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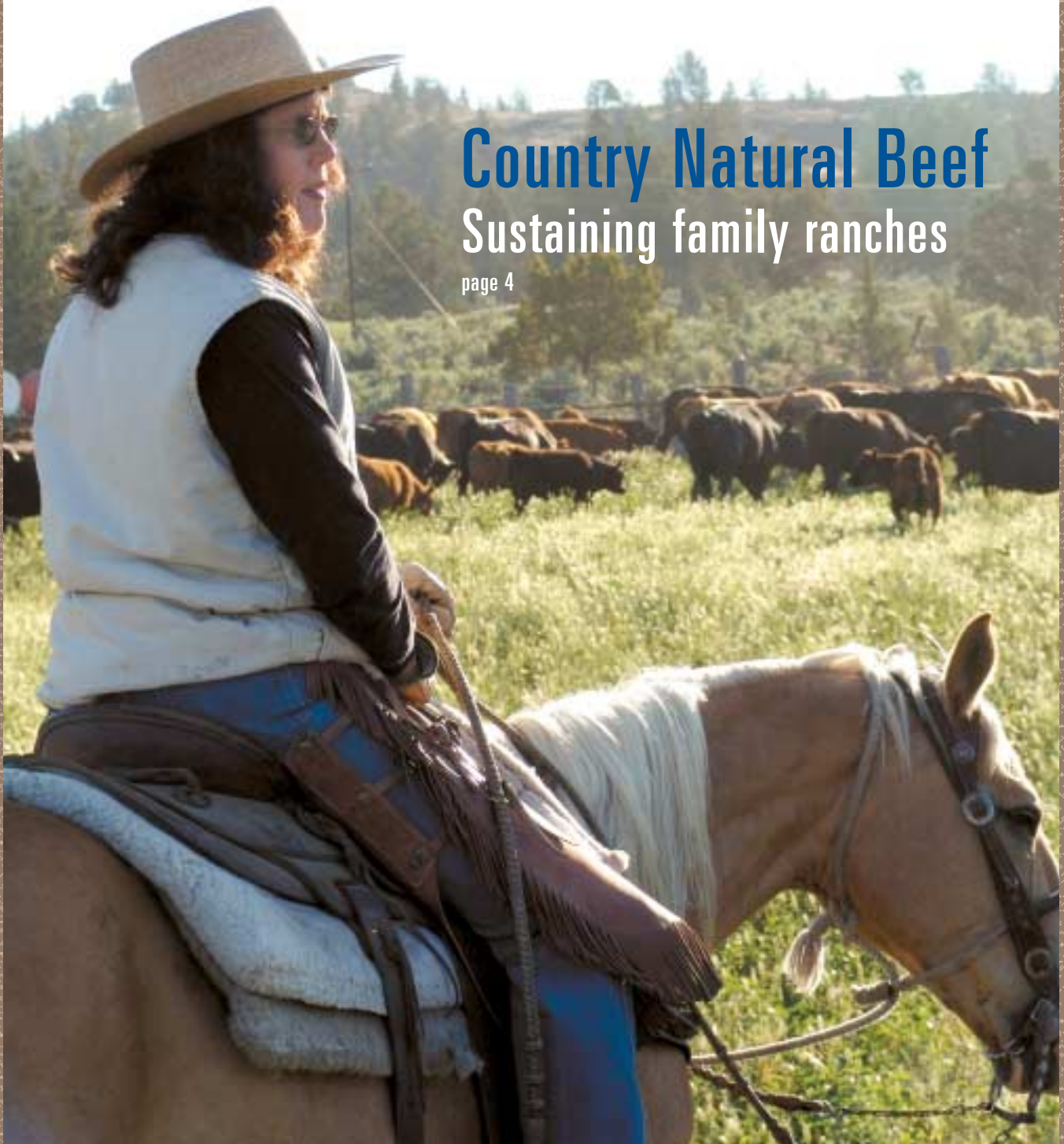
# Rural COOPERATIVES

USDA / Rural Development

July/August 2006

## Country Natural Beef Sustaining family ranches

page 4



## The Third Way

Summertime, and the grilling is easy. Barbecue season usually boosts both beef sales nationally and spirits in cattle country. As such, it is fitting that our cover story this month is on the Country Natural Beef cooperative, which has grown steadily from small roots in Oregon to become a rising force in the natural beef market. Its success is a good reminder that adding value to members' livestock or crops does not necessarily mean having to build a processing plant.

There are three basic approaches to launching an agricultural marketing cooperative:

1. Organize producers to invest in a plant to process their crops or livestock into a value-added food or other product. Examples of this approach are the producer-owned biofuels plants being formed all across the nation.
2. A new or existing co-op can buy an investor-owned company and convert it to producer ownership. Examples of this approach include the Iowa Turkey Cooperative/West Liberty Foods and American Crystal Sugar Co.
3. A producer group can contract with a third party to custom process its product on a cost-plus basis. The co-op then markets the product under its own brand (as Organic Valley has done so successfully) or in the private label or generic markets.

This third approach can be prudent where only razor-thin margins can be derived from processing, and where there are processors with extra capacity looking to maximize their plant operations. Such an arrangement can allow the co-op to concentrate on marketing and building its brand. And, of course, in some cases, these co-ops may eventually choose to build or purchase their own plant.

Twenty years ago, with ranchers all over Oregon staring bankruptcy in the face, 14 families decided to pursue the third way, forming a co-op without bricks and mortar to pursue a niche market for lean, natural beef. It started with just a few thousand head per year, but the co-op now markets more than 40,000 head annually. Sales are growing an average of



16 percent annually and the co-op is expanding east of the Rocky Mountains.

CNB doesn't own a feedyard, processing plant or even a business office. But it does own an ever-increasing slice of the natural beef market.

Equally impressive is CNB's commitment to promoting land stewardship and its determination to play a vital part in helping keep more family ranches in operation. Indeed, talking to Brothers, Ore., rancher Connie Hatfield, you get the impression that there is nothing she is prouder of than the fact that the co-op has helped bring a number of young families back to ranching who — were it not for the stable pricing and marketing of the co-op — probably would have left ranching behind.

### Renewable energy conference slated

Those with an interest in renewable energy should mark their calendar for Oct. 10-12, when USDA and the U.S. Department of Energy will be sponsoring a major conference on that topic in St. Louis. The nation's leading experts on biomass, wind and solar energy will be there to share ideas that will help direct the future growth of these rapidly evolving industries. See page 26 for more details.

Renewable energy is also the focus of Co-op Development Action (page 18), a new magazine department that will provide highlights of activities being supported by the nation's network of Cooperative Development Centers. The Centers receive funding through the Rural Cooperative Development Grant program, administered by USDA Rural Development to help keep the wheels of business innovation turning in rural America.

— Dan Campbell, editor ■

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## FEATURES



p. 4

- 4** *The Natural*  
"Brickless" marketing co-op helps ranchers tap market for natural beef

By Dan Campbell



p. 10

- 10** *Summit focuses on common challenges facing all co-op sectors*

- 14** *Carving a Niche*

Arctic co-ops serve as midwife to birth of Inuit art

By Kathy M'Closkey



p. 14

- 20** *USDA/co-op partnership aids producer quest for market power*

By James Baarda



p. 20

- 24** *On & Off the Top 100*

25 years of tracking the largest ag co-ops

By Bruce Reynolds, David Chesnick

## DEPARTMENTS

- 2** COMMENTARY  
**13** LEGAL CORNER  
**18** CO-OP DEVELOPMENT ACTION  
**26** NEWSLINE  
**33** PAGE FROM THE PAST  
**35** INSIDE RURAL DEVELOPMENT  
**36** NEW CO-OP PUBLICATIONS

### On the Cover:

Mary Forman, a CPA who is equally adept at balancing books or rounding up cattle on her family's Oregon ranch, relaxes after a cattle drive. The Formans are founder-members of Country Natural Beef, dedicated to sustaining healthy rangeland and family ranches. See story, page 4. USDA Photo by Dan Campbell



# The Natural

*“Brickless” marketing co-op helps ranchers tap growing market for lean, natural beef*

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By Dan Campbell, editor

**P**eering out from under the brim of his straw cowboy hat, Lowell Forman looks as if he would be right at home belly up to the bar of the Long Branch Saloon, shooting the breeze with Matt Dillon and Miss Kitty. But the Antelope, Ore., rancher is serving, not drinking, as he hits the switch to start the pump that fills a 1,500-gallon water trough in the hilly rangeland of north-central Oregon. The sound of the pump and running water soon attracts a file of thirsty red angus-mix heifers, part of a herd of 450 cattle that graze a 20,000-acre ranch he and his wife, Mary, operate about three hours east of Portland.



The range grass is still green in mid-June, but it won't be for long. "Within a couple of weeks, it will all fade to dry brown," says Forman as he scans the horizon of the ranch that four generations of his family (sons Spencer and Floyd, currently away at college, will be the fifth generation if they choose to ranch) have worked through hot, arid summers and frigid winters. When the range dries out, the cattle will have to roam over ever-greater areas of the ranch to get the forage they need — typically 50 acres per head.

"This was all sheep and horse country until after World War II," Forman says, as he aims his pickup truck for home. A large coyote eyes him warily before darting into the brush as the truck crests a hill.

Early the next morning, Mary and Lowell saddle up their quarter horses and form a quick game plan for driving 120 pairs into the corrals around their barn. The Formans obviously know the cowboy trade, making short work of it as they deftly zigzag their horses in and around the cattle, working them ever for-

ward. Mary veers off onto one of the flanks to bring in some strays as Lowell continues to drive the main herd down into a small creek gully, then up a slope and into the corrals.

And so ranch life goes as the Formans move cattle from one part of the ranch to another to keep them fed and watered. In winter, when the range alone can no longer support the herd, supplemental hay will be provided. In July and August, 18-month-old steers will be rounded up one final time and trucked to the feedlot for finishing.

The process is repeated on tens of thousands of ranches all over the western United States every year. But from

this point forward, the process will take a decidedly different twist, due to the Formans' membership in the Country Natural Beef cooperative.

### Co-op without bricks or mortar

Most ranchers sell their cattle upon arrival at the feedlot or just after finishing, but co-op members retain ownership through the feedlot and processing (technically, they sell their cattle to the processor, then buy the boxed beef back). They maintain ownership until their beef is sold to retailers.

The Formans are among the 76 ranch families (93 counting transitional members awaiting full membership status) in eight western states and Hawaii who have banded together under the umbrella of the Country Natural Beef (CNB) cooperative. The co-op formerly did business as Oregon Country Beef prior to its expansion into other states. CNB has grown slowly, but steadily, in the 20 years since it was founded by 14 family ranches and as the reputation of its natural beef has attracted a cadre of loyal customers.

CNB is a cooperative without bricks or mortar.

"We own zero net assets and have zero net liabilities," Lowell says. It is strictly a marketing cooperative, without employees. The functions of production, feeding, marketing and finance are performed by teams headed up by individual CNB ranchers. These "internal partners" have their own employees and are responsible for their area of expertise. In the beginning, everyone volunteered their time and talent, but these ranchers are now compensated for their efforts. Mary, a CPA, heads the finance office from a house on the ranch near Antelope. The co-op's sales now top \$40 million annually, and are growing about 16 percent each year. Last year, the co-op shipped more than 40,000 head to market.



Lowell Forman (facing page) says that the traceability of CNB beef is another factor that has gained customers for the co-op. Lowell and Mary Forman (above) discuss the day's plan of action, then mount up and drive home a herd of about 120 cattle pairs (top).

USDA photos by Dan Campbell

The co-op is currently expanding east into Colorado, Texas and New Mexico, due in part to the urging of its largest customer, Whole Foods, a growing, up-scale grocery chain that attracts a demanding, health-conscious clientele.

Lowell tips his Stetson to Doc and Connie Hatfield of Brothers, Ore., for having the foresight and energy to initialize the formation of the co-op in the mid-1980s (see sidebar, below). At that time, yearling calves were fetching only

a bankruptcy-inducing 65 cents a pound. One major goal of the co-op was to help level out the beef-market rollercoaster — which sees prices soar one year, only to plunge the next — by pricing their beef at an amount that covers a member's cost of operation, a return on investment and a reasonable profit.

In 1986, the co-op picked three ranches to use as a baseline to determine average cost of production. That baseline is updated every year to reflect current market conditions. This prac-

tice also provides stable pricing for CNB customers. Unlike most beef marketers, CNB does not sell based on weekly price sheets.

Members are paid in five installments, which begin to flow back to them from time cattle arrive at the feedlot. At the finishing feedyard, each program animal gets a pre-numbered, CNB ear tag which identifies it through the packing house. This provides a record that enables the co-op to trace beef back to its source.

## Meeting the Argentine challenge

There is no mystery as to what conditions sparked the creation of the Country Natural Beef cooperative. "We were all going broke in 1986 selling beef into the commodity market!" recalls Connie Hatfield, who along with her husband, Doc, runs a herd of 400 mother cows on 28,000 acres. (Like most co-op members, their ranch includes both land they own and lease from the Bureau of Land Management). The nearest town is the tiny hamlet of Brothers, Ore. — "one of those 'blink and you missed it towns,'" says Connie.

Here as elsewhere, the mid-1980s were the worst period for agriculture since the Great Depression of the 1930s, she says. Over-production, plummeting land values and soaring interest rates took a heavy toll on farms and ranches all across Oregon.

To make matters worse, beef in the 1980s was a whipping boy for dieticians and food faddists. "All you heard in the media at that time was 'don't eat red meat,' and that ranchers and farmers were raping the land," Hatfield says.

She got the co-op ball rolling after a visit to a health and fitness club in Bend, Ore. "At that time, it was the only health club in town; now there are about eight," she says.

She asked the fitness trainer his opinion on eating red meat. "He said he recommend all his clients eat beef at least three times a week." This was music to Connie's ears, but she crashed back to earth a minute later when he added, "But we have so darn much trouble getting beef from Argentina here in Bend."

