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# Rural COOPERATIVES

USDA / Rural Development

July/August 2011

Forging  
links between  
growers and  
buyers

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# Commentary

## From small beginnings...

By Dan Campbell, Editor



Cooperatives have a long tradition of helping farmers meet challenges and make successful transitions as markets and economic conditions change. With tobacco consumption and acreage declining, it should come as no surprise that cooperatives are playing a role in helping former tobacco growers transition into new agricultural endeavors.

From 1990 to 2008, U.S. tobacco production decreased about 34 percent, while domestic consumption dropped 31 percent. The 2010 crop (both flue-cured and burley) was estimated at 307,000 acres, down from 408,000 as recently as 2004. Although there have been some indications of a small upturn in plantings in some states (due primarily to higher exports), there are still thousands of ex-tobacco farmers looking for new, high-value crops to switch over to.

As we've written in other articles on this topic in previous years, the cliché about there being “no silver bullet” is certainly true here. Even with sharply higher prices for soybeans, corn and other grain crops, those crops still won't come close to matching the per-acre returns formerly generated with tobacco.

However, the burgeoning market for local foods, including food raised with organic or natural agronomy practices, has opened some promising new avenues for small-scale and specialty crop producers, including those involved in aquaculture.

In this issue of *Rural Cooperatives*, we focus on North Carolina, the nation's leading tobacco producer, and three small cooperatives or quasi-co-op enterprises that are helping growers find new marketing alternatives.

American Prawn Cooperative members are growing freshwater prawns that have won plaudits from the Seafood Watch program of the Monterey Bay Aquarium, which recognizes high-quality seafood products raised using

environmentally sustainable production methods.

Bolstered by funds from the North Carolina Tobacco Trust Fund Commission, the co-op recently purchased a flash-freeze unit which will help it expand its marketing territory further up the Northeast Coast, which should help net higher prices for its product. The co-op has also used a Value-Added Producer Grant (which producers must match with an equal investment) and technical assistance from USDA Rural Development. These funds are helping the co-op package and market its freshwater prawns.

The challenges of developing the infrastructure (ponds, hatcheries, packaging, transportation, marketing, etc.) for a new industry such as this are many, but so far demand for the prawns has been strong, and the co-op, while still in its infancy, appears to be building momentum. And how can you not help but root for farms with great names like Crazy Claws Freshwater Prawn Farm, or Harvest of the Great Spirit Prawn Farm?

Elsewhere in the Tarheel state, other ex-tobacco farmers are being assisted by Pilot Mountain Pride in selling their produce to local food markets, including hospitals, schools and supermarkets. Sales of \$250,000 in 2010 greatly exceeded projections, and farmers are excited about the potential to continue to expand their marketing efforts — especially about the opportunities it creates for beginning farmers.

Alternative livestock markets are also offering new opportunities for farmers, and the North Carolina Natural Hog Growers Association has found that there is a growing market for its pasture-raised pork. Co-op members sent some 6,000 hogs to market in 2010-11, more than double the number of 2007, its first year. The number of member-producers has jumped from 5 to 30.

By helping to coordinate between growers, the packing plant and buyers, and by handling payments from buyers and growers (among other roles), the hog co-op is proving invaluable in expanding the market for this niche meat product.

Sure, in the great scheme of American agriculture, these are small, even micro-businesses. But from small beginnings, big things one day come. Few know that better than farmers. It all springs from a seed. ■



*Freshwater prawn production is providing a new source of income for some North Carolina farmers.*

# Features

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**ON THE COVER:** : Packing pecks of peppers in Pilot Mountain, N.C., is Joshua Cave. Pilot Mountain Pride was created to help small- to medium-sized producers gain access to retail and food service markets in the Winston-Salem, N.C., area. USDA photo by Bob Nichols







# Taking the plunge

*American Prawn Co-op helping  
aquaculture take root in tobacco country*

**By Anne Todd, Contributing Editor**

**Editor's note:** portions of this article were adapted from a co-op history written by Charlene Jacobs.



Demand for cigarettes in the United States has been falling for decades. As a result of this trend and other market forces, North Carolina's tobacco industry has been declining for many years. The result has posed serious challenges for the state's overall economy. But the problems have been especially acute for tobacco farmers who have been forced to look for other crops or endeavors.

In response, the North Carolina agriculture industry has established a number of programs to encourage producers to diversify by moving into other types of farming. One result of this diversification effort is the

American Prawn Cooperative (APC), a marketing co-op in Walstonburg, N.C., that provides processing, freezing and marketing services for the region's freshwater prawn producers.

In April 2010, the North Carolina Tobacco Trust Fund Commission — which administers a fund to support innovation in communities impacted by the downturn in the tobacco industry — awarded APC a \$200,000 grant to help the co-op purchase a flash-freeze unit for its processing facility.

APC has acquired the unit and it is being installed this summer. It will be used to flash-freeze prawns, which can then be shipped long distances, mostly along the East Coast. This will allow the cooperative to tap into new, lucrative markets for its product. Demand for prawns is strong in the Northeast, where they can bring more than \$18 a pound, vs. \$8 to \$10 per pound when sold at the co-op's pond sites during harvest.

"We have an all-natural, chemical-, antibiotic- and hormone-free product," says APC President Charlene Jacobs. "It is low in fat and sodium, high in protein and makes a healthy alternative seafood choice for health-conscious consumers. But APC freshwater prawns are considered a 'niche' product, rather than a commodity, so it is extremely important that the APC find niche buyers who are willing to pay a niche price."

The Tobacco Trust Fund Commission grant is helping the cooperative fulfill its goal of establishing a complete processing and storage facility in Walstonburg.

In 2002, Gene Wiseman and Doug and Johnny Barbee, former tobacco growers, started the DJ&W King Prawn Farm in Kenly, N.C., where they constructed a two-acre pond and stocked it with baby prawns acquired from Mississippi. The pond yielded 750 pounds of prawns the first year, only



*Ponds such as this at Crazy Claws Prawn Farm in Walstonburg, N.C. (facing page), have been developed by members of the American Prawn Cooperative (APC), many of whom are former tobacco growers. USDA photo by Bob Nichols. At left: Farmers work beside hired employees during the harvest. "We farmers are very 'hands on' with our product," says APC President Charlene Jacobs (center, facing camera). To her right is Mike Frinsko, N.C. State University extension agent and aquaculture specialist. Photo courtesy APC*

about half of what they had expected. However, they sold their entire "crop" right after harvest. So they were encouraged.

Over the next four years, DJ&W King Prawn constructed two more ponds, expanding the operation to six acres of ponds. The average yield soon rose to 1,500 to 1,600 pounds per pond, a big improvement over the first year. Again, they sold every pound harvested to local customers "at pond side" and to a local food supply company.

### **More farmers dive in**

As news of this new aquaculture industry spread, interest grew. DJ&W King Prawn set up a nursery to raise juvenile prawns as stock for themselves and other freshwater prawn producers. The nursery became the first, and only, supplier of juvenile prawns in North Carolina.

Two other farmers, John Relyea of Walstonburg and Don Ipock of

Vanceboro, contacted Wiseman to learn more about this new aquaculture industry. Wiseman shared some of his expertise and referred them to Mike Frinsko, the Aquaculture Extension Specialist at North Carolina State University.

In 2006, with the help of Frinsko, Relyea and his wife, Natalie, constructed a pair of two-acre ponds in Greene County and launched Relyea's Crazy Claws Freshwater Prawn Farm. Ipock and his wife, Kim, constructed a two-acre pond in Craven County and started Carolina's Best Freshwater Prawn Farm.

It was about this time that these farmers began to consider establishing a cooperative for prawn growers. But they felt they would need more members for a viable co-op. So, in 2006, they approached Frinsko again, this time seeking assistance in reaching out to other farmers who might be interested in growing freshwater prawns

and forming a cooperative.

### **Freshwater prawn school**

Frinsko enlisted the aid of Lou D'Brahmo of Mississippi State University, and together they began to educate North Carolinians about aquaculture and freshwater prawns. Meetings were held in various locales where farmers learned more about this growing industry.

As a result of these outreach and education efforts between 2006 and 2008, three new farms joined the original three operations in freshwater prawn production. Tom and Ann Hollowell started Hollowell's Family Prawn Farm in Seaboard (Northhampton County); Charlene, Gene and Chad Jacobs started Harvest of the Great Spirit Prawn Farm in Clinton (Sampson County), and Merlin and Edith Nichols started Swift Prawn Farm in Ayden (Pitt County).

In 2008, with support from USDA



and the North Carolina Department of Agriculture and North Carolina State University Cooperative Extension, Frinsko helped the producers officially launch the American Prawn Cooperative. Bruce Pleasant, Business-Cooperative Programs Director with USDA Rural Development in North Carolina, and Bill Brockhouse, an ag economist and co-op development specialist with USDA Rural Development's Cooperative Programs in Washington, D.C., met with the group several times. They conducted an exploratory meeting and helped identify resources that could help the new co-op. They also reviewed the co-op's organizational documents and otherwise helped with planning.

"The amount of enthusiasm and pride the members share in their cooperative is tremendous," says Pleasant. "From the beginning, the group recognized the value in marketing cooperatively and were already pooling labor with their prawn harvests and sharing production and marketing information. The members deserve credit for tapping the resources of Mike Frinsko and Bob Usry with N.C. State University and others who have worked closely with the cooperative, and for keeping focused on their mission."

The co-op was incorporated in May 2008.

## Expanding operations

In 2009, APC established a website, [www.americanprawncooperative.com](http://www.americanprawncooperative.com), to market its product online, to inform customers about trade shows APC members would be attending and to provide other news about the co-op and freshwater prawns.

That same year, APC also received a \$50,000 grant from North Carolina's Golden Leaf Foundation, which was issued to Greene County to study the live-hauling of freshwater prawns — information that is critical to APC's future success.

In February 2010, APC received a \$30,000 grant from Rural Advancement Foundation International (RAFI) to



purchase live-haul tanks and trailers to transport prawns from the farms to the processing facility in Walstonburg.

In June 2010, APC members, along with Greene County officials, held a ribbon-cutting ceremony to celebrate the opening of the APC processing facility. More than 150 stakeholders, officials and local supporters attended the event. The co-op acquired the processing facility with help from an Innovation Grant from Greene County and the North Carolina Rural Development Center.

Greene County recently voted to convey the facility to the co-op, provided that APC remains in business as the American Prawn Cooperative for the next seven years.

In September 2010, American Prawn received a \$197,000 Value-Added Producer Grant from USDA Rural Development to market and package APC's freshwater prawn. Shortly afterward, the co-op signed a contract with a marketing broker for assistance in establishing markets.

## Harvest and beyond

American Prawn Cooperative members participated in the Boston Seafood Festival in March 2010, where their freshwater prawns won a "Best Choice" designation by the Monterey Bay (Calif.) Aquarium, as part of its "Seafood Watch" program. Seafood Watch is an internationally respected program that recognizes "the best of the best" in sustainability and helps consumers make smart seafood choices.

APC's prawns have also been given a "green" ranking in all five sustainability criteria established under the Seafood Watch program. This is the first time freshwater prawn has been classified as a "green" product since Seafood Watch



*Clockwise (from upper right on facing page): Gene Jacobs (on pier) oversees the last stage of draining a pond at Great Spirit Prawn Farm in Clinton, N.C., while other family members search for prawns that may be stuck in the mud. Middle photo: Prawns are taken out of a catch basin and loaded into purging tanks at Carolina's Best Freshwater Prawn Farm in Vanceboro, N.C. Cooked prawns ready to serve. A worker in a catch basin carefully nets prawns as they flow into the basin from a pond at Carolina's Best Freshwater Prawn Farm. A fresh prawn. All photos courtesy APC*

began assessing seafood in 1999.

Harvesting of APC freshwater prawns usually occurs from mid-September through early October. American Prawn Cooperative members used the hauling tanks and trailers purchased through the RAFI grant for the 2010 harvest, making transportation easier and safer. Although the 2010 harvest dipped from 2009 levels at each farm, the quality and size of the prawns exceeded the previous years. The Value-Added Producer Grant funding allowed the co-op to grade its product in 2010 for the first time.

Sales were better in 2010 than in



2009 and are expected to be even better in 2011. Co-op members credit the USDA Value Added Producer Grant for helping them improve their marketing efforts and hire a marketing representative.

### Eye to the future

APC's leadership has set short- and long-range goals for the cooperative. The one- to two-year goals are to expand the APC membership base by bringing on new producers and to hire at least two permanent employees (in addition to the 60-75 temporary employees that will be needed to handle the expansion). The two- to three-year goals are to lease the individual quick-freeze equipment during the months it is not being used by APC, to expand members' ponds, and to hire additional employees. The three- to five-year goals are to expand the APC facility and to enhance product distribution by purchasing a cooler/freezer truck and hiring a driver.

"Being a young cooperative that celebrated its third year in May 2011, and given the state of the economy from APC's birth until the present, we feel very fortunate to have progressed to our present state," says Jacobs. "Our goals and expectations for the APC are unlimited...The APC will make its mark as a North Carolina producer and distributor of the best all-natural freshwater prawn in the United States.

