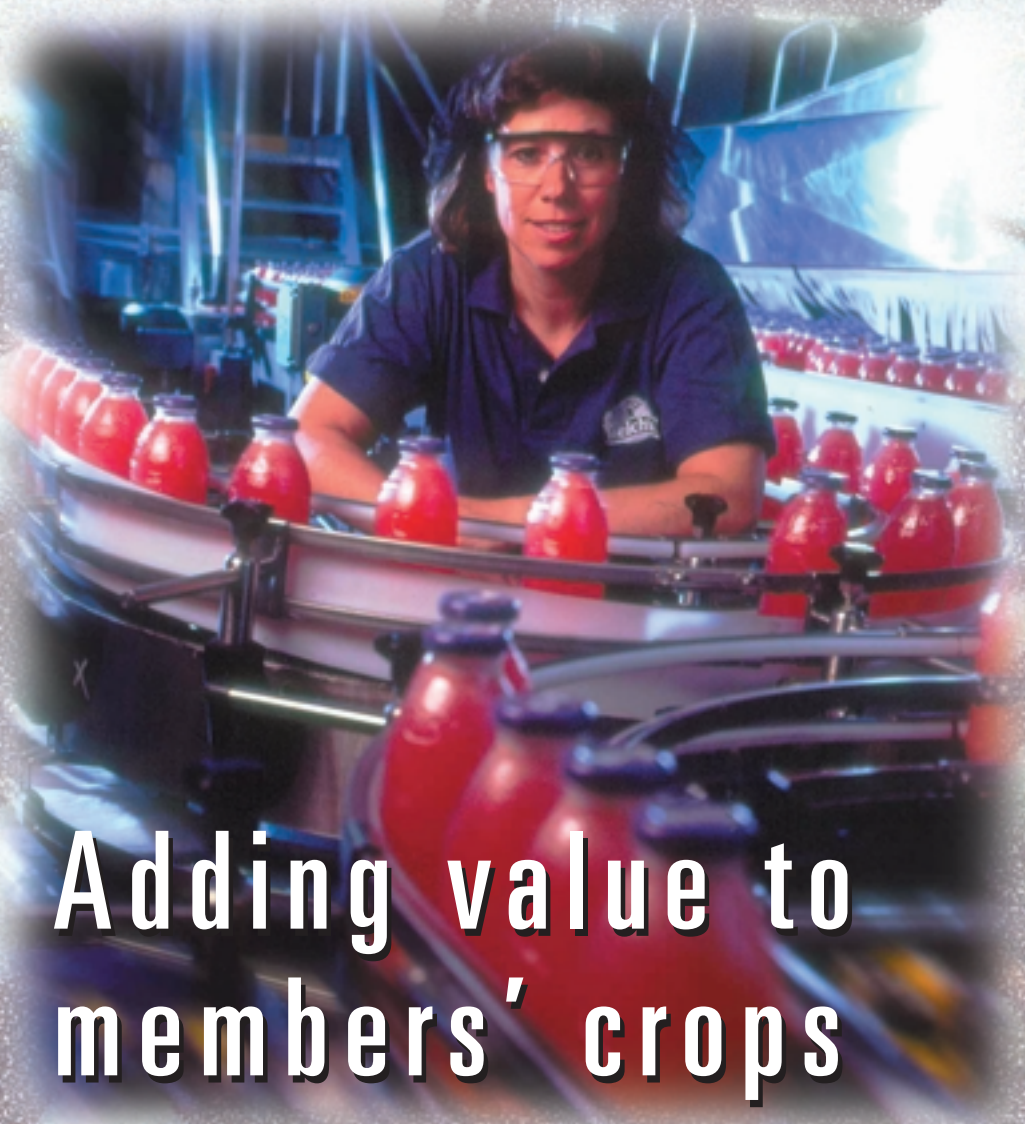
Rural COOPERATIVES

USDA / Rural Development

July/August 2002



Adding value to members' crops

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States need to carefully consider new "cooperative" laws

On July 1, 2001, a new state statute, the Wyoming Processing Cooperative Law, became effective. This law authorizes a limited liability corporation-like business structure (with a modicum of cooperative characteristics) to process and market agricultural products. Other states are being asked to consider enacting similar legislation. Promoters suggest this will permit cooperatives to attract outside equity.

While this may seem attractive in the abstract, cooperative leaders in each state need to think through whether to embrace entities formed under a statute such as this for at least two reasons. First, such entities may be incompatible with the traits that distinguish a cooperative from an investor-owned firm. Second, serious questions exist as to whether such an entity is eligible for the public policy benefits available only to cooperatives.

While there is no single definition of a cooperative for all purposes, cooperative scholars, leaders and professional advisers agree that for any organization to be considered a cooperative, it must have these three unique characteristics:

1. It is owned by the people who use its services.

2. It is controlled by the people who use its services.

3. Earnings are allocated to the users based on patronage, rather than to investors based on investment.

A business formed under the new Wyoming law can have several traits that are at odds with those usually associated with being a cooperative. Under this law, a cooperative can have an unlimited number of investor non-patron members who aren't required to do business with the association, but are entitled to vote and share in its earnings on the basis of their level of investment. Patron members are limited to one vote each, while non-patron members may have an unlimited number of votes.

Only one of an unlimited number of directors must be elected by producer patron members. Director(s) chosen by the producer-patron members are entitled to 50 percent of the voting power on the board. But this may fall short of the level of producer control that is necessary to operate as a farmer cooperative.

No limit is imposed on the rate of return investor-members can realize on their investment, and up to 85 percent of each year's earnings may be distributed to investor members based on investment. One or more outside investors with two-thirds voting control can merge or consolidate the entity into another entity, or liquidate it without any support from the producer patron-members.

Cooperative leaders need to stop for a moment and ask themselves: "Is a law that permits this much deviation from the cooperative norms of user-ownership and user-control—coupled with a provision that only 15 percent of earnings must be returned to users based on patronage—really a law authorizing the formation of cooperatives?" If someone can answer this question "yes," a second question needs to be addressed: "Just what, if anything, does the term cooperative mean?"

When an organization calls itself a "cooperative," it has an obligation to meet expectations that it will act like one. Delaware could amend its laws to create another statute that lets General Motors or any other large investor-owned firm call itself a "cooperative." But if such entities disregard the key cooperative characteristics—user ownership and control and benefits flowing to the users based on patronage—the integrity of all cooperatives is called into question.

Also, the thousands of successful agricultural and non-agricultural cooperatives challenge the notion that inherent defects in the cooperative model make co-ops so inflexible and unresponsive to change that they can't survive in today's business environment. A true cooperative may not be the appropriate structure for every rural business. But if the founders of a new business don't believe they can achieve their objectives with a cooperative, then they can organize an LLC or some other form of business, rather than use political power to enact a law that tarnishes the credibility of other cooperatives.

Congress has bestowed a number of privileges on businesses that conform to the generally accepted vision of organizing and operating as a cooperative. An entity structured to take full advantage of the Wyoming Processing Cooperative Law might have trouble qualifying under any of the following statutes:

Antitrust Immunity—Producer associations formed under the Wyoming law, which choose to give voting power to non-producer/investors, may well be in conflict with the requirement for antitrust protection under the Capper-Volstead Act that all voting members must be agricultural producers. The same eligibility questions arise concerning access to the pro-

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FEATURES

DEPARTMENTS

On the Cover:

Bottles of Welch's fruit punch whirl past the watchful eyes of an inspector in a bottling plant in North East, Pa. CEO Dan Dillon discusses how Welch's adds long-term value to the crops harvested by members of National Grape Cooperative, beginning on page 22. Photos courtesy Welch's

Bulking up

Co-ops continue trade recovery, paced by bulk goods

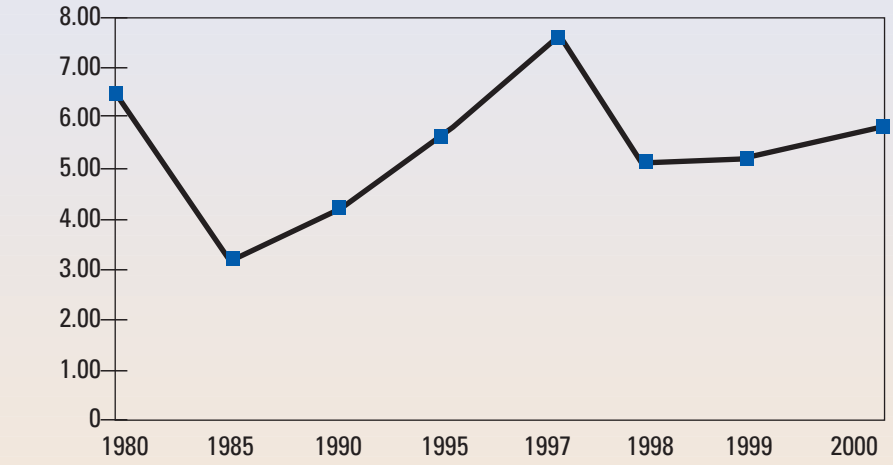
By Tracey L. Kennedy
USDA/RBS Agricultural Economist

Editor's Note: *USDA's Rural Business-Cooperative Service began an annual survey of cooperative involvement in international markets in 1997. Prior to 1997, cooperative exports and imports had been measured at five-year intervals. An overview of survey findings for 2000, with comparisons to 1997-1999, is presented here.*

In 2000, U.S. cooperative exporters continued their recovery from the global currency and financial crises that plagued world markets in the late 1990s. Export sales of more than $5.95 billion were reported, a jump of almost 25 percent compared with a 6.4-percent increase for U.S. agricultural exports as a whole (USDA). Following record sales in 1997, cooperative exports had fallen off sharply in 1998 and had begun to recover only slightly by 1999 (figure 1).

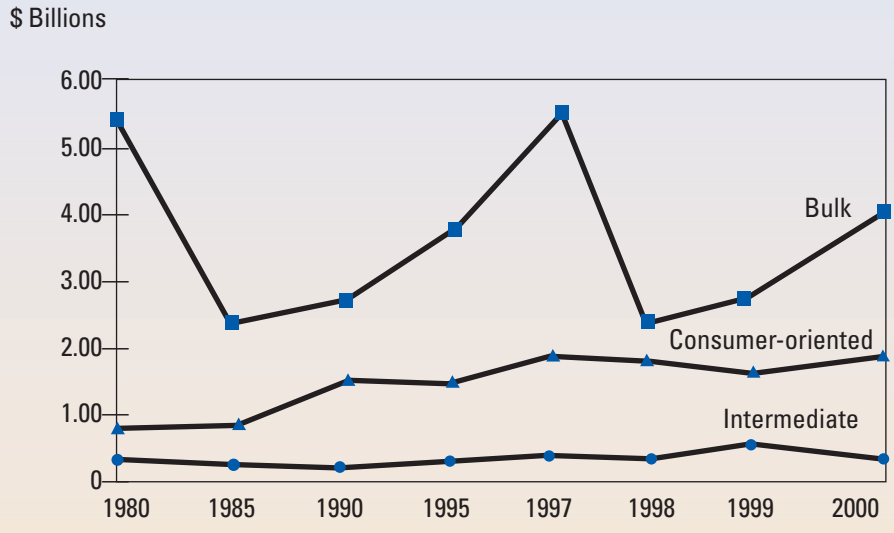
While trends in U.S. trade point to the increased importance of differentiated products relative to bulk commodities, exports by U.S. cooperatives remain concentrated in bulk products. Of the total for 2000, $3.99 billion, or 67 percent of exports, consisted of bulk commodities such as grains, oilseeds, and cotton, compared to 41 percent for U.S. bulk sales. The majority of these shipments originated from a small number of large cooperatives. Consumer-oriented or high-value products, such as fresh and processed fruits and vegetables, accounted for $1.62 billion, or 27 percent, of the

Figure 1—Agricultural exports by U.S. cooperatives, 1980-2000*



*Prior to 1997, cooperative exports were measured at five-year intervals.

Figure 2—U.S. cooperative exports by product category 1980-2000



Export sales by U.S. farm cooperatives jumped nearly 25 percent in 2000, with bulk goods leading the way. USDA Forest Service photo

total, compared to 36 percent for all U.S. consumer products. Intermediate products—ingredients and partially processed products, such as flours, meals, oils and feed—accounted for $235 million, or almost 4 percent, compared to 21 percent for comparable U.S. sales. In addition, exports of various farm inputs and equipment totaled $108 million, or about 2 percent, of the total.

Cooperatives' overall share of U.S. agricultural exports (excluding fisheries, farm inputs, etc.) for 2000 was approximately 11.3 percent. Co-ops had a 21.5 percent share of U.S. bulk commodity exports, 7.4 percent of consumer-oriented products, and 2.1 percent of intermediate products.

Among the 91 cooperatives reporting in 2000, export sales continued to be concentrated among a few of the largest cooperatives, with six co-ops—each having sales in excess of $100 million—responsible for 79.6 percent of total exports. Those six cooperatives represented a range of agricultural products and geographic areas. The magnitude of exports among individual cooperatives ranged from less than $10,000 to almost $3 billion.

Co-ops recover across most commodities; market shifts continue

Exports by cooperatives showed improvement across two of three major product categories in 2000 (figure 2). Bulk commodity sales (primarily grains, oilseeds and cotton) dropped more than 50 percent, from $5.4 billion in 1997 to $2.5 billion in 1998 and $2.2 billion in 1999. However, they showed a marked improvement in 2000, increasing 46 percent, to nearly $4 billion. Indeed, increased sales of bulk commodities accounted for most of the gains in total cooperative exports from 1999.

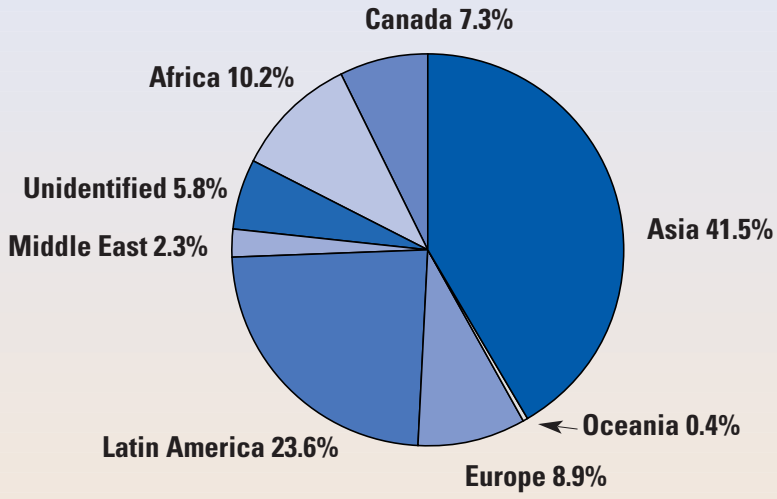
Consumer-oriented products (mainly fresh and processed fruits and vegetables, tree nuts, meats, dairy products and other processed products), which had declined throughout 1998 and 1999 (10.8 percent and 17.5 percent, respectively), increased 15 percent in 2000, to more than $1.6 billion. Only 12 percent of the cooperative export gain in 2000 was attributable to consumer-oriented products, compared to the much higher proportion (two-thirds) registered by U.S. sales of the same types of products.

Intermediate products (semi-processed products and ingredients or inputs such as feed components, flour, meal, oil, and animal byproducts) fell 24 percent from 1997 to 1998, then recovered with a 60-percent increase in 1999. In 2000, they fell off more than 52 percent, to $235 million.

Asia continued as the largest regional destination for cooperative exports in 2000, accounting for $2.46 billion, or 41.5 percent, of the total (figure 3). Latin America (primarily Mexico) continued to emerge as an increasingly important customer, growing $1.41 billion, or 23.6 percent. African markets also climbed, with $600.7 million, or 10.2 percent of the total, while European destinations continued to decline in importance, accounting for $532.4 million, or 8.9 percent, of co-op exports.

While 2000 appears to have marked a turning point for cooperative exporters following the global economic woes of the late 1990s, continued structural change via mergers, alliances and dissolutions in a number of commodity subsectors signal significant change in future co-op trading patterns. ■

Figure 3—Cooperative exports by destination, 2000



Total exports $5,952,588,675

Rising to the top

Small Wisconsin specialty dairy co-ops finding new niche markets

By Pamela J. Karg

Editor's note: *Karg is an agriculture communicator based in Baraboo, Wis., with extensive experience writing about cooperatives.*

Pep talk—Mike Gallagher nuzzles up to one of his Jersey cows. The new, Scenic Valley Protein Producers Cooperative is producing for the specialty cheese market. Photos for USDA by Pamela J. Karg

Dairy co-ops merging to create larger marketing operations has been a major news story of the past decade. But a number of new, small dairy cooperatives that service niche markets are also popping up in America's Dairyland. Their mission can be complex, but their message is simple: gaining a share of a growing dairy market for their members.