When pressed as to why he preferred Argentine beef, he said it was because they raised beef without antibiotics or

*"Country Natural Beef is an idea that needs to be constantly examined, not an entity that can be bought and sold."*



*Co-op member Doc Hatfield prepares samples of CNB beef during an in-store promotion. These events help ranchers learn what customers and retailers want. Photo courtesy CNB*

growth hormones and it was "short fed," meaning it spent less time on the feedlot, making for leaner meat.

"He had no idea we were raising beef that way just 50 miles away from his club," Hatfield says. "It was our own fault. We had a great product, but we didn't market it. We just sold our calves to buyers when they came around, and then we whined about the prices they paid us."

Soon thereafter, the Hatfields organized a meeting with about 34 other Oregon ranchers and invited the health club director over to talk about beef. After that, 14 of the ranch families agreed to form CNB to pursue the lean-beef market.

One of the first tasks of the new co-op was to draft an organizational goal, which reads in part: "Marketing is consumer driven. Our goal is to provide a sustainable means

through a group to profitably market quality beef ...while retaining every possible bit of independence." It goes on to say that the co-op will be producer controlled and contain administrative costs to a bare minimum, while costs of operation come from a percentage of producer's revenue. It concludes: "Country Natural Beef is an idea that needs to be constantly examined, not an entity that can be bought and sold." ■

## Ranchers meet consumers during in-store promos

All members of the Country Natural Beef cooperative do at least one in-store promotion each year, where they meet and greet their buying public. Members usually cook beef, hand out samples and recipes while answering questions. The in-store promo days allow co-op members to hear firsthand what consumers are looking for in beef.

The “in-stores” also help ranchers see the market through the retailers’ eyes.

Connie Hatfield says in-store promo days provide members with a tremendous boost in morale. “The in-stores have helped to give us back the pride we had lost back in the 1980s when the cattle and beef industry was under constant attack. When we meet the customers, we always make a point of thanking them for buying our beef and telling them they are helping to keep family-owned ranches in business.

“Many times the customers will give you a hug and thank you right back, saying how much they appreciate the beef products we are producing. Sometimes they can get emotional, relating their memories of their grandparents’ farm or ranch and how they miss it. You are never the same when

you go home after those kinds of exchanges.”

## “Natural” not for all ranchers

The “natural” label has been misused and abused by many, Lowell notes. USDA stipulates that a product that contains no artificial ingredient or added color and is only minimally processed — in a way that does not fundamentally alter the raw product — may be labeled “natural.”

For CNB, “natural” also means strictly following a low-input method of production and adopting a philosophy of careful land stewardship. All members sign affidavits promising to raise cattle without the use of antibiotics, growth hormone implants or feed additives that promote forage conversion.

They also must adhere to the co-op’s land ethic, which means never overgrazing and managing limited water resources to maintain grass and plant diversity and healthy streams. “We basically strive to leave the land in better shape than we found it,” says Lowell.

To ensure enforcement of these standards, CNB contracts with the Food Alliance to do third-party verification.

“This approach to ranching does not appeal to everyone,” Lowell notes. “That’s fine; we don’t want to commod-

ify our product. There are plenty of ranchers who are interested in raising cattle the way we require and belonging to a co-op that requires members be active participants in it.”

When asked if the co-op has considered going organic, Mary Forman responds that it just wouldn’t be practical for operations that often cover 20,000 acres or more, such as hers. “Organic means that every bite of feed an animal ever consumes should be classified as organic. Can you imagine qualifying a million acres of range? If we can’t guarantee it, we don’t even suggest it,” she says.

The only way for CNB members to guarantee that all feed source is organic would be to confine animals and feed them only forage or grain from certified organic sources. “We are striving for sustainable range land, families and communities and we cannot reach our goal by being organic,” Mary says.

## Sponsorship required for membership

New members have to be sponsored by an existing member, and then go through a two-year trial membership before they become full members of the co-op.

Member ranches range in size from a Wyoming ranch with 12,000 cows to



*Lowell Forman rounds up some stragglers. Managing limited water resources to maintain plant diversity and healthy streams is part of the co-op’s land ethic.*



## Country Natural Beef's principles:

From its formation, CNB has used these principles as its guiding light:

- Providing humane care for our livestock, native plants and wildlife is a first priority;
- Healthy land is biologically diverse;
- Land management decisions are based on long-term health rather than short-term gain;
- We never use growth-stimulating hormones, feed additive antibiotics, genetically modified grains or animal byproduct feeds;
- By grazing thoughtfully, we benefit not only the land and its ranching families, but society as well. ■

one long-time member with only 60 cows. Marketing "slots" are allocated to members, determining the dates when they must ship their cattle to the feedlot. Once a member has slots assigned, they cannot be bumped out of them.

Jim and Maria McNamee, who manage 550 mother cows near Maupin, Ore., became full members in December 2005. They can't be accused of making a snap decision to join. Jim, Mary Forman's brother, has been watching the co-op grow and prosper for 20 years and Maria has worked in the CNB finance office for 12 of those years. They were invited to join in the spring of 2003 when the need for cattle was growing.

"We joined in a year of what turned out to be record-high prices for generic beef," Jim says with a laugh. Still, he has no doubt that he'll do better most years by being a member of the co-op. "I like the idea that we will have more control over our own destiny by marketing through the co-op," Jim says.

"The biggest change means that now

if we treat an animal with antibiotics, it cannot be marketed with our co-op cattle," Jim says. But it can still be raised and sold outside of the co-op for generic beef.

### Every member a director

Every member of the co-op is also a board member. Participation in a weekly conference call every Wednesday morning is encouraged. Attendance at their two annual membership meetings each year is required, as is participation in an event involving customers or consumers.

During the conference calls, members hear reports on which ranches shipped cattle for processing the prior week. They also get updates on sales and promotions, freight and feedlot costs, etc. Team leaders for the marketing, finance, environmental and production committees also hold weekly conference calls.

Will this policy of having every co-op member also serve as a director still be feasible as the co-op passes the 100-member mark? "We frequently have that discussion: are we getting too big to operate this way?" says Hatfield. "We've decided to keep doing business this way until it becomes impractical; so far, it is working just fine." Indeed, it is a strength of the co-op, she says, adding that "we'll know when it's time to change."

### Shorter time on feed

All CNB cattle are processed at AB Foods in Toppenish, Wash. However, with the co-op expanding membership to the east side of the Rocky Mountains, use of a second feedlot and processing plant (probably in Colorado or Texas) is being considered to cut down on trucking costs to the Northwest.

All CNB cattle are fed at Beef Northwest Feeders in Boardman, Ore., where feedlot owner John Wilson is also a member of a CNB family ranch. The working partnership with Beef Northwest is important, because not only does it have to provide space for 12,000-15,000 head at any one time, it also must segregate the co-op cattle and



*Jim and Maria McNamee, with daughters Lisa and Kate, recently completed their two-year trial membership and are now full co-op members.*

provide a special feed truck and other special care.

"We constantly collaborate with the ranchers on animal handling, health and nutrition," says Wilson. "Beef Northwest Feeders essentially acts as a partner in a vertically integrated extension for CNB."

Because CNB customers want lean beef and smaller cuts, its cattle stay on feed an average of only 92-94 days, as opposed to the industry average of 120-140 days. CNB carcasses typically are about 600 to 700 pounds in an industry where 1,000-pound carcasses are the norm.

"Ideally, we feed to produce a carcass that will yield 40 percent Choice and 60 percent Select beef," Lowell says. Since Select beef is leaner, it is a bit more challenging to cook properly. But for health-conscious consumers looking for smaller, leaner cuts of beef, that's a small price to pay. Indeed, a primary reason the co-op was launched was to recapture consumers who had stopped eating beef on a regular basis (see sidebar).

"Working with Whole Foods, we are creating a strong, consistent market for our shorter-fed beef," Lowell says. Whole Foods currently buys about 60 percent of the co-op's beef.

“We believe their high-quality feed, less stress and better living conditions lead to a more tender cut of meat and a better flavor,” says Jim Thomas, meat associate coordinator for Whole Food Market’s Northern Pacific Region.

Other major buyers include more than 100 restaurants, New Seasons natural food stores in Portland, Bon Apatite (which supplies colleges and hospitals), and Burgerville, a Northwest burger chain that prepares burgers only with fresh beef.

#### **A community of shared values**

Marge McClaran, an 80-year-old CNB member from Joseph, Ore., says that rural America is changing in such a way that she often feels as if “we are losing our community of place.” She cites the closure of her community’s local school and livestock auction yard as examples of this trend. But when she gets together with the rest of the co-op members for CNB annual meetings, she feels as if this community of place has

been replaced by something even better: “a community of shared values.”

As further evidence of the favorable impact the co-op is having, young people who once had little or no intention of returning to their family ranch after college are now coming back home to continue the family tradition as cattle producers. Hatfield says the co-op has been credited for helping to attract 11 young families back to ranches. Her own daughter, Becky, married into the Hyde family, CNB ranchers who own the Yamsi Ranch near Chiloquin, Ore.

“At our last co-op meeting, we had more than 200 in attendance, and there

were 25 children under the age of five,” Hatfield notes. The co-op arranges for babysitters at these meetings so that parents can fully participate in the business sessions. Connie has insisted on offering this service, recalling that when she was a young mother, how frustrating it was for her to have to miss business sessions so that she could care for her young children. “I always swore that if I ever got in a position to do something about it, I would work to arrange things so the wives could fully participate.”

“We hope our business model spreads,” she continues. “We’re helping to sustain family ranches and doing it by producing a product that is bringing more people back to beef. I’m sure it can be replicated by others. We would give our right arm if sharing information about what we’ve done can help others do something similar. It is our hope that 100 years from now, families will still be raising cattle on these ranches.” ■

*“It is our hope that 100 years from now, families will still be raising cattle on these ranches.”*



# Summit focuses on common challenges, opportunities facing all co-op sectors



here is Teddy Roosevelt when America needs him? Glenn English, CEO of the National Rural Electric

Cooperative Association (NRECA), raised this question during an address that was one of the highlights of the first National Cooperative Summit, held May 3 in Washington, D.C.

Roosevelt — the nation’s monopoly-busting president — would doubtless be sorely aggrieved if he returned now to see how business power has been concentrated into fewer and fewer corporate hands. This makes the role of cooperatives more important than ever, English noted. Three decades of corporate mergers and deregulation have resulted in the rise of a new class of robber barons in some industries, he said.

In the 1970s, there were more than 60 railroads competing with each other. Then deregulation began, and today there are but four national railroads, English said. This has impacted rural utilities by contributing to soaring prices for coal.

“What would Teddy Roosevelt have to say? This nation needs a good dose of Teddy Roosevelt!” said English, adding that NRECA has engaged in a nine-year struggle on energy legislation needed to help address some marketplace imbalances. NRECA’s 900-plus member co-ops provide electricity to 39 million people and are growing at twice the rate of investor-owned utilities, English said.

“Some say co-ops should evolve into hybrid businesses, combining elements of co-ops and investor-owned businesses. Others urge members to cash-in [selling or converting their co-ops], sacrificing the good of the membership for personal gain,” he continued, sounding highly skeptical of such moves. Instead, co-ops need to recruit managers who are “true believers in co-op principles,” English said.

“Co-ops represent the ultimate in self-reliance; they let people do for themselves,” he said. But new tools must be developed to carry co-op ideas and principles to millions more people in America and around the world. Co-ops are different from other businesses because they have “heart and soul,” English continued, and they are committed to the concept of providing service to their communities (the seventh co-op principle).

English saluted the National Cooperative Business Association (NCBA) for hosting the Co-op Summit, calling NCBA “the keeper of the flame for the co-op movement.”

## Summit’s cross-sector focus

The Co-op Summit brought together



Identification badge ribbons await pickup at the conference registration desk. The Co-op Summit attracted 300 co-op leaders from around the world. Photos courtesy NCBA

er 300 national cooperative leaders for a day-long series of seminars on topics ranging from strategies for fighting co-op conversions to ways of improving cooperative identification with consumers.

Some saw the summit as a first step toward developing a cross-sector co-op agenda to address common needs and to begin flexing more co-op political muscle, which has never been commensurate with the impact co-ops have on the national economy.

The Summit also had an international flavor. More than 20 representatives of the International Cooperative Association attended the Summit, and Dame Pauline Green, CEO of Co-operatives UK, the United Kingdom’s largest consumer cooperative, was a featured plenary session speaker. She discussed efforts to develop a common co-

op “master brand” for the cooperative, which includes various types of businesses, including food and drug stores.

Green explained that the pilot program in the U.K. was aimed at creating a consistent co-op identity around a common logo and slogan. Overall, she said, the pilot projects have been successful, boosting sales and customers and increasing the profile of the co-op stores. It is now up to U.K. co-ops to decide whether to adopt the brand permanently.

Subsequent events have proven that food, pharmacy and travel stores all outperformed control groups and brand standards improved across the board. As a result, The Co-operative Group has decided to roll out the new

identity campaign across more than 3,400 outlets across the United Kingdom. Many other U.K. cooperatives are also adopting the common brand.

Other featured speakers included Wisconsin Sen. Herb Kohl and Deputy Agriculture Secretary Charles F. “Chuck” Conner. Kohl hailed cooperatives as “the good news in American business” while Conner said without co-ops “rural America would not be what it is today.”

### **Conner: co-op identity runs deep in rural America**

Pinch hitting for Agriculture Secretary Mike Johanns, who was called away to crucial trade talks in Geneva, Switzerland, at the last minute, Conner noted that the Summit coincided with an important anniversary. “USDA and rural cooperatives are celebrating the 80th anniversary of a great partnership: the Co-op Marketing Act, which became law in 1926 and mandates that USDA operate a co-op program.” Conner noted that some have suggested the Act be updated to expand the mission to include all types of co-ops — an



*The summit ended with a panel discussion that included (from left): Sheldon Petersen, CEO, National Rural Utilities Co-op Finance Corporation; Stephen Caruso, CEO, Florida's Natural Growers Co-op; Paul Hazen, NCBA president; Alfred Plamann, CEO, Unified Western Grocers; Charles Snyder, president, National Co-op Bank.*

idea that was popular with many of the non-ag co-ops at the summit.

