation is secondary to cooperative business priorities. Much of the cooperative's profit has flowed back to its producer members, and the cooperative will continue to manage its finances with the goal of maintaining the independence that comes from farmer control over equity, he said.

Brand is co-op's 'umbrella'

Paul Stajduhar, Ocean Spray's vice president for corporate strategy and business development, described how the cooperative has averaged a 6-percent annual sales growth since 2000, with more than 90 percent of its sales now coming from branded products. The brand is the cranberry co-op's "umbrella," noted Stajduhar, allowing smaller growers to thrive and providing members the value they seek from the cooperative.

To support profitable brand growth in the future, Ocean Spray recently re-examined its equity options. While its membership runs the gamut from investment-oriented landowners to multi-generation farm families, the review process resulted in nearly all the growers agreeing to invest larger amounts of equity in the cooperative to maintain 100 percent patron control. Plans to ensure adequate fruit supply as the cooperative grows were also developed.

Branded and non-branded fruit pools, a non-patronage fruit reserve and the development of cooperative-owned land reserves for future production are all approaches that are expected to provide Ocean Spray with the flexibility to meet its future growth goals.

Editor's note: Many of the presentations from the conference are available on the University of Wisconsin Center for Cooperatives website: www.uwcc.wisc.edu/farmercoops09/program.html. The 13th annual Farmer Cooperatives Conference will be held in Denver, Colo., the week of Nov. 8, 2010 (exact dates to be determined). Visit www.wisc.edu for conference updates.

■

Dairy co-op survey

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highest of all operating types in 2007: 5.3 and 13.8 percent, respectively.

Diversified and fluid-processing co-ops

The system of plants operated by diversified and fluid-processing cooperatives and their marketing operations required the second highest level of assets per cwt of member milk in 2007: \$10.09. Long-term liabilities represented 20.8 percent of total assets, the highest level among the different operational types. Furthermore, long-term liabilities were 75 percent of the equity members hold in their cooperatives. The other two operating types had ratios that were less than one-half of that.

Milk and dairy product sales were \$24.71 per cwt of milk handled, which was about \$24 per cwt below those sales for niche marketing cooperatives. Supply and other sales made up 12.9 percent of total sales for diversified and fluid-processing cooperatives, which is well-above the level of supply and other sales of bargaining-only cooperatives where supply and other sales made up 4.1 percent. Niche-marketing cooperatives did not report any sales other than milk and dairy products. Net margins before taxes for diversified and fluid-processing cooperatives averaged 29 cents per cwt and represented 1 percent of total sales in 2007. They varied somewhat between the survey years: from 2 cents per cwt lower in 2002 to 5 cents per cwt higher in 1997. Diversified and fluid-processing cooperatives' net margins were below those of niche-marketing cooperatives for all 3 survey years. The net margins-to-total assets ratio was 3.4 percent in 2007, while net margins-to-member equity was 12.1 percent.

Size-based performance

The financial performance of dairy cooperatives was also calculated according to size of operations.

Table 3—Consolidated balance sheet per cwt of member milk, by type of dairy cooperative, 2007

Item	Type of cooperative		
	Bargaining only	Niche Marketing	Diversified & fluid processing
	<i>Dollars per cwt of member milk</i>		
Current assets	1.41	8.84	5.98
Net PP&E ^{1/} and other assets	.22	3.60	3.99
Investments in other co-ops	.10	.10	.11
Total assets	1.74	12.54	10.09
Current liabilities	1.25	5.95	5.20
Long-term liabilities ^{2/}	.06	1.80	2.10
Total liabilities	1.31	7.76	7.30
Total equity	.42	4.78	2.79
Total liabilities and equity	1.74	12.54	10.09
Member milk (million pounds)	28,902	1,034	112,929
Number of cooperatives	60	9	25
Member milk per cooperative (million pounds)	482	115	4,517

Note: Totals may not add due to rounding.
^{1/} Property, plant and equipment.
^{2/} May include liabilities not categorized

Table 4—Consolidated operating statement per cwt of total milk handled, by type of dairy cooperative, 2007

Item	Type of cooperative		
	Bargaining only	Niche Marketing	Diversified & fluid processing
	<i>Dollars per cwt of member milk</i>		
Milk and dairy product sales	18.40	48.22	24.71
Supply and other sales	.79	.00	3.70
Service receipts and other income	.08	.07	.23
Patronage refunds received	.01	.00	.00
Total sales	19.27	48.30	28.65
Total expenses	19.22	47.64	28.36
Net margins before tax	.05	.66	.29
Milk volume handled (million pounds)	30,507	1,039	132,137
Number of cooperatives	60	9	25

Note: Totals may not add due to rounding.