In a dairy landscape dominated by such large co-ops as Dairy Farmers of America, Land O'Lakes, Foremost Farms USA, Associated Milk Producers Inc., Swiss Valley and Alto Dairy, the new Scenic Valley Protein Producers Cooperative is barely a blip on the radar screen. But what Scenic Valley lacks in size, it makes up for in the dedication of its members.

Started 4 years ago, the membership now includes 11 farm families. They are primarily "colored breed" producers. That is, they milk dairy cows other than the familiar black-and-white Holsteins. Their president and field representative is Jersey producer Mike Gallagher of Darlington, Wis.

"Our goal is to earn more money for our milk," Gallagher explains. "With the cheese yield formula first proposed by the National All-Jersey Association and adopted by the U.S. dairy industry several years ago, we naturally were getting the full-value price for our milk. When we didn't have that available, we were getting approximately from $1 to $2 a hundredweight less than we're getting right now."

The Jersey cow

To understand Scenic Valley Co-op, one first needs to understand the Jersey cow. Compared to the five other major breeds milked in the United States, Jerseys give less milk. However, their milk is higher in protein and butterfat—important ingredients for cheesemakers. In Wisconsin, 85 percent of the 23 billion pounds (or 2.7 billion gallons) of milk produced on its 18,000 dairy farms goes into producing 300 styles and types of cheese. That makes cheese king in America's Dairyland, and it made the colored breed producers believe they had something of value they could capitalize on.

"Jersey milk, on average in a Cheddar cheese plant, will yield about 100 to 125 percent per hundredweight of what Holstein milk will yield. Thus, it

is of more value to the plant and so, of course, to the owner," explains Mike Brown, general manager of National All-Jersey, the breed's national association, headquartered in Reynoldsburg, Ohio.

"We would meet at night, at least once a week, to brainstorm ideas and discuss business," Gallagher explains. "Finally, we decided it was time to try it."

What the original five families did was contract with a small, privately operated, family-owned cheese plant. Several times a year, milk from the Jersey producers is picked up and processed separately into cheese. Once aged, cut and wrapped into consumer sizes, the producers sell the cheese under their own label to retail outlets. They also offer the "Scenic Valley Jersey Cheese" products at holiday time, combining it with locally produced sausages and other foods in gift boxes.

Valerie Dantoin-Adamski and her husband have started their own cheese label, Northern Meadows Cheddar, and formed a cooperative with several other producers.

"The most interesting thing last year, when orders came in, was to see where they came from," Gallagher says. "There were orders coming from all over the United States, and we did it by just telling our co-op story to customers—and then putting a brochure in every box we shipped."

Telling its story

Gallagher is one of five co-op directors. The others are Gene Dirksen, vice president, from Darlington; Steve Holland, secretary, from Gratiot; John Foley, Darlington; and Jonathon Primley, Blanchardville. Like their other four member-farms, none of these five members milk more than about 100 cows. The members pride themselves on the natural farming methods they use, pasturing or grazing their Jersey cows on green pasture about half the year.

That pasturing gives the cheese made from the milk a "more natural flavor," the co-op's brochure explains to consumers. Cheesemakers agree that milk shipped from different regions of the state or even raised differently—grazed vs. confinement—puts subtle flavors into the milk. As cheesemakers, their challenge is to then bring out and enhance those subtle differences to produce something consumers want. In fact, that is the basis for the growth seen during the past decade in the number of farmstead cheesemaking operations across the United States.

In addition, pasturing or grazing ruminants has also proven healthy for humans who eat their meat or dairy products. Those products have proven to be higher in conjugated linoleic acid (CLA), a cancer-fighting "good" fat discovered by researchers (see related story).

The Scenic Valley families have pledged not to use hormones in their herds. Neither is animal rennet used to make cheese. Rennet is the enzyme that makes the milk set up so curds can form. It occurs naturally in the stomachs of calves and some other animals. Therefore, Scenic Valley's contracted cheesemaker uses synthetic rennet. Co-op members use only enough pharmaceuticals to keep their herds healthy.

These producers are learning firsthand what large corporations and their public relations and marketing specialists already know: it's all about image. With help from sources such as the Wisconsin Milk Marketing Board and the University of Wisconsin-Madison Center for Cooperatives, the producers pulled together their story in a brochure. The four-color piece is printed from a computer owned by the cooperative. In fact, the co-op is beginning to acquire more assets. The members recently purchased the old Darlington town hall, which was previously a rural school building. This summer they will be renovating the town hall into a cheese distribution center. They've also purchased a cooler and trailer so they can sell their cheese at local farmers' markets and will make deliveries to a growing list of retail outlets.

"We'll fix it up and offer our cheeses for sale here, along with other Wisconsin products and maybe even some antiques or gifts," Gallagher explains, leaning against the chalkboard still hanging in the schoolhouse-turned-town-hall-turned-cooperative. Last Christmas, gift boxes were put together and mailed from this building. It beats doing it at their kitchen tables like last year, Gallagher says.

Tough, but rewarding

It's a bare-bones operation. The cooler was purchased the last day of the "going-out-of-business" sale held by the local variety store. The counters also came from there. They've hired one person to help pack gift boxes, while most members donate their time. The building's trim could use a coat of paint and some remodeling is needed on the inside.

Between the computer hardware and the building, developing a logo and working with a consultant to write a business plan, the nine dairy farm families haven't seen much return on their investments yet. The co-op's ability to grow is hampered by the fact that the

Wisconsin dairy industry has marketing options

Nearly half of Wisconsin's 126 cheese plants now produce at least one specialty product for a niche market. Moreover, the amount of specialty cheese produced by each plant has increased to keep pace with consumer demand. That's good news for producers like the Adamskis and the Gallaghers because their CLA-enhanced dairy product fits right into this trend.

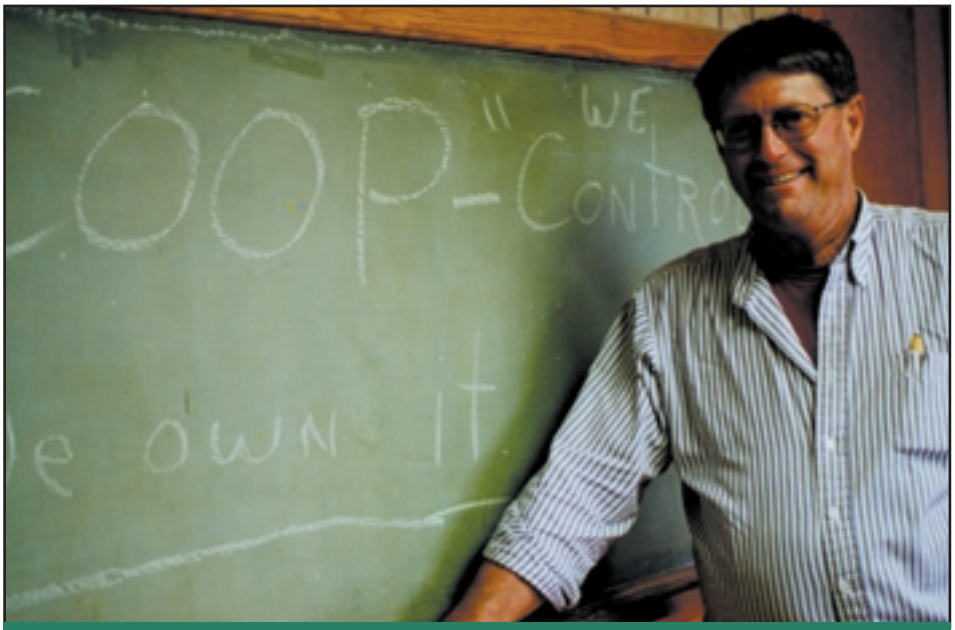
Wisconsin now manufactures and markets over 300 styles and types of cheeses. It continues to lead the nation in cheese production, accounting for 27 percent of total output. In fact, 85 percent of the 23 billion pounds of milk produced on the state's 18,000 dairy farms goes into cheese, or a total of 21 billion pounds. Last year, 197.4 million pounds of that cheese was a specialty product.

The state is home to the nation's largest Brie and Gouda/Edam cheese plants. The nation's only Limburger and Gruyere cheese plants are located here, just a few short miles from each other. The UW-Madison has one of the nation's Dairy Research Centers, funded by dairy producers and other portions of the industry. The state has the nation's only Master Cheese Maker program. It allows cheesemakers with at least 10 years of experience to complete a rigorous 2-year program to become certified in specific cheeses. The cheesemakers and the Wisconsin Milk Marketing Board then use the certification in marketing programs to tout the quality of Wisconsin-made cheeses with consumers.

The state may never specifically tally cheeses such as those marketed by Scenic Valley or the Wisconsin Dairy Graziers co-ops. Cheeses made from a specific breed, from cows on pasture, higher in CLA, farmstead (made on the farm) or other variations fold into the tally by general cheese variety. Nevertheless, it's those nuances that fuel growth seen in cheese consumption and help farmers such as the Adamskis and the Gallaghers capture greater returns.

However, Wisconsin cheesemakers are hard-pressed to keep pace with growing consumer demand. That's because the state's milk production remains stagnant while the number of dairy farms declines. The state remains home to nearly 1.3 million cows that each produce an average of nearly 17,000 pounds (almost 2,000 gallons) of milk each year. But cows in other states produce, on average, more milk per cow. That increases an operation's efficiency and improves return on investment.

In October, the Professional Dairy Producers of Wisconsin (PDPW) issued its second "state of the industry" report. The farmer-led educational group encouraged Wisconsin producers to grow their businesses so they



Lesson #1—Gallagher uses an old blackboard in Scenic Valley's new offices to underscore a message near and dear to the hearts of co-op members everywhere. The building was formerly Darlington's town hall and before that a rural school.

number of dairy farm families in Wisconsin is dropping, though the number of cows milked in the state remains constant at about 1.3 million head. Still, most Wisconsin dairy producers favor Holsteins over Jerseys. And members like Gallagher try to do it all—run the co-op, negotiate prices with the cheesemaker, pay state-required bonding fees to ensure the milk checks are good, make calls on local supermarkets that offer the cheese, talk to other suppliers and distributors who are showing some interest in the Scenic Valley idea—and still find time to farm.

"Easy? It isn't easy. Let's put it that way. But it's kind of fun," Gallagher says of trying to do it all, including marketing the co-op's seven products: Cheddar, Colby, Creamy Jack and Pepper Jack natural cheeses, as well as garlic, plain and jalapeño cheese spreads. "It does take a lot of time and some-

can get their fair share of the increasing demand for dairy products.

Producers can grow their operations in several ways, said Hank Wagner, an Oconto Falls, Wis., producer and PDPW president. Producers can expand, as his family did, to milk 400 cows in a new set-up. Alternatively, there's plenty of room to grow production per cow in Wisconsin, which ranks far below other dairy regions, such as California, Idaho and New Mexico.

Producers could benefit from developing and following a business plan, he said. In fact, a Harvard University study showed that the amount of time spent in planning a business directly relates to its success. Owners spending six months or less planning ended up with an 80 percent failure rate. Those who took a year or more to plan ended up with an 80 percent success rate.

Wagner said there are still other ways Wisconsin producers can grow their businesses to increase milk production. Some producers concentrate solely on cows, hiring other farmers to custom raise heifers.

Other producers have purchased total-mixed-rations (TMR) equipment and worked with nutritionists to ensure cows eat well. Some producers routinely clean tanks so cows have access to clean water and drink more. Both are small moves, but improve milk production per cow as well as improve efficiencies while costing producers next to nothing, Wagner said.

Even with major changes—better barn ventilation, better bedding to improve cow comfort, or installing a flat barn parlor—milk production can increase while producers save money doing some of the work themselves or even getting help from neighbors. That's what a group of Crawford County, Wis., producers did when they worked together to help each other retrofit animal housing units and work on a simple milking parlor.

To some, these moves may seem like obvious business decisions to make. Yet, the traditions surrounding Wisconsin's dairy industry have made it difficult for some producers to consider changing, or even increasing their operation size. Instead, the state has for too long debated size rather than tackle business efficiencies, market share and capturing farm profits in a growing marketplace. Wagner and the PDPW leaders want to change that.

"What I want Wisconsin dairy producers to understand from this report is that there is cause for hope. There is a future in this industry. People can make money. Only none of us is doing it the same way our parents or grandparents or great-grandparents did it. We can't. No business can," he added.

Whether it's changing the operation or developing a niche in the specialty cheese market, PDPW is telling Wisconsin producers it's time to renovate and innovate. Producers like the members of Scenic Valley and Wisconsin Dairy Graziers are heeding the advice. ■

—By Pamela J. Karg

times it seems like just bits and pieces here and there. But a lot of time and contacts and legwork."

Currently, only about 10 percent of total milk production by Scenic Valley members is separated out for production under their own label. This year, the co-op hopes to create enough demand that members have 50 percent of their milk made into their product. When they do, they'll improve their possibilities for grabbing a larger share of a growing national cheese market, Gallagher says. (See sidebar above.)

New co-ops in town

Scenic Valley might have been the first dairy co-op in Wisconsin to try to value its milk and cheese for its grazing and Jersey characteristics. Yet, it's not the only one around. Since Scenic Valley formed, at least two other co-ops have started. One is located outside LaCrosse, while another is located in northeastern Wisconsin, near Seymour.

"Within the last two years, we became aware of some nutrients (including CLA) that were in the milk from cows on pasture that are not present in milk from cows fed typical confinement feed," notes Rick Adamski. He and his wife, Valerie Dantoin-Adamski, operate his family's 100-year-old Full Circle Farm. "We started exploring the possibility of marketing those nutrients. We're also learning more about the nutrients; there are more nutrients in the milk from these cows, so we have a whole new area to explore."

Typically, their milk goes to the employee-owned Antigo, Wis., Cheese Co. In conducting experiments to determine the level and value of the CLA in milk and then cheese, the Adamskis contracted with a Green Bay cheesemaker to process it separately into white Cheddar cheese. Testing proved the cheese retains the higher CLA levels of the milk.

"We're lucky we live in Wisconsin with so many smaller cheese plants," Dantoin-Adamski says. "Rather than learning the cheesemaking process and putting in something here on the farm, we contracted with Jim to process our milk into cheese—just as we do for hay-making and everything else on the farm so that we can just concentrate on grazing our cows."

The Adamskis began marketing the seasonal cheese under their own label—Northern Meadows Cheddar—directly to consumers and have formed a cooperative with several other producers. They market it to some natural food stores in northeastern Wisconsin and in Madison, and a few upscale delis carry the product. However,

Making a case for grass-fed animals

Increasingly, proponents of grass-fed livestock systems are gaining support and scientific research to substantiate the benefits of the food products they market. In addition, several government-sponsored projects find environmental and economic benefits when producers switch to grazing operations.

According to Jo Robinson in her book "Why Grassfed is Best!," meat, eggs and dairy products from grass-fed animals "are lower in total fat and calories but richer in "good" fats, such as omega-3 fatty acids and the cancer-fighting fat, CLA (conjugated linoleic acid.). They also have higher levels of a number of antioxidant vitamins." Robinson, a New York Times best-selling writer, is also the principal researcher for the "eatwild.com" Web site. Her interest in grass-fed products grew out of her previous book, "The Omega Diet," co-authored with Dr. Artemis Simopoulos. Her research is based on multiple sources, including work completed by Dr. Tilak Dhiman.

Now a dairy nutritionist at Utah State University, Dhiman came to the United States from his native India as a visiting student to the USDA's Dairy Forage Research Center at the University of Wisconsin-Madison and on a farm outside Prairie du Sac, Wis. Dhiman found that the fatty acid, produced by bacteria in rumen, is found in especially high levels in milk and meat from animals such as cows, sheep and goats. Researchers also found that the CLA content of milk is as much as five times higher when cows graze green, predominantly ryegrass or on natural pastures, than when they eat diets consisting of 50 percent conserved forage (such as alfalfa and corn silage) and 50 percent grain.

At the same time, researchers found CLA inhibits the growth of chemically induced skin and stomach cancers in mice, as well as cancer in the mammary gland of rats. Synthetic CLA similarly changed the body composition of laboratory animals; they developed more muscle and had less body fat. Human nutrition research in the food science department at the University of Wisconsin-Madison has shown that CLA is part of essential fatty acids people need to fight cancer. While the relationship between diet and cancer is extremely complex, the studies bolstered specialty dairy marketing efforts. ■

Dantoin-Adamski wants to make it available to everyone, regardless of income, because everyone deserves good, nutritious foods.