“Those of us who grew up in farm country learned early on the value of co-ops,” Conner said. “We got our electricity from the REC, our phone service from a rural telco, and did our farm business down at the co-op. The identification of co-ops with rural America runs deep,” even extending to the White House, he said.

“President Bush himself gets his electricity down at the ranch from a rural electric co-op,” Conner said. “He also gets his water from a USDA Rural Development-financed rural utility. You can talk co-op in the Oval Office to this President and be understood. That hasn’t always been the case in the past.”

Of course, the cooperative movement as a whole is much broader than just rural America and agriculture, Conner said, acknowledging and welcoming the non-farm and non-rural cooperatives present.

The mission of USDA Rural Development, which administers USDA’s rural business and cooperative programs, is to increase economic

opportunity and improve the quality of life in rural America. “You don’t need to be a farmer, an REC or a telecom to do business with us,” Conner said. “If you are doing any kind of business in rural America — whether it’s elder or farm worker housing, or health care, or schools or child care, or worker cooperatives in any field, or making use of our housing, community facilities and business programs — we can provide resources you can draw upon. We are eager to work with you.

“We know we can’t stand still, and neither can you. Rural America is incredibly diverse. The rural economy is highly diversified. The world is changing. Your businesses — and our mission — change with it.”

### **A better business model**

NCBA President Paul Hazen kicked off the Summit by proclaiming that U.S. co-ops “aren’t simply an alternative business model; they are a better business model.” He offered reasons why:

- Cooperatives distribute capital widely among average Americans, while stock companies make the rich richer.

- Cooperatives keep capital in the community, while stock companies export it elsewhere.
- Cooperatives exemplify the “ownership society,” while stock companies concentrate ownership among the investor class.
- Cooperative governance is open and democratic, while stock company governance is closed and easily manipulated.
- Cooperatives have both economic and social goals, while stock companies are motivated solely to make money for shareholders.

Cooperatives largely police themselves while government must provide extensive oversight and control over stock companies, Hazen said. “As long as the newspapers are full of scandals involving investor-owned companies, as long as a greedy few seek to convert co-ops for personal gain and as long as economic forces keep widening the gap between rich and poor, I’ll keep saying it. Co-ops are a better business model.”

### Co-op program deserves support

Sen. Kohl, the ranking minority member on the U.S. Senate Agriculture Appropriations Subcommittee, said cooperatives deserve greater attention from the federal government for all they do to foster economic development. He noted that co-ops serve nearly 40 percent of Americans and pump at least \$200 billion into our economy each year.

“Cooperatives are vital to our economy, and they do it with a conscience — a conscience that is centered on the notion that we get more done by working together,” Kohl said. “Yet, while investor-owned businesses can turn to the Commerce Department, and small business has the Small Business Administration, cooperatives have just one office at the Department of Agriculture, which makes it their sole business to advocate for co-ops.” He urged that a leader with strong co-op credentials be appointed to reinvigorate USDA’s Cooperative Programs office.

Kohl helped secure \$4.5 million in federal funding to establish a farmer health care cooperative pilot project in Wisconsin to increase access to affordable health benefit plans. The funding is being used to develop health care purchasing alliances for Wisconsin farmers and small businesses in the state’s rural communities.

“If this program works in Wisconsin, I see no reason why it can’t work in other parts of the country,” Kohl said. “It’s a textbook example of cooperatives offering an innovative solution to a vexing national problem.”

He also authored a bill that will result in the expenditure of \$500,000 to collect data and research on the contributions cooperatives make across our economy. That program is being overseen by USDA’s Cooperative Programs office.

The Summit concluded with a roundtable of co-op CEOs moderated by Hazen. The CEOs discussed the top issues facing U.S. co-ops today, including capital and equity needs, as well as ideas for better co-op marketing. ■

## Model co-op law examined

The continuing debate over the wisdom and need for states to enact legislation authorizing the creation of “cooperatives” with many characteristics of limited liability companies was the focus of one Summit breakout session. Donald Frederick, USDA Cooperative Programs specialist in law and policy matters, reported that four states (Wyoming, Minnesota, Iowa and Tennessee) now have such laws and a fifth (Wisconsin) was close to adopting one [it since has].

Thomas Geu, professor at the University of South Dakota School of Law, discussed the project of the National Conference of Commissioners on Uniform State Laws (NCCUSL) to draft a model statute in this area. He explained that NCCUSL is a nonprofit association of lawyers, appointed by the states, that researches, drafts and promotes enactment of uniform state laws in areas where it believes uniformity is desirable and practical.

In the summer of 2003, NCCUSL created a drafting committee to write a uniform cooperative associations law in response to the Wyoming and Minnesota laws

that were already on the books at that time. Professor Geu, who serves as the reporter (chief draftsman) for the committee, said that the committee has met each fall and spring since then. In 2005, the original scope of the project, agricultural cooperatives, was broadened to include most lines of business. NCCUSL plans to complete work on its uniform statute in the summer of 2007 and submit it to the legislatures of the states for possible enactment in their 2008 legislative sessions.

The panel concluded with a discussion of key provisions of the various pieces of legislation. Frederick explained provisions of the existing state “LLC/Cooperative” laws and questioned calling entities created under these laws “cooperatives” when a substantial portion of the ownership, control and financial rewards can be bestowed on non-patron investor-owners. Professor Geu responded by explaining how the NCCUSL draft attempts to protect patron-member interests while still creating flexibility and incentives for outsiders to provide equity capital to cooperatives. ■



# Unincorporated co-op laws proliferate

**By Donald A. Frederick**  
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**F**or over 150 years, a cooperative has been defined as a business with two unique characteristics: first, it is owned and controlled by the people who use its services, and second, earnings are returned to users (patrons) on the basis of use (patronage).

Since 2001, five states — Wyoming, Minnesota, Tennessee, Iowa and most recently Wisconsin — have enacted laws authorizing entities called “cooperatives” that permit substantial non-patron ownership, control and benefit. Each of these laws permits two classes of voting members: patron-user members and non-patron investor members. The first four state laws were major deviations from traditional cooperative principles:

- Up to 85 percent of the voting control can be allocated to non-patron investors, and
- Only 15 percent, or even less, of the earnings need be allocated to patrons on the basis of patronage.

Wisconsin has moved somewhat closer to traditional cooperative norms. Patron members must have at least 51 percent voting control of the association. And the minimum threshold for earnings allocated to patron members on the basis of patronage is 30 percent.

## LLC characteristics

While traditional cooperatives have

been corporations, entities formed under these new laws are more like limited liability companies (LLCs). This gives the organizers considerable flexibility in determining the ownership and financial interests of the members, while still providing them with protection from personal liability on a par with that given to owners of corporations, including cooperative corporations.

Because these associations are not corporations, they also have additional flexibility in handling their federal income tax obligation. They can choose to be taxed either as a partnership under Subchapter K of the Internal Revenue Code or as a corporation with the additional tax deductions provided for cooperatives under Subchapter T.

## NCCUSL's role

The National Conference of Commissioners on Uniform State laws (NCCUSL) is an association of 300 representatives (all of them attorneys) from all states, dedicated to promoting uniformity among various state laws. NCCUSL drafts model state laws and promotes their adoption by their respective state legislatures.

After the first cooperative association laws were adopted in Wyoming and Minnesota, NCCUSL named a Drafting Committee to prepare a Uniform Cooperative Association Act. While the original application of the law was limited to agricultural cooperatives, in 2005 the scope of the law was expanded to include all business activity. NCCUSL is currently considering one or more specific exceptions to the scope of its law. The new Wisconsin statute is

specifically not available to groups organizing a cooperative to supply “natural gas, heat, light, power or water to its members.”

The Drafting Committee expects to present its finished product to the full NCCUSL membership for approval at the group's annual meeting in the summer of 2007. If the model law is approved, the NCCUSL Commissioners will begin working to have it enacted by their states beginning with the 2008 legislative session. So this may well be a political issue in the coming years in many states that have not considered it up to now.

## Implications for existing co-ops

The new laws are an alternative to, not a replacement for, existing state cooperative incorporation laws. So, if your state enacts such a law, it will have no impact on the structure or legal rights and responsibilities of existing cooperatives at the state or local level.

Also, changes in state law do not usually alter federal rights and obligations. For example, if an agricultural marketing association decides to permit non-patron memberships, it will simply not qualify for the limited antitrust protection provided producer associations under the Capper-Volstead Act. Nor will it be covered by statutory and administrative exemptions from the registration and prospectus requirements of the Securities Act of 1933.

But will less reliance on Subchapter T by “cooperatives” weaken support on Capitol Hill? Will clouding the picture of what is a “cooperative” weaken support for Capper-Volstead and other favorable laws? Only time will tell. ■

# Carving a Niche

*Arctic cooperatives serve as midwife to birth of Inuit art*

**By Kathy M'Closkey, PhD**

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**O**ne of the great “cultural miracles” of the 20th century occurred when the world discovered the beauty of art produced by the native Inuit people of Canada’s Arctic regions. This process,

which began in the 1950s, was chronicled by Nelson Graburn, an anthropologist at the University of California at Berkeley, in a series of articles published during a 40-year period (1967-2004), in which he described the spectacular rise of Inuit art and its reception internationally.

This article draws on Graburn’s writings as it examines how the cooperative business structure helped Inuit communities that were spread across the broad expanse of northern Canada to combine forces and tap international art markets, generating desperately needed revenue for their people. A half century later, these artisan-owned businesses remain a vital cog of the region’s economy.

## **Fur market collapse necessitates change**

The shift to trapping animals such as white fox, which occurred at the end of the 19th century, was a short-lived financial success for many Inuit. After the collapse of the fur market in the late 1940s — due to competition from Russia, fur farms and synthetics — the Canadian government expanded its presence in the North to affirm its sovereignty and administer welfare. Until World



War II, the typical Inuit winter settlement consisted of a Hudson Bay Company (HBC) store, a Royal Canadian Mounted Police (RCMP) post, Anglican and Roman Catholic churches and a few Inuit households whose members were employed by the non-Inuit institutions.

Dozens of small satellite camps near favorable hunting, fishing or trapping sites were spread out over a vast region.



Inuit only congregated near the permanent settlements during the summer to trade, socialize or to find temporary employment unloading supply ships. The Inuit population hovered around 11,000, with 500 non-Inuit. About 60 per-

cent of Inuit livelihood was derived from government subsidy.

Small carvings of bone, ivory or stone had played a peripheral role in trading activity with both whaling crews and the HBC. The government encouraged production of souvenirs to alleviate welfare payments and provided the HBC with credit to buy crafts.

After World War II, the federal government moved into the north on a massive scale. The Cold War prompted development of the Distant Early Warning (DEW) line. National and international political events forced the Canadian federal government to take more direct responsibility for its northernmost residents. Day schools and nursing stations were built alongside housing for southerners.

In 1948, painter James Houston journeyed north and serendipitously discovered the souvenirs carved by Port Harrison (now Inujjuaq) Inuit. Captivated by their charm, he brought them to the Canadian Handicraft Guild upon his return to Montreal. When Houston returned north in 1949, he purchased 300 carvings for \$5 each. These sold quickly at a Guild-sponsored event.

Houston returned to the Arctic, backed with \$8,000 provided by the Northwest Territories Council. Although 20,000 carvings sold within three years, such rapid success nearly capsized the project. By Christmas 1952, the shipment was far too large for the Guild to handle.

Houston contacted Eugene Power, a long-time friend and successful businessman from

Ann Arbor, Mich. Power purchased the entire output for \$15,000 and formed Eskimo Art Inc., a nonprofit corporation that garnered exclusive importing rights into the United States. He then sold many of the sculptures through his influential connections. Throughout the 1950s, the HBC also purchased carvings, but when inventories failed to move, it stopped buying.

whereas the government of the Northwest Territories (NWT) formed Canadian Arctic Producers (CAP) in 1965 with non-Inuit management. By the mid-1970s, CAP wholesaled sculptures, fine arts and crafts to over 700 dealers in 11 countries. Building on the Canadian Guild of Crafts, CAP set and maintained standards including cultivating an elite clientele.



### The birth of Inuit art

Although off to a rocky start, within a decade of Houston's inaugural trek north, Inuit carving was transformed into a multi-million-dollar enterprise.

How did this miracle happen? Small producer/consumer co-ops subsidized by the federal government were organized during the 1960s. The first Arctic co-op was incorporated in George River in spring 1959. Within four years, there were 52 co-ops, including 11 in Arctic Quebec.

Quebec marketed Inuit art through La Fédération des Coopératives du Nouveau Québec (FCNQ), run by Inuit managers,

In 1961, the Inuit Art Section, a division of Northern Affairs, sponsored the Canadian Eskimo Arts Council (CEAC) as an advisory board of professional artists and museum personnel to oversee development and promotion of Inuit printmaking, first introduced by Houston at Cape Dorset in 1959. The board's most controversial responsibility involved acting as gatekeeper related to the rejection of prints created in workshop co-ops. Regional styles were cultivated or sustained by outside professional advisors.

Due to controlled marketing and intensive promotional efforts, Inuit art drew high prices. Full-page ads published by the NWT Economic Development and Tourism in *Inuit Art*



Counter clockwise from bear carving: "Sitting Bear" by Jacob Irkok; "Mother & Child" by Josephine Angma; [both photos courtesy ABoriginArt Galleries, [www.inuit.net](http://www.inuit.net); all other photos courtesy Kathy M'Closkey]. Salea Nakashuk at her loom, 1981. "Bird" by Takealook; an oil tanker brings winter supplies to Pangnirtung in 1981 in what was the Northwest Territories, now called Nunavut.