"Even though times are hard and we are struggling, just as other farmers are, we stay encouraged that tomorrow just might be our big breakthrough day — the day we find the niche market that wants all of our product and more," she continues. "It will happen."

To learn more about the American Prawn Cooperative and its latest activities, visit its website at: [www.americanprawncooperative.com](http://www.americanprawncooperative.com), or send e-mail to: [prawns@prawncoop.com](mailto:prawns@prawncoop.com). ■





## PILOT MOUNTAIN PRIDE FORGES LINKS BETWEEN GROWERS AND BUYERS

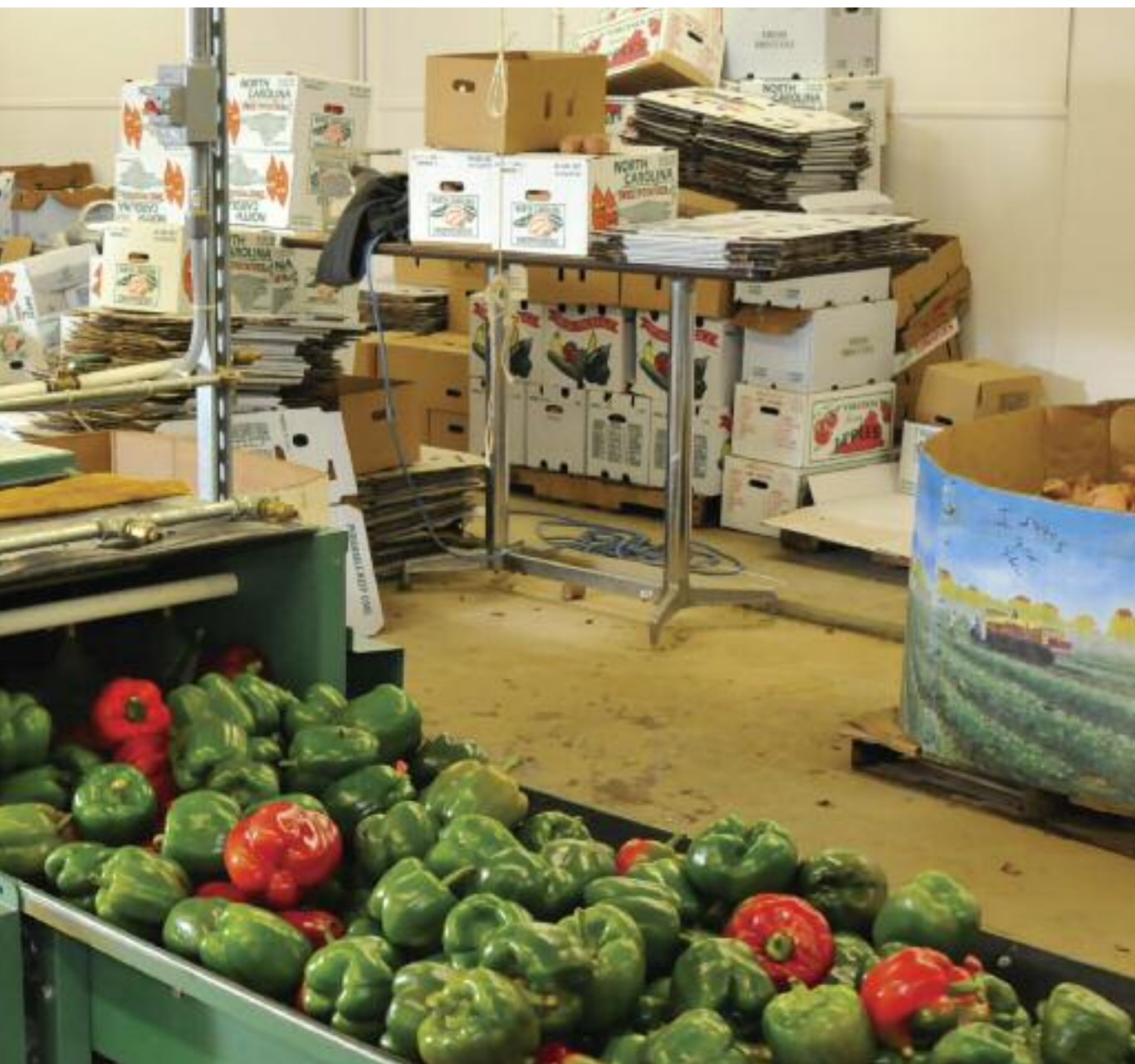
**By Anne Todd**, Contributing Editor  
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**P**ilot Mountain Pride (PMP), in Pilot Mountain, N.C., was launched in the summer of 2010 to help small- to medium-sized family produce farmers gain access to retail, service and institutional markets in the Winston-Salem area. Many of the farmers involved with the co-op (organized as a producer-run limited liability company, or LLC) are former tobacco farmers who have suffered economically from the decline in the

tobacco industry. PMP is helping them to transition from tobacco into other crops and meet the burgeoning demand for more local foods.

Poor infrastructure for local distribution of high-value specialty crops, including vegetables and fruit, has long created marketing challenges for farmers in Surry County and the surrounding area. For many years, Surry County officials worked with producers to develop local “tailgate markets,” small-scale farmers markets where there are no middlemen and the farmer sells his or her own produce. While these efforts met with some success, the unknown number of buyers at any given sale made this a less-than-



*This former North Carolina hosiery factory has been converted into the Pilot Mountain Agricultural Center. Initial sales have been much better than expected, but finding a market for slightly off-grade produce has been a challenge for Pilot Mountain Pride. USDA photo by Bob Nichols*

optimal business practice, especially for more commercial, medium-sized producers.

Today, the Pilot Mountain Pride network is connecting producers to a wide variety of end users in the region, including hospitals, restaurants and supermarkets. These buyers are benefiting from consistent delivery, better prices and certified safe handling while producers realize improved income.

### **Pilot Mountain's roots**

Pilot Mountain Pride is a limited liability company owned by Surry County's nonprofit Economic Development Foundation. It was designed to play a

role in the local foods movement in the Winston-Salem region by linking local producers with end consumers by providing them with an aggregation center to ready their produce for market.

In 2006, North Carolina's Small Towns Economic Prosperity Program identified a need for a community agriculture center in the area to help producers. The idea for an ag center eventually grew into the Pilot Mountain Pride business model.

Surry County subsequently secured a location — the old Amos and Smith Hosiery Mill building at 612 East Main Street. Funding was received through a variety of state and county programs to help with the



purchase, building renovations and needed equipment. The 6,000-square-foot facility is now known as the Pilot Agricultural Center. USDA Rural Development was one of the agencies supporting the project, providing Pilot Mountain Pride with a 2010 Rural Business Enterprise Grant for a refrigerated truck to deliver the produce throughout the region.

PMP's goals are to:

- Increase sales and economic opportunity for area growers of specialty crops;
- Provide farmers with crucial training and education in post-harvest handling of their crops, including grading, packaging and distribution while increasing the long-term viability of their family farms, and
- Raise awareness of local foods in the greater community

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## Market for 'seconds' proves elusive to date

Rural Cooperatives interviewed Chris Knopf, Surry County Assistant Manager for Economic Development and Tourism, to learn more about Pilot Mountain Pride. Knopf, along with Surry County Cooperative Extension Director Bryan Cave, worked to get the Pilot Mountain Pride business up and running. Knopf developed the grant proposals that helped provide seed funding for the project.

**Q. What has been the biggest challenge facing PMP? Biggest obstacle overcome?**

A. Keeping the cost of operating PMP within the 20 percent it retains for operations. Packaging has been the biggest obstacle to overcome. Costs last year were 250 percent higher than estimated.

**Q. What do you consider to be the greatest strength and weakness of the PMP business model?**

A. The biggest strength is providing an outlet for family farms to sell local produce where they are not burdened with marketing their products or acquiring the necessary infrastructure to wash and grade their produce. Also, PMP has provided its farmers with GAP (Good Agricultural Practices) training. Its biggest weakness has been finding markets for "seconds" — produce that is slightly irregular in shape or appearance but will be rejected by grocery outlets purely on physical characteristics.

**Q. Has your marketing strategy evolved or changed? Any major additions or changes at the plant?**

A. Marketing last year revolved around brand awareness utilizing print media, radio, Internet and television. This year it is focusing on advertising at locations where the product is being sold or consumed.

**Q. What do your members want and expect from PMP?**

A. They expect PMP to find markets for their produce. However, they understand that they also need to develop other markets as well to protect themselves.

**Q. Is the recession affecting PMP growers? If so, is it able to make any special efforts to help in such tough times?**

A. Not especially, other than that growers have not been able to develop their secondary markets as well as first hoped, due to the economy.

**Q. Do you have any long-term plans to expand into new markets?**

A. PMP desires to access more of the institutional markets, such as universities and hospitals.

**Q. How many fulltime employees do you have?**

A. One full-time, three part-time.

**Q. What are your plans for the future for the company?**

A. To have sustainable growth in markets, growers and produce volume.

**Q. Tell us about the commitment the PMP has made to the community. How much overall impact does the PMP have on the area's economy?**

A. PMP has brought enormous attention to both the town and the county. More attention to the concept of buying local has emerged due to PMP's existence, which benefits small businesses across the board in our area.

**Q. Has PMP produce won any awards and, if so, do these awards help influence sales?**

A. No awards, but it has received a great deal of positive press over the past 13 months. PMP has been the recipient of grants from eight different business organizations or local, state and federal governments. ■

# Hogs on the Range



## *Carolina growers form co-op to supply local pasture-based pork market*

**By Bill Brockhouse**

Cooperative Development Specialist  
USDA Rural Development/Cooperative Programs



North Carolina grows lots of hogs. It ranks second in the United States (Iowa is No. 1) for hog production, with about 12.4 million slaughtered in 2009. The vast majority of those hogs were produced the conventional way in confinement operations. Only a small number are produced for niche markets, but those markets appear to be growing rapidly.

The growers who founded the North Carolina Natural

Hog Growers Association (NCNHGA), a nonprofit cooperative, have found that – in addition to the quality of the pork itself – production practices used to grow hogs can be a valuable marketing tool. A small, but significant, number of consumers want pork from hogs raised using unconventional methods. In the case of pasture-based hogs, that mainly means use of non-confinement operations, as well as the way hogs are treated from the farm to the packing plant.

*Jeremiah Jones (above), president of the North Carolina Natural Hog Growers Association (NCNHA), checks on some piglets. Producers have found a ready market for their pasture-raised pork. Photos by Michelle Eley, courtesy North Carolina A&T Cooperative Extension.*



The Animal Welfare Approved Program (AWAP), part of the Animal Welfare Institute, works with pork producers in North Carolina to promote “pasture-raised” production methods. AWAP staff member Tim Holmes estimates that there are more than 526 sows on 33 farms in the state producing pasture-based pork.

Two main groups are engaged in “natural/pasture-raised pork” marketing cooperatively within the state, Holmes says. The average producer marketing cooperatively has 23 sows, compared to eight sows for producers marketing on their own.

“Producers choose to market through groups due to transportation costs and their distance from major population centers, like the Raleigh/Durham area,” Holmes says. Many producers marketing independently are located closer to population centers and sell at local farmers markets or directly to consumers (sometimes through Community Supported Agriculture, or CSA, plans) restaurants and other retail food markets.

### Cooperative beginnings

The North Carolina Agricultural and Technical Cooperative Extension Program (NC A&T-CEP) began working with hog growers in the southeastern part of the state, using funds from USDA’s Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers Program. Faculty worked with these growers to help improve outdoor hog production, land and financial management, recordkeeping and marketing.

Niman Ranch, a California-based specialty meats company, entered the North Carolina market in 2002 and contracted with some growers for pasture-based hogs. “The growers were looking for an alternative to raising tobacco; many of them raised hogs in the past but abandoned it when they couldn’t turn a profit,” says NC A&T-CEP’s Michelle Eley, who works out of Greensboro. “We had to show them that they were capable of producing a product that appeals to an upscale market. For a time, farmers made a profit by following strict animal husbandry guidelines and selling their product to Niman Ranch.”

NC A&T-CEP also provided advice on necessary farm equipment and infrastructure, hog genetics and meeting specifications. Heifer International was also involved through its “Passing the Gift” program, which provides hogs to socially disadvantaged farmers who in turn give some of the offspring to other limited-resource farmers.

There were other indications that niche hog marketing, including pasture-based pork, was a viable alternative, including research conducted by Michigan State University’s David Conner. Unfortunately, Niman withdrew from North Carolina in 2007, leaving growers with no place to sell their

hogs. But the growers wanted to continue their pasture-based hog operations since returns were very good and they believed in this method of production.

### “Just trying to survive”

After their market disappeared, growers in south-central North Carolina held meetings to explore ways to work together to stay in business. They focused on creating a formal business structure to market their pork. “We were just trying to survive,” says Jeremiah Jones, NCNHGA president.