Seeking higher premiums

Dantoin-Adamski believes the higher CLA level of Northern Meadow cheese can open the possibility of premiums based on the CLA content in milk, if the milk and related dairy products can be marketed for their CLA content. The all-natural Northern Meadow cheddar has a flavor distinct to the region where it's made, and that flavor will vary year-to-year depending on sunshine, rain and plant growth. Full Circle sold its cheese, made at a small cheese plant in DePere, for $5 per pound. At that price, the cheese could support a milk payment price of about $16 per hundredweight.

"The Adamskis' efforts may provide a model for other dairy grazers interested in adding value to their milk production," said Stan Shaw, administrator of Wisconsin DATCP's marketing division. "By focusing on a possible consumer benefit found within their cheese, they may have a firm foundation to enter the marketplace."

"We have combined efforts with four other family farms to form a new cooperative called the Wisconsin Dairy Graziers Co-op," Dantoin-Adamski explains. "These farms graze cows in virtually the same way our farm does. We are pooling our milk and cheesemaking so that we can make enough volume to reach the economies of scale needed to market our cheese efficiently."

The handcrafted cheese is made exclusively from the milk of these cows that graze on grass and clover meadows. The Adamskis note that only when cows graze on fresh plants directly in the field can they obtain higher levels of CLA. "This superior Wisconsin cheese has a flavor that, like a fine wine, is unique to the region," Dantoin-Adamski says, pointing out that the conservation award-winning Full Circle Farm and the other members of the co-op are located about 25 miles from Lake Michigan and on the edge of the Nicolet National Forest.

Already participants in USDA's Sustainable Agriculture Research and Education program in the 1990s, the Adamskis received a $20,000 Agricultural Development and Diversification grant this summer from the Wisconsin Department of Agriculture. They are using it to identify the marketing feasibility of pasture-based cheese and dairy products for the Wisconsin Dairy Grazier Cooperative, the newest such organization to form. The Adamskis and the Gallaghers have talked about similar challenges and opportunities.

"We'd like to stay right around 25 member farms," Gallagher explains. "But there are ways that our co-op could work with other groups, like the Adamskis, to offer other products they might make. And I think all the small co-ops need to get together through an organization, like the Center for Co-ops, to talk over common business issues so that we're all learning and growing." ■

Heavy debt pulls Farmland into Chapter 11; new CEO Terry leads reorganization effort

Patrick Duffey
USDA Rural Development

Lasting effects of the agricultural recession of recent years, which has left some farmers reeling and driven others out of business, finally caught up with North America's largest farmer-owned cooperative. Despite $11.8 billion in sales last year, the weight of $1.9 billion in liabilities from rapid expansion in the 1990s to better compete on world markets forced Farmland Industries, Kansas City, Mo., to file for Chapter 11 bankruptcy protection on May 31. Under Chapter 11, firms seek protection from creditors while they reorganize their business. The bankruptcy process can take a year or more to complete.

In the wake of the filing, the cooperative has begun a summer-long reorganization study to explore its future. The investment bank UBS Warburg has been hired to help evaluate what might be sold to reduce costs and raise cash.

After less than 2 years at the helm, Robert Honse, Farmland's chief executive officer, retired at age 58 in early May. Farmland's 22-member board unanimously chose Robert B. Terry, 45, to succeed him. Terry has been Farmland's executive vice president, general counsel and corporate secretary. Terry saluted Honse for his 30-year career with the cooperative and help in reducing debt by $500 million, cutting corporate expenses in half and securing a new bank agreement.

Terry made immediate changes on his executive staff. Steve Rhodes, 48, is the new executive vice president and chief financial officer, replacing John Bernardi, who has left the cooperative. Rhodes had been a vice president and controller. Bob Schuller, 41, succeeds Terry as vice president, general counsel and corporate secretary. He had been associate general counsel. Dennis Alt, another associate general counsel, was named vice president for strategic projects and will lead the reorganization effort. Tim Daughty, 48, is the new vice president for administration.

The 73-year-old cooperative was pushed over the brink by an estimated $30 million "run on the bank" in late May due to an aggressive early redemption demand from subordinated debt holders who had heard news of potential bankruptcy. The bonds are held by about 20,000 individuals who provide about $570 million in debt financing. The bankruptcy court will inform those unsecured creditors on how to confirm and address their claims.

The cash-flow crisis was made worse by a sagging nitrogen fertilizer market in recent years. The situation intensified as drought has squeezed farmers in the West and heavy rains soaked the Midwest, delaying crop-planting. The bankruptcy filing covers Farmland Industries, Farmland Foods, Farmland Pipe Line Co., Farmland Transportation (transportation brokerage) and SFA Inc., a Midsouth retail farm store operation. The filing does not affect several Farmland subsidiaries, including Agriliance (a fertilizer marketing venture with CHS Cooperatives and Land O'Lakes); ADM-Farmland (a grain marketing venture with Archer Daniels Midland); and Farmland National Beef, a 5-year-old beef processing venture with U.S. Premium Beef (which has the right of first refusal to buy any available Farmland stock in the venture).

While maintaining most of its operations, the cooperative plans to cut its workforce. In the past 2 years, Farmland had trimmed 4,000 jobs but still employs about 13,000 people, including 900 in the Kansas City area. Just before filing for bankruptcy, Farmland paid its employees early and asked them to cash their checks within 24 hours. Since then, Farmland has closed 16 convenience stores in northeast Arkansas that it acquired when it

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Closing the gap

Utility co-ops see broadband service as way to preserve rural communities

By Steve Thompson,
USDA Rural Development

It wasn't so long ago that telephone service in rural areas usually fell short of the standards city dwellers expected. My grandmother, who lived in a small Ohio farm town, had a telephone with no dial until the 1980s. To make a call, she picked up the receiver and gave the number she wanted to the operator. Some subscribers still had party lines: phone lines that were shared between a number of houses, making it possible for nosy neighbors to listen in on phone conversations.

Today the scene has changed dramatically. Most rural areas have basic telephone service comparable to that available in cities. While many rural areas are still struggling to gain access to Internet services, others are further along than cities in offering cutting-edge, broadband telecommunications service. That's appropriate, rural telecommunications advocates say, because broadband communications give rural areas access to many of the services once confined to larger population centers—services that are becoming more and more vital to the economic health of America's heartlands.

These services include better educational opportunities and access to medical specialists for people living in isolated areas. It is becoming common for rural students to take courses not available at their local schools through electronic linkups that create "virtual classrooms," where they are able to interact with instructors and other students miles away.

Similarly, telemedicine technology makes it possible for medical specialists to examine and treat patients living in remote locations. It's all made possible through the use of computers and broadband communications links, which many rural telephone co-ops are aggressively promoting.

What is broadband?

The capacity of a line or interface to carry information is referred to as "bandwidth." The wider the "band," the more information. Voice communications over telephone lines take up little bandwidth compared to that needed to transmit television signals or for fast computer links.

Broadband communications, using more sophisticated transmission hookups, make possible distance learning, telemedicine and a vast range of other computer-based services. In effect, this technology makes it possible to carry on many kinds of business activities irrespective of location, offering hope to many rural communities hit hard by the recent vagaries of agricultural markets.

Data on a beam of light

Telephone signals were first carried by ordinary copper wire, which could handle only a few dozen channels per strand. Coaxial cable, which has a single wire in the middle surrounded by a woven wire sheath, came into widespread use in the 1950s, and had a capacity about a thousand times that of simple wire.

Microwave radio links, using both satellites and earth-bound chains of transmission towers, offered even more capacity—although atmospheric conditions can compromise their effectiveness. However, the advent of the computer age, as well as the rise of the mobile phone, resulted in a vastly expanded demand for bandwidth, a demand that these conventional transmission mediums were hard-pressed to fill.

The answer was to transmit data with light, using fiber optics. Because laser light is made up of identical waves of the same frequency, it can travel long distances without scattering. It can also be modulated, like a radio wave, to carry information. A special glass, developed in the 1970s, makes it possible to transmit laser light through thin filaments for up to 150 miles before it's necessary to amplify it. A thin bundle of these filaments is capable of carrying hundreds of times more data than a coaxial cable.

By the late 1980s, fiber-optics cables were being used increasingly for telephone trunk lines, and cable television companies used them to transmit programming cross-country.

Tiny strands of glass fiber (left) can carry far more information using beams of light, than can older coaxial and copper cables (below).

New Mexico co-op boosts education

By 1990, the concept of distance learning —in which a teacher interacts with students in other locations via television —was being tested by a few pioneers. That's when Dr. Robert Harris learned about it. Dr. Harris was the general manager of ENMR Plateau telephone co-op, which serves part of eastern New Mexico and several counties in west Texas. Dr. Harris learned about a distance learning project in Arizona, and immediately decided that a similar project could be useful to students in ENMR Plateau's service area.

Eastern New Mexico was ideally suited for such an experiment. It is beautiful, but very sparsely populated, with a number of small, isolated communities. Dr. Harris knew that there were schools throughout the area that had so few students it wasn't possible to bring them specialized education courses such as foreign languages, differential calculus, and other higher-level subjects.

He quickly found a willing partner in Clovis Community College in eastern New Mexico. The president of the college, Dr. David Caffey, was intrigued by the idea, and very quickly an agreement was drawn up for a 5-year pilot program under which the college would provide remote classroom instruction through a fiber-optics two-way television link.

Drs. Harris and Caffey first discussed the project in the fall of 1990. Only a few short months later, in time for the spring semester of 1991, the pilot program was up and running with 49 small-town students. The college obtained funding under the "E-Rate" program, a Federal Communications Commission effort that taxes long-distance telecommunications companies and makes the funds available to defray the cost of telecommunications services in schools and libraries.

ENMR granted the college an ease-

ment for the use of the fiber-optics link, and two-way television systems were set up in 12 small school districts. The first video set-up was expensive and clumsy, using direct fiber-optics links with the switching equipment in ENMR's main office in Clovis. The system made huge demands on bandwidth, and links had to be manually switched at the headquarters.

Today, the use of new digital technology is making it possible for the project to bring distance-learning to nearly a thousand students using less than 1 percent of the original bandwidth. Computer software is now taking care of switching, allowing the college to take over all administration of the distance-learning program; the co-op now merely provides the infrastructure.

Expanded curriculum

As the program has matured, the curriculum has expanded, and recent state legislation has made it possible for students taking some advanced courses to earn college credits concurrently with their high school credits. The system is also used after hours by adults taking college-credit courses and by the New Mexico Department of Labor for outreach to unemployed workers.

The carrying capacity freed up by more efficient technology is used for upgraded telecom service to individual and business subscribers, including high-speed Internet service over DSL lines (see sidebar).

The fiber-optic lines, which were originally meant to serve only schools, are ideally situated for serving the co-op's rural subscribers, most of whom live near the participating schools or close to the fiber-optics lines. Because the signal degrades over distance, DSL is impractical more than three miles away from the exchange or a fiber optic terminal.

USDA helps Kansas co-op with distance learning project

Another co-op distance-learning pioneer is Rural Telephone Service Co. Inc., located in northwestern Kansas. Rural Telephone was one of the first companies to bring fiber optics into rural service, laying several routes in 1988 with financial help from what was then the Rural Electrification Administration (REA), now USDA Rural Utilities Service.

"It was obvious to us in the mid-

Tapping into the Internet

Fiber optics offer the most efficient means of carrying telecommunications over trunk lines. But it isn't practical to use fiber optics for the connection between your telephone or computer and your telecom exchange. For that, a copper wire hookup is still used.

Computers that don't share a local network talk to each other through telephone lines using modems. A modem translates the computer's outgoing data into a form that can be transmitted through the phone hookup. On the other end of the line—usually at one's Internet service provider (ISP)—another computer uses a modem to retranslate the information into a language that computer can use. The ISP computer, called a server, routes the signal to its final destination. Receiving information from another computer works the same way, but in reverse.

The first modems were hooked up to telephones through little speakers and microphones in a cradle that held the telephone handpiece. Today, most home computers still use voice lines, but the modems are part of the computer and are hooked directly into the phone circuit.

Today's phone modems are faster than earlier versions, but their top speed—nominally 56.6 kilobits per second, but actually somewhat less—is barely adequate for most purposes, including down- and uploading files and browsing the World Wide Web. The speed of such modems is limited by the capacity of telephone circuits that are designed to carry voices, not digital data. Anyone who has downloaded a large file using a regular phone modem—a task that can take an hour or more —knows their limitations.

Not to worry. There are other ways to hook into the Internet that offer much higher speeds. Cable TV providers offer high-speed services that use their digital cable systems, but the speed can fluctuate depending on the number of users on the circuit. Another service, offered through telephone providers, is Integrated Services Digital Network (ISDN), which sends both telephone and computer traffic over a special digital link. Currently, ISDN service is expensive, and computer speeds are limited to 128 kilobits per second. It is best suited to businesses that need the special capabilities of an internal digital telephone system.

One of the most popular high-speed services for home and small business users is Digital Subscriber Link (DSL). DSL uses regular copper telephone lines, but sends compressed data through a special modem over high frequencies unused in regular voice hookups. Because it doesn't use voice frequencies, it can share the regular telephone line. The connection is always "on," and it doesn't interfere with regular telephone service, the way a phone modem does.

Best of all, connection speeds are anywhere from 6 to 125 times faster than regular dial-up modems—usually about 1.5 megabits per second. DSL is offered to businesses and homes by many rural telephone co-ops. The National Exchange Carrier Association, a quasi-governmental agency, estimates that 65 percent of rural phone lines are now capable of carrying DSL service. ■

—by Steve Thompson

USDA providing funding for rural broadband service

While only 5 percent of American towns with populations under 10,000 have access to broadband telecommunications—according to a 2000 report by the Commerce Department—funding is available to address the problem.

In late March, Agriculture Secretary Ann Veneman announced the availability of $300 million for distance learning and telemedicine grant/loan combinations from USDA Rural Utilities Service (RUS). The application deadline for these funds is Aug. 31, 2002.

Both the Bush administration and Congress have recognized the importance of rural access to broadband. The Farm Security and Rural Investment Act of 2002, signed into law, amends the Rural Electrification Act of 1937 (which authorizes USDA Rural Development telecommunication programs) to insert a new title providing specifically for loans and grants for "the construction, improvement, and acquisition of facilities and equipment for broadband service in eligible rural areas."

The Act makes available $20 million in loans and loan guarantees for each of the fiscal years 2002 through 2005, and $10 million each in 2006 and 2007. These loans by themselves could generate a total of $2 billion in private investment in rural broadband. In addition, another $80 million in loans for the construction of new broadband facilities is authorized for fiscal year 2002 under the Broadband Pilot Loan program, originally instituted in 2001. However, RUS will not be taking new applications for the Broadband Pilot Loan program this year, because it has applications on hand for in excess of $350 million.

Besides these special programs, USDA Rural Development plans to continue using general telecommunications program authority, which includes hardship, "cost of money," rural telephone bank and guaranteed loans, to fund broadband expansion. Since 1995, every new telephone line funded by RUS has been capable of carrying DSL service. ■

1980s that if we wanted to build for the future, fiber optics were the way to go," says Larry Sevier, general manager of the co-op.

A distance learning program soon followed. Today, 13 high schools, Colby Community College and Hays State University participate in the program, bringing advanced and specialized curricula to rural Kansas students. A grant from the Rural Utilities Service's Distance Learning Program is being used to expand the two-way interactive television network and add classrooms to the system.

The Clovis Community College distance learning equipment is used after school hours for adult education and outreach to unemployed workers. Photo courtesy ENMR Plateau Cooperative

More recently, Rural Telephone, with the help of RUS, is helping make it possible for Phillips County Hospital, located in the town of Phillipsburg, Kan., to offer improved medical services all over the county—an especially important service for a community with a widely scattered population.

The project came about after the non-profit organization that operates the hospital, Great Plains Health Alliance, embarked on an effort to connect member clinics and hospitals on a common data network. With the help of the Economic Development office of Rural Telephone, Great Plains, which is headquartered in Wichita, Kan., decided to build its pilot project in Phillips County.

The healthcare organization was able to form a consortium of health care facilities, including clinics and a retirement home, which received an RUS telemedicine grant of $247,000. The money is being used to install computers in each department of the hospital and in participating clinics and nursing homes. In addition, new fiber optic lines are being laid between nursing homes and nearby hospitals in Phillipsburg and Logan, another town in Phillips County.

For now, telemedicine cameras and monitors will be installed only in Phillips County Hospital's education department and one clinic—but data-sharing capabilities will mean a boost in efficiency for all the participating facilities. The eventual goal is a broadband network providing data-sharing and telemedicine capabilities to participating healthcare providers across several states.

Jim Wahlmiere, the administrator of Phillips County Hospital, is looking forward to completing the pilot project by the end of this year. "I want to thank Rural Telephone for all their help on this, especially for their assistance in getting the USDA/RUS grant," he says.