Cooperatives were divided into three groups: small (those that handled less than 50 million pounds of milk per year); medium (those that handled between 50 million and 1 billion pounds of milk annually); and large (those that handled 1 billion pounds of milk or more annually).

The variation in financial performance among the size groups was smaller than that between the operating-type groups.

Total assets ranged from \$7.03 per cwt of member milk for the medium-size cooperatives to \$8.51 for the large co-ops, with small operations having \$7.40 per cwt in total assets (table 5). The small cooperatives' investments in other cooperatives represented a much greater percentage of total assets (23.3 percent) than for the large and medium groups (2.7 and 1.1 percent, respectively).

Total liabilities ranged from \$3.53 per cwt for small cooperatives to \$6.21 per cwt for the large cooperatives in 2007. Member equity showed the reverse pattern, ranging from \$2.30 per cwt for the large cooperatives to \$3.86 for the small cooperatives. Medium-size cooperatives were in the middle for both measures: \$4.43 per cwt in total liabilities and \$2.60 per cwt of member equity.

Milk and dairy product sales varied by \$4.26 per cwt among the three size groups in 2007 (table 6). Medium cooperatives had the highest milk and dairy product sales at \$25.34 per cwt; small cooperatives ranked lowest at \$21.08. Differences in total sales for the three size groups were even narrower, ranging from \$26.30 per cwt for medium cooperatives to \$29.77 for small cooperatives.

However, net margins for the large cooperatives were 24 cents per cwt — 18 cents and 19 cents per cwt below net margins of the small and medium groups, respectively.

Consequently, net margins before taxes came to just 0.9 percent of total sales for the large cooperatives, but were 1.4 percent for small cooperatives and 1.6 percent for the medium group.

Table 5—Consolidated balance sheet per cwt member milk, by size of dairy cooperative, 2007

Item	Size of cooperative		
	Small*	Medium*	Large*
	<i>Dollars per cwt of member milk</i>		
Current assets	4.33	4.63	5.11
Net PP&E ^{1/} and other assets	1.35	2.21	3.30
Investments in other co-ops	1.72	0.19	0.09
Total assets	7.40	7.03	8.51
Current liabilities	3.06	2.89	4.51
Long-term liabilities ^{2/}	0.36	1.54	1.70
Liabilities not categorized	0.11	0.00	0.00
Total liabilities	3.53	4.43	6.21
Total equity	3.86	2.60	2.30
Total liabilities and equity	7.40	7.03	8.51
Member milk (million pounds)	582	8,661	133,621
Number of cooperatives	30	38	26
Member milk per cooperative (million pounds)	19	228	5,139
<i>Note: Totals may not add due to rounding.</i>			
^{1/} Property, plant and equipment.			
^{2/} May include liabilities not categorized			
* Small: less than 50 million lbs.; Medium: 50 million to 1 billion lbs. of milk; Large: over 1 billion lbs.			

Table 6—Consolidated operating statement per cwt of total milk handled, by size of dairy cooperative, 2007

Item	Type of cooperative		
	Small*	Medium*	Large*
	<i>Dollars per cwt of member milk</i>		
Milk and dairy product sales	21.08	25.34	23.59
Supply and other sales	7.54	0.68	3.26
Service receipts and other income	0.94	0.25	0.20
Patronage refunds received	0.21	0.03	0.00
Total sales	29.77	26.30	27.06
Total expenses	29.36	25.87	26.82
Net margins before tax	0.42	0.43	0.24
Milk volume handled (million pounds)	587	9,289	153,807
Number of cooperatives	30	38	26
<i>Note: Totals may not add due to rounding.</i>			
* Small: less than 50 million lbs.; Medium: 50 million to 1 billion lbs. of milk; Large: over 1 billion lbs.			

Finally, the medium-size cooperatives showed the highest net margins-to-equity ratio, 17.6 percent, and highest net margins-to-total assets, 6.5 percent.

Small cooperatives had the lowest return on equity, 10.9 percent, while large cooperatives had the lowest return-to-total assets, 3.2 percent. ■

Commentary

continued from page 2

Development's Value-Added Producer Grant (VAPG) and Business & Industry Guaranteed Loan (B&I) programs. VAPG is a powerful, highly flexible tool that helps agricultural commodity producers to refine or enhance their products, increasing value to end-users and increasing the returns to producers (see page 13 of this issue for an example of a co-op that was helped with a VAPG). Since the program's inception in 2001, we've awarded more than 1,200 VAPGs for planning and working capital grants. In the current round of VAPGs, we encouraged applications that would focus on local foods and value chains, or food systems.