NC A&T-CEP and Heifer International assistance was instrumental during this stage of the cooperative’s development, helping growers secure markets and create a formal business structure to market their pork.

A steering committee was formed, involving Jones and 10 other farmers. Several meetings were held to devise a plan to save their operations. Some buyers encouraged them to form a cooperative. One major buyer, Whole Foods — which has a track record of working well with cooperatives — indicated that it would be easier and more efficient to deal with a grower cooperative than with individual growers.

With this in mind, growers began working to develop a cooperative. Meetings were held with NC A&T-CEP and USDA Rural Development staff members, who helped the producers understand cooperative principles and practices; they also helped producers draft articles of incorporation and bylaws for the cooperative.

A survey of producers showed that a significant number of growers would be interested in being cooperative members,



would sign a marketing agreement, would contribute start-up capital to the cooperative and would collectively market around 2,000 hogs per year through the cooperative. Growers then decided to form the North Carolina Natural Hog Growers Association, a nonprofit grower cooperative, in 2007.

The cooperative marketed around 2,600 hogs in the first year, increasing to 6,000 hogs in 2010-2011. The number of members grew from five to 30 during this period. Grower



*Co-op members attend a meeting where they learn about the requirements for having their operations pass the farm audits that ensure their hogs are grown according to natural, pasture-raised standards.*

operations are primarily located in Pender, Duplin, Sampson, Johnson, Orange and Warren counties. Most members are in the 50-70 age range, and many are former tobacco farmers.

### **Growers benefit from co-op**

NCNHG performs several important functions for members. These include:

- Coordinating between growers, the slaughter plant and buyers;
- Handling payments from buyers to growers;
- Negotiating with buyers;
- Helping growers meet production standards and buyers' specifications; and
- Locating the right breeding stock.

Some growers remain skeptical of the cooperative, even after they become members. But they usually soon see the benefits of joining the cooperative.

In response to the need to meet strong demand in the niche market for pasture-based pork, buyers have agreed to pay higher prices to the co-op, due to higher grain costs in recent years. "All our markets are coming to us," says Jones, indicating that there is unmet demand for the cooperative members' pork. Prices have increased the past few years from about 93 cents to \$1.20 per pound. Co-op sales now exceed

\$1 million annually.

### **Forces behind demand**

There are several explanations for the rising demand that has helped expand the niche market for pasture-based pork. Holmes cites the desire to "buy local" as probably the most popular reason consumers give. The nutritional aspects, animal welfare and taste attributes are also factors.

Buyers also seek hogs in a fairly narrow weight range. Premiums are paid if the hogs are within the desired weight range; producer prices are docked the further out of the desired weight range their hogs are. The cooperative has worked with buyers to develop a system that helps members meet their needs.

In addition to Whole Foods, other major buyers include The Pit Restaurant in Raleigh, Farmhand Foods, Old Havana Sandwich Shop in Durham and Sam's BBQ and

Chop House in Chapel Hill. The cooperative seeks buyers who will be steady customers "for the long haul." There are generally no signed contracts, just verbal agreements, except with Whole Foods, which is by far the co-op's largest customer.

Pork from the cooperative's hogs is marketed locally, although the definition of "local" can be problematic, according to Jones. One market was lost when "local" was defined as being within 35 miles of the buyer's site.

### **Meeting standards**

The cooperative's pork must meet strict standards. Members must receive certification from the Animal Welfare Institute, which audits and inspects members' farms each year to ensure compliance. The program has strict requirements and best management practices that must be followed if a grower is to receive the "Animal Welfare Approved" endorsement, which allows their products to carry that label. Each member of the association must receive that endorsement to market through the cooperative.

Whole Foods' requirements are even stricter, as it does not allow any animal byproducts, such as bone and blood

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# Utility Connection

## Wisconsin coal-burning plant converts to biomass

By Anne Mayberry

USDA Rural Development

Rural Utilities Service

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**S**ixty years ago, a new coal-fired electric generation plant was brought online by Dairyland Power

Cooperative, based in LaCrosse, Wis., in an effort to meet rapidly growing electric power needs. Today, that same coal-fired plant has a new life. But instead of coal, it is using wood waste for fuel to meet Dairyland consumers' growing demand for electricity.

The E. J. Stoneman Station biomass power plant, now owned and operated by DTE Energy Services, sells its entire 40 megawatt output to Dairyland. "We have been expanding our renewable energy portfolio as part of Dairyland's long-term power supply planning, explains Katie Thomson, Dairyland's senior communications specialist. The plant can power 28,000 homes and addresses member interest in increasing use of renewable power, she adds. Other advantages include diversification of Dairyland's energy portfolio and meeting regulatory requirements.

Dairyland brought the coal-fired plant into service in 1951, just 15 years after the Rural Electrification Act of 1936 was signed into law. May 20, 2011 marked the 75th anniversary of the Act, which codified establishment of the Rural Electrification Administration (REA), created by President Franklin D. Roosevelt as part of his long-term economic recovery program in 1935 by delivering electricity to rural areas. The

REA was later reorganized into what is now the U.S. Department of Agriculture's Rural Utilities Service (RUS), a Rural Development agency.

Wisconsin was among those states that used the REA to make rapid progress in bringing electricity to farms and rural residents. According to a study published by the University of Wisconsin in 1961, Wisconsin REA — *The Struggle to Extend Electricity to Rural Wisconsin, 1935-1955* — "Wisconsin ranked eighth in total REA allotments received...and first in generation and transmission capacity."

### Farm demand fueled co-op's growth

Dairyland, organized in 1938, grew to a \$40 million generation and transmission system with the help of REA financing. It supplied 87,000 rural consumers in Wisconsin, Illinois and Iowa with 162,000 kilowatts of power by 1954, a few years after the Stoneman plant came online. According to the Wisconsin study, the growth of rural electric cooperatives in Wisconsin was fueled by farmers discovering how electricity could increase efficiency in farm operations.

Dairyland sold the coal-fired plant during the 1990s. DTE Energy Services purchased the plant in 2008, planning to convert it to biomass fuel. "The majority of the fuel we use is urban wood, which is from construction and demolition," says John Austerberry, spokesman for DTE Energy. "We also use green wood — which is derived from forest activities. Railroad ties are another source of fuel."

A key advantage of biomass,

according to an April 2011 study just released by USDA's Office of the Chief Economist and Office of Energy Policy and New Uses, is that it can be converted to electrical power using pre-existing infrastructure, such as Dairyland's 1951-vintage coal-fired plant. Biomass produces biopower — the process of converting biomass into electric energy.

Biopower, according to the USDA study, is readily scalable and can provide power for a single farm or a larger load, such as a small city. Biopower



generation reduces the amount of methane released into the atmosphere by using the methane directly, or — as in the case of the Stoneman Station plant — by burning it before it decomposes. Thomson says Dairyland liked the biomass aspect, in part because “Using waste for energy is a win-win project.”

The plant uses 1,000 tons of biomass daily, or about 50 truckloads. “Provisions in our contracts spell out how clean the biomass material needs to be. This comes to us as fuel, not refuse,” Austerberry says.

### **Co-ops are engines of rural economies**

The 1961 Wisconsin study pointed

to the role of the REA in developing programs to improve rural living conditions through investment, which in turn increased employment in rural areas as the demand for electricity triggered growth in other markets. Half a century later, rural electric cooperatives continue to make investments that trigger economic growth.

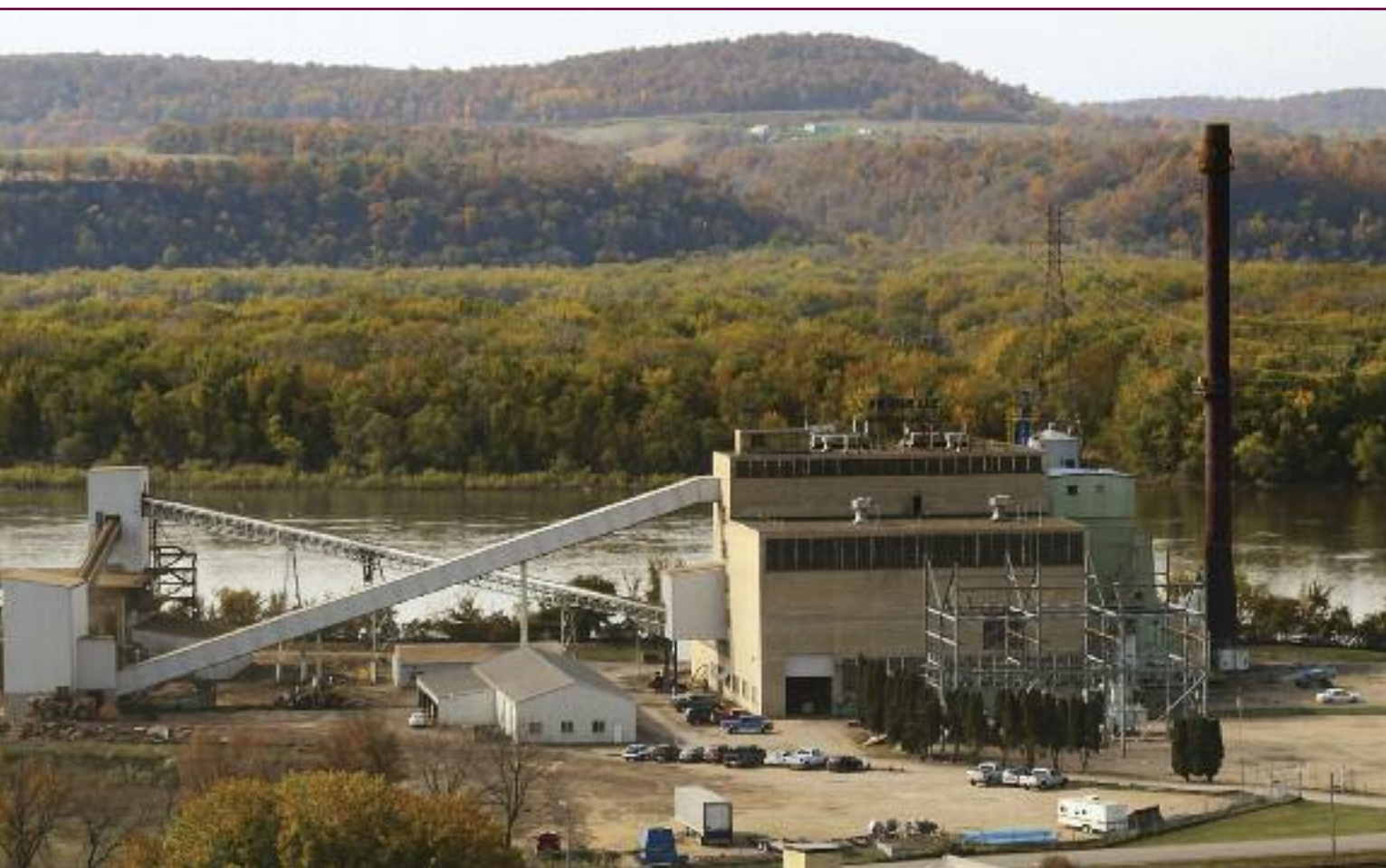
For example, Austerberry says that during the conversion, DTE’s Stoneman plant employed as many as 100 contractors. “Currently, there are 32 full-time employees at the plant. The plant also contributes to the local economy through DTE’s relationships with other local businesses. “We have about 20 different biomass providers

within a 200-mile radius,” Austerberry notes.

The USDA report says renewable resources are most abundant and practical for development in rural areas and present a good investment opportunity for rural electric utilities. The Upper Midwest is rich in biomass resources, according to the report, which makes states such as Wisconsin well suited for biopower. However, it stresses, much of that potential is not realized.

Thomson reflects on the irony that the biomass power plant was a Dairyland owned and operated coal plant 60 years ago. “We’ve come full circle.” ■

*This Dairyland Power Cooperative (DPC) plant, which formerly burned coal, now runs on 1,000 tons of biomass daily. Photo courtesy DPC*







## Food co-op's warehouse/distribution division a key cog in developing regional food system

By Adam Diamond

*Editor's note: Adam Diamond is an agricultural marketing specialist with the Marketing Services Division of the USDA Agricultural Marketing Service. This article is adapted from a larger forthcoming report on the challenges and opportunities facing local and regional food distributors. For a copy, contact the author at: [adam.diamond@usda.gov](mailto:adam.diamond@usda.gov).*



The Wedge Community Cooperative opened in 1974 in Minneapolis as a small store operating out of a basement apartment. Today, one move and three expansions later, the Wedge has 14,000-plus members and more than \$40 million in annual sales from its retail store, from Co-op Partners Warehouse (CPW) — its distribution arm — and

from Gardens of Eagen Farm, an organic farm on the outskirts of the Twin Cities. The farm was purchased in 2006 by the Wedge and now supplies \$600,000 worth of produce to the store every year.

The Wedge is one of the highest grossing consumer cooperatives in the country. CPW, one of the only cooperative food distributors in the country, serves the Wedge and dozens of other retail outlets throughout a five-state region in the Upper Midwest.