Rural Telephone has used its fiber-optics lines to make DSL hookups available to more than 80 percent of its subscribers. And its willingness to offer state-of-the-art telecom service has helped it compete for subscribers in Norton and Almena, towns served by giant Southwestern Bell, where

Telemedicine equipment enables this boy in a rural Kansas town to be examined by doctors in a distant location. Photo by Charlie Riedel

the co-op serves 95 percent of the market.

Sevier has one regret about being a fiber-optic pioneer. When the co-op's first fiber-optics lines were installed, nobody had any idea how great and how quickly demand for service would grow. Some of the cables have been augmented, and advances in electronics have made it possible for the existing lines to carry more traffic. But Sevier says he would lay larger-capacity cables to begin with if he had it to do again.

Unlimited possibilities for rural America

Both ENMR Plateau in New Mexico and Rural Telephone in Kansas see the availability of high-speed Internet access as crucial to the future economic health of their service areas. The quality of education that distance learning makes possible for small school districts—as well as the higher standards of medical care offered by telemedicine—encourage families to remain in rural areas instead of moving to more urbanized locations. And high-speed Internet, teleconferencing and related services using broadband communications to make it possible for businesses in rural areas to compete in the national and world economies in ways formerly not possible.

Broadband makes it possible for companies that rely heavily on telephone or Internet ordering to offer employment to under-employed labor pools in rural areas. It also facilitates telecommuting—working from a location remote from the office or other place of business—making it possible for many people to work at jobs anywhere in the country, without moving away from home.

Neither co-op thinks that the possibilities of high-speed data transmission have even come close to being fully realized. In the future, broadband communications may offer rural areas across America the ability to develop new alternatives to reliance on farm income and erase the economic gap between town and country once and for all. ■

Food business opportunities theme of NICE keynoter

New opportunities for cooperatives within the food business will be the subject of the keynote remarks at the 74th National Institute on Cooperative Education (NICE) in Chicago Aug. 5-7. David Kohl, Virginia Polytechnic Institute & State University, will discuss "Mega Trends in Agriculture and the Food System: How Cooperatives Can Benefit," at the first general session on Aug. 5.

Cooperative benefits contained in the new farm bill will be examined by J. B. Penn, USDA's under secretary for farm and foreign agricultural services. Eight symposiums are scheduled during the conference examining: biotechnology, co-op dividends from research, the role of cooperative boards in governing of joint ventures and alliances, audit committee responsibilities, co-op financial challenges, home-grown fuels, identity-preserved products and cross-border cooperatives.

William Davisson, chief executive officer of GROWMARK Inc. and chairman of the NICE Education Committee, will preside at the NCFC education foundation banquet Aug. 7 and will provide concluding remarks for the conference.

NICE is sponsored by the National Council of Farmer Cooperatives, which has named an executive committee to explore the future needs of cooperative education and the future of the NICE conference. For registration information, contact Tom Little at (202) 626-8700, or visit the NCFC Web site at www.ncfc.org, or write: NCFC Education Dept., 50 F.St. NW, Suite 900, Washington, D.C. 20001

Rural Survivors

Can value-added agriculture save struggling rural communities? Congress hopes USDA grant program will provide needed stimulus

By Dan Campbell, editor

The internal combustion engine improved the quality of life in rural America, but it also may have doomed many of America's rural farming towns by expanding trading areas beyond the distance a horse could travel in a day (the basis on which many rural trading centers were founded). Many of the farming communities that survived the coming of the automobile—particularly in the Great Plains—may not, however, survive continuation of a farm policy that subsidizes production of commodity crops, leading to ever fewer, larger farms producing more and more of the nation's food and fiber, says Bruce Babcock, an economist at Iowa State University.

Ironically, the success story of the American farmer—his ability to produce huge volumes of high-quality, low-cost food—has been the downfall of thousands of rural communities, Babcock said. Speaking as a panelist on a rural development session at USDA's 2002 Agricultural Outlook Conference, he noted that "However much we try to combat rural stagnation with price supports and commodity production, I think it will lead to large portions of physical and social infrastructure leaving vast areas of the Great Plains."

He cited an article in a recent issue of the "The Economist"magazine showing that rural counties that have received the most farm subsidies during the past 20 years have also suffered the greatest population declines. "I'm not saying subsidies caused the population to decline," Babcock said. "But it is clear that encouraging commodity production with price subsidies has not kept people in rural areas."

Babcock said that while Congress (in his view) may be unintentionally accelerating outward migration from some rural areas by showering "unprecedented levels of support" on commodity crops, it is simultaneously seeking another, more promising path to fighting rural stagnation: encouraging new value-added agricultural endeavors.

In 2001, USDA launched a new program to spark development of more value-added agricultural enterprises, as authorized by the Agricultural Risk Protection Act of 2000. Though the Rural Business-Cooperative Service, it provided $20 million in grants for 62 value-added ag projects, ranging from a joint venture of two Illinois cooperatives studying the possibility of building their own flour tortilla plant, to a new market development project launched by the California Wild Rice Growers Association. (The entire list of grants, as well as information about upcoming grant rules and deadlines, can be viewed at www.rurdev.usda.gov/rbs/coops/VADG.htm). Many of the grants were awarded to cooperatives, but all producers can apply for them.

The future of many farming-dependent rural communities may hinge on the ability to develop new, value-added ventures that create jobs and keep wealth at home. Congress has doubled the size of a USDA grant program intended to promote value-added agriculture. USDA photo by Ken Hammond

However, the 62 projects funded represented just a fraction of the 509 applicants who sought $136 million in funding, according to panel moderator Randall Torgerson, deputy administrator for USDA/RBS Cooperative Services.

New Center to promote value-added ag projects

Congress—through the 2002 Farm Bill—is doubling USDA's annual value-added grant program to $40 million for each of the next six years. The money will be used both as grants for more value-added enterprises and to fund (with $2 million per year) an agricultural marketing center. One such entity, the Agricultural Marketing Resource Center (AgMRC) at Iowa State University (of which Babcock is a member of the executive committee), has been formed through a partnership of Iowa State, Kansas State and Oklahoma State Universities and the University of California, with financial support from USDA. Smaller amounts of the appropriation will

Pennsylvania co-op targets upscale restaurant trade

Doyle Freeman, a beekeeper/honey producer from Cherry Tree, Pa., and manager of the Penn's Corner Farm Alliance, provided the value-added panel with a small marketing co-op's perspective. The co-op was formed with nine members in 1999 to help farmers in the Pittsburgh area bypass wholesalers and distributors and sell directly to upscale restaurants and grocery retailers.

Consider the situation of one member who grows green bell peppers. The farmer would traditionally sell his crop to a Pittsburgh wholesaler for about $4.85 per bushel. "The wholesaler would then sell to a distributor, who would then sell to a purveyor in Greensburg, 40 miles east, and the purveyor would make final delivery to restaurants—by which time the value of that bushel of bell peppers had increased to $11.90," Freeman said. This is a common problem, and USDA data shows that, on average, farmers earn only about 21 cents of the consumer's food dollar, he noted.

When he's not helping his co-op sell fresh produce, honey, meat and eggs to Pittsburgh's upscale restaurants, beekeeper Doyle Freeman (left) sells his wares at farmers' markets. Photo Copyright Andy Starnes/Pittsburgh Post-Gazette, 2002. All rights reserved.

"That was the traditional system," Freeman said, "but two people have problems with it: the grower—who often earns less than cost of production, and the restaurant chef," who loses a great deal of freshness due to a delivery system that may have taken two weeks from farm field to kitchen.

By marketing through the co-op, the bushel of bell peppers sells for $14 (the chef will pay a premium for improved freshness), and the farmer nets $11.20.

also be used to fund several new value-added innovation centers and for a research project on value-added agriculture.

The AgMRC's main objective is to create an electronic, Web-based library that producers and producer groups can access for information that will support their value-added endeavors. AgMRC staff will collect and interpret relevant information and conduct research on value-added agriculture. The center will also compile information on business principles, legal, financial and logistical issues that producer groups should consider before investing their money in a project, and it will coordinate research and extension programs with value-added ag groups. The center is a joint venture of extension, research and industry, Babcock said, noting that the center will operate with an industry advisory council.

And what exactly is "value-added"? Babcock said there are two basic definitions: 1.) Any activity that increases the per-unit price received for farm production; 2.) Any activity that transforms a product into another product that fetches more revenue on the market.

But will more value-added agriculture increase rural vitality? "I don't know," Babcock said. Experience to date, he said, "has shown that large-scale, capital-intensive, value-added enterprises, such as ethanol, will not slow down migration from rural areas." People are more mobile today—they will live wherever they think can have the best life, he noted. "All things being equal, businesses will locate in areas where workers want to live."

Three ways to make money

Babcock said there are three basic ways for farmers make money. "The first is to be lucky," he said. "Most Iowa corn/soybean farmers made lots of money in 1997—both yields and prices were high; But not many will obtain financing based on luck."

The second way is to offer a differentiated product or service that returns more from the market than it costs to produce or deliver. This means successfully duplicating what someone else is doing or finding a new kind of market.

The third alternative is to produce a commodity at a lower unit cost than anyone else can. "This is what drives market prices down," he said, adding that investments in meat packing and ethanol plants are attempts to make money by being a low-cost producer of a commodity. "It moves farmers from producing one type of commodity to two commodities."

The experiences of the last 20 years of farmer-owned enterprises "suggests that groups of farmers can be the low-cost provider of a value-added commodity if they hire high-quality external management and relinquish day-to-day control to management," he said.

"Farmers face a different set of challenges when they want to produce a differentiated product," Babcock said. He

Restaurants use the fact that they are cooking with vegetables and fruits grown on local farms as a marketing tool. The co-op also custom-grows a number of items for chefs that are otherwise not readily available.

Penn's Corner has now about doubled in size, to 17 producers located in nine counties in a mountainous, 180-square-mile area surrounding Pittsburgh. Their primary market is 21 restaurants, the Greater Pittsburgh Food Bank, and three grocery stores. The co-op supplies a wide variety of fruits, vegetables, herbs, honey, eggs and meats.

After its first season, the co-op returned an additional 43 percent gross income over the traditional wholesale market, Freeman said. "We have not eliminated the middleman, we have become middleman."

Every weekend, each member sends the co-op a list of what he or she will have available for sale. The co-op then compiles the list of all members and distributes it to customers, who have until Tuesday night to place their orders. Tuesday night, members are notified of what they need to supply. On Wednesday the growers harvest, then make delivery to one of a several co-op pick-up points.

The co-op confirms quantities and other order information, produces delivery tickets and invoices, and delivers to customers on Thursday. Customers get their products within 24 hours of being harvested. Growers are paid the middle of the following month. From June to November, when production is at its peak, additional delivery days are added to the cycle.

At this point, the co-op is seeking "slow, measured growth" in order to keep customers happy with top service and quality food. "We have a waiting list of growers who want to join us," Freeman said.

The co-op has gross sales of $260,000 annually, and it keeps 20 percent for operations. For most members, the co-op provides supplemental income; all but three members continue to rely on farm markets for their major source of revenue.

Freeman said quality is the key to the co-op's success. "We tell our members, if you would not put it out on your farmers' market table, don't send it to the co-op."

Cornell University did a survey showing that there are 28 co-ops performing similar functions from Virginia to Maine. Managers of these co-ops recently gathered to explore the possibility of building a network and established the framework for the new Northeast Federation of Family Farm Cooperatives (NeFFFCo). ■

—by Dan Campbell

noted that a member of his advisory council says "the three biggest challenges farmers face in this arena are: marketing, marketing and marketing—meaning that most good ideas fail because farmers do not realize how difficult it is to create a market for a new product. A mentality of 'I will produce it, and a market will be created' just does not work," Babcock said. That's why large food companies spend millions of dollars on test-marketing and advertising. Even for good new products that do make it to the market, getting shelf space in retail stores is becoming increasingly difficult, he noted.

Farmers can instead concentrate on what they do best: production, and leave the marketing to others, Babcock said. "This can work if you are producing a product that is difficult to procure elsewhere, such as the 75 Iowa hog producers who sell pasture-raised hogs to Niman Ranch for a premium over commodity price for a unique product: natural pork." If consumers continue to demand more information about the way food is produced, this type of value-added agriculture may become a major influence, as it has in Europe, he noted.

Soybean co-op seeks new marketing avenues

Also participating on the same panel with Babcock were two value-added practitioners—one representing a medium-sized processing co-op, the other a small marketing co-op (see sidebar). The medium-size co-op, South Dakota Soybean Processors (SDSP), was founded in 1996 as a new-generation co-op in Volga, S.D. That co-op has completed a fifth consecutive successful year transforming soybeans supplied by 2,100 members into soy oil, meal and hulls.

Rodney Christianson, CEO of the co-op since its founding, said that SDSP's primary reason for existing is to generate value-added patronage checks every year for his members. "And they will let me know if they don't get it," he said.

In SDSP's first five years of operation, it has crushed 112 million bushels of soybeans, earned $25 million in profits and members have received $15.5 million in cash patronage. Share values in the co-op have more than doubled, from $10,000 to $21,000. Farmers' initial investment in the co-op was $21 million.

"When I first joined the co-op, one of the first things I tried to assess was whether they were willing to make investments needed to stay competitive," Christianson said. He hoped to invest $500,000 to $1 million per year back into operations. But SDSP has reinvested $11 million in the first five years, "which certainly exceeds my expectation."

Had the co-op stayed with its original plan to only crush 50,000 bushels each day into oil, its earnings would likely have been closer to $9 million than $25 million, Christianson said. Instead, it expanded capacity to 80,000

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Storm Shelter

Utility co-ops, USDA working to spread Weather Radio coverage

By Steve Thompson
USDA Rural Development

The United States has the dubious distinction of being one of the countries on Earth most prone to severe weather. Every year, Americans deal with an average of 10,000 thunderstorms, 2,500 floods and, especially, 1,200 tornadoes, as well as several hurricanes.

Many of these weather events, especially tornadoes, strike quickly, giving people little time get to safety. And they can be deadly. Last year, 39 Americans were killed by tornadoes, and an average of 1,500 are injured by them annually. This year may be even more dangerous: tornadoes killed 11 people in April and May alone, and meteorologists are predicting more tornadoes than usual.

Many of the deaths caused by severe weather could be avoided with enough advance warning. But tornadoes and other destructive events, such as line squalls, can develop and move at astonishing speed. A few years ago the movie "Twister," in which a small prairie town is devastated by a tornado with no warning, dramatized the problem of effectively notifying people in their paths. Conventional warning systems such as television and radio are inadequate because notice of a tornado or line squall often gives only a few minutes' time to get to shelter. If you're not listening or watching, you can wind up out of luck.

The answer to this problem is a radio receiver that activates itself and raises a noisy alarm when a storm warning is issued. The National Oceanographic and Atmospheric Administration (NOAA) operates National Weather Radio—a network of special transmitters broadcasting on assigned frequencies that can be picked up by special receivers. These receivers can be set to a "standby" mode in which they remain quiet until receiving a unique alarm signal. The alarm signal activates the receiver, which then plays the warning to everyone in earshot. An agency of NOAA, the National Weather Service, issues the notifications, which, it claims, give listeners at least 12 minutes' warning of tornadoes—ample time to get to shelter.

For the protection they offer, warning receivers are cheap: the least expensive models retail for about $50. However, for them to work, there must be a transmitter nearby. A look at a map of the operating transmitters reveals a number of areas—especially in the western United States—that are not close enough to a transmitter to receive broadcasts.

Montana is one state that still has sparse coverage, a fact that was driven home to people in the area of Circle, Mont., a town of approximately 400 residents in eastern part of the state, on July 12 of last year. That's when it was hit by a powerful line squall—a huge downdraft. Residents did not have weather alarm receivers because there was no NOAA transmitter within range. No one was killed, but the storm caused a considerable amount of damage.

Fortunately, help was available in the form of a new program administered by USDA Rural Development's Rural Utilities Service (RUS). In April 2001, RUS issued a Notice of Funds Availability for the Weather Radio Transmitter Grant Program. Under the program, $5 million has been made available to non-profit corporations or associations, local and state governments and Indian tribes to build NOAA transmitters in rural areas with poor or no coverage.

Mid-River Telephone Cooperative, which is headquartered in Circle, found out about the program after being contacted by the National Weather Service office in Glasgow, Montana. The Co-op worked with the Glasgow office and another in Billings, as well as three local county governments to apply for grants for four transmitters in nearby areas not receiving coverage. "We were thinking not just about our customers, but about our employees, too," says Erin Lutz, who coordinated the effort. "We have the largest service area of any telephone co-op in the United States, and our maintenance people in the field spend a lot of time far from convenient shelter. They need ample warning of dangerous weather."