*Quarterly* featured a large sculpture adjacent to the phrase: “Helping Inuit artists to help themselves.” Copy adjacent to the igloo logo reads: “this tag is your certification from the government of Canada that carvings bearing this label are genuine and can be imported duty-free anywhere in the world.” Inuit artists also enjoy protection from copyright infringement and additional income can be generated through the sale of reproduction rights for calendars, stamps, illustrations, etc.

By 1975, carving had become the primary occupation of many of the 9,000 adult Inuit, providing money for expensive items such as guns and snowmobiles. Cash income per family averaged a six-fold increase in less than 25 years. By 1978, 52 co-ops sold \$24 million worth of goods and generated \$6.5 million in income as the single largest employer in the north. Eighty percent of the adult Inuit population belonged to co-ops.

During the 1970s, Inuit artworks

also achieved widespread recognition through international touring exhibitions, catalogues and conferences. For example, *Sculpture Inuit: Masterworks of the Canadian Arctic*, was organized by CEAC, funded by the Department of Indian and Northern Affairs [DINA], supported by National Museum of Man and the Department of External Affairs, and circulated internationally. The exhibit heightened demand for Inuit art. Carving and printmaking became symbols of Canadian identity globally and simultaneously the largest source of income in the North.

During 1980, the wealthiest co-ops in Quebec purchased more than \$1 million in carvings. A decline in demand occurred shortly thereafter, when FCNQ’s inventory reached \$2 million and CAP held inventory valued at more than \$1.5 million. Co-op members sought ways to bypass costs associated with marketing through CAP by selling directly to dealers.

Eric Mitchell, general manager of CAP, cautioned against such a move, noting the low returns to Alaskan native artists who lacked a marketing system. By 1980, with the Inuit population hovering around 25,000, additional craft projects featuring jewelry, pottery or hand-sewn articles were organized in several NWT Inuit communities. But budget constraints ensued, prompting the territorial government to attempt privatization.

These efforts eventually failed. Co-ops took over many of the original shops, and, a decade later, the Department of Culture and Communication injected more money into the arts and craft sector, managing most facets, including acquisition of materials, production, promotion, exhibiting and marketing.

When the new Canadian Museum of Civilization (formerly the National Museum of Man) opened in Hull, Quebec, in 1989, the inaugural exhibit



These Inuit villages scattered across Canada have used a cooperative business to market their artwork worldwide. Map courtesy Our Co-op Network.

featured *20<sup>th</sup> Century Native Art*. Of 9,000 works held in their collection, about 7,000 were created by Inuit artists. The Inuit Art Section of DINA publishes a Catalogue of Services and Collections. The IAC maintains biographies on hundreds of artists, has catalogued more than 100,000 slides, organized exhibits and maintains a large library. The nonprofit, Inuit-owned Inuit Art Foundation publishes *Inuit Art Quarterly*.

In 1977, anthropologist Hugh Brody wrote: “Eskimo [Inuit] carving, as it is now internationally known, is a consequence of southern domination of Eskimo economic life.” Yet the 33 co-ops currently in operation are independently owned and controlled Native businesses which operate retail facilities, hotels, outfitting, arts and crafts and property rentals, with combined revenues of nearly \$100 million in 2004. Since 1986, the Arctic Co-op Development Fund has provided more than \$300 million in financing. Arctic Co-ops Limited markets Inuit art to over 50 Canadian galleries and 24 in the United States and Europe. The organization also owns five retail outlets called “Northern Images.”

### Women artists in spotlight

Inuit women artists have achieved widespread acclaim relative to women artists in other native societies. Between 1965 and 1990, four Inuit artists — all of them women — have received the Order of Canada. The appliquéd wall hangings from Baker Lake have achieved national fame. These immense works of art are on display at the National Arts Centre in Ottawa and Legislative Assembly in Yellowknife. While working on my Master’s thesis in the early 1980s, I visited Frobisher Bay (now Iqaluit) and Pangnirtung, home of the Pangnirtung Tapestry Studio. The photographs that

accompany this article were taken at the weave shop and the “Misuvik” or sewing center at that time.

Since its inception, Canadian Inuit have been promoted as artists to a degree that no other ethnic group in the world ever has. Between 1971 and 1994,



*An Inuit girl with a hand-woven doll in Pangnirtung in 1981.*

more than 1 million carvings were produced! The better-known artists earn very high incomes. But this “cultural miracle” would not have happened without government-subsidized cooperatives. Today, more than 55,000 Inuit live in 53 communities across the North.

In 1999, the Canadian government settled a land claims agreement by dividing the Northwest Territories into two parts. Nunavut, which means “our land” in Inuktitut, is now controlled by Inuit. A 10 x 22-foot tapestry woven by seven artists of the Pangnirtung Tapestry Studio was recently installed in Nunavut’s Legislative Assembly.

### Co-ops bolster Arctic economy

Although the financial importance of art production has declined relative to

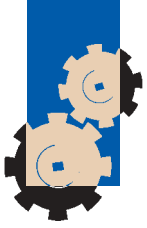
an increase in other means of livelihood, the co-ops continue to serve as the financial backbone of most arctic communities. Given their outstanding success over the past five decades, it’s unlikely that other forms of financing will usurp their crucial role in sustaining a broad range of Inuit-owned businesses across the North. Vive les co-ops!

The following websites contain additional information regarding the cooperative system in Arctic Canada:

- [http://www.arcticco-op.com/co-op\\_location.html](http://www.arcticco-op.com/co-op_location.html) — Map of region;
- [http://www.ainc-inac.gc.ca/pr/info/info114\\_e.html](http://www.ainc-inac.gc.ca/pr/info/info114_e.html) — Inuit Information sheet from Indian and Northern Affairs Canada. Other components of this website contain a wealth of information including Arctic Co-ops Limited, case studies of particular co-ops, and an essay by Dr. Ian MacPherson, director of the British Columbia Institute for Co-operative Studies. Dr. MacPherson notes how the Inuit success story is one of the most extraordinary examples of aboriginal entrepreneurship in the world.
- <http://www.nacaarts.org/> — contains information on organizations that provide grants, support business development, education, etc.
- <http://www.usaskstudies.coop/ngc/> — University of Saskatchewan website for the Centre for Study of Co-ops.

### References

This article draws upon source material written by the following authors (for complete citations of source material, please e-mail the author at: [mcloskey@uwindsor.ca](mailto:mcloskey@uwindsor.ca)): Jean Blodgett (1980); Hugh Brody (1979); Helga Goetz (1993); Nelson Graburn (1967-2002); Diamond Jenness (1964); Kathy M’Closkey (1996); Marybelle Myers (1984); J.K. Stager (1982); Virginia Watt (1987). Photo scanning by Abby Radoski and Steve Richter.



# Renewable energy sparks surge of new co-ops

*Editor's Note: This column has been compiled by CooperationWorks! to provide highlights of cooperative development activities funded under USDA Rural Development's Rural Cooperative Development Grants (RCDG) program. This article focuses on sustainable-energy technologies and facilities. CooperationWorks! is a network of cooperative developers who share knowledge, develop skills and use the cooperative business model to create social and economic benefits. For more information, visit: [www.cooperationworks.coop](http://www.cooperationworks.coop).*



*This Minnesota wind farm is generating \$2.5 million in annual energy sales. Photos courtesy CooperationWorks!*



*(PV)2, a worker-owned co-op in western Massachusetts, designs and installs solar electricity systems.*

## New England goes solar

In largely rural western Massachusetts, demand for solar energy is on the rise and **Pioneer Valley Photovoltaics** — also known as **(PV)2** — is growing to meet it. The worker-owned cooperative designs and installs solar electricity and hot water systems in Massachusetts and Connecticut. To date, it has installed almost 100 residential, commercial and municipal photovoltaic systems.

In the past three years, the co-op has more than doubled annual revenue and has added eight new employees who are on track for ownership stakes in the cooperative. As one worker-owner explains, "People are really concerned about energy these days, both how much it costs and where that energy comes from. They like that we're worker-owned — it helps them feel comfortable that we'll be there to help them with energy for the long haul. And we like it that our successes have a positive impact on the environment and allow us to serve as a role model for other businesses."

**The Cooperative Development Institute (CDI)**, headquartered in South Deerfield, Mass., and serving New England and New York, has partnered with (PV)2 since its earliest days. CDI assisted with the initial planning and launch of the co-op as well as its sales and marketing efforts, and helped them to secure \$350,000 in incentives for photovoltaic installations from the

Massachusetts Technology Collaborative.

## Hoosiers focus on forest fuel

Indiana is home to diverse agricultural based resources available for sustainable renewable energy development. In addition to the state's emphasis on expanding the production and use of bio-based fuels such as ethanol and biodiesel, opportunities are also being explored to process wood waste from Indiana's expansive hardwoods industry into a marketable wood fuel pellet. The **Indiana Cooperative Development Center (CDC)**, with offices in Indianapolis, is bringing together primary and secondary wood businesses with economic development partners to explore the potential of cooperative and other collaborative business models to expand an emerging biomass industry within the state.

An exploratory meeting in early 2006 with wood product business owners led to a feasibility study, now being conducted. This comprehensive study, which will investigate the demand for wood fuel pellets in the home heating and industrial-scale markets, the com-

parative nature of fuel pellets with existing energy resources in Indiana, the appropriate scale with cost of production at various levels, marketing strategies for the finished product, and the potential for diversifying a production facility to utilize other emerging biomass residues.

### Midwest powers up

In the nation's heartland, where corn, soybeans and other potential fuel crops dominate much of the landscape, renewable energy is on everyone's mind — and cooperative development practitioners are no exception. **Cooperative Development Services (CDS)** with

offices in Madison, Wis., and St. Paul, Minn., has been actively expanding into the area of renewable energy in Wisconsin, Minnesota and Iowa.

During the past two years, CDS has completed feasibility studies and business plans on community-owned wind

*continued on page 30*

## Terrain is still unclear for new co-op legal landscape

*Editor's note: CooperationWorks! conducted a national conference call in June on "Current Trends in Cooperative Incorporation Models," with guest speaker James R. Baarda, agricultural economist with USDA Cooperative Programs. In April, he prepared a comprehensive, 200-page discussion paper on "Current Issues in Cooperative Finance and Governance." For an electronic copy, e-mail him at: james.baarda@wdc.usda.gov.*

### New category: 'investor member'

Recently enacted statutes in Wisconsin, Wyoming, Tennessee, Minnesota and Iowa have created a new category of cooperative: "investor members." These members invest capital for an expected profit and typically do not use the co-op in other ways. But some of the new statutes afford these investor-members as much as 85 percent of the profits of the business and as much as 85 percent of the vote in its governance.

This is a dramatic departure from traditional cooperatives, which give no voting rights to "preferred shareholders" who invest in the co-op hoping to make money on their investment, but not demanding any control over the business in return.

The new statutes are apt to make it possible for some farmer co-ops to expand where they otherwise could not have. But these statutes also are causing concern — even opposition — from those who seek to protect the essence of cooperatives as user owned and controlled enterprises operated for the benefit of their members. A national commission is examining this issue and is expected to make a recommendation in the near future regarding creation of a uniform, national cooperative law, Baarda noted. (For more information on this topic, visit the website of the National Conference of Commissioners on Uniform State Laws (NCCUSL): <http://www.nccusl.org/Update/>.)

### Look closely at co-op principles

During the conference, Baarda stressed that contention over this issue is unnecessary. Instead, he said, what is needed is a lot more information. "We need to know what

works and what doesn't," he said. Cooperatives — not just agricultural, but all co-ops — need to define their bedrock principles and build their businesses around them. He cited several versions of cooperative principles that are widely used today, giving some historical context to explain differing emphases.

Although he recognized that no co-op business model is perfect, "this is what we have to work with." New economic and social forces — including some never faced before — raise critical questions: Are there inherent limitations in what a co-op is? Or are limitations simply a result of how cooperatives work now, but need not work in the future?

"If you have one strong principle, can you reduce the importance of other principles?" Baarda asked. "Is there a balance? Or is each and every one of these principles — however we state them — a mandate, without which we don't have a cooperative?"

"We don't have enough answers yet. We have a lack of experience with the new statutes. The increased focus on investment of capital is quite opposite to what traditional co-op members thought about." A corporation's objective is to maximize return for investors. "The cooperative's objective is to maximize value for user-patrons. These may or may not be the same thing." The issue, he said, is how does the co-op protect the members?

### Keep communications flowing

In this brave new world of cooperative finance and governance, new statutes will be passed and lessons will continue to be learned, Baarda said, emphasizing that the most important thing is that — in the cooperative tradition — those who are testing the waters should share what they learn with the rest of the cooperative world. Sharing lessons learned and insights gleaned from both successes and failures will be the key to effective cooperative development.

"I don't know what the mechanism is to do that," Baarda concluded. "That's a little outside our resources at the moment. Maybe CooperationWorks! is the organization to do that." After all, as he noted, "that's what this group already does." ■

# USDA/co-op partnership aids producer quest for market power

By James Baarda, Ag Economist

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**E**ighty years ago, farmer cooperatives were, as they are now, vital parts of American agriculture and rural communities. They were growing in size, number and sophistication. Cooperatives had received protection under the Capper-Volstead Act of 1922 against unanticipated antitrust challenges, had been recognized as unique organizations for federal income taxation from the very beginning of income taxation, and certain types of farmer cooperatives had been favorably treated in the Clayton Act of 1914. Almost all states had enacted special statutes under which cooperatives could be incorporated.

Cooperatives had also learned some hard lessons. Inadequate attention to principles of cooperation, failed attempts to force price increases through monopoly-type behavior and expansions beyond member control led to concerns about the role of cooperatives in agriculture and in their ability to consistently enhance farmers' economic wellbeing.