### Warehouse goal: better quality produce

Co-op Partners Warehouse was started in 1999 as a way to obtain better produce for the Wedge and, in so doing, to give the co-op a competitive leg up on its competitors. For several years, CPW primarily served as the Wedge's "back office,"

providing co-op members access to a greater variety of products than would be the case if the Wedge's retail operation had to physically store its entire product inventory.

As CPW developed and more warehouse staff was hired, the Wedge leased two refrigerated trucks and started making deliveries to other cooperative groceries in the area. However, even after four years of operation, 80 percent of the warehouse's sales were being made to the Wedge; overall sales were fairly stagnant.



*In addition to its retail food store (facing page), the Wedge Community Cooperative also operates Co-op Partners Warehouse, a wholly owned subsidiary that supplies the Wedge and dozens of other retail outlets in the Upper Midwest. All photos courtesy The Wedge*

Starting in 2005, a combination of key personnel changes, favorable market conditions and new infrastructure investments contributed to rapid sales growth, helping CPW become a significant catalyst for the development of a regional food system. A key turning point was the purchase, in July 2005, of a worker-owned organic distributor in Minneapolis that had been the primary source of organic produce for food stores in the area by a large (non-cooperative) national organic food distributor.

In the wake of that co-op buyout, many customers switched to CPW for their organic produce. CPW also picked up some skilled staff members who left the co-op after the buyout. This influx of experienced personnel helped professionalize what had been a fairly informal operation at CPW. These new employees drew on their skills and industry relationships to bring new business to the firm.

In the next three months, business at CPW increased by 60 percent. This meteoric sales growth meant that more warehouse space would be needed before long.

CPW management discussed different options with its

landlord and with Wedge management. It was decided in late 2005 to triple warehouse space to 45,000 square feet. While the 30,000 additional square feet was more space than needed to handle CPW's immediate needs, the rental rates were low enough to make it affordable. It made sense to secure this additional space to allow for future growth.

Expanding the warehouse allowed CPW to vastly increase its ability to serve farmers in the region and to increase its customer base far beyond the Wedge. Sales were \$2 million in 2003, with the Wedge accounting for 80 percent of the total. In 2010, annual sales had climbed to \$17 million, with the Wedge's share being only 23 percent. Sales growth was particularly rapid from the period just prior to expansion and in the next few years afterward, increasing 300 percent from 2004 to 2007, to \$13 million.

## **Business structure**

CPW is a wholly owned subsidiary of the Wedge Cooperative, which, as a retail food cooperative, is owned by its consumer members. Consumer cooperatives, like all cooperatives, are controlled by their members and are obligated to serve them. The Wedge's mission statement says the co-op will:

*"...provide a diverse selection of highest quality, fairly-priced products and a deepening understanding of their importance to our members, employees, and community. To achieve this, we will: 1) Earn the loyalty of our member-owners through an ongoing commitment to service; 2) Forge a deepening bond between sustainable local producers and the co-op community; and 3) Build upon cooperative principles and values."*

This organizational mission directly supports the development of CPW as a vehicle for providing the kind of food members want and for supporting local agricultural producers and sustainable agriculture. The warehouse manager at CPW reports directly to the Wedge's general manager, and all the other employees of CPW report to the warehouse manager.

CPW has 32 employees, including: 7 drivers, 10 order fillers, 3 buyers, 9 sales associates, 1 bookkeeper, 1 quality-control manager and 1 manager. Profits earned by the cooperative, including the store and the warehouse, range from 1 to 4 percent. Profits are allocated in three ways: one portion is reinvested in the business for maintenance and expansion; another portion is returned as patronage dividends to the 14,000 members of the cooperative; the third portion is distributed to the Wedge's 262 employees as part of a profit-sharing plan that can add as much as \$2 per hour worked during the previous quarter.

The warehouse is self-supporting with operating revenue covering its expenses. It has been able to draw on the Wedge for capital infusions both when it initially started and when it has needed to purchase equipment.



## Business operations

The vast majority of CPW's sales come from distributing produce to retail cooperatives. The firm distributes weekly price books to customers, takes orders, makes deliveries and bills customers. It charges customers 16-25 percent above farmgate prices, depending on the perishability of the commodity.

To satisfy year-round customer demand for fresh produce, "in season" the firm buys locally and regionally grown produce from more than 30 farmers in Minnesota, Wisconsin and other parts of the Upper Midwest (when available), but relies on California producers for the bulk of its fresh produce supplies.

Retail grocery cooperatives account for 88 percent of CPW's sales. The remaining 12 percent of sales is accounted for by restaurants, independent natural food retailers, buying clubs, community supported agriculture (CSA) co-ops or associations, and food manufacturers.

Additionally, CPW operates an unusual drop-ship program for farmers and other value-added food producers in Minnesota and Wisconsin. This service allows smaller producers to take advantage of CPW's superior logistical capabilities on a fee-for-service basis. This program preserves producer identity and visibility in supply chains by allowing farmers to handle the sales and marketing aspects of their business transactions, but entrusting CPW to handle the logistics portion of each transaction for a flat delivery fee.

Farmers drop off their products at CPW's St. Paul facility, including a packing list showing what each customer is supposed to receive. CPW then delivers the farmers' product to area stores. Producers pay CPW \$20 for each drop-shipment and invoice the buyers directly.

About 24 producers or value-added food producer companies are currently using the drop-ship program. This program is also helpful for co-op stores that want to buy product from local producers but would rather not have a dozen different trucks coming with small deliveries.

Overall sales for this program are not tracked, because CPW only collects the flat \$20 delivery fee per shipment, and because product volume is only a small fraction of the Warehouse's sales to cooperatives and other retail outlets through traditional distribution operations. Nonetheless, this program demonstrates CPW's commitment to helping local farmers find profitable outlets for their product.

## Fair dealing with farmers

CPW is committed to building strong relationships with its producers and ensuring they receive a fair price for their products. As Wedge General Manager Lindy Bannister recently wrote in the store's newsletter:

*Dean [the Wedge's produce buyer] and Rick [the buyer for Co-op Partners Warehouse] sign contracts to ensure our farmers receive a fair price for their product and that we have a reliable supply of vegetables and fruit to adorn your tables. Dean and Rick visit the farms,*

*watch the production methods and get to know the families. As we like to say, "we have smelled the dirt."*

In general, CPW aims to set prices that enable farmers to cover their costs and are fairly predictable, with minimal variation throughout the season. Lori Zuidema, CPW's director of business development, clearly articulates how values of fairness to farmers are embedded in CPW's price negotiations with farmers:

*"...a lot of people think it's the California market that influences it [prices], but it's more production-cost related.... They [farmers] figure out how much it's going to cost them.... and you know we want their product. We want to be able to present it to our customers. We want them to be in business. We don't want...them to sell to us so cheap that they can't make a living and then they have to fold in two years.... So that's our incentive for paying them a fair price."*

Fair pricing becomes not only a point of principle, but also a pragmatic strategy for ensuring a stable supply of high-quality organic produce for CPW and its customers. Dean Schladweiler, the Wedge's produce manager, has made a point of working with small and new organic farmers to help them price competitively and realistically. Sometimes he has actually had to negotiate prices up with farmers because he knew they were underpricing themselves and that they could charge a higher price.

Farmers would tell Schladweiler that they were basing their prices on the California organic price. He would respond that they were not in California, and that they had to consider their own individual production costs and price their merchandise accordingly. His general point of view is that farmers need to be savvy about their market and stand firm on their pricing, otherwise they will not be able to stay in business.

## Marketing: serving customers needs

In marketing to retail grocery cooperatives other than the Wedge, CPW emphasizes that it is also a cooperative and that one of the foundational principles of the cooperative movement is "cooperatives helping cooperatives." This emphasis on organizational solidarity with its retail cooperative customers is meant to demonstrate that CPW is committed to its customers' success not only to serve its particular business interests, but also as a means for furthering the cooperative movement in general.

However, recent feedback from customers indicates that cooperative solidarity alone will not determine sourcing decisions for most retail grocery cooperatives. A customer survey conducted by CPW about three years ago showed that product quality was the No. 1 criterion for picking a distributor; price ranked second while product availability ranked third in importance. Purchasing from a locally owned business or a cooperative did not make the list of top five

criteria, even though retail grocery cooperatives constitute CPW's largest group of customers.

With a competitive organic and natural foods sector in the Twin Cities, Co-op Partners Warehouse has worked hard to differentiate itself from its competitors by offering exceptionally strong customer service, reaching above and beyond what other organic and natural food distributors are willing to provide. This has included offering a Sunday delivery service and a "short delivery call" service for in-



CPW has 32 employees.

*the same accounts that we're going to."*

Co-op Partners has to be pragmatic in pursuing its mission of supplying co-ops and other customers with high-quality organic produce, with an emphasis on local procurement. If CPW insisted on only selling local produce, it simply would not be able to stay in business. Overhead is too high to run a full-service produce distribution operation seasonally, to say nothing about the

## **"Fair pricing becomes not only a point of principle, but also a pragmatic strategy for ensuring a stable supply of high-quality organic produce for CPW and its customers."**

town customers, whereby orders received by 10 a.m. can be delivered that day for no extra charge.

The same-day delivery service was instituted because trucks often arrive late in the day after the price list has already been distributed. Customers can call the next morning, find out which products just came in (including those that weren't on the previous afternoon's supply list), place an order by 10 a.m., and have it delivered by 4 p.m.

### **Lessons learned:**

**Service is paramount; co-op solidarity won't keep you in business**—For a time, Co-op Partners Warehouse (CPW) management thought just being a cooperative would go a long way towards building customer loyalty. Realizing this was not the case was a tough, but important, lesson. Food cooperatives need to be business savvy and conscious of costs as they compete with specialty food chains and supermarket chains that increasingly stock items such as organic produce and milk, soy milk and tofu that were once the stock-in-trade of food co-ops. Meeting customer needs for good service, competitive prices and high-quality produce has made for a winning combination.

**Be pragmatic with local procurement**—CPW is strongly committed to supporting small local growers and goes to considerable effort to buy as much produce as possible from small and/or local growers. However, this is often not possible, given the high demand for produce throughout the year. Tom Rodmyre, the warehouse manager, explains:

*"Our mission has always been to support small local growers...but because we are pretty much a full-service organic produce warehouse, we have to supplement — there just isn't enough local product to fill the needs of what we are doing.... And then the local farmers themselves....want the direct connection with the people they are selling to; they'll be trying to sell their product to*

high level of direct-to-consumer marketing to food cooperatives during the growing season in the upper Midwest that makes it hard for CPW to procure enough local produce for its customers even in season.

Even cooperatives are not going to buy from a cooperative distributor without being assured they are getting good value for their money. Absorbing this lesson and building the business with competitive pricing, unique services (such as Sunday delivery and short-delivery calls), along with a very strong commitment to organic and local food, has made for a winning formula.

CPW has demonstrated its continued commitment to local growers not only by buying their products and distributing them through its sales network, but also providing an extra level of service in the form of its drop-ship program. While not a significant revenue earner for CPW, it earns the organization good will with farmers, saves them the hassle of shipping products to stores, and smoothes relations with its retail store customers, who are relieved from having to deal with multiple trucks clogging up their loading docks.

This is a good example of how small business ventures can reap rewards far beyond their immediate impact on company sales.

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## *USDA husband/wife team helps form soybean farmers' associations in Afghanistan*

**By Eva Nell Mull Wike, Ph.D.**

***Editor's note:** the author is a physics educator based in Oak Ridge, Tenn. She is the sister of David Mull.*



When David and Donna Mull arrived in Afghanistan in 2010 on a one-year mission to help expand the war-torn nation's fledgling soybean industry, most farmers were threshing their soybeans by laying the crop on rocks and beating it with sticks, then transporting it 30 miles or more by donkey. Today, farmers in the two

provinces where the Mulls worked have formed their own associations that help growers harvest, process and market their crop using more modern techniques.

As a result of the Mulls' work and the many others they teamed with, production has increased, jobs have been created and lives have been improved.

### **Unique skills set aids mission**

The Mulls were the first husband-wife team on active duty with USDA ever to be deployed together to Afghanistan, where they worked side by side with farmers and others. The challenges of their one-year tour of

*Lieutenant-Commander Robert Hamm (third from left) and Donna and David Mull (toward rear, fifth and seventh from left) tour a soybean farm in Parwan Province. With them are members of the Korean Parwan Provincial Reconstruction Team and employees of Parwan Baston Seed Co. (PBSC). Facing page: Against the backdrop of an armored personnel carrier, USDA Rural Development employees Randy Frescol (left) and Donna and David Mull meet some Afghan children in Parwan Province. All photos courtesy Donna and David Mull.*



duty with the USDA Foreign Agricultural Service (FAS) in Afghanistan were many. However, their wide array of skills gave them the confidence and commitment necessary for the mission.

Donna Mull, a human resource specialist with USDA Rural Development in Georgia, was able to draw upon her expertise and “people skills” during the assignment. From the start, she was cognizant of the many challenges facing her and drew on her earlier farming experiences. “I felt like my previous experiences were invaluable. They enabled me to contribute to meeting some of the vast needs of the Afghan people, while at the

same time serving my country.”