The applications were for installing transmitters in Fallon, Powder River, and Garfield Counties, as well as in Circle, which is located in McCone County. Three of the applications were submitted by county governments; the fourth was submitted by the co-op itself. "Wherever we had a cell-network or microwave tower, we donated space on the tower and in the service building, as well as the necessary phone lines," says Lutz. One transmitter was not located in the co-op's service area, and so facilities were donated by a fellow telecom cooperative.

Famous comic strip character Mark Trail tells readers how to protect themselves from tornadoes. Rural Development's Rural Utilities Service won the Mark Trail Award from the National Weather Service for its efforts to promote the NOAA Weather Radio network.

One transmitter, located in Fallon County, is already up and running; the other two are expected to be operational by the middle of the summer. "We're running a heavy promotional campaign to encourage our customers to use these transmitters," Erin Lutz says. "We're even considering making receivers available in our customer service offices in areas that aren't convenient to the nearest retail outlet."

The National Weather Service has recognized Mid River's efforts with the Mark Trail Award, which it created to honor people and organizations that have saved lives or protected property by using or promoting NOAA Weather Radio. The award was for filling the largest gap in the network in a non-mountainous area. Lutz says the award was a surprise to the co-op. "We didn't even know about the award until they told us we were getting it," she says.

USDA Rural Development also received the Mark Trail Award in a ceremony on Capital Hill. Deputy Under Secretary for Rural Development Michael Neruda accepted the award on behalf of RUS on April 17. The Agency was honored for its support for the expansion of the NOAA network in rural areas, including its administration of the Weather Radio Transmitter Grant Program. Since the program began, RUS has distributed about $2.5 million in grants for transmitters on 43 rural sites—a sizeable contribution to the safety and well-being of rural Americans.

Grant funds are still available for building weather alert transmitters. Interested parties are encouraged to check out the program's web site at: http://www.usda.gov/rus/telecom/initiatives/noaa/weatherradio.htm, or telephone program coordinators Craig Wulf at 202-720-8427 and Orren E. Cameron, 202-690-4493, for information on how to apply. ■

Delivering value to members

Welch's CEO says National Grape members reap benefits from efforts to expand markets, develop new products

By Dan Dillon, CEO, Welch's

Editor's Note: *This article is based on the keynote address Dillon delivered to the Eastern Member Relations Conference in Buffalo, N.Y., in May.*

At Welch's, and as a cooperative, our mission is different in several very important respects than if we were a publicly held company.

Providing a secure market and increasing demand for our members' quality grapes and other non-financial measures are central elements to our mission. Adding value to our co-op, delivering value to our members, is quite different from that of a public company because our mission is different. Our owners have different goals.

What they expect from their ownership is different from what, for example, a General Mills' stockholder expects. The question then is, what do they want? What adds value for them?

In the late 1990s, we surveyed our National Grape directors and delegates and asked them to rank 15 possible actions we could take to add value to our members' ownership. What were the most important, most relevant measures of performance?

The study results were very instructive. Not surprising, topping the list were:

- total patron proceeds,
- earnings per ton and
- growing the enterprise.

But what was particularly enlightening in the survey and in follow-up discussions was the high value National Grape members put on other, more subjective measures:

- Providing a secure market when the industry is in surplus.
- Growing the demand for their grapes.
- Providing an opportunity for them to expand production—to plant more grapes.
- Having the receiving and containment capacity to handle even large crops in a timely manner.
- And, most important, having confidence in the marketing capability of the co-op to sell their entire crop—even a bumper harvest.

Based on this research and discussions, we have over time refined our mission.

Corporate mission

The mission of our company, as a cooperative, is to:

- maximize long-term grower value and
- provide a reliable market for members' grapes through:
  - excellence in product quality,
  - customer service,
  - market responsiveness,
  - and consumer satisfaction.

Our mission, in addition to the obvious objective of more proceeds in the present, includes increasing demand and providing a secure market for all our members' grapes over the long run.

It is important to understand that there is a price for these additional elements of the mission. They add value, but there is a tradeoff in that they reduce proceeds in the short term.

Financial measures survey

National Grape directors and delegates ranked these actions for importance in adding value to their crop:

Patron Proceeds	Debt-to-Equity Ratio
Proceeds per Ton	Total Debt
Sales Growth	Acreage Growth
Premium Over the Cash Market	Profit Above Cost of Production
Earnings per Acre	Harvest Containment Improvement
Return on Equity Invested	Administrative Expenses
Total Proceeds	Plant Operating Expenses

A technician performs quality-control testing on bottles of Welch's grape juice. Right, Concord grapes are ready for harvest. Photos courtesy Welch's/National Grape Cooperative

If our mission were only to maximize proceeds or maximize proceeds per ton, then the actions we should take would be different. Our investments would be focused differently from what they are currently focused on.

We literally take thousands of actions every year that reduce proceeds per ton for the current year. But these actions are essential to achieving the other dictates of our mission:

- Maximize long-term grower value.
- Provide a secure market.
- Increase demand for all the members' quality grapes.

Let's look at some real examples driven by this mission.

In the early 1980s, Welch's was receiving 192,000 tons of grapes per year, but only selling 168,000 tons—demand was 10 percent less than supply. Every year, inventories were building as deliveries continued to exceed sales. We were headed for a disaster.

Welch's recognized this dilemma and made the very difficult decision to invest in growing demand even though it depressed earnings $75 to $100 a ton in those investment years. We were sacrificing short-term proceeds per ton for other important longer-term objectives.

The alternative, and one we not only considered but one often used by other co-ops and companies faced with a similar situation, was to allocate the number of tons our members could deliver.

But, we didn't do that. In 57 years, we have never done that. We took all the grapes and invested heavily in marketing, in new products and advertising to increase demand over time—even though it seriously depressed the proceeds per ton we were able to pay in the short term.

But the investment in receiving and marketing all our members' grapes not only increased demand to absorb the greater supply, but it also increased demand so that by the mid 1990s we were offering our members opportunities to plant more grapes.

In an average year in the 1980s, we sold 192,000 tons and

paid $197 per ton. But by the 1990s, Welch's had increased demand to 274,000 tons a year. The increased demand allowed us to earn an average of $252 per ton—28 percent more per ton on 43 percent more tons sold per year—almost doubling (up 83 percent) total proceeds per year back to the members.

But creating and maintaining this demand also has a price. Today, for example, Welch's invests more than $80 per ton every year in advertising alone.

There are some who would suggest that we should sacrifice that advertising investment or other marketing investments in some years in order to increase short-term earnings.

In 1999, for example, we had increased demand so quickly in the mid-1990s that the cash market for Concord grapes shot up and was actually higher than the earnings we paid our members. A seemingly simple solution would have been for us to reduce or eliminate the advertising or new product investment or other investments to increase our earnings $100 per ton.

Squeeze bottles of Welch's grape jelly on their way to a grocery store near you.

We could have materially beaten what others were paying if we did, and we could have easily moved all the tons we were receiving without advertising in that year. But our mission demands that we maintain a consistent investment in growing demand—in order to maximize long-term owner value.

The logic of that commitment really manifests itself in a year of big crop surpluses (as 2002 appeared to be prior

Co-op working to help growers hit by devastating crop losses

Editor's Note: *Crop losses in Michigan for both the 2001 and 2002 crops will have a devastating impact on many members of the National Grape Cooperative Association, the farmer-owned parent company of Welch's that processes and markets their grapes as juice, jelly and other products. Some, and perhaps many, will not be able to continue in farming. In areas of New York, Pennsylvania and Ohio, National members have also suffered extensive frost damage this spring. National Grape and Welch's are working closely to obtain disaster relief.*

After scraping to harvest a 2001 crop up to 75 percent smaller than normal, juice-grape growers in southwestern Michigan figured it couldn't happen two years in a row. It didn't.

Due to a drastic temperature swing in late April, the 2002 pickings are even worse.

"It's still hard to gauge, but I'd say at this point we've lost 90 to 95 percent of this year's crop," says Jon Hinkelman, who farms 220 acres evenly split between Concord and Niagara grapes near the town of Bainbridge, in the heart of Michigan's grape-growing country. "Our area consists of a widespread range in radius and it is very uniform—there are places where 100 percent of the crop is gone."

The trouble started when temperatures rose as high as 92 degrees. "That pushed things along to a very volatile state, then there were the cold temperatures a few days later," says Hinkelman, a member of the National Grape Cooperative Association.

The mercury hit a low of 18 degrees on April 23, leaving Michigan growers scrambling for ways to salvage what they could. Even the secondary buds can't make up for much of the loss.

The small amount of fruit that can be harvested may not contain a high enough sugar content for use by Welch's. "It's difficult with a secondary bud to obtain a really desirable (sugar) level," Hinkelman says.

Even programs set up to help Michigan growers may backfire, due to the consecutive crop catastrophes. Many have taken advantage of zero-percent loans made available through a state program, spurred by the efforts of National/Welch's. But these growers now find themselves constricted by the short terms of the loans—most have a four-year payback, with some stretching to five.

"Nobody counted on back-to-back years like that," Hinkelman says. "With terms like that, that's a lot of money to pay back over a very short time when cash flow is very, very low." An additional issue facing growers who waited to apply for state assistance: qualifying for the loan now with the diminished repayment outlook for the 2002 crop.

Growers in northwestern Pennsylvania initially thought they had gotten off relatively easy, despite similar weather conditions in late April. Bill Beckman, who grows grapes on 325 acres in the townships of Harbor Creek and North East, Pa., said only 30 or 40

to some devastating freezes in late April and May). Concord inventories have been running at record-high levels because of the increased supply and low prices for California grapes. Demand for Concord is flat to declining—for everyone else, but not for Welch's. And if that were not bad enough, other processors are already warning that there may be a significant reduction in the price they pay for Concords in 2002. But for Welch's members, the consistent investment made in growing demand has not only added value through the opportunity to plant more grapes—we just concluded the biggest planting program in our 57-year history—but we will also materially increase our earnings in fiscal 2002 vs. 2001.

We are adding value by consistently investing in increasing the demand for Welch's products—increasing the demand for Concord and Niagara grapes—through advertising, new products, marketing programs in new channels of distribution, such as club stores and single-serve channels, through health and nutrition research and public relations programs.

At the same time that we had been investing in increasing demand by more than 80,000 more tons per year, we recognized that tens of millions of dollars in capital investment would be required to receive and contain those grapes.

As a co-op, our mission includes providing a secure market—particularly in times of surplus—another way we add value. Welch's has established a policy for receiving and containment aimed at minimizing the risk that our quality grapes will not be harvested, received or contained.

This is an investment well beyond what a public or non-co-op company would make because it reduces profit. It is an added value that we provide to our members. But it's not free. We have calculated that our receiving and containment strategy costs our members about $30 a ton every year.

Perhaps this can be viewed as insurance. Our members sacrifice $30 a ton in proceeds most years in order to ensure they get all their grapes delivered in exceptional years—as in 2002—or 1992—or 1996.

The original 2002 forecast was for a record crop of

acres were hit by frosts in late April and early May. But the worst was yet to come.

"The biggest damage came on May 20," Beckman said. "Our high ground got hit, stuff that hadn't frozen in 25 or 30 years got hit this time." Beckman said he can't be sure how bad this year's crop will be until assessing secondary and tertiary growth in July, but that it's certain to be the fifth poor harvest in the past six seasons for area growers.

Officials of National/Welch's say the organization is working on ways to adapt to this year's unforeseen crisis. Until the wild temperature swings in Michigan and elsewhere in grape country, a yield 53 percent larger than the previous year's had been forecast.

"We went back to Capitol Hill in May, 2002, in response to the current crop disaster," said Vivian Tseng, vice president and general counsel for Welch's. "The National/Welch legislative team is working closely with our elected representatives in Congress to seek an appropriate legislative vehicle for a direct assistance program to address crop losses in both 2001 and 2002."

The crop failures also put growers in a different kind of crunch, since past crops are averaged to arrive at future estimates for insurance benefits.

"The severe losses we experienced in two consecutive years will hurt our ability to adequately insure our crops against future losses," Hinkelman said. "Years ago, there were grant programs, which were designed to cover crop disasters. But these were scrutinized by the public so the federal government decided against disaster programs in favor of insurance programs." In this way, growers would have the ability to protect themselves. The cost is somewhat subsidized because the premiums are so high, he explained.

"These two years that will go against our ability to insure our crop are devastating," Hinkelman said. "In the past, they had grant programs, which were based on your loss. This has been something that the public scrutinized, so they expanded on the insurance program so that you have the ability to protect themselves. The premiums are subsidized, because the risk is so high."

Tseng said National/Welch's is also exploring ways to alleviate that problem. The organization is still assessing crop losses in other prime growing regions, including western New York and Pennsylvania.

A Senate amendment that would have provided more than $2.3 billion in disaster relief to growers of a variety of crops nationwide, including grapes, was trimmed from the Farm Bill earlier this year.

Despite enduring consecutive crop catastrophes, Hinkelman maintains an optimistic view of the industry's future.

"I think you've got an industry to be very proud of. Both Michigan and our federal people have an industry that's worth protecting," he says. "The grape industry has been one of proud heritage—we just don't ask for help. [Editor's Note: Grape growers currently receive neither government support nor subsidies.] We have a great marketing arm in Welch's. I think the industry will be here in five years, but we need to look at ways to make things better." ■

—by David Staba

Welch's roots extend to 1869

The Welch's name has long been associated with the grape industry. The company traces its origins to Dr. Thomas Bramwell and his son, who, in 1869, gathered Concord grapes near their home in Vineland, N.J., and pasteurized and bottled the squeezed juice. In 1897, the founder's son, Dr. Charles Welch, moved the company to Westfield, N.Y., where it still produces the popular grape juice, although its headquarts to Concord Mass. in 1982.

Today, Welch's is the marketing arm of the National Grape Cooperative Association, which purchased the firm in 1956. Grape supplies for the company's products come from the 1,400 grower-owners operating more than 49,000 acres of vineyards in Pennsylvania, New York, Ohio, Michigan, Washington state and Ontario, Canada. Welch's is the world's leading marketer of Concord and Niagara grape-based products which are sold throughout the United States and 38 countries around the world. Sales for fiscal 2001 reached $650 million and net proceeds topped $67.4 million.

CEO Daniel Dillon credits the company's success in maximizing shareholders profits to its status as a cooperative. Its aim is to preserve the long-term livelihood of its member-growers and to provide a reliable market for the grapes via extensive advertising, customer service and consumer satisfaction.

A third of its sales come from new products introduced in the past 5 years. Dillon believes new packaging has helped the company get more products into different sections of supermarkets—from the juice shelf to the freezer case to the refrigerated foods section. Welch's has gained a greater presence via vending machines, convenience stores and membership wholesale clubs. Wider exposure has led to higher sales.

The company attributes part of its success to a well-balanced board containing growers, professional managers and outside directors. Strong international growth is developing in the Latin America/Caribbean region. On the domestic front, Welch's became the first major juice company to introduce a plastic, ready-for-school size bottle. ■

342,500 tons, or 53 percent (118,000 tons) more than in 2001. Welch's was fully prepared for this, because we had made the investments to receive, contain and sell that entire bumper crop. But spring freezes in Michigan and in the tri-states region (New York, Pennsylvania and Ohio) reduced the projected crop to one that is now expected to be only 6,800 tons, or 4 percent, larger than last year.

If our mission were to maximize the proceeds per ton on the tons we receive—a logical objective if we were a public or non-co-op company—then we probably would not accept all the grapes originally forecast or even the current, more modest expectations.

The point is, the cost of having a secure market in a year such as 2002 was originally projected to be, is reflected in an earnings-per-ton reduction. The value of maintaining demand, growing demand, having the resources ready to receive and contain exceptional crops, the value of having the marketing flexibility to sell 50,000 or 100,000 more tons in an exceptional year, is why National Grape members choose National…and Welch's.

There is also a serious trend to consider—the substituting of California grapes and foreign grape juice for Concord. For 133 years, Welch's has defined grape juice with the unique, distinctive, special taste of Concord. Only in North America is the Concord taste the taste of grape juice and grape jelly. In the rest of the world, when a consumer thinks of grape juice, the taste expectation is entirely different from the U.S. consumer.

This expectation is critical to our growers. The substitution of California grape juice for Concord may still produce a nice-tasting juice, but it is not the unique taste of Concord.

Much of our product formulation work, our marketing, advertising and health and nutrition efforts are focused on the unique taste and health attributes of the Concord grape. It is imperative that Welch's continue to drive these efforts.

While other juice manufacturers are substituting California and foreign grape juice for Concord, National Grape growers can rest assured that they have a secure market at a higher, more stable price because they own Welch's.

Our mission is not to maximize earnings per ton or to maximize profits or return on members' equity. Rather, our mission is focused on creating long-term value for our members. We believe the success of Welch's strategies to build value for our members has indeed been fulfilling that mission.