The B&I program can support cooperative ventures for locally grown agricultural products. These loans can

be used for business conversion, repair, modernization or development. They can also help with purchasing or developing land or facilities.

Funds go to equipment, leasehold improvements, machinery, supplies and inventory.

To help improve the impact of our cooperative programs, we are establishing expert advisory panels with a cross-section of outside experts. They'll explore equity issues and research needs, provide support for cooperative board members and co-op management and identify long-term issues that need to be addressed.

We're also creating ad hoc panels to examine emerging issues, such as cap-and-trade and local foods.

In keeping with the Secretary's rural wealth-building priority, we're establishing a discussion forum with the goal of encouraging all cooperative trade associations serving rural areas to come together and explore creative

ways to target services and build communities.

We want to make our programs work for you, and in today's business environment.

The rural economy is struggling and lenders are reluctant to continue with existing credits, much less extend new credits, but Congress clearly defined our mission and we are fully committed to doing all we can to support the entrepreneurs that have the initiative and the drive to go out and compete in the marketplace.

Combining your experiences and strengths, we can address challenges facing your communities. Let's build rural America through mobilizing local leaders, capturing transfers of wealth, encouraging entrepreneurship and building stronger cooperatives. You are our leaders in the states, and I challenge you to consider the role that you can play. ■

NEW from USDA

Three new publications offer information to cooperatives looking to break new ground

A Guide for the Development of Purchasing Cooperatives: CIR-64

Rural communities can often greatly benefit from the institution of purchasing co-ops. This publication offers information on organizing and operating a sustainable purchasing cooperative.

Cooperative Approaches for Implementation of Dairy Manure Digesters: RR-217

High costs and low returns often discourage dairy farmers from using anaerobic digesters. A cooperative approach may offer lower costs and better profitability while letting each farmer concentrate on milk production.

Selecting a Cooperative Membership Structure for the Agriculture-of-the-Middle Initiative: RR-216

Many medium-sized farms are suffering a squeeze because they are not big enough for economies of scale and not able to take advantage of niche markets. This report explores cooperative approaches to survivability for farms of the 'disappearing middle.'

Get them online now at:
www.rurdev.usda.gov/rbs/pub/newpub.htm

For hard copies, circle your choices, fill out below and FAX to: (202) 690-4083. Or e-mail your mailing address and number of copies desired to coopinfo@wdc.usda.gov. All USDA Rural Development publication hard copies are free of charge.

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Page from the Past

From the archives of *Rural Cooperatives*

50
YEARS AGO

From the February 1960 issue of *News for Farmer Cooperatives*

How to get attendance at meetings

By **D.M. Hall**, Associate Professor,
University of Illinois, Urbana, Ill.

A large dairy cooperative's field man asked me: "How do you attract a crowd?" He had been conducting meetings arranged by county agents. He said, "In some counties the attendance is always good; in others it never is."

I'd like to emphasize that attendance is behavior. It is something a person does as the result of a three-step process. He hears or reads about a meeting; anticipates some reward, such as solving a problem; and then acts in hope of receiving the reward.

Three kinds of messages, each useful under specific conditions, can be sent and received. They are: 1. Noise — messages carrying no new information; 2. Expressive messages — those intended to do something to the sender; 3. Influential messages — those intended to do something to others.

The noise aspect was discovered to be useful during war. The enemy had been trained to be noisy because it was found that noise was a confidence builder. By chatter, each soldier knew that he was not alone and thus had the support of the group.

A postal card sent as a reminder is classified as noise, but isn't as effective as if it were a phone call from a neighbor. Effective noise is personal. It says: "Let's go together."

Expressive messages are easily identified when you hear someone pop off and say: "I got that off my chest." You may not so easily identify more subtle messages, such as boasting about "my years of experience" or "my skill." They usually are attempts to get recognition and they do the sender good, even though they do nothing for anyone else.

Influential messages are intended to influence us to believe, to feel and to act. Three styles of influential messages

can reveal the purposes of the senders: 1. Communications for immediate action. Senders of such messages use sharp and startling contrasts. 2. Communications for manipulation. Manipulators seek to influence people to conform to the manipulator's beliefs. 3. Communicators for integration. Senders of integrative messages have democratic purposes and hope that their messages will liberate men. They have respect for individual differences and human worth.