David Mull, a retired command sergeant major with the U.S. Army and a Vietnam War veteran, is a business program specialist with USDA Rural Development in Georgia. His military and business experience, as well as the couple’s past experience owning and operating small farms in three states, gave them a wide array of skills and knowledge that served their mission well in Afghanistan. In a CBS News interview before departure, he explained his position: “I look upon this endeavor as an opportunity to serve my country and at the same time to help the Afghan people.”

After a few weeks of training, the Mulls arrived in Afghanistan on March 3, 2010. “We arrived in Kabul late at night and, to our surprise, it was raining. We thought it was going to be dry and hot,” he said.

“I had not had such an ‘uphill’ experience since my arrival in Vietnam for a second tour of duty there! It was a little disconcerting, and my first thought was ‘What have I gotten myself and my wife into now?’ It took a few days for the shock to diminish.”

Soon they were “embedded” with the Kentucky National Guard Agribusiness Development Team (ADT). Their service area included four



provinces in northeastern Afghanistan, north of Kabul.

## Enhancing production

The Mulls quickly focused their attention on finding a way to enhance the productivity of the farmers of the region. Opportunity soon knocked when Col. Mike Farley, commander of the Kentucky ADT, requested that David Mull “find a way” to build a soybean processing mill in Parwan Province. At the time, the nearest soybean mill in Afghanistan was 30 miles away, in Kabul, where farmers delivered their soybeans by donkey.

Drawing on his USDA experience, David Mull formed a plan to establish a soybean-flour processing facility in Parwan Province. He contacted Nutrition Education International (NEI), a California-based nonprofit that was instrumental in introducing soybeans as a crop for Afghan farmers. NEI soon joined the effort to establish a new soybean-processing facility.

NEI had conducted research on six different varieties of soybeans over a three-year period. By 2005, NEI was helping to produce soybeans in 12 Afghan provinces.

The NEI soybean initiative was soon adopted as a national program by the Afghan government. NEI also researched the preferences of the Afghan people to identify ways to incorporate soybeans into their diets.

By 2006, the nation’s soybean industry had a production capacity of 1,000 metric tons produced by 2,400 farmers. By 2010, farmers in 31 of the nation’s 34 provinces were growing soybeans. The total yield had climbed to 4,000 metric tons produced by 16,000 farmers.

## Mill plan developed

After lengthy meetings, NEI made a commitment to help establish the first soybean mill for Parwan Province. Steven Kwon, NEI president, agreed

that his organization would purchase the needed machinery and lease it to Parwan Bastan Seed Co. (PBSC), a successful “for-profit” business and a leader in agriculture production and marketing, which would also operate the facility. Col. Farley arranged the initial meeting with PBSC, based on its



*Haji Abdul Robate Qahir, owner of PBSC, inspects the grinder portion of the soybean mill.*

reputation as a successful business.

It was also agreed that PBSC would construct a facility to house the operation. As a result, 19 jobs were created and the mill created a local market for Parwan Province soybean farmers.

Throughout the process, the Mulls consulted with Kwon, explaining how USDA Rural Development’s Cooperative Services program provides assistance to the rural residents and farmers in the United States. Through these talks, the need became clear to establish soybean growers’ associations in both Kapisa and Parwan Provinces.

The Mulls assisted NEI and the

Kentucky ADT, providing guidance and advice to help establish the soybean farmers associations. NEI helped organize the soybean farmers and to oversee the establishment of their two associations, which were formed in the fall of 2010 — the nation’s first soybean associations.

The farmers associations provide advice and assistance to their members in growing and marketing soybeans. This includes harvesting the crop and processing it into soy flour.

The usual “pre-processing” method at the time was to lay the soybeans on a rock and beat them with a stick, resulting in a huge loss of beans and picking up debris that was mixed with the soybeans. If not removed, this debris could damage the milling facility, thus increasing the time needed for cleaning the beans before grinding. The result was a huge, negative impact on the marketability of the beans.

## Thrashers purchased

To address the present methodology and resulting losses, Donna Mull recommended the acquisition of three small soybean thrashers. Again, NEI agreed to purchase the thrashers and lease them to the associations to help their members become more efficient and to deliver cleaner

beans to the mill. The results have been impressive.

The projects the Mulls helped implement are now assisting 900 soybean farmers in Parwan Province and 550 soybean farmers in Kapisa Province. The combined soybean production for the 2010 crop-year was about 1,000 metric tons, making them two of the largest soybean production provinces in Afghanistan.

A five-year contract with the World Food Program to purchase the soy flour has been negotiated by Kwon, thus creating an international market for the farmers of Parwan and Kapisa Provinces — all thanks to the teamwork

of the Mulls, NEI, PBSC and Kentucky ADT.

Shortly before the Mulls ended their assignment in Afghanistan, Randy Frescoln, director of USDA Rural Development's Business and Cooperative Programs in Iowa, arrived at Bagram Airfield in Afghanistan on his second assignment as an agriculture advisor. Within a short time of meeting Frescoln, the Mulls knew they were passing their projects on to a soybean expert with broad rural business experience.

"Randy has had many years of experience [working with the soybean industry] and he comes from the top soybean producing state in the nation," David Mull notes.

For his part, Frescoln says: "I can think of no other organization in the world where I could have helped serve so many people — not only in the United States but all over the world!" His knowledge and leadership will ensure the continued work of USDA Rural Development employees in helping the people of Afghanistan.

### Parting thoughts

"I think our work has helped to strengthen the understanding that soybeans are indeed a sustainable crop in this region of the world," David Mull wrote in a report on the Afghanistan project. "Soybeans are helping to improve nutrition in the diet of the Afghan people. More jobs are being created for the farmers, leading to increased economic development in the two provinces."

The Mulls say there are also many intangible results of their work that cannot easily be quantified — the type of results that occur when people from two different cultures, located a world apart, cooperate, working together for the benefit of all and making desperately needed improvements in people's lives. It is the Mull's hope that all of the desperately needed improvements will occur in the lives of the people they leave behind. ■

## USDA ag experts bring knowledge, skills to Afghanistan

**By Karoline Newell**, Public Affairs Specialist  
USDA Foreign Agricultural Service

On any given day, roughly 50 American agricultural experts apply modern technologies to help grow stronger, more abundant crops and ensure the health and proper care of livestock. What sets these men and women apart from the millions of other Americans who live and work in the agricultural sector every day is that they apply their knowledge and skills in rural Afghanistan.

Since 2003, the U.S. Department of Agriculture's Foreign Agricultural Service has sent more than 100 agricultural experts from a wide range of backgrounds — including farmers, veterinarians, agricultural economists, extension agents, educators and more — on assignment to Afghanistan. Their purpose is to help Afghanistan revitalize its agricultural sector through a variety of activities. The ultimate goal is to strengthen the capacity of the Afghan government, rebuild agricultural markets and improve the management of natural resources.

USDA representatives have performed a wide range of missions, including helping install windmills to pump water for irrigation, training Afghan veterinarians, establishing nurseries in reforested areas, rehabilitating degraded orchards, mentoring Afghan agricultural extension workers, providing key technical education to help control animal disease and much more.

### USDA's efforts in Afghanistan are making a difference.

Results of a USDA survey from April-December 2010, for example, show that USDA-assisted activities helped create 107,000 temporary and 14,000 permanent jobs, trained 800 Ministry of Agriculture, Irrigation and Livestock (MAIL) officials who, in turn, trained 60,000 Afghan farmers. Nearly 34,000 Afghan farmers have used improved techniques demonstrated by U.S.-Afghan extension teams.

Despite these successes, there is still a need for ongoing USDA assistance for the reconstruction of the agricultural sector in Afghanistan. The Afghan countryside and farmland have been devastated by 30 years of ongoing conflict, yet 80 percent of the population is still involved in farming or herding. Most of their equipment, technology and educational resources are scarce or outdated, which stifles the growth and expansion of the agricultural sector.

USDA currently has about 50 slots for agricultural experts in Afghanistan and is looking for men and women with diverse agricultural backgrounds who are willing to commit to medium- and long-term assignments, which can range from six months to more than a year. USDA representatives can help further the development of the capacity of MAIL staff, who can, in turn, help their own Afghan farmers.

For more information about opportunities with USDA in Afghanistan, visit <http://www.fas.usda.gov/country/Afghanistan/us-afghanistan.asp>. ■



# Co-op Education

## It's Everybody's Business



### Co-ops 101: An Introduction to Cooperatives (CIR 55)

Probably the most-read co-op primer in the nation, this report provides a bird's-eye view of the cooperative way of organizing and operating a business.



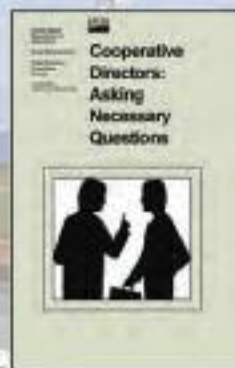
### Do Yourself a Favor: Join a Co-op (CIR 54)

Perfect as a handout to the general public or for classroom visits, this 10-page brochure provides a succinct definition of what co-ops are and the benefits they offer to their owners. It discusses how benefits are proportional to the use of a co-op, and how co-ops differ from nonprofits.



### Understanding Capper-Volstead (CIR-35)

The Capper-Volstead Act is the legal foundation of the American farmer marketing cooperative movement. This brochure is required reading for many co-op boards and is beneficial for all co-op members who seek a better understanding of the legal underpinnings of farmer co-ops.



### Co-op Directors: Asking Necessary Questions (CIR 62)

Cooperative directors, especially those with limited business experience, may find themselves in a quandary as to what to ask managers, staff, auditors, other directors and other outside resources about the status of their cooperative. This report guides directors in asking the necessary questions to invoke informative responses.



### How to Start a Cooperative (CIR 7)

This guide outlines the process of organizing and financing a cooperative business. This publication represents the most important elements to consider when forming a cooperative. It lists what special expertise is necessary and where to look for help. Note: You may also request the condensed, 4-page version: CIR 45, Section 14.



### The Circle of Responsibilities for Co-op Board Members (CIR 61)

All boards of directors are under increasing pressure to perform well and justify their decisions. Cooperative boards are no exception. This series of articles, originally printed in USDA's Rural Cooperatives magazine, lays out fundamental guidelines for cooperative directors to follow.



Whether for explaining basic co-op concepts to prospective members of a new or existing co-op, to help co-op board members better understand their responsibilities, as a hand-out at a co-op meeting or for classroom use, these publications can help. More than 100 other co-op publications are also available from the Cooperative Programs of USDA Rural Development - the nation's No. 1 source of co-op educational materials. Our mission is to help increase understanding and use of the cooperative, producer- and user-owned form of business.

All publications are free, and can be ordered by sending an e-mail to: [coopinfo@wdc.usda.gov](mailto:coopinfo@wdc.usda.gov), or by calling 202-720-7395. They are also available on the Internet at: [www.rurdev.usda.gov/rbs/pub/newpub.htm](http://www.rurdev.usda.gov/rbs/pub/newpub.htm).



#### **Director Liability in Cooperatives (CIR 34)**

This study surveys and discusses sources of liability faced by cooperative directors and suggests practices and behavior that may help avoid liability risks. The common law sources of liability are described.



#### **Co-ops in Agribusiness (CIR 5)**

Provides a brief history of cooperatives and discusses their relationship with agribusiness. Different types of cooperatives and their structural and organizational characteristics are discussed, as well as how they are governed and financed.



#### **Sample Policies for Cooperatives (CIR 39)**

Policies help cooperatives attain established goals and objectives. This booklet provides directors and managers of farmer cooperatives with guidelines for writing, adopting and implementing policies.



#### **Sample Legal Documents for Cooperatives (CIR 40)**

A cooperative must have a set of organizational documents that is uniquely crafted to its particular situation. This report will assist persons organizing new cooperatives, managers and directors of existing cooperatives and their professional advisers to develop and update the important legal documents of cooperatives.



#### **Co-ops: What They Are and the Roles of Members, Directors, Managers and Employees (CIR 11)**

This educational guide explains what cooperatives are and examines the responsibilities and roles of cooperative members, directors, managers and employees. It is frequently used as a teaching tool, both in classrooms and co-op settings. PowerPoint slides are also available from USDA.



#### **Shared Services Cooperatives (CIR 49)**

This brochure explains that the goal of shared-services cooperatives is to buy or provide products and/or services for their members at a total cost less than the combined costs of individual members buying or providing for themselves.





# BANKING ON BUTANOL

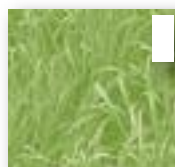
Missouri's

Show Me Energy

Co-op pursuing

\$55 million plant

By **Stephen Thompson**, Assistant Editor  
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Is butanol a better biofuel for America? One Missouri farmers' co-op is banking on it.

Show Me Energy Cooperative, based in Centerview, Mo., has raised the funds to build a facility that will produce 2 million gallons of butanol annually, a fuel that is chemically similar to ethanol, but offers some important advantages.