Despite cooperatives' early growth and importance, farmers who formed and used them needed support to fully capture the benefits of well-run, financially sound and strong cooperative businesses. USDA then stepped in. In 1925, after noting the dramatic growth of cooperatives, Secretary of Agriculture William M. Jardine said, "A movement of this magnitude, with



Illustration treatment: Stephen Thompson

its tremendous economic and social significance, must be analyzed and guided so that its highest possibilities may be realized." With "analysis and guidance" as an objective, Congress acted quickly, and on July 2, 1926, President Calvin Coolidge signed into law the Cooperative Marketing Act of 1926.

Ever since then, USDA has been an

active supporter of farmers who take upon themselves responsibility to collectively market their products, to purchase their supplies, to add value to commodities produced, to improve conditions of the market place, to engage in a great variety of activities to enhance individual farming operations, and to create new opportunities for

farmers' economic strength and for rural development.

### Cooperative Marketing Act of 1926

The Act established an extensive set of tools USDA can use to analyze and understand cooperatives. The Act directs five ways of providing assistance to cooperatives. USDA is authorized to:

1. Collect and analyze economic, statistical and historical information about cooperatives, including their progress, organization and business methods.
2. Conduct research on economic, legal, financial, social and other characteristics of cooperatives. This is to include organization, operation, financial and marketing problems.
3. Provide technical assistance to individual cooperatives upon request.
4. Assist those who are considering cooperative formation.
5. Conduct educational activities to enhance the general understanding of the cooperative method of conducting business.

The Act specified that the division charged with the mission was to be located in USDA. Over the 80 years of the mission, the organizational structure used to achieve the mandates has changed significantly. The original organization was transferred to the newly created Federal Farm Board in 1929. The work of the cooperative division was subsequently transferred in 1933 to the Farm Credit Administration (which at that time was an independent agency within USDA), where cooperative work continued until 1953. When the Farm Credit Administration became independent of USDA in 1953, USDA created the Farmer Cooperative Service to continue its partnership with cooperatives.

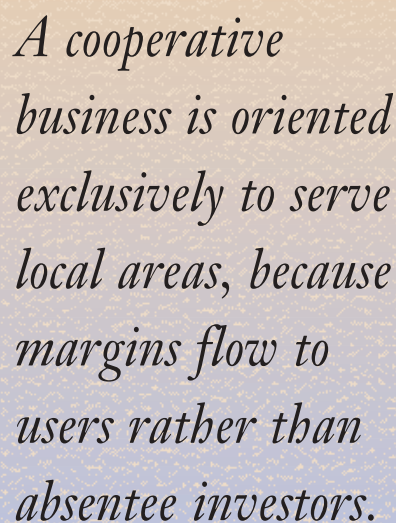
Farmer Cooperative Service existed for nearly 25 years as an independent agency. In 1977, the cooperative program became part of the Economics, Statistics and Cooperatives Service. Independent agency status was restored in 1980 with the creation of the Agricultural Cooperative Service. In 1994, the cooperative unit, now known

as Cooperative Programs, was absorbed into the then newly created USDA Rural Development mission area.

### Cooperative contributions

How have cooperatives contributed to American agricultural and rural America? It is not possible here to chronicle the trends and events that show the enormous contributions that cooperatives have made to agriculture and rural America in the past 80 years. A few general observations, however, will suggest the extent of cooperative influence.

Standard business performance criteria can be used in assessing the impact of cooperatives. These include job creation and skill development in their local employment base, additions to



*A cooperative business is oriented exclusively to serve local areas, because margins flow to users rather than absentee investors.*

local and national income and the multiplier effects of the dollars they generate on the communities and region in which they operate. Benefits of a cooperative are realized by the members, so cooperative businesses tend to have a greater direct impact on the areas in which they operate.

There is no substitute for a vibrant economic system. However, cooperative businesses go a step beyond "business as usual." They are unique organizations owned and controlled by farmers and operated solely for their benefit as users of the cooperative. The history of coop-

eratives in the past 80 years and earlier demonstrates unique contributions by cooperatives. Following are examples that focus on such special attributes of cooperation in the economy.

**Changing under-performing market structures** — Sellers, buyers, processors, retailers, consumers and producers are just some of the groups that make up a market in a particular commodity or group of commodities. Individual farmers who sell to buyers independently must take the price offered in the absence of an alternative buyer. In almost every commodity produced, the growth of cooperatives has resulted in a market structure in which the power of a limited number of buyers is reduced.

The pricing system — now including the cooperative acting as either an intermediary or as a complete substitute for a limited number of buyers — becomes more efficient. The final market price is conveyed to farmers more directly through their own cooperative, enhancing production responses to the changing demands of a market.

**Improving market performance** — When farmers form cooperatives, they usually improve the market's performance even where non-cooperative competitors continue to thrive and serve farmers who are not cooperative members. This impact was described many years ago as cooperatives' "competitive yardstick" role. If a non-cooperative buyer pays a low price to farmers and makes excessive profit from the practice, farmers may form a cooperative through which they market their product. The price paid to farmer members plus the patronage refund they receive establishes a market price. If the competitor refuses to pay better prices to farmers, the farmers will join the cooperative.

Therefore, the competitor must pay higher prices to obtain the commodity. The prices paid to farmers increases. Even those farmers who do not market through the cooperative benefit from the cooperative's presence. Market competitiveness is measured against the cooperative, creating the competitive yardstick.

### **Increased farmer participation —**

As members and patrons, farmers participate in the market to the same extent as their cooperative does. To a greater or lesser degree, they integrate horizontally and vertically in the market system. Consequences of this participation include farmers' exertion of a degree of control over the pricing system, over the quality of products purchased and over strategic marketing decisions that affect immediate and future returns.

### **Adding value to the commodity —**

Cooperatives effectively capture profits from other segments of the market. Examples include cooperative processing of farmers' lower-value commodities into a value-added product, then marketing high-value products. The profits from adding value and marketing a product are realized by the cooperative and allocated to member producers. Absent a cooperative, the farmers would receive only a commodity price. Others would receive the profits from adding value. With the cooperative, the farmers receive all of the benefits of greater participation in the market.

### **Innovation —**

Agriculture has a history of innovation and productivity unmatched by any other industry on an extended basis. This spirit of innovation certainly holds true for cooperatives. On the supply side, cooperatives have shown remarkable creativity and focus in providing members with quality material, seeds and supplies when and where they are needed.

Marketing innovations are among the most visible of cooperative contributions in consumer awareness through branding. New product development, new methods of marketing and distribution and development of international markets are only a few examples of the many ways cooperatives bring creativity

to products, markets and ultimately to consumers.

### **Business innovation —**

Farmers have, over a long period of time, created business forms that are ideally suited to their peculiar occupation and the unique markets in which they purchase and sell. Democratic voting, effective member directorships, the patronage refund systems and patronage-based financing systems are unique to cooperative businesses. Examples of workable cooperative solutions to business challenges are distributed, then copied and modified for other farmers in additional regions and commodity systems.

Principles, practices and structures have been suggested, tried, modified, discarded, adapted and adopted as need-

is, in fact, to increase income for patrons. When benefits are distributed, they go not to those who have excess investment funds but to farmers who can then use the income for personal or farming operations. This keeps families in farming, families whose existence is the basis for vibrant rural communities.

Farmer cooperatives are only one type of cooperative enhancing rural and community economic development.

Among many other examples are rural electric and telephone cooperatives that enhance the quality of rural life. These cooperatives also have a partner in the Rural Utilities Program of USDA Rural Development, which provides them with financial and technical assistance.

The nation's Farm Credit System, a producer-owned cooperative system, offers vital credit that would otherwise not be available for many farmers and other rural residents.

### **USDA's role**

During the 80 years since the Cooperative Marketing Act was passed, cooperatives have flourished and made enormous contributions to farming and rural America. USDA has been an active participant in their growth. The Act's "analysis and guidance" mission has placed USDA in a position to have a real impact on

individuals and their cooperatives. It is not possible to chronicle everything this relatively small office has done for cooperatives. A few highlights include:

### **Cooperative principles —**

The unique business organization of cooperatives is also their strength. This idea has been the source of analysis and guidance throughout the history of the Cooperative Marketing Act of 1926. It has also been one of the important contributions of USDA to cooperatives. From early expressions of cooperative "principles" in England in 1844, through a formulation of principles by the Patrons of Husbandry in the United States in 1876 as a result of cooperative



*President Eisenhower signs the act in 1953 which created the Farm Credit Administration as an independent agency and the Farmer Cooperative Service as a USDA agency. To his left is Ag Secretary Ezra Taft Benson, who had also served as executive director of the National Council of Farmer Cooperatives.*

ed. Cooperatives have become part of the fabric of rural America through the creativity, foresight and determination of individuals with common goals and compatible objectives. These innovations are in and of themselves contributions that cooperatives have made during the 80-year existence of the Cooperative Marketing Act.

### **Rural economic development —**

Cooperatives, by their nature, tend to enhance local economic development in unique ways. There are several reasons for this. A cooperative business is oriented exclusively to serve local areas, because margins flow to users rather than absentee investors. Their objective

failures due to poor organizational structures, through failures in the 1920s because of misconceived ideas about what cooperatives can and cannot do, cooperatives have constantly sought guiding principles.

Prior to the 1926 Act, principles were included in state cooperative incorporation statutes, federal income tax pronouncements and the Capper-Volstead Act of 1922. USDA continued its analysis and guidance mission on cooperative principles to assure farmers gain the benefits of properly formed cooperatives. Numerous cooperative definitions and principles developed over the years.

In 1937, for example, a study of European cooperatives provided information about successful cooperatives there. In 1987, USDA formulated three fundamental principles that are “standards” in the industry. Principles are not mere theory. They are guiding lights for successful business operated on a cooperative basis. Because of this, USDA’s contribution to cooperatives through its dedication to principles has been real and lasting.

**Good business structures** — In the 80 years of its partnership with cooperatives, USDA has observed cooperatives cannot succeed — regardless of dedication and good intentions — without appropriate business structures. Many studies of co-op successes and failures, analyses of operations from all perspectives, and accumulation of great amounts of data and experience have been applied to give guidance to those forming or already operating cooperatives. These studies have also been used by cooperatives looking to make significant changes in their own structure or their relationship with other organizations with strategic alliances and joint ventures.

Mergers and consolidations have been prevalent in cooperatives as numbers decrease and efficient size increases. USDA has guided many such efficiency-generating changes and has learned many lessons that are passed to others, all under the authority of the Cooperative Marketing Act.

### **Promoting financial strength—**

Farmer equity financing, debt capital and unique methods used by farmers for financing their cooperative through patronage are key to understanding cooperatives. Financing is often the most difficult task in forming or developing cooperatives. At the same time, measuring cooperative financial health is required, just as it is for any business. USDA has always employed widely recognized cooperative finance experts who understood cooperative finance

From technical assistance to director training sessions and publications to encouragement of strong co-op member-relations programs, many aspects of cooperative governance and operations have been the subject of USDA’s expertise and assistance.

**Industry studies** — Until relatively recently, USDA’s partnership with cooperatives included substantial industry studies. For both marketing and supply cooperatives, the industries and markets in which they operate define



*The staff of USDA’s Division of Co-op Marketing in 1926, just after President Calvin Coolidge signed the Cooperative Marketing Act into law. USDA Photo*

and who shared their expertise with cooperatives, their accountants and advisors.

Special studies, including some that focus on patronage-based financing and equity redemption, have highlighted the partnership between USDA and cooperatives.

**Directors, management and operations** — Running a cooperative successfully is not an easy task. No outside assistance can substitute for good directors, good management and smooth operations. Assistance can, however, be offered through information and the experience of others.

Director training, management assistance and dissemination of best practices have been developed and applied during all of the 80 years of the Act’s mandates.

the need for cooperatives as well as the methods cooperative could use to improve the market. Specialists in farm supplies, grains and oilseeds, livestock, fruits and vegetables, specialty crops and dairy worked with farmers and cooperatives to improve the farmers’ positions in each industry through their cooperatives.

While USDA’s Cooperative Program retains dairy experts, few other staff now specialize in particular commodities or industries.

**Legal and policy issues** — As a central focus for national issues, a major thrust of USDA’s efforts has been to educate the cooperative community and policy makers about the special character of cooperatives and what that means

*continued on page 31*



# On & Off the Top 100

*25 years of tracking the largest ag co-ops*

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The January/February 2006 issue of this magazine reported average financial results for the Top 100 cooperatives for 2004,

which marked the 25th anniversary of this important research program. The annual ranking of businesses by size of sales has been a popular performance benchmark, beginning with publication of the Fortune 500 list of America's largest firms in 1955.

In contrast to the Fortune 500 ranking, USDA Cooperative Programs does not release the names of the Top 100 agricultural cooperatives. The data are summarized to show performance of the leading cooperatives as an aggregate and are grouped by major commodity and service sectors in the agricultural economy.

However, since 1991 the National Cooperative Bank (NCB) has published an annual ranking of the Top 100 cooperatives from all economic sectors (farm, food, hardware, housing, etc.) In NCB's 2004 ranking, the top three were all agricultural cooperatives: CHS Inc., Dairy Farmers of America and Land O'Lakes Inc. In all, 42 agricultural cooperatives were in the NCB Top 100 ([www.co-op100.coop](http://www.co-op100.coop)).

During the 25-year period the list has been maintained, there has been significant movement on and off

USDA's Top 100 agricultural cooperatives list. Of these, 29 cooperatives have consistently reported data, while several other large cooperatives have been inconsistently included on the list because of intermittent reporting of their data. A few of these submitted data for only a very brief period, about 2-5 years, and then became classified as non-reporting.

Other cooperatives that reported in 1980 no longer exist as either a cooperative or as a business of any kind. The three major causes for cooperatives being permanently removed from USDA's Top 100 list are: business failure, conversion to a non-cooperative entity and merger or consolidation. A review of some general financial measures for those on-and-off the Top 100 offers some history of how large cooperatives have fared since 1980.