Obviously, the spotlight will always remain focused on the proceeds per ton we pay. But there is recognition of the value provided through:

- increasing demand—creating opportunities to expand,
- providing a secure market even when the industry is in surplus, or the quality is compromised,
- having the receiving and containment capacity to handle even exceptionally large harvests in a timely manner, and, most important,
- the confidence in Welch's marketing capabilities to maintain the relevance of the unique Concord and Niagara taste and to sell the entire crop—even a bumper crop.

This is value over and above the proceeds per ton we pay. It is real. Is it worth $50 a ton? $100 a ton? In many years, as in 2002, it might be priceless. ■

Unstable farm markets prompt more growers to look to bargaining co-ops

By Dan Campbell, editor

Bargaining co-ops and production contracts have long played a role in helping farmers and ranchers secure a fair price for their products, but the wilder-than-normal swings in commodity prices in recent years may prompt even greater use in the future. Representatives from the beef, poultry and processing tomato industries, who participated on a panel discussion at USDA's 2002 Agricultural Outlook Conference each described various ways these tools can help producers meet the challenges ahead.

Dan Looker, business editor of "Successful Farming" magazine and the moderator of the panel discussion, said he began noticing a sharp increase in interest in bargaining co-ops about four years ago, when a group of "progressive farmers from Iowa, Illinois and other Midwestern states gathered to discuss something that has been around for decades: bargaining co-ops. They began making trips to California, Maine and other states where these types of co-ops have been operating. Because of that, our magazine also rediscovered bargaining co-ops and began writing about some of the more successful co-ops," Looker said. "Successful Farming" also sponsored a "Marketing Clout" conference last winter featuring presentations by bargaining co-op leaders.

Tomato growers struggle to find market balance

"An old pot still cooks good soup," John Welty said, quoting an old French proverb. Welty, executive vice president for the California Tomato Growers Association (CTGA), was referring to the Capper Volstead Act, which allows producers to jointly discuss price and trade information, and has helped to foster thousands of cooperatives and bargaining associations. Welty is well practiced in the art of bargaining for a crop price, having long led CTGA in its efforts to bargain for fair prices for California tomato growers. California farmers produce about 95 percent of the nation's supply (and 40 percent of the world supply) of processing tomatoes.

About 95 percent of the nation's supply of processing tomatoes are produced in California. USDA photo

The role of bargaining cooperatives, such as his, is still not well understood, but they play a vital role in promoting the interests of farmers—particularly producers of specialty crops who rarely qualify for subsidies or other support programs, Welty said.

For the canning tomato industry, reports given at the start of the conference that the agriculture economy is "reasonably stable" are far from accurate, Welty said. The market may have stabilized for producers of subsidized crops, but specialty crop producers have suffered a 20-percent decline in prices during the past five years. "That's a huge drop in net income," he said.

Production costs are high for specialty crops—averaging $1,800 per acre—and margins are "razor-thin," usually 5 percent or less, Welty said.

California, which produces 350 crops—including the lion's share of many of the nation's specialty crops—long felt it was insulated from the supply-price roller coaster that farmers in most other states live with. Growers in the Golden State have long used crop diversification as a primary risk management tool. But that has profoundly changed in recent years, with markets for California specialty crops "one by one succumbing to over-planting, over-supply and eroding prices," Welty said.

CTGA has long argued that commodity program "flex acres" not be allowed to be switched over to vegetables, because this kind of shift would distort vegetable markets that had previously been free from subsidy influence. Welty noted that even small shifts in program crop land into vegetable crops could "ruin the markets with near-instantaneous over-supply.

"And low and behold, that prophecy became reality," Welty said. "While we were able to keep the wolf away from the door for seven years, as program crops lost their subsidies (and other major producing parts of the world did not remove theirs) world prices plummeted." U.S. program crops began moving "freed-up acres into high-margin crops," Welty continued. "This trend has completely undermined the cornerstone of the risk-management strategy of specialty crop growers."

Contracts can spread risk for specialty crop farmers

Almost one-third of U.S. crops and livestock and 40 percent of U.S. fruit and vegetables were grown under production contracts in 1997, according to USDA data he cited. That's more than double the amount grown under contract a decade before, Welty said.

With contracts, the handler shares the risk with the grower, he noted. Quality incentive contracts reward better quality crops, which also benefit the processor.

"The ability to transfer title of vast quantities of fresh, red-ripe, perishable tomatoes in a manner that shares risk in a rational fashion is a major asset, and should not be trifled with," Welty stressed.

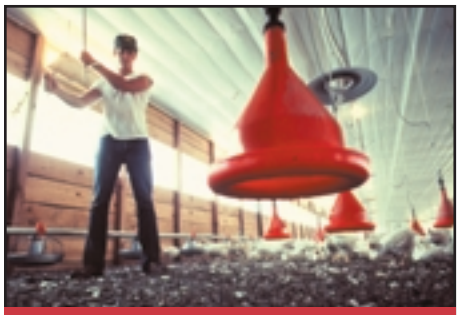
Growers used to worry about large food companies vertically integrating, buying land, buildings and production capability, Welty noted. "But why own farms if you can own the farmers?" Welty said, quoting ag law expert Neil Hamilton, stressing the vulnerability of farmers in the marketplace.

"First we had marketing contracts, where price was set before the crop was produced," he said. Under these contracts, farmers retained ownership of the crop up until delivery.

"Then we saw production contracts, where processors maintained more control of the product, from beginning to end," including seed variety, the crop (once the seed was in ground), harvesting and hauling.

"Now we are seeing risk-sharing contracts," which Welty said shift risk "against the farmers' side of the equation. Many of these contracts are written so that farmers have to take them or leave them," he said, suggesting that farmers "should just say no to these contracts, in general, until they have the power to negotiate better agreements."

The 1967 Ag Fair Practices Act—which does not require good-faith bargaining and dispute resolution and enforcement —is "flawed and has fallen out of use," Welty said. The main flaw, he continued, is that it does not compel good-faith bargaining by handlers, and implies that handlers are not required to deal with bargaining associations.



Contract poultry growers are still trying to forge an effective national bargaining association. USDA photo

"The need for growers to secure fair, reasonable prices has never been more pressing," Welty said, adding that this should be a critical component of U.S. farm policy.

Poultry growers still seeking national voice

Mary Clouse, project director for Rural Advancement Foundation International (RAFI) in North Carolina, said income for chicken producers is also lagging far behind a fair level, and that the industry has been struggling for many years to forge an effective national cooperative or bargaining association that can help growers gain better margins.

In the early days of the industry, farmers owned their chickens, bought their feed and built their own poultry houses. "They sold their birds when they were ready.

"But efficiency dictated that it was better for the processor to own the birds, own their own feed mills and hatcheries and to contract with farmers to raise birds. In the process, farmers lost much control over their operation," she said.

Virtually all broilers in the United States are currently raised under contract to an ever-declining number of large processors. She estimated that there are 24,000 contract poultry growers in the United States providing more than 7 billion broilers to 42 major poultry companies. "When I started in the poultry business there were 160 major companies, so there has been tremendous consolidation in 25 years."

Tyson Foods is by far the largest processor, with 42 plants in 17 states, 65,000 employees and 7,000 contract farmers, she said. Gold Kist, a cooperative, is a distant second, with 12 plants in five states.

Clouse said the current economic structure keeps producers at the mercy of the poultry companies. It costs about $125,000 to build and equip a modern poultry house, which will provide an average income level of just $4,000 per year. About 76 percent of poultry growers earn less than $29,000 per year, and 45 percent earn less than $14,000 annually. She said more than half of poultry growers fall under the federal poverty level—based on a family of four that depends on poultry alone for income (and she said many do).

Ranking of growers for pay by processors is done by a process they call a "tournament." But Clouse said growers believe these pay tournaments force growers "to play in a game where everyone gets different equipment and with no referee. The poultry processors control all the inputs, tell them how to grow birds, decide when to take birds, and when to bring feed. The company decides whether to continue to use your facility and any dispute resolution method."

With the switch in most contracts to binding arbitration between the company and individual growers, farmers have lost their access to the courts. Some cases are still going to court anyway, with producers claiming the contracts

were signed under duress, Clouse noted. "We hope state and federal laws will set higher standards for contracts," she said, noting that it "may take a combination of forces to bring this about."

Clouse was a founding member of the National Contract Poultry Growers Association (NCPGA) in 1990, and worked as a field organizer in the South. She started a newsletter that at first went to 250 farmers, but within two years went to 10,000 farmers. Fear was so great among producers who attended early organizational meetings that some attended wearing disguises and under aliases, she recalled. The co-op was chartered in Arkansas in 1990, and was in 16 states by 1992. Its early efforts included offering group insurance and equipment buying programs to members.

Early NCPGA successes crushed by new contracts

After success in those early years, the industry decided to "lower the boom" in 1994, Clouse said. Processors called in all contracts in Alabama (where the association had its largest number of growers) and then issued new contracts with binding arbitration. "The 40 members who refused to sign it got no more birds," she said, noting that 11 of those growers are still involved in litigation against the companies. Thirty of its leaders were forced out of business or "intimidated into leaving the organization. This had a chilling effect on the rest of the organization. Growers were frightened back into the woods," she said.

"Fear still rules the roost," Clouse continued, noting that many producers are afraid to promote a stronger bargaining cooperative for fear of reprisals by processors. She painted a grim picture punctuated by cases of poultry farmers who have committed suicide over economic desperation—and even one murder where a producer shot and killed a company production manager and then killed himself.

As it stands today, producers should be treated as company employees, not independent suppliers, because the reality is that they are piece-wage producers under near-total control of the processors, Clouse said. "Our course of action now is to get protections first—we're not trying to organize a big, bulky organization." She said efforts are concentrating on regaining access to courts and connecting with other producer groups.

"Our farmers like what they do—they feed the country; they don't want to ruin the industry or drive it offshore," she said. Clouse noted that "chicken can be grown anywhere,"and said China is building "huge feed mills" to expand its poultry industry. Country-of-origin labeling will help the domestic industry, she said, stressing that consumers prefer U.S.-raised meat. "But if companies leave the U.S., what's to stop farmers from starting their own plants?"

Clouse said producers are finding new, non-traditional allies in some consumer, environmental and church groups.

U.S. cattle industry regaining lost markets

Paul Hitch, a Guymon, Okl., feedlot operator who helped launch the Consolidated Beef Producers bargaining cooperative, said to regain lost markets, the cattle industry needs to look to the poultry industry and the way it markets consumer-driven products.

Cattlemen look back at the 1970s as the good old days for their industry, Hitch said. In those days, John Wayne was still the nation's idea of a movie star, big belts, buckles and western hats were all the rage and, he continued, "beef was king of the meat case while chicken was just a commodity that cattle producers paid little attention to." Flash forward to 2002, and beef has lost its crown to chicken, which is increasingly sold under brand names "while beef is just a commodity."

"We forgot about the people who ate beef and didn't want to spend six hours making a pot roast. The poultry people did not forget the consumer, and so they started selling breaded, boneless, skinless, microwavable chicken in every cut imaginable." By about 1970, the beef industry had begun experiencing a two-decade-long erosion of market share. "We were marching down the road—if not to oblivion— at least to a position of less significance."

Cattle producers, he said, should have been thinking of themselves as beef producers first, not cattlemen. "The person who eats beef is our king and queen. They want consistent-quality products that are easy to prepare in a short period of time. And if you don't give it to them, somebody else will."

The pork industry has been quicker than the beef industry to emulate the marketing success of the poultry industry, Hitch said. But the beef industry is finally heading in the right direction. In addition to offering leaner, more consistent beef in a greater variety of easy-to-cook cuts, Hitch said branded beef products are becoming more common.

As a result, beef has increased its market share by 5 percent in the last couple of years.

So, with the beef industry heading in the right direction, the challenge for ranchers and feeders is to make sure they can supply the type of beef needed to sustain and expand these market gains and to earn a fair return for their efforts.

Hitch said that means moving away from cash markets, which "worked well as long as there were lots of sellers and buyers dealing in a non-differentiated product." But with the numbers of feeders, packers, ranchers and retailers contracting more and more, he said the situation has changed dramatically.

Beef packing concentration sparks need for co-ops

The top four beef companies in the United States now control 80 percent of beef packing in the nation. The top seven retailers control 45 percent of all beef sales to the public, and that is expected to climb rapidly to 75 percent, Hitch said.

He noted that some say this concentration is the result of a "conspiracy" to take control away from farmers and ranchers, but Hitch said this process is really just the result of basic market forces at work.

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MANAGEMENT TIP

Co-op boards' circle of responsibilities

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Editor's Note: *This is the first of a three-part series about cooperative boards of directors. This article identifies the sources of authority for boards and describes seven basic responsibilities imposed on every cooperative board of directors. The next article discusses the legal standards directors must meet and outlines practical ways directors can protect themselves as well as the cooperative. The last article describes the numerous special difficulties faced by cooperative directors and shows why a cooperative director's task is more difficult than for directors of other organizations.*

Being a director of a cooperative isn't easy. In fact, it is harder to be a good cooperative director than a director of almost any other organization, including the largest corporations in the country. Cooperative directors make decisions that aren't required in a non-cooperative corporation, and bad decisions can hurt the cooperative and all of its members.

Frequently, directors just have too little information about what they need to do as directors. Information that is available to help them become excellent directors is often not appropriate for cooperative directors. Often, advice is so general it isn't applicable and some is so specific that it cannot be applied easily. Advice and information may not focus on the real issues and sometimes the advice is conflicting.

The three articles in this series certainly don't give all the answers. However, existing information related to cooperative directors, as well as the directors of other kinds of organizations, can be distilled and focused for cooperative director use. Concise guidelines are given that can be tailored to the needs of individual directors on the boards of a specific cooperative.

This article identifies authority that gives directors the rights and responsibilities to carry out their work as directors on behalf of the cooperative and its members. Then it describes the seven basic responsibilities imposed on all directors of all cooperatives: the "circle of responsibilities."

Board authority

What gives a board of directors its authority? The basic authority, and the ultimate statement of responsibility, is imposed by law. Statutes under which cooperatives are incorporated identify the board of directors as the key institution responsible for the direction and management of the cooperative. A typical cooperative statute says: "The affairs of the association shall be managed by a board of not less than five directors, elected by the members or stockholders from among their own number." Variations exist, of course, among statutes and states, but the theme is always the same: the law places a cooperative's management and guidance in the hands of its board of directors.

The statutory mandate is broad but isn't described in further detail by most statutes. This is one reason that further explanation is needed to make the directive meaningful. An added source of guidance is a cooperative's own bylaws. The bylaws are not the place to give detailed descriptions of what the board is supposed to do, and bylaws typically do not. However, in describing certain processes and actions of the cooperative, bylaws often identify decisions the board must make on specific issues. Some of these will be described when board function and personal responsibilities are noted in the next article in this series and—even more so—when special issues are described for directors in the final article. The problem faced by directors (who represent members) when members want something that will be detrimental to their cooperative (to whom directors also owe a duty) is also noted in the final article.

Finally, the board will establish its own internal structure, rules and operations to supplement the broader statements in the statutes and the bylaws. These cannot remove or diminish the responsibilities imposed by statute, but can create a framework in which the overall responsibilities and authority are useful in the everyday work of the board.

These are the technical sources of authority. The ultimate authority, though, comes from the cooperative's members. The cooperative is theirs, and without members' desire to create and perpetuate the cooperative, the board would not exist. Members place their trust, their needs, and authority in a board of directors of their own choosing.

Circle of seven responsibilities

Despite significant differences among cooperatives in the United

States in size, function, complexity, organizational form, financing methods and membership makeup, it is possible to summarize a "circle" of seven responsibilities applicable to all cooperative boards of directors. Of course, each of the responsibilities will be carried out differently depending on the cooperative, but fundamentally the circle of seven responsibilities describes all cooperative boards of directors.

General definitions:

Responsibilities: What boards of directors must do to meet their obligations to the cooperative under laws and other guiding sources.

Standards of conduct: Sometimes called duties, standards specify how the responsibilities must be carried out. They impose standards of conduct on the board and individual director board members.

Liabilities: These are consequences when directors fail to carry out required responsibilities with the required standards of conduct. Liability may be imposed on the cooperative or individual members of the board.

1. Board represents cooperative members

Cooperatives are created and operated to serve members' needs. Members invest in the cooperative, they patronize it and they exercise ultimate control of the cooperative. The board of directors is the means by which the needs and desires of individual cooperative members are incorporated into the cooperative. In some circumstances, of course, members vote directly on a cooperative issue. But for the most part, members are represented by the board of directors.

Directors are elected by members and directors' role is to represent those members. To represent members effectively, directors must know what members need. They also assess the cooperative's capabilities to meet those needs. Directors must understand the strengths and weaknesses of the cooperative and make judgments based on a thorough understanding of the cooperative's resources and its employees so they can be used to the members' best advantage in a successful cooperative.