Show Me was founded in 2008 when a group of seven farmers saw a chance to compete in the local market for heating fuel by using grasses as feedstock. Now 612 farmer-members strong, the cooperative produces fuel pellets that can be sold more cheaply than comparable pellets made from wood waste. Show Me serves not only a strong home-heating fuel market, but a number of local poultry growers who heat their poultry houses with the co-op's pellets instead of more expensive propane.

"Propane costs were driving the poultry farmers out of business," says Steve Flick, president of the co-op board of directors. "We're supplying them heat for less than half the cost." Each ton of pellets is equivalent to 190 gallons of propane gas. The cooperative buys the grass feedstock for between \$45 and \$60 per ton.

Show Me is also exploring other markets. In trial tests with Kansas City Power and Light, the co-op provided biomass pellets for an experimental co-firing pilot program at a coal-fueled power plant in nearby Sibley, Mo., in 2008. The 2,000-ton burn was deemed a success, but did not result in a supply contract. However, the co-op is selling pellets to other power utilities across the United States, Flick says.

The cooperative has developed an EPA-approved oil-cleanup powder from switchgrass that it says will absorb 800 gallons of oil per ton of pellets. The oil-laden product can then be processed into fuel or reused after the oil is squeezed out.

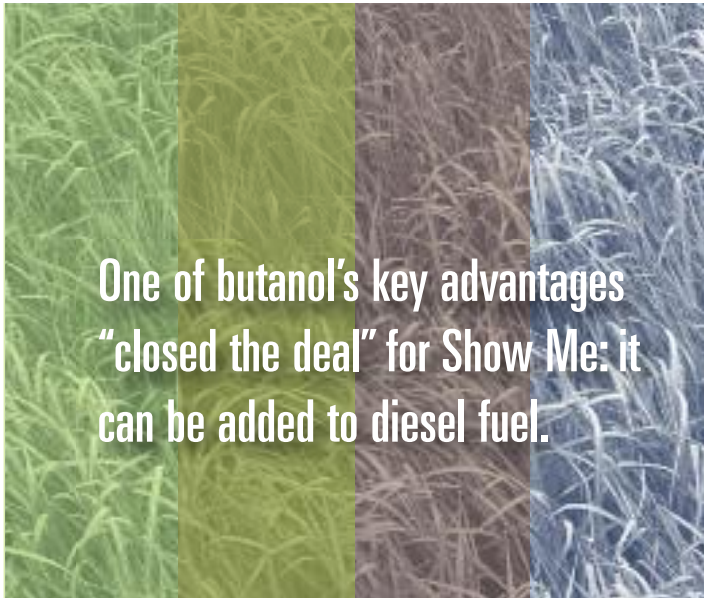
## Watching "the big boys"

When the cooperative looked to expand, it considered producing ethanol from its grass stocks, but decided that butanol held more potential. "We watch what the big boys do," says Flick. "And they're bypassing ethanol."

Ethanol used as a gasoline additive has some drawbacks, among them a tendency to dissolve the epoxy matrix of the fiberglass fuel tanks used in some boats and older motorcycles. It can also corrode fuel system parts in vehicles not designed to handle it. Its affinity for water can lead to fuel soaking up moisture from the air, resulting in deterioration of gasoline left in inactive vehicles for more than a few weeks.

Perhaps the biggest drawback for ethanol is that it can't be transported in the nation's network of petroleum pipelines because its solvent properties strip contaminants from the pipeline walls. It also has less lubricity than gasoline and only about two thirds of its energy content, which hurts fuel mileage.

Butanol has none of these disadvantages. While it can be produced by a fermentation process much like those used for ethanol, its energy content is closer to that of gasoline, so it



One of butanol's key advantages  
"closed the deal" for Show Me: it  
can be added to diesel fuel.

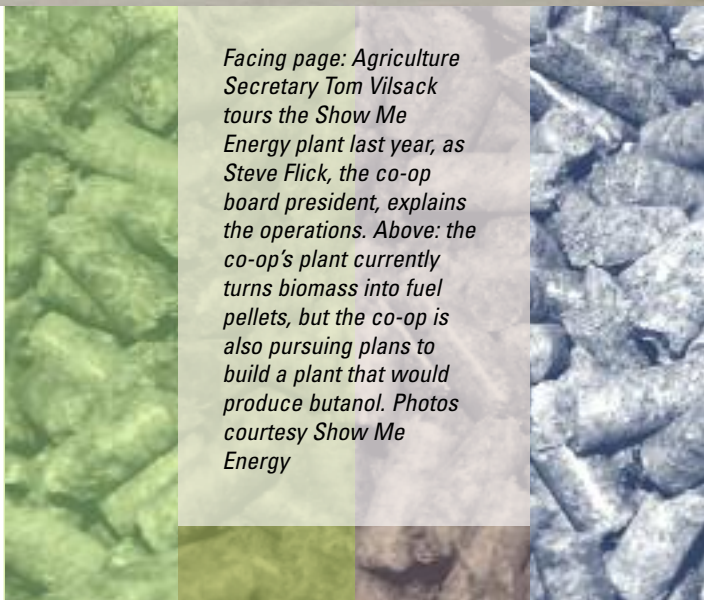


gives better mileage. It can be safely shipped via pipelines, it has good lubricating qualities and it has little affinity for water. Proponents claim that it is safe for older vehicles and that it can be used without blending in gasoline engines.

Most importantly, butanol appears not to be subject to the gasoline-blending limit faced by ethanol, known as the "blend wall," which has limited ethanol expansion. The Environmental Protection Agency currently certifies butanol as a gasoline additive at concentrations up to 11 percent.

One of butanol's key advantages "closed the deal" for Show Me: it can be added to diesel fuel. As a diesel additive, butanol has a comparatively high cetane rating and improves flow in cold weather. Proponents say that it reduces particulate emissions in diesel exhaust when added to fuel and prevents fuel deterioration in storage.

BP and DuPont have joined in a partnership to develop the fuel while other firms are exploring its commercial



*Facing page: Agriculture Secretary Tom Vilsack tours the Show Me Energy plant last year, as Steve Flick, the co-op board president, explains the operations. Above: the co-op's plant currently turns biomass into fuel pellets, but the co-op is also pursuing plans to build a plant that would produce butanol. Photos courtesy Show Me Energy*



potential. However, butanol is not quite ready for the mass market: the technology for producing it in commercial quantities is unproven. Some ventures are exploring production using fermentation; others are looking at pyrolysis — a process that uses heat to decompose organic compounds in the absence of oxygen. One firm in Oregon is planning to use pyrolysis to produce butanol from dairy manure.

### Improved fermentation process

Flick says that Show Me's fermentation process is being developed in cooperation with a technology partner and several universities. The co-op's 2-million-gallon-per-year facility is in the design stage, with a goal of being up and running in two years.

The cooperative looked at numerous liquid fuel production methods with the help of outside consultants before finalizing its process. "Most of the processes we tested didn't work," says Flick. "They were 'beauty science,' publicized to raise capital."

The feedstock for the new plant will be the same locally harvested grasses used for the co-op's fuel pellets. According to Flick, the sugar content of such grasses available for fermentation can be as high as 70 percent (although grasses harvested in the late fall, as they are in Missouri, are somewhat lower in sugar content, Flick notes).

After the fermentable sugars are extracted from the grass, the leftovers — mostly cellulose and lignin — will be gasified and burned to generate electricity onsite. "We're going to be getting three squeals from the pig," is how Flick puts it.

The co-op expects to produce 10 megawatts from co-generation, of which four megawatts will be used to run the plant and six will be sold. Flick is careful to point out that, while six megawatts isn't a great deal of energy, it will be continuously generated, making

it a baseline power source, unlike solar and wind energy. The leftover ash will be used for fertilizer.

### Qualifies for USDA's BCAP program

The cooperative scored a major coup when its proposal for participation in the USDA Farm Service Agency's Biomass Crop Assistance Program (BCAP) was the first to be approved nationwide. The program allows farmers and bioenergy producers to team up to apply to establish a BCAP project area. Inside the boundaries of a project area, eligible farmers can apply for reimbursement of 75 percent of the cost of establishing a perennial biomass crop, for up to five years in the case of grasses and other non-woody crops. In addition, up to \$45 per ton in matching payments is available for up to two years for harvesting, storage, and transportation costs.

BCAP has allocated \$15 million for the project area, which covers 39 counties in western Missouri and eastern Kansas. Initially the program will subsidize up to 20,000 acres of grasses planted for biofuel, with plans to expand to 50,000 acres in coming years.

While BCAP doesn't limit its program to marginal land, Show Me's proposal specified that only land unsuitable for grain crops will be used. Flick says that this is an example of the cooperative's commitment to the local community.

"We have very intense agriculture in this area," he says. "Most of our members have less than 200 acres, and they concentrate mostly on livestock and minimal row crops. This is a way to expand productive acreage and promote conservation, too."

Grass crops are promoted as highly desirable conservation measures, because they offer flood control and runoff filtration benefits. Grass plantings can decrease sedimentation

and absorb chemical pollution from other crops before it reaches waterways. Much of the grass crop will be planted on flood-prone land. The cooperative has developed two grass seed mixtures, one suitable for lowland, wet conditions and the other for drier, well-drained land.

While the BCAP approval has been helpful, Flick says that obtaining the capital for the expansion has been difficult. His comments echo those of other co-op leaders. "The capital situation right now is just a nightmare," he says. "Banks don't want to do business with new technologies and the economy is dragging. We would really endorse new co-op laws that make it easier to raise outside capital and simplify the distribution of patronage dividends. The laws now just make a lot of work for CPAs. Things have changed a lot since Capper-Volstead was passed."

The projected cost of \$55 million will be financed by debt and equity. "This is the biggest chunk we've ever chewed off in our lives," Flick says. "We're going to groom a new generation for the next step."

In keeping with the cooperative's emphasis on the local community, the butanol it produces will be sold onsite, in a 10-percent blend with diesel oil, and stored in above-ground tanks. "This will be a local product for local consumption," says Flick. "We're just going to sell fuel. There won't be a convenience store. We're not selling potato chips."

Flick says he thinks the butanol project could eventually involve 1,000 local farmers, depending on how many sign up for the BCAP subsidies. Co-op membership will not be required to sell feedstock to the new plant. As for future co-op growth, Flick says, "We'll probably have more membership with BCAP, but 612 members is pretty big for a new business." ■



## MFA Oil Biomass receives USDA BCAP funding

MFA Oil Biomass LLC, a subsidiary of MFA Oil Co., has been approved to receive \$14.6 million under USDA's Biomass Crop Assistance Program (BCAP), which will help growers plant a special grass — miscanthus giganteus — that will be processed into biofuel pellets. MFA Oil cooperative leaders say the program will lead to job creation, stimulate economic growth, improve the environment and help reduce the nation's dependence on foreign oil (for more on the project, see the cover story of the March-April 2011 *Rural Cooperatives*, available online at: [www.rurdev.usda.gov/rbs/pub/openmag.htm](http://www.rurdev.usda.gov/rbs/pub/openmag.htm)).

The BCAP funding was a critical factor that MFA Oil Biomass needed to achieve its goal of producing a next-generation, renewable energy crop, according to its parent co-op. MFA Oil Biomass, a partnership between Aloterra Energy and Columbia, Mo.-based MFA Oil, was created to form a vertically integrated energy supply company. The energy grass will be grown on marginal land and thus will not compete with row crops, the co-op stresses.

MFA Oil Biomass projects an estimated \$150 million annual economic impact from growing the new energy crop, while creating 2,700 new jobs. The co-op says the new energy crop, which it expects will be grown by nearly 1,700 farming families, will replace fossil fuels now used for agricultural heating and power plants.

"What we are talking about here is displacing foreign oil, two-thirds of which is imported and accounts for half of the nation's trade deficit," says MFA Oil President Jerry Taylor. "Renewable energy programs, like BCAP, are part of the solution because all of the dollars generated stay local, help create jobs, strengthen our economy and improve the environment."

Under current guidelines, BCAP will reimburse farmers up to 75 percent of planting costs and pay an annual rent payment while farmers wait for their crops to mature. Once the crops mature, farmers will be eligible to receive two years of matching payments for their tonnage, up to \$45 per ton beyond the selling price.

Miscanthus giganteus is a warm season perennial grass that is non-invasive, drought and pest resistant and needs less fertilizer than food crops. It is well adapted for growing on marginal land. The grass is also extremely efficient in sequestering carbon from the air — an added benefit if the carbon market develops. Miscanthus giganteus has been used as a source of heat and electricity in Europe for more than 10 years.