## Failed businesses

Cooperatives are a stable form of business, generally not inclined toward high-risk ventures. Nevertheless, since the inception of the list, 16 Top100 cooperatives have gone out of business. Three of these cooperatives had closed by 1985, while seven did not go out of business until after 1998. An additional five federations that were reported in the Top 100 in 1980 subsequently dissolved. However, in most cases their members stayed in business.

The solvency ratios of these co-ops during the last three or four years of



*Mergers — such as the creation of Dairy Farmers of America — have been the single biggest factor for changes in the ranks of the Top 100 Ag Co-ops since 1980. Above, Chris, Sarah and Benjy Heins of Higginsville, Mo., replace their farm's Mid-Am sign following the merger in 1998. Photo by Raymond Crouch, courtesy DFA.*

operation gave strong indication of their impending closure. Seven of these cooperatives provided data right up to, or within 12 months of their last complete year of operation. The three-year average debt-to-equity ratio for the co-ops was 0.75 while return on equity was minus 0.21.

## Merging to stay in business

A major strategy for maintaining farmer ownership of services and value-added business has been to consolidate or merge two or more cooperatives. Merging helps carry overhead costs with more operating revenue and other advantages to increase per unit earnings. Twenty-four cooperatives exited the Top 100 through consolidations or mergers.

Data for solvency ratios were collected up to the time of consolidation or merger for 21 cooperatives. The three-year average debt-to-equity ratio for these co-ops was 0.66 while return on equity was 0.11. As would be expected, the financial condition of these merged businesses was generally stronger than for cooperatives that went out of business. Some were in a weak financial condition, but their status was not extreme because members of a surviving cooperative will usually reject merger proposals from a business that is on the verge of failure.

### Conversions

Cooperatives are sometimes acquired by non-cooperative businesses or decide to convert into investor-owned entities. Of former Top 100 cooperatives, ten converted to investor-owned status either through acquisition or by a membership vote to convert. While some acquisitions were made of cooperatives in weak financial condition, those that converted into investor-owned entities obviously had been experiencing good returns. As expected, the acquisition and conversion group of five that consistently reported had relatively low average debt-to-assets of 0.49 and decent return on equity of 0.23.

### Staying on top

The cooperatives that have stayed in the Top 100 over the 25-year period include many that have been operating for more than 60 years. Large cooperatives still in business today have successfully operated through periods of economic recession and high energy costs. There are 29 cooperatives that have remained on the list in all 25 years due to maintaining sound operations (and because they faithfully completed USDA's annual survey each year).

Financial ratios for indicating solvency have remained relatively sound for these 29 cooperatives over the 25-year period. They individually maintained a debt-to-asset ratio below the three-year average of the failed cooperatives over both the 25-year period and for any three-year period. Individually, with

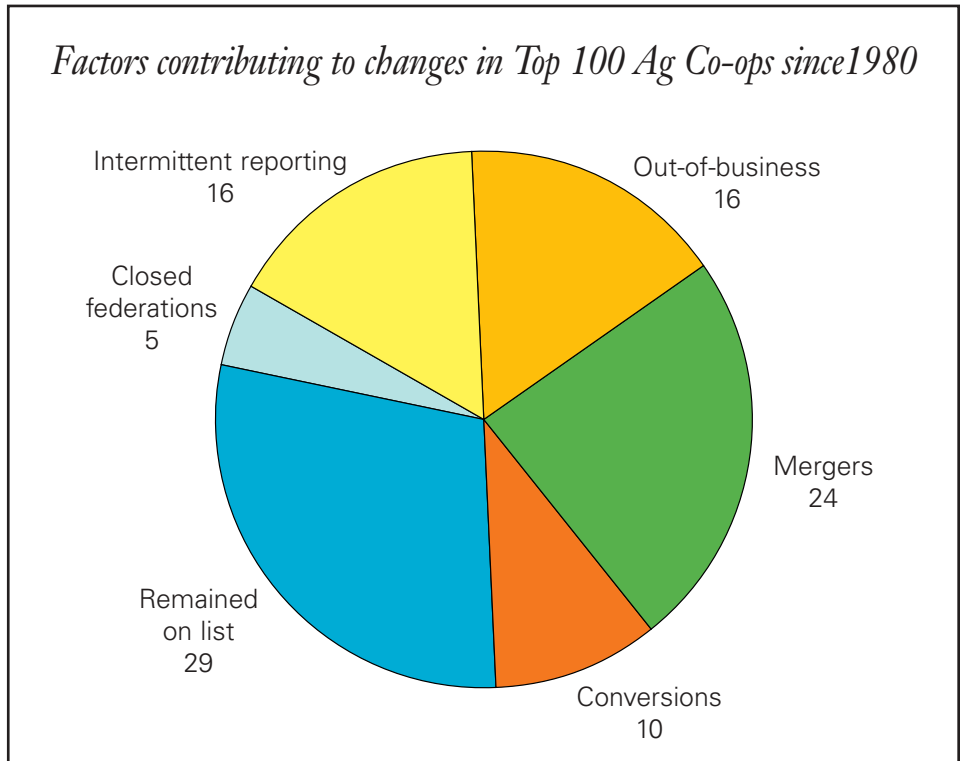
only one exception, they also had a higher return on equity in every three-year period than any of the seven cooperatives that went out of business in the last three years they reported.

A consistently high return on equity is not a sufficient measure of a successful cooperative. In fact, it may indicate that a cooperative is not adequately generating higher returns to members in payments for delivered products or in costs of supplies. The return on equity for each of the five cooperatives that

dependent upon annual reporting by the cooperatives, which is not easily accomplished. As an indication of this, 16 of the cooperatives that were on the 1980 list have subsequently reported only intermittently.

### Where they stand

The Top 100 reports provide large agricultural cooperatives with benchmarks and reference points to help them navigate their way in a highly competitive and often volatile economy.



reported up until their conversion to investor-owned status was much higher than the average for the 29 surviving cooperatives (as a group).

### Intermittent reporting

The Top 100 agricultural cooperatives data base is determined by direct collection and analysis of surveys and annual reports, which is the primary reason that the ranking of the organizations is not published. Most publicized rankings are collected from secondary sources, where only the annual revenue is needed. The cooperation of the business entities in these cases is not needed.

As an analytical data base, USDA's Top 100 agricultural cooperatives list is

Cooperatives face unique business challenges. Member benefits are not only contained in a dividend check, but by significantly helping many independent farm enterprises control their costs or to improve their product sales.

Working to sustain the independence of farmers is the core objective that adds to the complexity of business decisionmaking for cooperatives. For this reason, they cannot rely on any single set of performance measures or simply compare their businesses with non-cooperative corporations. USDA's Top 100 list and the accompanying analysis has filled a niche in business performance information for 25 years and counting. ■



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## USDA, DOE to host renewable energy conference

Agriculture Secretary Mike Johanns and U.S. Department of Energy (DOE) Secretary Samuel Bodman have announced that the two agencies will co-host a national renewable energy conference to help create partnerships and strategies necessary to accelerate commercialization of renewable energy industries and distribution systems, the crux of President Bush's Advanced Energy Initiative (AEI). The conference, *Advancing Renewable Energy: An American Rural Renaissance*, is scheduled for Oct. 10-12, 2006, in St. Louis, Mo.

"Keeping America competitive calls upon us to work together to expand sustainable, market-driven, domestic energy sources," Johanns said. "The October conference will build upon the President's vision for overcoming our energy challenges and help create new wealth opportunities in rural communities."

"Never has reducing our dependence on foreign oil

been such a pressing issue," Bodman said. "We have the will and the means to replace significant quantities of foreign oil with homegrown fuel. We are hopeful this conference will identify major impediments and critical pathways to get more domestically grown, renewable energy sources out of the laboratory and into consumers' hands as soon as possible."

The conference will focus on biomass, wind and solar research and commercialization. It will seek to identify major impediments, review challenges and make recommendations to help accelerate renewable energy technology development; examine key incentives that would help promote certainty and reduce risk for investors and developers in the marketplace; review challenges of developing new distribution systems and raise public awareness. The conference should be relevant for those from diverse sectors, including agriculture, energy, transportation, financial and investment, federal and state government and elected officials.

Information and on-line registration for the October conference will be available on the Internet at: [www.advancingruralenergy.com](http://www.advancingruralenergy.com) ■

### Calcot eyes acquisition of SWIG

The possible combination of Calcot and Southwestern Irrigated Cotton Growers (SWIG), two of the nation's oldest cotton marketing cooperatives, is two steps closer to becoming reality. Calcot's board of directors, voting unanimously via conference call on June 27, agreed in principle to acquire SWIG's three warehouse facilities (two in New Mexico, located in Las Cruces and Artesia, and one in Fabens, Texas) and to take over the marketing of SWIG members' cotton for the 2006 season.

That action follows a June 21 membership vote in Las Cruces, where SWIG cotton grower-members overwhelmingly gave their assent to cease

operations and liquidate the company. Over 95 percent of the voting membership was in favor of the proposal. The two cooperatives have been discussing the possibility of combining operations for several months.

Financial details have not been made public, but if the merger comes to fruition, growers in New Mexico and around the El Paso, Texas, area, will see their cotton marketed by the 79-year-old cotton co-op based in Bakersfield, Calif. Currently, Calcot markets only cotton produced in California, Arizona and South Texas.

"Assuming all details can be worked out to mutual satisfaction," Calcot President Robert W. Norris said, "we will own and operate what are currently

SWIG facilities. We look forward to meeting all of our new members, working with them in the months ahead and providing the excellent service and financial returns that Far Western cotton growers have come to expect from Calcot."

Calcot owns and operates 145 warehouses in California and Arizona. SWIG has 21 warehouses. Currently, the two co-ops' combined market totals about a million bales of cotton each year, with similar cotton qualities and varieties. The vast majority of sales by both co-ops are to overseas markets. Calcot, formed in 1927, has about 1,200 grower-members and SWIG, formed in 1926, has about 200 grower-members.

## Garfield purrs for Swiss Valley

As his 263 million readers worldwide well know, Garfield the cat never met a lasagna he didn't like. But it turns out Garfield is also pretty fond of chocolate milk. In addition to being the most widely syndicated cartoon character in the world (Garfield appears in 2,600 newspapers) the moody feline is also now appearing on milk cartons, including Swiss Valley Farms chocolate milk.

The release of the co-op's Garfield milk cartons in June was timed to coin-



Emily Prichard, Long Grove, Iowa, sips Swiss Valley Farms chocolate milk. Photo courtesy Swiss Valley

cide with the release of the second Garfield movie: "Garfield: A Tail of Two Kitties." The cooperative is using Garfield in its advertising and promotion throughout the summer.

Garfield has already appeared on Swiss Valley skim chocolate and 1 percent chocolate milk in schools, which the co-op reports have been popular with students. One school foodservice manager wrote to Swiss Valley, saying: "I just wanted to tell you what a great idea it was to put Garfield on the milk cartons. All of the children from K-12 noticed and wanted to get their milk. Terrific!"

Swiss Valley Farms is a four-state cooperative owned and controlled by 1,100 dairy producers, with headquarters in Davenport, Iowa. It has 700 employees and annual sales of \$425 million.

## Energy & environment focus of Farmer Co-op Conference

The 9th annual Farmer Cooperatives Conference will be held Nov. 1-2 at the Sheraton Bloomington Hotel, Minneapolis South, Minn. This year's theme will be "Opportunities for Cooperatives: Renewable Energy and Environmental Management." Renewable energy topics will focus on:

- the future growth of renewable energy sources;
- involvement of regional and local cooperatives in the sourcing of corn and soybeans for ethanol and biodiesel fuels;
- marketing of these fuels and by-products;
- business structures to finance renewable energy plants.

New cooperative member service opportunities in environmental management sessions will include:

- enhancing woodlot and forest management;
- nutrient management;
- managing green house gas emissions.

Updates on the conference and registration information will be posted on the University of Wisconsin Center for Cooperatives website at:

[www.wisc.edu/uwcc/fc/fc.html](http://www.wisc.edu/uwcc/fc/fc.html)

## Faulkner deputy under secretary for USDA Rural Development

Agriculture Secretary Mike Johanns has appointed Douglas L. Faulkner to serve as deputy under secretary for rural development. "Renewable fuels are a vital component of America's energy independence and an important financial opportunity for our nation's farmers," said Johanns. "Doug Faulkner brings an impressive background in the energy field to USDA and will help us achieve our goal of advancing the devel-

opment of renewable fuels technology."

Faulkner most recently served as principal deputy assistant secretary for energy efficiency and renewable energy at the U.S. Department of Energy and has had a long association with USDA, working closely with the department to promote energy development in the areas of biomass, solar, hydrogen and efficiencies. He has served as a senior policy advisor to two secretaries of energy and earlier this year received the secretary of energy's award for excellence. His first job in Washington, D.C., was as an aide to the late Edward Madigan, a former Illinois congressman and secretary of agriculture.

Faulkner will work closely with Under Secretary for Rural Development Thomas Dorr to coordinate the activities of the USDA Energy Council that Johanns announced last December.

## Thatcher to manage CHS Foundation

The CHS Foundation has named Jennifer Thatcher as the new manager of the CHS Foundation, an independent, private foundation affiliated with CHS Inc. that actively supports the future of rural America, agriculture and cooperative business through education and leadership development. "Jennifer brings a strong financial management background, as well as a strong interest in community development," said William Nelson, CHS Foundation president. "She will be a great addition to the staff that works with the CHS Foundation."

In this role, Thatcher will work closely with Nelson to manage the business operations for the CHS Foundation, with responsibility for financial management, as well as involvement with program development. Thatcher will also play similar roles with the corporate giving area for CHS Inc. and for The Cooperative Foundation, a private foundation managed by CHS staff through a lease agreement.