30
YEARS AGO

From the February 1980 issue of *Farmer Cooperatives*

Vertical integration is key for Moroni Feed Company

The Utah desert may seem an improbable place to start a turkey business, but one has been thriving there for several decades. Moroni Feed Co. of Sanpete County, Utah, is one of the few fully integrated turkey producing and marketing cooperatives in the United States. This cooperative maintains its own turkey-breeding farm; hatchery; feed mill; and processing, packaging and freezing plant; plus its own financing, hardware and fertilizer departments. It also operates a disease diagnostic laboratory.

The turkey growers have maintained the profitable cooperative over the past 40 years even though, located between mountains in the desert, they cope with higher production costs, higher freight rates and lower turkey prices than competitors in most other parts of the country.

An important reason for success is that from the beginning, Moroni Feed Co. has moved slowly and carefully into each operation, co-op officials explain. When the need for expansion was felt, they first developed the necessary capital and management know-how. All major elements of their turkey industry are integrated under one management, thus offering savings and efficiencies not found in nonintegrated operations.

The foundation of this cooperative's management structure includes pooling, "70-30" financing, education and a revolving fund.

Different types of pooling operations are needed to handle the wide fluctuations in turkey prices, as well as different sizes and types of turkeys grown to meet trade specifications. Pooling is a distinctly cooperative practice. It means commingling products of several producers, usually on the basis of established grades, and after deducting average expenses, paying the average price received for some defined period. Profits from sales returns, expenses such as service fees, and even risks are shared.

To help new growers get started, Moroni Feed Co. developed the "70-30" finance program for sharing profits with producers. The plan allows the new grower to get into the turkey business without much initial capital. At no interest, the cooperative supplies feed, poults, fuel, medication, and insurance. The new grower supplies the labor, land, equipment and operating expense.

After the turkeys are processed and sold, the co-op deducts all charges for everything furnished, and the net profit is shared: 70 percent to the grower and 30 percent to the co-op.

Operating as a true cooperative, Moroni Feed Co. performs services for its patrons at cost and pays back as patronage refunds any savings above the cost of operations. Savings are distributed according to business done by each patron or member. This is the revolving fund principle.

10
YEARS AGO

From the Jan./Feb. 2000 issue of *Rural Cooperatives*

Consolidations, technology, politics to impact co-op financial institutions

Charles E. Snyder

President & CEO

National Cooperative Bank

As we turn the corner and enter a new century, the U.S. economy is at an all-time high. As cooperative financial institutions, we too have been riding the wave of prosperity. Where do we go from here? Are we prepared to meet the challenges of the new century?

If the past decade is any indication of what we have to look forward to, it is going to be a bumpy ride. The recent trends — industry consolidation, technological advancements and a shifting legislative agenda — offered a dizzying pace of change.

Cooperative financial institutions will need to be able to turn these trends into opportunities in order to compete in the new millennium. We will need to continually adapt with

customers to meet their needs.

Industry consolidation will continue, especially within the financial services arena. Recent legislation providing for banking modernization will allow banking, insurance and stock brokerage to be sold under one roof. Competition with large and well-capitalized companies will increase as firms merge to provide one-stop shopping.

With banks increasingly becoming more like fast-food outlets, there will be tremendous opportunity. Super banks will offer a cookie-cutter approach to business. They will tell customers to fit in their box. Cooperative financial institutions must react swiftly, listen to customer needs and offer creative solutions.

Technological advancement

The use of computers and the delivery of products and services via the World Wide Web will be paramount to our success. E-commerce allows like-minded people to cooperate with efficiency never before seen. Cooperatives, by their very nature, should be able to capture this value if they are able to manage change at "Internet speed." Evaluating how members can use the Web, how we can partner to deliver "added value" through a virtual world is critical. While still relatively unknown, cooperative financial institutions are well aware that the Web will change the face of how we do business.

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going through a transition period, Kennedy said. "Growers now have larger and faster combines and large trucks which are capable of harvesting and delivering crops faster than some of our aging facilities can accommodate. As a result, many members have built on-farm bins, and others are driving longer distances to reach facilities with shorter dump lines, which allow them to keep their combines rolling. We are working to adjust to this storage shift." ■

Co-op Development Action

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Keystone Development Center, is interning with the National Cooperative Business Association, where she is working to identify resources for supporting urban co-op development.

The overall goal of the university program is to add to the community development "tool bag" students should be familiar with as they pursue careers in business and community development. Their communities are supplying the "case material" for their studies and are the beneficiaries of what they learn.

For more information about the school, visit:
<http://www.snhu.edu/388.asp>. ■

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