The three BCAP project areas approved for MFA Oil Biomass are located in central Missouri, southwest Missouri and northeast Arkansas. Each project area has a projected four-year goal of growing 50,000 acres of the miscanthus biomass crop. Funding has been approved for the first year's planting of 13,838 acres towards the company's goal. ■

*Gigantus miscanthus.* Photo courtesy University of Illinois



# SPLIT



*Virginia  
electric co-ops  
join forces  
to purchase  
investor-owned  
assets, then  
split service  
territory*

# DECISION

*Rappahannock Electric Cooperative (REC) workers now have an additional 50,000 member-customers to serve, following the co-op's joint acquisition — along with Shenandoah Valley Electric Cooperative (SVEC) — of Allegheny Energy's assets in Virginia. SVEC gained an additional 50,000 meters in the deal. All photos courtesy REC*



*Editor's note: the author is vice president for business development at Rappahannock Electric Cooperative.*



Two rural Virginia electric cooperatives provide dramatic evidence that cooperation among cooperatives — one of the founding principles of the cooperative movement — can accomplish something that would have been difficult, or even impossible, had they not worked together. By working as a team, Rappahannock Electric Cooperative (REC), in Fredericksburg, Va., and Shenandoah Valley Electric Cooperative (SVEC), in Mt. Crawford, Va., were able to acquire Allegheny Energy's (an investor-owned firm) electrical distribution assets in Virginia.

As a result, the two co-ops have expanded their service areas from a combined 140,000 electric meters to nearly 240,000 meters. (REC jumped from 99,580 meters to 149,160, while SVEC more than doubled its distribution, from 39,500 to 90,000 meters.) Co-op leaders credit the successful results to teamwork, old-fashioned hard work and careful planning.

The acquisition process began in March 2009, when Allegheny Energy (AE) informed the cooperatives that it would like to shed its Virginia distribution assets. It invited both Rappahannock Electric Cooperative (REC) and Shenandoah Valley Electric Cooperative (SVEC) to submit bids, which were due just one month later. Much occurred during that one month, leading to a joint bid submitted by REC and SVEC. The bid was accepted by AE within one week of submission. On May 4, 2009, an asset purchase agreement was signed by AE and the cooperatives.

The combined purchase price was about \$314 million for 102,000 meters and the electric system that served them. The sale closed June 1, 2010. After one year of consolidated operations, REC leaders say the acquisition is exceeding all expectations and financial projections.

## Co-op background

REC is a member-owned distribution utility formed in 1980 through the merger of Virginia Electric Cooperative, in Bowling Green, and Northern Piedmont Electric Cooperative, in Culpeper, both of which were formed in the late 1930s. Prior to the acquisition of AE, the co-op provided electrical service in 16 Virginia counties, a territory which has now been expanded to 22 counties and more than 16,000 miles of power lines. Its service area ranges from the Blue Ridge Mountains to the Chesapeake Bay.

REC has 407 employees and \$414 million in annual revenues. It serves a variety of residential, commercial and industrial accounts.

SVEC was the first electric co-op chartered in Virginia (in 1936) and serves member-owners in eight Virginia counties. It just celebrated its 75th anniversary in June. It, too, has a

broad range of accounts, including residential, independent farms and large industrial members.

Including the AE acquisition, SVEC now maintains more than 7,600 miles of power lines and employs 204 people. Its annual revenue is expected to exceed \$224 million from the sale of 2.4 billion kilowatt hours of electrical power.

## A perfect fit

Allegheny Energy's geographic service area in Virginia matched up almost perfectly with the service territories of REC and SVEC, so the acquisition was considered a natural extension for the two cooperatives. AE's Virginia assets were located in 12 counties in Virginia's northwestern corner. These included: 102,000 electric customers, 5,739 miles of distribution lines, 315 miles of sub-transmission lines, 43 substations, 3 service centers, 103 employees, and numerous trucks and other pieces of equipment.

The AE service density in Virginia was 16.85 meters per mile of line. Retail revenues were 50.5 percent residential, 23.9 percent commercial, 25.1 percent industrial and 0.5 percent street lighting. Winter and summer peak demands were about 680 megawatts.

Shortly after AE made the initial contact about a possible sale, REC management and its board decided it wanted to bid for the AE service area. It soon became obvious that SVEC (an adjacent cooperative that bordered the AE territory) also decided it was interested in bidding for the assets.

Rather than bid competitively, the two cooperatives agreed to work together to submit a joint bid to AE for the assets. In the joint bid, the cooperatives proposed to split the assets as equally as possible, based on meters, revenue, density and potential growth. AE was agreeable to the joint bid proposal.

In the one month they had to prepare their bid, the cooperatives had to evaluate AE's Virginia assets, determine a bid price and develop the bid proposal in accordance with the requirements of the request for proposal. This had to be done confidentially so that the AE Virginia work force would not be adversely affected.

## Co-ops see numerous benefits

For both REC and SVEC, the perceived benefits of the acquisition included increased service density, significant commercial and industrial load and the ability to spread fixed costs over more meters. Other benefits included the ability to leverage their existing information technology (IT) systems without significant upgrades or changes, a system that matched primary distribution voltages (12.5 and 34.5 kilovolts), a territory that fit "hand-in-glove" with the existing territories and improved service and accessibility for the newly acquired members.

All of these factors would result in reduced cost of service for both the existing membership and the newly acquired members.

The cooperatives decided that if they were going to spend



the funds to develop a bid, they wanted it to be successful. This required that the co-ops secure the assistance of highly qualified consultants, advisors and lawyers during a “sprint” to prepare a valid proposal. In Virginia, all utilities come under the purview of the Virginia State Corporation Commission (VSCC), which would ultimately need to review and approve the deal.

The cooperatives secured the assistance of a firm called Power Services Inc. to perform the system evaluation and assist with the plan to split the territory. JDG Consulting LLC was brought on board to evaluate the power costs and retail rate issues. The law firm of McGuire Woods LLP was hired to prepare and present the case to the VSCC, while the law firm of Orrick, Herrington and Sutcliffe LLP performed the tasks related to all the various acquisition documents, of which there were many more than was initially anticipated. Corporate lawyers for all parties were also heavily involved.

### **Old Dominion G&T co-op assists**

Securing an adequate power supply for the proposed acquisition territory was a major concern. Both cooperatives have an “all requirements power supply contract” with Old Dominion Electric Cooperative (ODEC), a generation and transmission (G&T) cooperative that serves 11 cooperatives in Virginia, Maryland and Delaware. ODEC provided important assistance in reviewing the three power-supply contracts that came with the acquisition. Additional consultants were secured to provide financial advice, procedural advice, environmental analysis and labor law advice.

The cooperatives, along with the consultants and advisors, began an extremely intense, three-week effort to evaluate the system, determine a fair price for the assets and to prepare the proposal, based on a multiple of the net-book value of the assets. The proposal included how the two cooperatives would split AE’s assets, making the bid much more complicated for the seller.

Still, AE needed only a week before accepting the bid. The co-ops were then asked to meet with AE immediately to begin negotiating the asset purchase agreement (APA). Over the next week, all three parties met frequently to hammer out the APA, which all further actions and agreements were based upon. On May 4, 2009, the document was finalized and signed.

### **Unique features of agreement**

One of the many unique aspects of the purchase agreement was that it required each cooperative to have the



financial ability to purchase AE’s total Virginia distribution assets if the other cooperative was unable to complete its half of the purchase. That required each co-op to secure funding guarantees for the entire purchase amount of about \$350 million.

The timing of the acquisition coincided with the 2009 economic recession, so the ability of the co-ops to secure financing was initially a concern for AE. However, both cooperatives were financially sound with good management and solid revenue, margins and balance sheets. Their regular sources for funding (CoBank and the Cooperative Finance Corporation) were eager to participate in the acquisition, quickly offering loan-guarantee letters. The Rural Utilities Service of USDA Rural Development (which provides major funding for the electric cooperatives) also provided support for the proposed acquisition. Thanks to their solid credit records, funding turned out to be one of the easiest issues to resolve for the co-ops, even during the recession.

The sale closing was dependent upon a number of important “milestones.” These included:

- Conducting a detailed environmental audit and review;
- Performing due diligence on the system and its operations and maintenance;
- The two cooperatives agreeing on the actual split of the system and its assets;
- The migration of all the IT (information technology) systems data (not just to one cooperative, but to two cooperatives using different software and hardware);
- The development of operational budgets, along with rates and tariffs;
- A legal review of all real estate and utility easements in anticipation of re-recording in each county and city;
- A case study and legal documents required by the VSCC, and
- Review and approval by the VSCC (without which the sale could not be completed).

### **‘E-room’ and team leaders facilitate effort**

Early in the process, AE established an extensive “e-

room,” with restricted access via the Internet, in which were placed all relevant documents, maps, engineering analysis and other reports, financial information and other requested information. This e-room — which was accessible by the cooperatives, the consultants and advisors — allowed for quick, efficient access to critical information.

Beginning with the bid preparations, each of the three entities designated a key primary contact person responsible for the overall coordination of all activities. These three individuals were critical in keeping the acquisition process on track and on time.

Team leaders and teams within each organization were established for each of the numerous migration activities. Team leaders reported to their respective primary contact person. Teams dealt with environmental review, system review, operations review, outage management, system mapping, work management and substation review. They also focused on equipment maintenance management, vehicle review and transition, financial review, system automation/supervisory control and data acquisition (SCADA), consumer/member information and billing transition, as well as all of the IT systems that support each of these activities.

A project timeline of 12 to 18 months was developed, based on the amount of work required to transition the IT systems and secure VSCC approval.

The agreement allowed the cooperatives 60 days to perform an environmental audit of the system and properties. If environmental problems were discovered, AE would be responsible for correcting or cleaning up any problems that exceeded \$1 million in costs. Should AE refuse to correct any such problem, then the cooperatives could void the purchase offer. The environmental audit revealed no significant issues or concerns.

## **Territory split evenly**

Work also began immediately to divide the territory evenly between REC and SVEC. The cooperatives worked with the consultants and AE over a period of three months to establish the division of the territory. Geographic, political, circuit and substation boundaries — as well as the concern for overall system safety — were used to establish the territory boundaries. Density and estimated revenues were also taken into account in the evaluation.

Numerous scenarios were analyzed before the cooperatives finally agreed on the division plan. The plan resulted in the sharing of some substations and several 34.5 kilovolt sub-transmission lines that interconnected other substations in each territory. Plans were developed and agreements were written defining the operations and maintenance responsibilities of each cooperative regarding these shared facilities.

Along a parallel path, the legal firms, in cooperation with the primary contact person from each cooperative, were developing the numerous agreements necessitated by the

purchase. These included agreements for borderline customers, pole attachments, transmission line easements, shared facilities, transition services, interim services, load and frequency control services, and mutual aid.

The agreements required an extensive amount of time to develop, review and agree upon. Several were not finalized until the last week prior to the closing of the sale. Co-op leaders advise that any other co-ops beginning a similar acquisition process should be aware that this may be an area of unanticipated, time-consuming effort.

Soon after the APA was signed, it became obvious that the IT migration effort would be both extensive and expensive. There were 15 or more IT systems that required migration or modifications. With only a few exceptions, each of the three parties used different software and platforms for the various IT systems. Even with a 12- to 18-month timeline, data mapping and migration became the major concern. The IT migration effort would run right up to the final hours before the closing.

Concurrently, one of the law firms — along with the financial consultants and advisors — began working to prepare the documentation required by the VSCC. This effort included responding to numerous inquiries from VSCC staff and the consultants that the VSCC hired to review the case for them.

## **Employee meetings, public relations efforts**

Once the cooperatives became fairly confident that an approval would be obtained from the VSCC, they met with the existing AE employees (who would be changing employers to REC or SVEC) to review the cooperative policies, wages, salaries and benefits. Some AE employees were unionized, while REC is not, so it carefully explained how it deals with all its employees and stressed its commitment to open communication in all employee dealings.

A public relations campaign was also begun to educate the future consumers/members and businesses about the cooperative model and benefits. These future consumer/members had always been served by an investor-owned utility, so they knew very little about electric cooperatives.

The major concern by the future consumer/members was the fear that they would be paying higher rates under cooperative ownership. This was also a major concern of the VSCC. AE's rates in Virginia were artificially low as a result of its agreement to a rate cap in the early 2000s, during Virginia's electric deregulation efforts.

With market-based rates, AE's actual costs for energy to serve its Virginia customers were higher than the dollar amount recovered by the capped rates. The capped-rate requirement was scheduled to expire in July 2011, at which time AE's energy rates were forecast to be even higher, due to the anticipated market-based rates for the Virginia area.

The cooperatives, with ODEC's assistance, determined



that the ODEC blended energy rates would be equal to, or lower, than the anticipated market rates to which AE would be subjected. Therefore, it was believed that the cost of power for the new territory should not be an issue.

VSCC finally agreed to a transition period that minimized the rate increases to the new territory and spread the rate changes over a period of four years. During the transition period after the close of the sale, the consumer/members in the new territory would see different (lower) rates than those rates used with the legacy members of the cooperatives. Both ODEC and AE contributed toward these reduced rates.

### **New service center needed**

As a result of the territory split, REC needed to secure a site and building for a new service center that would support 35,000 of the 50,000 future members. An existing district service center would serve 15,000 of the new members. A 12.5-acre site with a recently constructed 50,000-square-foot warehouse was located within the future service territory. Design, approvals and construction were all expedited to produce a complete district service center in six months.

About 25,000 square feet of offices were constructed within the warehouse shell and the entire site was graded, fenced and made ready for operations.