## Edelweiss Graziers Co-op formed

Edelweiss Graziers Cooperative has been formed by a small group

Wisconsin dairy farmers to create specialty, grass-based cheese from the milk of their rotationally grazed dairy herds. The *Wisconsin Ag Connection* reports that the co-op aims to combine the craftsmanship of master cheesemaker Bruce Workman at Edelweiss Creamery and the milk of grass-fed cows from three Wisconsin dairy farms.

Dairy Business Innovation Center Founder and Chairman Dan Carter said the new grass-based cooperative is an outstanding example of Wisconsin dairy farmers continuing to find innovative methods in responding to industry

demands. "Consumers are seeking more signature cheeses with bolder flavors, and grass-based cheeses are next on the horizon to help meet that demand," he told the newspaper. The co-op hoped to have cheese ready for sale in July.

### Wisconsin's Black Creek Cheddar goes nationwide

Alto Dairy Cooperative is partnering with Winona Food Inc. to market newly branded Black Creek Classic Cheddar nationwide. The co-op reports that this naturally aged, hand-selected cheese has passed the rigorous stan-



*Black Creek Classic Cheddar.*

*Photo courtesy Alto Dairy*

dards imposed by the Wisconsin master cheesemakers at Alto Dairy Cooperative. These artisans represent generations of cheesemakers who have

## CCA honors Jordan, Bryant as top communicators

Saluted for her "commitment to success" and as "a mentor and a model of doing things right," the Cooperative Communicators Association (CCA) presented Lani Jordan, director of communications for CHS Inc., with the H.E. Klinefelter award, its highest honor, during its annual meeting in Portland, Ore., in June. The award is bestowed to individuals who have made significant contributions to the art of co-op communications.

Jordan "provides the best of the best in co-op communications," said award presenter Janet Schoniger of CoBank, winner of the award in 2005. "She is driven by a love for writing and a passion for telling a story."

Katrice "K.D." Bryant, from Jackson Electric Cooperative in Georgia, was the recipient of the Michael Graznak Award, presented to a young communicator under the age of 36, in recognition of her "sustained excellence, creativity, insight and performance."

"Katrice brings an enthusiasm and commitment to every communications task she undertakes," says Randall Pugh, president and CEO of Jackson EMC.

Jordan develops the annual communication strategy for CHS, is chief media spokesperson for the organization, is speech writer for the board and senior management and is responsible for the co-op's annual meeting. She also produces the annual report and handles a wide range of other communications responsibilities. She joined the cooperative in 1985 after a 10-year career as a journalist.

A three-time CCA Writer of the Year, Jordan is also a past Graznak award winner. She served six years on the CCA board and was president of the organization in 2000-01.

Bryant is responsible for development and production of marketing communications vehicles, including customer and business-to-business publications, website content, trade show graphics, billboard advertising and radio and television content for Jackson EMC. She also serves as editor-in-chief for customer, employee and business-to-business publications and is responsible for managing a \$1.2 million project budget.

Top award winners in CCA's annual Communications Competition included:  
— Publication of the Year: Sarah Dorman of West Central Cooperative, Iowa, for the co-op's annual report;  
— Photographer of the Year: David Lundquist, CHS Inc./Land O'Lakes, for a portfolio of work;

— Writer of the Year: Lani Jordan, CHS

Inc., and Patty Miller, Land O'Lakes (tie);  
— Special Projects, Best of Class: Sarah Bratnober, Organic Valley Family of Farms, for a co-op calendar.

USDA's *Rural Cooperatives* magazine won five awards in the competition, including: first place for news writing, won by assistant editor Stephen Thompson for his coverage of the 2005 Farmer Cooperative Conference; third place for best use of photos in a magazine; third place for best magazine cover; honorable mention for writer of the year, won by editor Dan Campbell; and honorable mention for portrait photography, won by Stephen Thompson.

For a complete list of contest winners and more information about CCA, visit: [www.communicators.coop](http://www.communicators.coop). ■



*Lani Jordan, left, and Katrice Bryant*

turned the quality milk from Wisconsin's family dairy farms into delicious premium cheeses.

"My dad taught me how to make cheese," master cheesemaker Gregg Palubicki said. Carrying on the family tradition, Palubicki inspects each batch of Black Creek Cheddar to assure it meets the highest standards.

Alto and Winona were recently honored by the International Dairy Foods Association for creating a new look for Black Creek Cheddar cheeses. The unique, wedge shape, black wrapping and attractive label took Black Creek to the top spot in the *Best Package Redesign for Cheese* category, earning one of IDFA's 2006 Achieving Excellence Awards.

### National Beef acquires Brawley Beef

National Beef Packing Co. LLC and its majority owner, U.S. Premium Beef LLC (USPB), have completed acquisition of Brawley, Calif.-based Brawley Beef LLC. Brawley is contributing its assets in exchange for an ownership interest in U.S. Premium Beef.

For National Beef, the acquisition of Brawley Beef creates a new relationship with its owner/producers in Arizona and California. Moreover, Brawley Beef's location 100 miles east of San Diego and its extensive retail, food service and further-processing customers along the West Coast will enable National Beef to grow its presence to serve the western United States with

high-quality beef products.

As part of the acquisition, National Beef will own and operate the Brawley Beef processing facility located in Brawley. This state-of-the-art beef processing plant, constructed in 2001, has capacity to process over 400,000 cattle annually.

Kansas City-based National Beef is the nation's fourth largest beef processor. Its majority owner, U.S. Premium Beef, makes National Beef the only major beef processing company in the United States with a majority of its ownership held by beef producers. With sales exceeding \$4 billion annually and a 12 percent market share, it is owned by more than 2,000 cattle producers from 37 states. ■

# Get Rural Cooperatives Electronically!

## Free electronic subscriptions to Rural Cooperatives magazine are now available from USDA

*Rural Cooperatives* magazine is published six times annually by USDA Rural Development. This award-winning publication carries a wide variety of articles focusing on the nation's farmer-owned cooperatives, as well as utility and consumer co-ops operating in rural areas. The goal during the publication's 72-year history has always been to expand public understanding of the co-op business model and to provide information that may help improve operations of cooperatives.

To receive a link by e-mail to each new issue as it is posted on the Internet, go to: [www.rdlist.sc.egov.usda.gov](http://www.rdlist.sc.egov.usda.gov). Then enter e-mail address(es) at the top of the page, select "Rural Cooperatives" magazine and click the "subscribe" button. It's as easy as that. Each time, a new issue is posted, you will receive an e-mail with a link to the new issue.

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power enterprises, cooperatively owned manure digesters and biodiesel facilities. It has also provided board training to three ethanol development groups. One project now in operation, Central Bi-Products of Redwood Falls, Minn., is owned by a farmer co-op of more than 5,000 Midwestern producers. The project created an initial total investment of \$4 million and 10 full-time jobs, as well as \$2 million in sales last year.

Another co-op with a business plan CDS helped develop is HarvestLand Co-op in Morgan, Minn., which is a partner in a 5.6-megawatt wind farm that went online last August. In its first year of operation, it will produce more than 52 megawatts and generate \$2.5 million in sales under a power-purchase agreement. Another wind farm is being developed under a second phase of this project. The co-op will again be the primary owner/operator.

### Iowa catalyst for ethanol development

In the heart of the Corn Belt, farmers have been looking at ethanol for some time. The **Value Added Agriculture Program of Iowa State University Extension** has been a supporter of the industry as it has “grown up” in Iowa. It has developed tools to help farmers, such as a resource manual and a feasibility calculator, which are posted on the Ag Marketing Resource Center website ([www.AgMRC.org](http://www.AgMRC.org)). It has also conducted half a dozen feasibility studies for potential new ventures in the past few years.

More than 250 people attended in-depth training sessions on biodiesel, which the Center co-sponsored this spring with USDA Rural Development

and other partners. Currently, the Center is assisting the development of four biodiesel facilities with a combined production topping 175 million gallons a year.

Will this ethanol boom bring the cattle-feed industry back to the Corn Belt? To explore this topic, the Center partnered with others to sponsor a conference in June titled: “Growing Iowa’s Cattle Industry: Ethanol, Opportunities and Economic Development.” Interest in the conference drew more than 200 participants, including lenders, corn growers, economic development officials and bankers.

### The Rockies rally to renewables

The **Rocky Mountain Farmers Union’s (RFMU) Cooperative Development Center**, Greenwood Village, Colo., knows how important biodiesel is to its farmer-members and their urban neighbors in Colorado, Wyoming and New Mexico. The Center hosted a well-attended regional seminar this spring focusing on oilseed crops and producer options, such as growing the right oilseed crop for the

facilities and for smaller, community-scale projects where co-products are used as inputs for farm operations.

Participants at the RMFU Center’s seminar also examined the opportunities biodiesel development might present as part of a larger effort to create more renewable energy businesses in rural communities. For example, the Center helped develop a feasibility study and business plan with a group of farmers in Fremont County, Wyo., to use an existing grain elevator. The 650,000-bushel facility may be used to store oil seeds for processing into biodiesel, creating about eight new jobs and adding more than \$1 million to the local tax base.

### Local focus energizes the Northwest

In the environmentally conscious south Puget Sound area, demand for biodiesel is booming. In response, the **Northwest Cooperative Development Center**, Olympia, Wash., is leading the Olympia Biofuels Cooperative through feasibility research, capacity-building and education. The Center plans to use this project as a pilot that can be replicated to assist other co-ops emerging throughout the Pacific Northwest. The Center serves not only Washington, Oregon and Idaho, but Alaska and Hawaii as well.

The Olympia co-op intends to locally produce and distribute renewable fuels using sustainable production methods and innovative technologies. Originally, the co-op’s plan called for using waste vegetable oil from commercial and institutional cooking facilities. But in

an industry as rapidly changing as this one, other feedstocks are also being considered. USDA is providing part of the funding for this cooperative business development assistance. ■



*Western Iowa Energy’s new biofuel plant.*

region, efficiently processing the seed into oil and meal co-products, and how to market in ways that will generate more profits for farmers. It examined models for both large-scale commercial

for their legal status — and the need for policies that recognize those differences. Federal income tax studies during the Act's early years were examples of such education and support.

Challenges to practical income tax practices in the late 1970s resulted in discussion between USDA and the U.S. Treasury Department that helped all parties. Antitrust issues were also addressed through USDA-Federal Trade Commission-Department of Justice joint task forces and inter-personal discussions.

One of the earliest scholarly legal treatises on cooperative law was the *Legal Phases of Farmer Cooperatives* that went through numerous editions until 1974. It was the handbook for cooperatives, lawyers and policy makers during much of the past 80 years. Extensive studies of incorporation statutes, securities laws and other matters of legal and policy importance have been contributed by USDA under the auspices of the Act.

### **Changing co-ops, changing partnership**

Challenges and resulting opportunities come with change. Few things have remained unchanged in the past 80 years. Some ideas and principles have kept their fundamental importance: the vital role farmer cooperatives play in agriculture and rural economies; the importance of good directors and managers; adequate financing and solid financial controls and the requirement that cooperatives operate as successful businesses. But even these statements must be understood and applied in the context of many changes.

One constant, however, is clear. Cooperatives continue to make contributions as they have for 80 years. Similarly, the contributions of the analysis and guidance envisioned in the Cooperative Marketing Act continue, although these, too, are changing.

During the past 20 years, the pace of change has accelerated for cooperatives, especially during the past decade. The

critical question is: Are cooperatives continuing to make significant contributions to agriculture and rural America? If so, how can it be assured that this impact will continue?

As with the long history of cooperatives and the Cooperative Marketing Act, it is not possible to detail all current changes and trends. However, a few observations may be informative.

**Right sizing** — Some cooperatives have grown much larger in response to market and industry changes. This permits them to purchase and sell in quantity in response to market concentration and internationalization of markets and industries. Others have intentionally remained small to serve a specialized group of producers in niche markets. Small size may be dictated by the size of the product or the size of the market. In any case, one response to change is establishing a size appropriate for a co-op's purpose.

**Integration** — Participating in “upstream” and “downstream” markets is nothing new for cooperatives. It is, in fact, one of their hallmarks, although integration varies widely among commodities. Increased food processing, more complicated market chains from commodity to retail, and internationalization of markets have led farmers to observe that their share of the final price received for their commodity — as modified and distributed for final sale — is shrinking. They have formed cooperatives or changed existing cooperatives to integrate into other segments of the market. The search for ways to capture the greatest advantage for members continues, perhaps at an increasing rate.

**Adding value to commodities** — Farmers are more adept, willing and committed to capture more value for the commodity they produce by cooperatively adding value. Typically, this is accomplished by processing the commodity into a new product in a form closer to that demanded by the final consumer. A higher price can be obtained for the new product. Rather

than simply sell the commodity, farmers are able to add value and capture that value as a return from their cooperative.

This, too, is not a new endeavor for cooperatives generally. Recently, however, many farmers have become more imaginative and aggressive about adding value themselves through a cooperative. Adding value is found throughout the food industry. The major trend at present is in the production of renewable fuels. A great number of ethanol production facilities have been built in the past few years by farmer organizations as well as others. This burgeoning industry has gained national attention and will continue to do so in the foreseeable future. One of the major questions is the extent and kind of farmer participation in this new industry.

**New types of cooperative organizations** — Farmers continue to innovate when it comes to their cooperatives. One example of this is the formation of cooperatives that operate with a mix of principles that respond to new market and industry needs. So-called “new-generation cooperatives” use a combination of financial requirements, commodity delivery requirements and delivery rights based on up-front investment to coordinate product delivery and efficient plant operation. These organizations are usually found in situations where a considerable farmer investment is required to build a processing facility to add value to commodities. Most of the operating methods are similar to those found in more traditional cooperatives, but are combined in a new manner.