2. Board establishes cooperative policies

Directors put their member representation role into effect by making policy. Indeed, many discussions about cooperative directors summarize the board's job as establishing cooperative policy. Policies may be broad and long-range or they may be specific and immediate. Both are necessary. If the board fails to establish cooperative policy, either someone else will establish the policy or the cooperative will operate without direction and control. In either case, the cooperative cannot be successful and disaster is likely to follow.

3. Board hires and supervises management

Directors do not run the cooperative themselves. Employees are used to do the work necessary, given policies the board has established about the purposes of the cooperative and specific policies guiding cooperative operations. The board hires and supervises management. Normally, direct involvement by board members is limited to only top management, but the board's responsibility does not end with the employment of a chief executive officer. Supervisory responsibilities vary according to structure and circumstances.

Boards of directors and management often struggle with the division of duties, supervision, and operational detail between the board and management. This issue can be detrimental to the cooperative if conflicts are not resolved satisfactorily.

4. Board is responsible for acquisition and preservation of cooperative assets

Cooperatives acquire and use assets to serve patrons in one way or another. An overall responsibility of the board is to establish policies with respect to acquisition and preservation of the cooperative's assets. Cooperatives are entrusted with other people's money and must account for it at all times. The assets of a cooperative were purchased with member money, and the cooperative is obligated to those members.

This board responsibility is shown in two specific obligations. First, the board is responsible for guaranteeing that the cooperative establish and use accounting systems that keep track of all aspects of the cooperative's finances and resources. The accounting system must also accurately reflect the true financial condition of the cooperative.

The second obligation is that the board monitor the cooperative's financial performance and establish policies that protect the cooperative from financial shocks and risky situations that undermine its financial health. Proper audits and careful board response to audit reports is the first step towards meeting this responsibility, but a range of board decisions can spell financial success or failure. Whether financially related policies are short-term or long-term, the board of directors has the ultimate responsibility for the cooperative's financial affairs.

It is clear that these responsibilities require a great deal of care, attention, and skill by each member of the board. Board members must understand what a financial reporting system is, what it must do, and what financial information can and cannot tell directors about the performance of the cooperative and its management.

5. Board preserves the cooperative character of the organization

The board, as the policy-making body and representative of the cooperative's members, is responsible for maintaining the special character of the cooperative. If the cooperative is

This may be one of the most misunderstood and neglected of directors' responsibilities. In most situations, it does not require specific action on the part of the board, but only if the proper safeguards have been established and are in place for all to see. A periodic review of the cooperative along with established policies and rules requiring operation on a cooperative basis are essential. But nothing gives the cooperative as much protection as an articulated dedication to cooperative principles understood by the board, the members, and management.

allowed to deviate from principles to the extent that it is no longer a cooperative, the directors have failed in this responsibility. This can be a breach of the trust that members have placed in the board, and in some cases it can be a violation of law.

At the same time, the board appreciates that a wide range of operating methods and structures is available to cooperatives. Preserving cooperative principles doesn't mean that the cooperative is either small or simple. It only means that the fundamental character of the organization is that of a cooperative regardless of size or complexity.

The responsibility imposed on the board to preserve the cooperative character of the organization means that the directors must know what that character is, how it operates in the structure of their organization, and what kinds of events and actions may undermine cooperative fundamentals.

Implementing exercise

At your next board meeting, consider conducting a complete assessment of sources of the board's authority, including statutory requirements, bylaw provisions, policies, board structures or another source of board authority.

- *What is the source of the authority?*
- *What does it mean for the everyday operation of the board?*
- *Does the board fully appreciate its authority—and its limits?*
- *How can the board respond better to the authority it is assigned?*

At each of the subsequent seven board meetings, thoroughly consider one of the responsibilities listed.

- *What specifically does the board currently do to meet the responsibility?*
- *What are the weaknesses in the board regarding its responsibility?*
- *Does each director have the skill, interest, and time to consider and respond to the responsibility?*
- *Does the board have the knowledge and information necessary to meet each responsibility?*
- *What specific steps can be taken to make the board meet every responsibility?*
- *Is there a consensus on the board's performance?*
- *Would members agree with the board's self-assessment?*

The most effective way to make the responsibilities "up close and personal" is to have each director individually address the issue and propose his or her own solution to problems perceived about the responsibility under discussion. Board meetings or ancillary sessions to board meetings can then provide the forum for discussion within the board. These sessions may be more effective if management is not present.

6. Board assesses the cooperative's performance

Every organization evaluates its performance to assess the policies and actions taken during the year and to plan effectively for the future. For cooperatives, performance rules are not identical to those that generally apply to other types of businesses, although they are deceptively similar. A cooperative is indeed concerned with the "bottom line" and its success as measured by financial criteria, but it is not organized to simply benefit itself. The cooperative's performance is ultimately measured by the benefit it confers on those who use it. Performance is judged by the cooperative's fundamental objectives.

This may be accomplished in differing ways, as no single standard of measure is available to the board. The board is faced with multiple criteria, and some may be conflicting. Some criteria may be measured in numbers, and some cannot be measured by any financial documents. Despite the variations, the board must keep its eye on the cooperative's ultimate goals, make careful assessments of performance and strategies, establish appropriate policies, and make hard decisions on behalf of the members.

7. Board informs members

Cooperative boards of directors inform members about the cooperative organization—the members' own business. This duty is rather unique among businesses in its importance and implications for member control.

Without accurate information, members cannot make decisions about their cooperative and will not be prepared to make decisions imposed on them as cooperative members. Members will not be able to understand whether their cooperative is successful, or whether basic changes must be made to correct problems identified by the board. And without accurate and complete information, members will not be able to make judgments about cooperative management or about the board's own performance.

Member information completes the directors' "circle of responsibility" leading to member representation. ■

Western Sugar Co-op pays $85 million for six plants

Sugar beet growers in four western states have seized control over a major segment of the U.S. sugar industry with the launch of Western Sugar Cooperative. The cooperative was born at the end of April after 2 years of difficult negotiations by its predecessor, Rocky Mountain Sugar Cooperative. The talks finally culminated in a deal to pay $85 million for six sugar beet processing plants, storage facilities and a host of other support facilities and equipment belonging to Tate & Lyle North America. The new cooperative will also assume payment of the $100 million inventory debt to the Commodity Credit Corporation.

Not even a deep freeze in early May that impacted 20 percent of its members' acreage could deter the start of the new co-op. With seed supplies ample, growers moved quickly to replant the 30,000 lost acres. Crop planting had already been delayed by drought conditions in much of its territory: Nebraska, Wyoming, Colorado and Montana.

The drawn-out negotiations went through three agreements and five previous closing dates before a final settlement was reached. To maintain market identity, the cooperative adapted the name of the old company.

Tate & Lyle had owned the plants since 1985, when it purchased them from the bankrupt Great Western Sugar Co. Efforts to complete the sale had been stymied in recent months, partly because capital markets had been affected by the Sept. 11 terrorist attacks and the national economic recession.

Two USDA Rural Business-Cooperative Service programs played a key role in financing the sale. Through USDA's Cooperative Stock Purchase Program, more than 480 growers financed their purchase of $200-per-acre equity stock in the co-op. That guaranteed $10 million in Wells Fargo bank loans to cover the producers' equity. The bank will share the investment with a dozen banks in the participating states after closing loans for the growers. USDA also provided the co-op with $14 million in Business and Industry Program loan guarantees.

Initially, 143,500 acres were committed to the cooperative and more are expected, now that the purchase has been completed. Growers earlier had been assured of a contract for the 2002 season regardless of who would own the firm. So, despite the extended negotiations, sugar beet planting moved ahead as quickly as weather conditions in the region permitted.

Meanwhile, Inder Mathur, a former chief financial officer for Western Sugar Co., has been named chief executive officer of the new cooperative, according to Rick Dorn, board president and a sugar beet grower from Hardin, Mont. He said Mathur would be a good match for the cooperative because "he knows the system and has the respect of other employees." Dorn said he was "delighted that the growers now own Western." He said the new farm bill will "bring stability to our industry and contribute to our success as owners." He invited all area growers to "join with us in building a strong cooperative for our own benefit."

Frank Bush will continue as marketing director for the new Western Sugar. Key management staff are being retained at all six plants. The Denver-based cooperative will operate all the plants this season. They are located in: Scottsbluff and Bayard, Neb.; Billings, Mont.; Lovell, Wyo.; and Fort Morgan and Greeley, Colo. After this season the co-op will assess the future of each plant.

Simultaneously, grower- and community-based groups have been negotiating the purchase of Holly Sugar plants at Torrington and Worland, Wyo. The growers would operate as limited-liability companies. Torrington is on the Wyoming-Nebraska line and near the new Western Sugar Cooperative's refinery at Scottsbluff, Neb. Holly's parent, Imperial Sugar, has reorganized after earlier declaring bankruptcy and earlier this year sold sugar plants in Michigan to a new cooperative.

Dakota Pasta co-op converts to corporation

Members of Dakota Pasta Growers Co., widely looked to as a successful model of a new-generation cooperative, have voted 693-146 to convert from a cooperative to a regular corporation. Some observers say the vote reflected the reality that the member-farmers who own the business were no longer supplying the majority of durum to the plant, raising legal and tax questions about whether it could continue to operate as a cooperative. As a corporation, it need not get the majority of its durum from members, and it will be able to sell stock to the public.

Board Chairman Jack Dalrymple,

also North Dakota's lieutenant governor, said that with the change the business will seek new stockholders to raise additional funds. "This (conversion) is about this business and is in no way a referendum on the cooperative structure," Dalrymple told the Associated Press. Critics of the move say they will be watching to see if farmers can maintain long-term control of the business now that it has converted.

With processing plants in Carrington, N.D., and New Hope, Minn., Dakota Pasta has 115 employees and is the third largest pasta maker in the United States, processing about 1.5 million pounds daily. Farmer-members will no longer be required to supply durum to the company, although they will still hold a special class of stock that gives them preference in selling to their former co-op.

Raymond Crouch, DFA editor, killed in Texas airplane crash

Raymond Crouch, director of member publications and media relations for DFA, was killed May 20 in the crash of a light aircraft near Stephenville, Texas. Also killed in the accident was the pilot, Kelly Wilson, 43, a Tarleton State University professor. Crouch, 54, was taking aerial photos for an article for an upcoming issue of the DFA "Leader" newspaper, of which he was editor, when the Beech Bonanza 35 aircraft went down.

Raymond Crouch

"This is a profound loss for the dairy industry, his family and his friends," said Agnes Schafer, DFA's executive director of corporate and public relations. "Raymond was passionate about farmers working together in the marketplace for a better future, and used his love of the printed word and the photographic image to communicate the stories of the American dairy farm family."

Crouch's roots were in the dairy industry, and he spent most of his life working for it. He was born into a dairy family and grew up in Denton, Texas, where he began his career as a photographer and writer for the Denton Record Chronicle. He later worked in the banking industry before becoming communications director for the Southern Region of Associated Milk Producers Inc., where he remained for nine years. When AMPI merged into DFA, Crouch moved to Kansas City and took the position with DFA. He won numerous professional honors for both his writing and photography, and a number of his photos have appeared in this magazine.

Canadian dairy co-op buys Indiana cheese plant

Agropur cooperative, the most important Canadian cheddar cheese producer and a leading manufacturer and distributor of cheese, is making its debut in the U.S. market with the purchase of the Deutsch Käse Haus Inc. (DKH) cheese plant in Middlebury, Ind. DKH mainly markets colby, colby-jack and pepper-jack cheese. The plant operates in the heart of an Amish community which provides the milk supply and labor force. Agropur is owned by 4,700 dairy farmers and employs more than 3,100 people.

Resource library for co-ops dedicated at DC University

A resource library for cooperatives on the campus of the University of the District of Columbia (UDC) in Washington, D.C., has been dedicated to C.H. Kirkman, Jr. Kirkman served as a senior cooperative education specialist for 31 years and worked on many cooperative programs while with USDA's Agricultural Cooperative Service (now part of USDA/RBS). He retired in the 1980s. Last year, he established an endowment to support the center.

The library was established in 1996 by Kirkman and UDC officials to support cooperative education and research efforts of the university by providing a repository for research and reference materials related to the history and aims of agricultural and consumer cooperatives and their associations. He and family members donated funds to establish the library. Both he and USDA contributed books and other cooperative information materials. This is the first such library on the East Coast and third in the nation.

Australian Farley to lead Calcot

The board of Calcot Ltd., one of the world's oldest and largest cotton marketing cooperatives, has chosen David D. Farley, 45, an Australian farm executive, as CEO and president. Farley, only the fifth CEO in the history of the co-op, succeeds Tom Smith, who had been president since 1977. Farley will work with Smith through the end of September and then assume full duty on Oct. 1. Smith will continue as a consultant for a year.

David Farley

Board Chairman Bruce Heiden said Farley would bring "an outside perspective and energy that should be of great benefit to the continuation of successful marketing of members' cotton." Farley is the former chief executive officer of Colly Farms in Australia, the largest vertically integrated cotton buyer, ginner and marketer in the country. He brings a wealth of experience to the cooperative. Farley said he expects to spend his first four months meeting growers, gin managers and buyers of the cooperative's cotton. He said he would look for ways to return growers to profitability, which will benefit both the cooperative and the cotton industry. Calcot, Bakersfield, Calif., has annual sales of 1.4 million bales of cotton.

Bio-based, renewable energy products featured at USDA Earth Day event

USDA celebrated Earth Day with a product showcase of bio-based and renewable energy products. The show, held in the courtyard of the Department of Agriculture headquarters in Washington, D.C., featured more than a dozen manufacturers of a wide variety of bio-based and renewable products. The event not only demonstrated the adaptability of U.S. crops for Earth-friendly products, but also provided an opportunity for federal purchasers to learn more about the products.

"American farmers—unmatched in the world for their productivity of food and fiber—are now producing bio-based products that will do everything from fuel our cars to provide Earth- safe solvents to clean our homes and factories," said Michael Kossey, the show coordinator and special projects manager for USDA's Rural Utilities Service.

Taylor Oldroyd (right), USDA Rural Development public affairs director, checks out some bio-renewable cleaning products.

One of the featured exhibitors was Natural Plant Products of Salem, Ore., a cooperative of 85 turf grass growers. Many turf growers in the Northwest also grow meadowfoam, a herbaceous annual wildflower that yields an oil with a unique, fatty-acid composition that has been used since the mid-1980s by the cosmetics and personal-care products industry. The co-op, formed in 1982, expanded rapidly in the mid-1990s, recruiting new members to help meet demand that was growing at 15 percent per year. As a result, acreage shot up from 2,000 to 8,500 acres.

But—in a process that many growers know all too well—the industry is now in an over-supply situation, which has the co-op and others looking for new uses for meadowfoam. One of the most promising uses—on display at the USDA Earth Day event—is meadowfoam meal, a pelletized product which has been used successfully in the nursery industry as a fertilizer and as a protectant against weeds. Other uses being studied for meadowfoam oil, which is highly stable, include as an additive in hydraulic and motor oils.

Other exhibitors at the event included:

The United Soybean Board showed off a wide array of soy-based products at USDA's Earth Day product show. USDA photos by Dan Campbell

• United Soybean Board—provided information on a wide variety of products made from soybeans, grown by 600,000 U.S. farmers. These new products include soy-based lubricants, wood adhesives, printing inks, solvents, building composite materials and paints, among many others.

• Urethane Soy Systems Co.—This Illinois firm is developing uses for soybean oil- based polyurethane, which is used in the manufacture of carpeting, furniture upholstery, auto body parts and many other products. The South Dakota Soybean Processors cooperative in Volga, S.D., is its exclusive supplier of crude soy oil (see article, page 19).

• Gemtek Products—This Arizona company is producing bio-renewable cleaning products—including degreasers, solvents, lubricants and odor neutralizers—sold under the motto "safely cleaning planet Earth." The company's products are used for everything from removing graffiti on buildings to metal cleaning in the aircraft industry and as an odor neutralizer in meat processing plants and paper pulp mills.

• EarthShell Corp.—Disposable plates and bowls made from natural ingredients, such as limestone and potatoes, are the specialty of this Maryland-based company. All products are 100 percent biodegradable, yet rugged in use and microwavable. EarthShell also make cups and sandwich boxes. Its products are already being used in 90 Walmart stores on the West Coast, in several national parks and universities, says John Nevling, director of product management.