**Financial innovations** — Several ways cooperatives benefit farmers, such as by processing commodities or market development, require substantial capital. In some cases, capital needs may be beyond the capabilities of farmer members to make sufficient investments. Some cooperatives have considered the use of equity investments from those who are neither members nor patrons of the cooperative. The motivation of such investors is to obtain a return on investment, not a return based on use of



the cooperative. The use of this kind of equity has drawn concern from some who question whether it will detract from cooperatives' ability to focus on benefiting their farmer-patrons as their primary reason for existing. These and other financial innovations can be expected as demands for capital face pro-active individuals who want to own and control a cooperative serving their specific needs.

**Statutory changes** — One of the most interesting and possibly the most significant change regarding cooperatives has come in the form of new cooperative incorporation statutes. The statutes, presently enacted in a few states, reflect one kind of response to the need for cooperatives to participate in capital-intensive business. These new statutes generally provide for substantial investment in a cooperative by investors who do not use the cooperative.

In addition, the statutes give such "outside" investors voting power in the cooperative, along with those who use the cooperative. It is expected that some version of these statutes will be considered by more states in the next several years. Debate continues regarding the wisdom of such laws and the possible impact on cooperatives, particularly on ownership, control and benefit for farmer members.

**New choices of business forms** — Farmers and others who want to collaborate in business have many choices of the business form they wish to use. They no longer need choose only between a traditional corporation and a cooperative. Corporations can be modified considerably to achieve selected business goals.

In addition, the limited liability company (LLC) has become an extremely popular business form because of its combination of tax and liability protection attributes. The LLC is also a flexible business model and can be organized to give most of the benefits of a cooperative. As a consequence, individuals who would have otherwise chosen a cooperative or a combination of a cooperative and non-cooperative firm are increasingly turning to LLCs. This

concerns those who see this trend as a loss of cooperative businesses, while others view the trend as a means to have the best of two worlds.

**Pace of innovation** — Cooperatives and similar farmer-owned organizations continue to innovate in every aspect of the industry. Innovation itself has become something of a "commodity." As such, it takes on a value. Cooperatives have responded accordingly and become much more willing to innovate to find new and better ways to serve farmer members. This trend will certainly continue.

**From defense to offense** — In many circumstances in the past, cooperatives were created to alleviate poor market conditions or challenge the power of others in the market. While this certainly was not the case for all cooperatives, it was a perception that influenced the way cooperatives were viewed. Cooperatives are quite clearly now becoming more positively oriented, creative and proactive as they are used to participate in markets.

Co-ops are taking active roles in adding value to commodities, in developing new markets and brands to position themselves for profitable operations and in moving toward responding to markets rather than attempting to sell commodities already produced. With this comes new needs for capital, for expertise and for appropriate business forms.

### **Future of partnership**

It is quite clear that cooperatives will change in the future in ways not now anticipated. It is also clear that those who would have in the past adopted a traditional form of cooperative structure will choose to form and design a business that suits their needs but may have only some cooperative characteristics. This leads to two important questions about the USDA-cooperative partnership as envisioned in the Cooperative Marketing Act.

Will farmers and others have a need for the "analysis and guidance" identified in the five functions described in the Act? On the other hand, will

USDA be able to respond to changing needs and trends with services that continue to prove the value of the Act?

A positive answer can be made to both questions. Those who form and use cooperatives or other collaborative business forms will need analysis and guidance in added measure simply because these are new, untested waters. What works and what doesn't work? What are the pitfalls as well as the potentials for innovations in structure, operations and objectives? What are best practices leading to likelihood of success? These are the types of questions that need answers — answers that must be studied and lessons learned disseminated to those to whom the benefit is greatest. The more cooperatives change and respond, the greater is the value of information.

Cooperative analysis and guidance at USDA is continually changing to meet new demands and opportunities. More focus is needed on the broader issues of rural economic development and the role of cooperatives in such development, objective investigations of the impacts of new financing and business forms and in-depth analysis of farmers' roles in new industries, such as ethanol.

More assistance is needed for those considering various methods of collaborative action, as is application of evolving business practices for farmer organizations. These are just a few examples of continued response to new needs. The addition of the Value-Added Producer Grant program to provide direct financial assistance to those who use innovation will add value to commodities is another example of recent changes to the USDA-cooperative partnership.

Review of the 80 years of contributions by cooperatives and by the Cooperative Marketing Act, further review of recent dramatic changes in cooperatives and the anticipation of continued innovation and change in nearly every aspect of cooperative and farmer-owned business all suggest a clear need for a continuation of the "partnership" established by the Cooperative Marketing Act of 1926. ■



## From the archives of Rural Cooperatives and its predecessor magazines

### 50 Years Ago...

From the July and August, 1956 issues of *News for Farmer Cooperatives*

#### Making merchandise move

“To do a better job of merchandising for farmers, co-ops must know something about people and their reactions. A business should carry articles people need and then handle these articles in a way to please the users,” explains F. Byron B. Cory, president of Henry County Supply Co-op Company in Mt. Pleasant, Iowa. Many of the basic principles of good merchandising that businesses have found essential also apply to cooperatives. Some important principles include where a building is located, the type of building, modern fixtures, delivery equipment, trademarks and general business set-up, such as hiring staff with good personalities. People are more likely to come back for more if a store is clean and uncluttered and products are displayed attractively.

#### Fish fare fine on rice farms

The Arkansas Fish Farmers Cooperative of Lonoke, Ark., began in January of 1956 to raise fish in the same fields as rice. By rotating fish with rice, members of the co-op are making more money and improving the land. Some good results that have been reported include: (1) the organization gave publicity to fish farming and created new interest in it and respect for it; (2) fish buyers increased the price they paid for fish; (3) inquiries were received from canning plants; (4) inquiries were received from governmental agencies for game fish for use in stocking streams; (5) since the organization of the cooperative, commercial fishermen have reduced their usual charge of 50 percent of the fish harvested to 25 percent; and (6) this cooperative is representing and defending the interests of fish farmers.

#### Co-ops process and market cottonseed

Cottonseed, processed and marketed by cooperative mills, has found its way into several diverse products, such as food shortening, cattle feed, mops, surgical dressings, paints, meat casings, soap, printing inks, twine and explosives. Fourteen co-op cottonseed oil mills process about 10 percent of the cottonseed crushed, bringing members an average of \$21.66 a ton more than other cotton growers received over a seven-year period. The primary functions of a co-op cottonseed oil



July 1956 issue

mill are to crush seed for its members, market the products, and return net sales proceeds on a patronage basis. In addition to crushing seed, some mills perform additional services, such as feed mixing, handling bagging and ties, and cotton planting seed. Almost all cottonseed processed in co-op mills comes from grower members and member gins.

### 30 Years Ago...

From the July and August, 1976 issues of *Farmer Cooperatives*

#### Cooperative Marketing Act 50th Anniversary

On July 2, 1976, the Cooperative Marketing Act celebrated its 50th anniversary. When the Act was approved in 1926, “helping farmers to help themselves” became national policy. The Act enlarged, strengthened and made permanent the Department of Agriculture’s formal assistance to cooperatives that had begun shortly after passage of the Capper-Volstead Act in 1922. The Farmer Cooperative Service marked the 50th anniversary with a special birthday observance on the patio of USDA’s administration building June 30. Special guests included representatives of national cooperative organizations, congressmen and cooperative leaders and officials of USDA, including Secretary of Agriculture Earl L. Butz.

#### Texas cooperative making denim

Since at least 1953, the Southwest cooperative cotton industry has been trying to develop a marketing system that would reward producers and distribute their product as economically as possible. To do so, the American Cotton Growers (ACG) is constructing a \$30 million denim manufacturing facility in Littlefield, Texas. The plant is using the open-end spinning concept in the annual production of 20 million yards of finished, heavyweight, indigo-dyed denim. Begun a year ago, the denim plant is on schedule and is expected to be in full operation by December. Although ACG began construction of its denim plant in 1975, the enterprise



July 1976 issue

started in 1973. Since then, the organization has completed three ginning seasons and remains confident about its advanced concept of off-farm services — transportation of cotton from field to gin, centralized ginning, compressing and pool marketing.

### Russian farm specialists visit Mid-America

“A team of Russian agricultural specialists visited Mid-America Dairymen’s headquarters in Springfield, Mo., this spring to study research and accounting facilities and to discuss milk marketing. In summing up their experiences on their tour of this country, V. N. Pustozarov, spokesman for the five-man team, said, “We have studied your experience in productivity, and have corrected our previous conclusions about the U.S. It is better to see it [American agriculture] once than to hear about it 100 times.” Pustozarov is deputy minister of agriculture in Russia. Others in the team included A. Goriashin, head of Leningrad Oblast Administration of Agriculture and E. G. Knoplev, assistant agriculture counselor of Russia’s embassy in the United States.”

## 10 Years Ago...

From the July/August, 1996 issue of *Rural Cooperatives*

### Memory quilt honors Land O’Lakes 75th Anniversary

“A 90- by 110-inch memory quilt that features the cooperative’s family history in fabric has been created by members, employees and their families to honor the 75th anniversary of Land O’Lakes Inc. (LOL), at Minneapolis. Rita Page Reuss, LOL’s vice president for public affairs, said the quilt was “a natural fit with our rural heritage, commitment to people and dedication to quality and craftsmanship.” About 350 members of the LOL family submitted individual 10- by 10-inch quilt squares depicting some aspect of LOL’s history, heritage and values. The project took one year to complete, including the call for entries, judging, quilting layout and assembly. Those squares not chosen for the quilt will be made into charity quilts.”

### Minority producer co-ops face marketing and financing challenges

Only a handful of minority-owned farm and handicraft cooperatives are presently included in USDA’s cooperative database. This is in part a reflection of the small number of minority-owned farms in the United States. In 1919, there were 1 million black farmers in the United States, but that number today has declined to less than 20,000. Results from USDA’s latest minority co-op survey point to the difficulties facing minority cooperatives. The relative lack of numbers and seemingly low success rate for those minority co-ops that are formed underscore the need for both a stronger national effort at cooperative education and technical assistance outreach to the nation’s minority farm and handicraft producers. It is possible that a more energetic cooperative development effort could help preserve or expand the presence of minorities in an ownership role in our nation’s agricultural system.

### Navajo co-op weaves self-reliance

“The Ramah Navajo Weavers Association is a grassroots cooperative group made up of more than 40 traditional weavers who live on the Ramah Navajo Reservation in the pinion-pine country of west-central New Mexico. Founded by 17 women in 1984, the association is working towards two broad goals: (1) to increase family self-reliance by using indigenous resources (land and water) and native skills (traditional Navajo weaving, sheep raising, land use and management); and (2) to strengthen important and distinctive land-based traditions, values and spirituality for future generations of Ramah Navajos. The association has a holistic philosophy and is working in four areas: weaving improvement, sheep and wool improvement; land restoration and protection; and cultural and education development.” ■



July-August 1996 issue



# USDA working with nonprofit to boost bioenergy in Arkansas

**By Jack Gleason,**  
**Acting Administrator**  
USDA Rural Development  
Business-Cooperative Programs

**U**SDA Rural Development offices across the nation are working with cooperatives, individuals, partnerships and corporations to help promote the development of the nation's rapidly emerging bio-fuel economy. This is without doubt the most exciting and promising economic development for rural America since the arrival of electricity on the farm.

We are also working with nonprofit organizations to promote renewable energy, a prime example being Winrock International. Winrock works with people in the United States and around the world to increase economic opportunity, sustain natural resources and protect the environment. It matches innovative approaches in agriculture, natural resources management, clean energy and leadership development with the unique needs of its partners.

Its U.S. programs bring global expertise home to benefit Arkansas, the Mid-South and the United States.

In 2004, through a grant from USDA Rural Development under our Rural Business Opportunities Grant program, Winrock conducted a feasibility study for establishing biodiesel production in Arkansas. Since the study was completed, one biodiesel production facility has been constructed and is operational. A second facility is under

construction and plans are under way to build more.

In cooperation with the Arkansas Energy Office and the University of Arkansas at Monticello, Winrock is currently helping the Potlatch Corporation evaluate the technical viability and economic feasibility of a commercial-scale biorefinery, to be located in the Mississippi Delta, using cellulosic biomass materials.

Winrock recently hosted a tour of facilities in Eastern Arkansas for staff members from USDA Rural Development's state office for Arkansas and



myself that was very enlightening. The tour included a presentation from the Eastman Chemical facility in Batesville and site visits to England Dryer, a soybean oil extrusion facility; Patriot Fuels, a small biorefinery in Stuttgart; and the Potlatch pulp mill in Cypress Bend. These value-added activities have been made possible in part by strategic investments from USDA Rural Development.

## **Opportunity to prosper**

The emerging bioenergy industry offers a unique opportunity for Arkansas. The potential for large-scale production of biofuels and bioenergy from cellulosic residues and dedicated energy crops is enormous, particularly

in the Delta region. Achieving this potential would enhance the sustainability of the state's agricultural sector, create thousands of new processing jobs and result in numerous environmental benefits while helping to reduce our nation's reliance on imported energy.

Arkansas' potential for producing biofuels and bioenergy from cellulosic materials is substantial. In addition to forestry and agricultural residues, Arkansas has the potential to redirect more than 2 million acres of farmland into production of dedicated energy crops, making Arkansas a world leader in renewable energy.

Dedicated energy crops have the potential to transform the Delta region. Farm profits could be higher than from traditional crops and long-term biomass supply contracts could reduce market risks for local farmers. Renewable energy production from dedicated cellulosic biomass has numerous environmental benefits. For every pound of carbon dioxide generated during production and consumption of biofuels or bioenergy products, an equal amount is removed from the atmosphere during the plant's growth cycle.

Equally important, production of perennial cellulosic energy crops would use topsoil-conserving, no-till agricultural practices.

Winrock's goals are to facilitate private sector production of and public sector support for bioenergy and to help Arkansas become a world leader in bioenergy production. USDA Rural Development is proud to provide its support for this effort. ■

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