• Eco Film—the Cortec Corporation of St. Paul, Minn., produces degradable film used in the manufacture of garbage and mulch bags, grocery bags, toy and parts packaging, export packaging, etc. ■

Davisson heads CF Industries

The new chairman of the board of CF Industries Inc., the Chicago-area based fertilizer manufacturing and distributing cooperative, is Bill Davisson, chief executive officer of GROWMARK Inc., Bloomington, Ill. He succeeds John Gherty, president and chief executive officer of Land O'Lakes, Inc., whose term expired. Both regional cooperatives are among nine U.S. and Canadian farm supply cooperatives that own CF and secure fertilizers from it. Through thousands of member-owned sales outlets of these cooperatives, CF's nitrogen and phosphate fertilizers reach more than 1 million farmers and ranchers in 48 states and the Canadian provinces of Ontario and Quebec.

Moser joins LOL board

Bobby Moser, vice president of agricultural administration and university outreach executive dean of the college of food, agricultural and environmental sciences at the Ohio State University, has been named as an advisory member to the Land O'Lakes board of directors. LOL Chairman Jim Fife said it was a tribute to the $6 billion dairy cooperative to gain an advisory member of Moser's stature.

SV buys Rochester Cheese

Rochester (Minn.) Cheese Co., with plants at Spring Valley and Delbo, Minn., has been purchased and will become a wholly owned subsidiary of Swiss Valley Farms, Davenport, Iowa. The Rochester headquarters facility includes a cold storage warehouse. The company ages, grates and custom-blends cheese for food companies nationwide and packages parmesan and

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Commentary *continued from page 2*

tection for sharing market information provided by Section 5 of the Cooperative Marketing Act of 1926.

Subchapter T Tax Treatment—The Wyoming law is written so an entity it authorizes can receive single-tax treatment without having to meet the qualifications for "operating on a cooperative basis" under Subchapter T of the Internal Revenue Code. Proponents of the law applied for and received a letter ruling from IRS that a company formed under the law qualifies for single tax treatment as a partnership under Subchapter K, rather than as a cooperative under Subchapter T. This process was completed before the law even took effect.

Security Exemption —The Securities Act of 1933 exempts farmer cooperatives qualifying for 521 tax status from its registration and prospectus requirements. Only farmers' associations qualify for 521 tax status. If a Wyoming Processing Cooperative has non-producer investors, it is questionable whether it can qualify for 521 tax status, a necessary prerequisite to be eligible for the exemption in the '33 Securities Act.

Borrowing from CoBank—The Farm Credit Act and Farm Credit Administration regulations bar CoBank from making loans to marketing cooperatives that have more than 20 percent of their voting power in the hands of non-producers or are authorized to pay dividends on member capital that exceed 10 per cent per year. Thus, it is questionable whether an association organized under the Wyoming law that gives more than 20 percent of the voting control to investor "non-producer" members or permits returns on member equity of more than 10 percent is eligible to borrow from CoBank.

The Agricultural Marketing Act of 1929—This Act is the only federal statute of relevance that purports to define the term "cooperative." The definition is patterned on the tests set out in Capper-Volstead. To qualify, an association must, among other things, be composed of "farmers" and must either not permit a member to have multiple votes based on equity, or limit returns on equity to 8 percent. While the definition is no longer used for its original purpose, to describe an entity eligible to borrow from the Farm Credit System, it has been incorporated by reference into several other laws that benefit cooperatives. It is the test to qualify for:

1. The protections against handler coercion and discrimination in the Agricultural Fair Practices Act,
2. The cooperative exemption from the registration requirements of the Securities Act of 1934,
3. The cooperative exemption from the trust provisions of the Perishable Agricultural Commodities Act,
4. The cooperative exemption from trucking regulation under the Interstate Transportation Act.

Taken together, all of these statutes reflect a consistent pattern of Congressional recognition that a cooperative operates within certain prescribed limitations. Cooperative leaders need to consider the implications of a state statute authorizing the formation of cooperatives that may not qualify under any of these federal laws.

Unfortunately, simply suggesting the Wyoming Processing Cooperative Law goes too far in discarding cooperative tenets doesn't solve the bigger problem that it was intended to address: What must be done to ensure that entities owned and controlled by their member-users, and operated for the benefit of those member-users, cannot only survive, but thrive in the years ahead?

Some serious thought and discussion are needed as to how to build flexibility into the cooperative model without destroying the unique features that justify favorable public policy treatment. Let these comments serve as a challenge to all cooperative leaders to begin thinking about how the cooperative of the future must to be organized and operated to meet the needs of tomorrow's member-users.

Randall E. Torgerson, *Deputy Administrator, USDA Rural Business-Cooperative Service*

romano cheese for retail and ingredient markets. The firm's annual sales are about $100 million. Gene Quast, Swiss Valley CEO, said the expansion effectively broadens the cooperative's line and enables it to offer a complete line of quality dairy products to its customers.

Montana elevator, long trains boost farmer wheat prices

Mountain View Co-op's new $6 million grain elevator and the 110-car trains it accommodates are bringing farmer-members another 8 to 10 cents per bushel for the wheat they sell to the cooperative at Collins, Mont. The facility's 800,000-bushel capacity is enough to nearly fill a couple of the long trains. Better still, the train can be loaded by a crew of only three, instead of the 12 workers the job would take at a standard elevator. The first loading took only 13 hours vs. the standard two days. Manager Bruce Clark said he hopes to cut the time to just nine hours. The lure is a $400-per-car freight discount, prompting a number of these super elevators to appear across Montana.

Similarly, in North Dakota, Kindred Grain and Oil has merged with Cenex Harvest States at West Fargo, leading the way for construction of a multi-million dollar elevator at Kindred to accommodate 100-car trains. Else-

In recognition of GROWMARK's 75th anniversary of service to local cooperatives and their farmer-members, Future Farmers of America members from Normal, Ill., plant trees on the farm of Dan Kelley, chairman of the regional cooperative's board. The tree planting symbolizes faith in the future of America and was conducted in conjunction with the cooperative's participation in the Illinois Buffer Partnership program, part of the Trees Forever organization. Photo courtesy GROWMARK. ■

Rural Survivors *continued from page 19*

bushels per day and has made investments to move further up the value-added chain.

"Vision is important, but it is the execution of that vision which is most crucial," Christianson said. "My farmers chose to be in businesses that was a commodity—to be a low-cost producer in an industry where the top four companies crush 75 percent of the crop. It's a very consolidated industry. So it would be foolish to come back three or four years later and cry about how hard it is to compete with big companies." But Christianson said he has heard other new-generation co-op leaders say they are upset that the large companies "are coming after us. If you don't want to play with them, don't put your business plan there."

The SDSP board passed a resolution that the co-op have no more than a 104 percent ratio of debt to equity. At that time, the ratio was 114 percent, but it has since been lowered to 35 percent. Another target was to pay 70 percent of value-added patronage in cash. None was paid in the first year, but in the next four years the payment was 80 percent in cash, dropping to 70 percent last year—a record profit year.

Christianson said SDSP has studied its industry carefully to determine the best course for the future. The five-year vision included boosting capacity to 100,000 bushels per day, to generate 60 percent of revenue from value-added activity, to vertically integrate toward end customers and to create partnerships and strategic alliances that "forge win-win relationships with other producer groups."

A major result of the direction is a new strategic alliance with Urethane Soy Systems of Dover, Ill.—which Christianson described as a small, private company, trying to substitute soy oil for petroleum-based oils in the manufacture of polyurethane. The goal will be to make SDSP a major supplier of soy-derived polyurethane for carpet padding, furniture upholstery, car bumpers, etc.

It's a 4.6-billion-pound market, he said, and by 2007 SDSP hopes to have an 850-million pound share of it. Soy oil saves 5 to 30 percent of the cost of petroleum-based polyurethane, he said. The co-op has filed for a patent on a process it will use to process crude soybean oil into poly-oil.

SDSP is also working with Minnesota Soybean Processors—a 2,330-member co-op—to build a new soybean processing plant in Brewster, Minn., which they hope to have operating in 2003. SDSP will provide management and marketing for that operation.

SDSP is considering converting to a limited liability corporation, but will continue to operate "with the same operating principles as a co-op," he said.

Christianson, quoting business consultant Danny Cox, summarized the process of launching successful value-added enterprises: "dream, study, plan, take action." ■

where, an elevator and two miles of sidetrack are under construction at Highmore, N.D., and should be ready for the fall harvest season. The unit-train facility will be served by the Dakota, Minnesota and Eastern Railroad. CHS Cooperatives and the local Farmers Union Co-op elevators at Kennebec, Reliance and Chamberlain are participating in the project.

Fla. timber co-op formed; poplars focus of Minn. co-op

A handful of small timberland owners in Florida have formed a cooperative to help cope with a depressed timber market. Similarly, a small farmer cooperative in west-central Minnesota is looking to make hybrid poplar trees part of its members' cash crop mix.

In Florida, trees on co-op members' land were dying, rotting and being infested by the southern pine beetle. Five members signed a contract with Harrington Logging Inc., of Brewton, Ala., and sold timber from 142 acres in Oskaloosa and Walton Counties. Extension agents in the two counties even pitched in to help form the cooperative. Almost immediately, landowners got 50 percent more money per ton than if each had dealt separately with the industry.

A contractual clause specifies what type of harvesting equipment will be used to ensure that the land would remain in good condition and stumps cut at specified levels. Some landowners have expressed interest in forming another cooperative. Even the timber companies are excited about the arrangement because it saves them time and travel between tracts and makes scheduling crews easier.

President Dennis Gibson of the Minnesota Agro-Forestry Co-op, Benson, Minn., is encouraging members to work on developing a market for farm-raised, hybrid poplar trees and is hoping to attract the interest of venture capitalists. That would require planting enough acres of the trees to ensure a steady supply for a prospective market. The 40-grower cooperative was formed in 1996. Members are encouraged to plant hybrid poplars as windbreaks and other conservation uses, with an eye toward eventually harvesting a profitable tree crop. On his farm, Gibson uses as mix of hybrid poplars and cottonwoods as windbreaks to reduce erosion and improve water quality. They also boost corn and soybean yields by reducing wind stress on them.

NCB income hits $12.5 million; Snyder to head NCBA board

Net income for fiscal 2001 reached $12.5 million for the National Cooperative Bank (NCB) in Washington, D.C., a credit source for many of the nation's non-agricultural cooperatives, President Charles Snyder reported at the bank's most recent annual meeting. The bank's total capital hit $344.7 million and net assets reached $1.1 billion. The bank is owned by 1,841 borrower-cooperatives throughout the nation.

Charles Snyder

The bank bestowed its Stanley W. Dreyer Spirit of Cooperation award to the National Cooperative Business Association's (NCBA) dot-Coop team for its efforts to propose, develop and launch the new .coop top-level Internet domain. Only cooperatives and cooperative support organizations are eligible to register names under .coop. "Dot Coop will identify and unify us as cooperatives on the

Heavy dept pulls Farmland into Chapter 11 *continued from page 11*

purchased SF Services in 1998.

An 11th-hour buyout bid for Farmland's meat business by Smithfield Foods Inc., the world's largest hog producer and pork processor, was declined by the cooperative's board. Farmland rejected the offer after receiving $306 million of debtor-in-possession financing from its lending syndicate headed by Deutsche Bank AG and including CoBank, Bankers Trust Co. and Rabobank. Sen. Charles Grassley of Iowa has since said he opposed any deal between the firms out of concern for too much concentration in the meatpacking industry.

Farmland's refrigerated foods unit, which includes its beef and pork business, generated sales of almost $4.75 billion in 2001. Its fresh meat operations are the fifth largest in the nation. Rather than focusing on owning livestock, Farmland has been developing branded meat products including case-ready offerings for supermarkets.

Farmland is also attempting to sell its petroleum refinery at Coffeyville, Kan. After a 5-week shutdown for repairs and improvements, the refinery came back on stream for the spring season. The regional cooperative's bankruptcy petition is expected to have little effect on operations of its local cooperative owners. If Farmland's stock is devalued, the locals could write them off for tax benefit in the current fiscal year.

Harry Fehrenbacher, Illinois farmer and Farmland chairman, earlier this year told a Farmland Systems Conference in Scottsdale, Ariz., that the cooperative was changing from a commodity-based farm supply business with huge cycles and small margins to a more stable, high-margin foods business, although "the transition is not complete as evidenced by financial results of the past few years." He said,"We must position it (Farmland) to generate a return on your equity investment...including the foods business."

Terry indicated the cooperative's strong brand equity, leadership in the meat business, $2 billion asset base and support of its 1,700 local cooperatives and their 600,000 farmer-owners would help the cooperative emerge as a stronger company. ■

Internet and around the globe," Snyder said. "It weaves together cooperation and the communities we serve."

Snyder's bank was one of the founding members of dotCoop. He was subsequently elected chairman of the NCBA board, succeeding Pete Crear. The bank has registered more than 200 dotCoop addresses by 82 affiliated cooperatives and recently revamped NCB's Web site and launched it under the new address: www.ncb.coop. "For NCBA members, cooperatives and communities nationwide, we have a special opportunity to combine our forces to reach NCBA's bold goal of creating a strong, distinct cooperative sector."

Kansas fetes Gwin, Williams

Two inductees, Francis "Fritz" Gwin and James Williams, have joined the Kansas Cooperative Hall of Fame. Gwin was manager of Farmway Co-op in Beloit and also served as chairman of the board of Farmland Industries. Williams, retired president of the Wichita Bank for Cooperatives, devoted 27 years to providing credit services to agricultural cooperatives while serving on the board of directors of numerous regional and national cooperative organizations.

Extended courting pays off

It took 18 months of courting to ice the deal, but New Vision Co-op at Worthington in southwest Minnesota recently shipped 75 railcars of soybeans—about 270,000 bushels—to an oilseed crushing company in Jalisco (near Guadalajara), Mexico. An agricultural merchandising firm that represents about 200 cooperatives in the Upper Midwest helped arrange the sale. The shipment marked the first direct sale by Minnesota farmers to a foreign customer under a state program promoting exports.

Talks are underway for the sale of more soybeans and possibly corn. While the $1 million sale was big for the cooperative, it was a small part of the state's annual total exports of $681 million in soybeans and soybean products. Almost 2 years ago, Gov. Jesse Ventura headed a trade mission to Mexico and mutual visits followed by Minnesota farmers and state agricultural officials from Mexico. ative sector," Snyder said.

Illinois sheep co-op launched

Sheep producers in Illinois have decided to pool their resources in an effort to make more money through Illinois Value-Added Wool Producers Inc. The state's 2,400 producers operate small flocks and the grade of wool is not the best. So the cooperative is exploring value-added products, such as stadium blankets with the colors and logos of Illinois colleges and universities and bio-filters for hog confinement facilities. Currently, the price of wool in that area does not even cover the cost of shearing. The cooperative is designed to link sheep producers with each other and final alternative markets for the state's wool supply.

Unstable farm markets *continued from page 29*

The Texas Cattle Feeders Association (which covers Texas, Oklahoma and New Mexico) first floated the idea of forming a cattle marketing co-op in about 1986, but it died for lack of enthusiasm. "It came up again in 1992, and failed by a smaller margin," Hitch said. "Then it came up again in 1997, but still didn't have quite have the critical mass to go forward."

In 2000, Hitch—whose family feeds about 300,000 cattle in Oklahoma and Kansas—was chairing the Texas Cattle Feeders Association when his board told him the time was right to form a marketing co-op to try to earn more for their members. The idea was that instead of independent feedlots each selling separately to packers, and being worked against each other, they would commit cattle to a co-op that would sell to packers on their behalf.

Formed in April 2000, the co-op recruited its first members in May 2000, enrolled 2.1 million cattle and "closed the books" on membership by October of 2000. "That is a significant number of cattle—twice the size of the largest independent cattle feeder in the nation," Hitch said. In March 2001, Consolidated sold its first cattle.

Since then it has sold 60 percent of the cattle submitted by its members. Cash sales have accounted for 39 percent of sales, premium-grid sales 39 percent and in-the-beef (or carcass weight) sales the other 22 percent. "I wish we had more negotiated grid sales—I think we need to get away from the cash market," he said. Consolidated members have netted $8 per head more than on the cash market.

"So yes, Consolidated Beef has achieved some success, but it is not as successful as it needs to be," he said. Hitch noted that the co-op had a small loss of $160,000 the first year (against cash reserves of $2 million).

"It's been a tough, tough time for cattle sellers," Hitch said. "There's too little packing plant capacity and too many cattle to sell. That does not give you much traction as a seller."

Again, about that pot roast. Now the industry is offering consumers a good-tasting roast that is mircowavable in seven minutes and has potatoes and carrots with it, Hitch said.

"When you brand your product, there is huge incentive to line up a consistent supply of the right kind of product to make your brand successful. And that's where I want Consolidated Beef to fit in. I want the packer to make more money," he said, but he also wants his members to make more money "by making Consolidated Beef the supplier of choice for a packer/retailer/branded program that provides the right kind of cattle at the right plant at the right time to make the program work. We are not there yet, but that's where we are headed." ■

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