The VSCC set a March 2010 date for the public hearing. All were surprised when the pleadings and testimony at the hearing continued for five days. There was significant testimony from both the VSCC consultant and then responses and testimony from all three of the utilities involved. About two months later, the VSCC approved the sale, with conditions. The three parties agreed to the final conditions, and a June 1, 2010, closing date was set.

The finishing touches were put on the remaining work. AE employees were made job offers, in accordance with the APA. Staffing decisions were finalized for the new district office. IT systems migration was finalized using the actual data files from AE.

Warehouses were stocked, arrangements were made to transfer all of the vehicles and equipment titles as well as all of the easements and real estate; spare parts and apparatus were set up and funding was finalized in anticipation of electronic transfer of the full purchase price to AE the morning of the closing.

Consumer/member education and information, aided by public relations consultants, continued to be a major focus. Plans were finalized for the day of the takeover.

Closing the sale and the transitions within the new territory went very smoothly. Now, one year after the closing, things continue to go smoothly.

The need for significant capital improvements was foreseen by both cooperatives and are underway as of this writing. REC is replacing all meters in the new territory with an Advanced Metering Infrastructure (AMI) using Aclara technology and equipment. REC has used the Aclara AMI system throughout its existing territory for more than nine

years.

All the AE substations are being upgraded with supervisory control and data acquisition automation, which provide the REC operations center immediate information about the substations and control of them. Tie-lines between the two cooperatives have been automated. For REC, three large 12- to 14-person contract crews have begun the extensive work of clearing some neglected rights of way on REC's newly acquired 3,000-plus miles of electrical lines. This work alone has yielded significant reliability and power quality improvements for the new members.

### **Lessons learned**

As with any large project, there were some things that, if the process were starting again, REC co-op leaders say they would do differently or give more consideration. These include:

- The very short bid response time did not allow sufficient time to thoroughly review and inspect the physical system and the right of way conditions. Additional inspection time might have influenced the bid price strategy.
- The joint bid process required detailed negotiations between the cooperatives. There were differing ideas in some cases; therefore, compromises were required.
- Even though both cooperatives were USDA Rural Utilities Service (RUS) borrowers and, as such, used RUS line design standards, there were still significant differences in opinion over how to operate the AE system, divide the territory and upgrade the system.
- The real estate and easement review process was a lengthy, significant and complicated task.
- The submittal to the VSCC was a three-party joint submittal by REC, SVEC and AE. During the VSCC testimony and hearings, this became awkward, because there were times when the cooperatives and AE were not in agreement regarding either a response or the possible solution. This required negotiations between the joint submitters and also with the VSCC and its staff.

This significant acquisition has been successful because of:

- Solid planning and preparation, using qualified professional leadership and advisors,
- Teamwork;
- Hard work and careful attention to detail by each team and team member;
- Clear and regular communication, listening to and then working out differences in opinions;
- Listening to existing and future consumer/members' concerns and responding promptly;
- Having a strong financial position from which to begin, and
- Being flexible enough to respond to unanticipated issues as they arose.

The efforts of everyone involved made this purchase a success for both cooperatives and all their consumer/members. Both co-ops hope that their experience can serve as a road map for other co-ops considering a similar move. ■

# Newsline

## Co-op developments, coast to coast

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



*Dairy Farmers of America (DFA) Young Cooperator delegates Brian and Jilean Ercanbrack and their family deliver meals to the elderly on behalf of the Utah Food Bank in Salt Lake City, Utah, as part of DFA's Mountain Area Dairy Cares Day in June. Photo courtesy DFA*

### Dairy Month campaign delivers 100,000 meals

Nearly 100,000 meals for the hungry were made possible during June Dairy Month, thanks to a nationwide effort by Dairy Farmers of America Inc. (DFA). Throughout the month, DFA members and staff worked to deliver on the cooperative's core value of support for community by helping fight hunger across the United States.

The cooperative initially set out to provide 50,000 meals to those in need through a series of fundraisers, volunteer events and local food drives, the majority of which benefitted affiliates of Feeding America, the nation's largest network of food banks.

Ultimately, DFA members and staff doubled that goal, giving nearly 700 hours of volunteer time, donating more than 7,700 pounds of food, sorting and packaging another 65,000 pounds of food during volunteer events, and contributing more than \$5,000 in cash and grocery gift cards.

The campaign was part of a larger DFA hunger and nutrition effort, which encompasses policy advocacy and legislative outreach, as well as collaboration with federal and local hunger and nutritional programs.

"Hunger is a serious problem affecting a growing number of Americans," says Jackie Klippenstein, DFA vice president of legislative and

industry affairs. "We believe that dairy products can play an important role in reversing the trend, and this national campaign reflects DFA's commitment to the issue."

As an example of the national effort, DFA members and staff in DFA's Mountain Area organized Dairy Cares Day, an event held simultaneously in three cities: Broomfield, Colo., Twin Falls, Idaho, and Salt Lake City, Utah. Volunteers in each city spent the morning sorting and packaging food, as well as delivering meals to needy people.

DFA members also filled reusable grocery bags with nonperishable food items, which their milk haulers assisted



in collecting. Thanks in part to a contribution by Western Dairy Association, more than 7,000 pounds of food items and dairy products were donated.

### Fund established for victims of spring storms

Citing the need to help the long-term recovery of individuals and cooperative businesses, the Cooperative Development Foundation (CDF) has launched the Spring Storms of 2011 Cooperative Recovery Fund.

“Regions throughout the continental United States have been hit by a devastating series of storms, tornadoes, floods and wildfires,” says CDF Executive Director Liz Bailey. “We’ve all been horrified by the scenes from Tuscaloosa and Joplin, and we’ve watched in disbelief as massive flooding has inundated both urban and rural areas throughout the Mississippi River Basin. The death and destruction that has occurred is beyond belief and the Cooperative Development Foundation (CDF) applauds the resiliency of the people affected and the extraordinary work being done by government response teams and disaster relief agencies.”

Cooperatives have been an important building block in bringing economic development to many parts of this multi-state area. Bailey says cooperatives have raised incomes and provided affordable services, providing agricultural production infrastructure, housing, access to credit and rural utility services and access to markets for crops. In many areas, much of this infrastructure has been damaged or destroyed, leaving cooperatives and their members with few tools to rebuild and help themselves recover from these disasters.

“The establishment of this fund is all about co-ops helping co-ops,” Bailey says. “Our focus is on what will be necessary for recovery once disaster relief has met most immediate needs.” Donations will be used to rebuild cooperative businesses and new cooperative development as part of the

long-term recovery. “We want to help more people experience the benefits that cooperatives can bring to their lives.”

CDF will charge no administrative fee for funds raised, ensuring that 100 percent of the funds donated reach the

Fund, which will help to identify the needs of farmers and farm cooperatives and help CDF coordinate this effort with the wider cooperative community in that area.

For more information, visit: <http://www.cdf.coop/the-spring-storms->



*Members of the North Dakota Air National Guard build a sandbag wall to protect a home along the Missouri River near Bismarck, N.D., in June. More than 1,300 North Dakota National Guardsmen worked in the Bismarck-Mandan area to help hold back flood waters. Below: Streets in many towns in North Dakota and Iowa were turned into streams by the flood. Air Force Photos by Tech. Sgt. Oscar Sanchez*



people and organizations that need help. A prime point of contact for CDF in the South will be the Federation of Southern Cooperatives/Land Assistance

of-2011-co-op-recovery-fund/, call: (703) 302-8094, or write: Cooperative Development Foundation at 2011 Crystal Drive, Suite 800, Arlington, VA

22202. CDF also continues to accept donations for its Tsunami Cooperative Recovery Fund. Information on that effort is also posted on the above website.

### **CHS aiding disaster victims**

CHS Inc. is contributing \$1 million to help North Dakota communities impacted by recent severe flooding. In addition, the CHS Foundation, an independent, private foundation supported by CHS Inc., is contributing \$50,000 to the American Red Cross to aid in flood relief efforts. The company is making an additional \$50,000 corporate contribution for direct support to the nearly two dozen CHS employees whose homes have been damaged by severe flooding in the Minot, N.D., area.

"We recognize the significant challenges faced by so many individuals and communities impacted by the recent flooding," says Carl Casale, CHS president and CEO. "We hope these contributions will help those affected by this disaster as they begin to recover and restore their homes, farms and businesses."

CHS Foundation and CHS Inc. employees have also contributed \$84,000 to help victims of the earthquake and tsunami in Japan through their donations to the Cooperative Development Foundation (see above news item) and the American Red Cross. CHS has also made donations to help victims of the tornadoes that hit Alabama and surrounding states in the spring, as have many other cooperatives.

### **CoBank-U.S. AgBank merger gets preliminary approval**

The Farm Credit Administration (FCA) has voted to grant preliminary approval of the proposed plan of merger between CoBank and U.S. AgBank. FCA serves as the independent regulator for both banks and the rest of the Farm Credit System. The agency's three-member board voted unanimously to grant preliminary approval for the transaction, subject to

certain conditions.

The preliminary approval will enable CoBank and U.S. AgBank to submit the merger proposal to their stockholders for a vote later this summer. "This is a critical milestone in the merger approval process," says John Eisenhut, chairman of the U.S. AgBank board of directors.

Under statute and applicable regulations, the FCA reviews merger proposals involving Farm Credit entities to ensure they don't present safety and soundness issues and also to ensure that disclosure materials prepared for stockholders adequately communicate key aspects of the merger. The FCA conditions for the merger constitute post-merger requirements in a number of areas, including governance and reporting. The entire body of conditions will be provided in disclosure materials that will be sent to stockholders in connection with the vote.

"[This] action by our regulator reaffirms our belief that the merger will create a stronger, more durable bank that is better able to fulfill its mission and serve its customers for generations to come," said Everett Dobrinski, chairman of the CoBank board. "We believe the conditions articulated by the FCA can be accommodated by the combined bank without significant financial or operational impacts."

If approved, the merged bank will continue to do business under the CoBank name and be headquartered in Colorado. It will maintain U.S. AgBank's existing presence and operations in Wichita, Kan., and Sacramento, Calif.

The combined bank would continue to be organized and operate as a cooperative, with eligible borrowers earning cash and equity patronage based on the amount of business they do with the organization. Robert B. Engel, CoBank's president and CEO, will remain as the chief executive of the combined entity. Darryl Rhodes, president and CEO of U.S. AgBank, has announced he plans to retire following the merger.

The banks planned to distribute

disclosure and voting materials to stockholders in the first half of July, with completed merger ballots due to be returned by September 7.

### **West Virginia co-op marketing natural Angus beef**

Mountain State Natural Beef is a new producers' co-op in Doddridge County, W.Va., which is marketing all-natural Angus beef nationally via its website. The co-op was organized by the Doddridge County Economic Development Authority (DCEDA), in cooperation with West Virginia University Extension Service, the West Virginia Department of Agriculture and the U.S. Department of Agriculture.

The co-op says all participating farmers must follow strict production guidelines "in order to ensure 100 percent natural beef. The farms are inspected and visited repeatedly for quality assurance purposes."

Ten Doddridge County farmers are participating in the pilot project, which will result in more than 16,000 pounds of beef delivered for marketing in August, according to the *Parkersburg News and Sentinel*.

"The cows are primarily grass fed, resulting in lean, healthy beef," Melissa Hinterer, DECDA director, told the *News and Sentinel*. "Because we aren't feeding them as much corn, the beef is higher in antioxidants," she added. "We pulled together local farmers who would accept guidelines on how to raise source-verified, all-natural Angus beef. That means no antibiotics, no growth hormones and no additives." She says the co-op has the potential to have a favorable impact on both the local and state economies.

"Because our farmers are working together cooperatively, we don't have a 'meat shop' or a frozen grocery store that your beef would be shipped from," the co-op says on its website: <http://mountainstatenatural.com>. "Instead, we are shipping beef directly from the processing facility to your home." The co-op is selling bundled assortments of various beef cuts in different weights.



## Co-ops join forces to promote healthy school lunches

Organic Valley, the nation's oldest organic farmer-owned cooperative, and the National Cooperative Grocers Association (NCGA), a business services cooperative serving 120 consumer-owned food co-ops nationwide, are joining forces to help improve school lunches. They will launch a national promotion this fall to support the National Farm to School Network, a nonprofit connecting schools and local farms to help serve healthier meals in school cafeterias, improve student nutrition and to support local and regional farmers.

The national promotion, which takes place Sept. 1 through Sept. 30, will trigger a \$1 donation to the National Farm to School Network with every purchase of any Organic Valley cheese, among other promotional efforts.

"Today more than ever, our children need better school lunches," says Anupama Joshi, director of the National Farm to School Network. "We believe the most nutritious and delicious food comes straight from local and regional farmers. We appreciate the cooperative thinking of two leaders, Organic Valley and NCGA, in supporting our mission."

## GROWMARK finalizes Select Seed acquisition

Regional cooperative GROWMARK Inc. has finalized the acquisition of the assets of Select Seed, Camden, Ind. Purchase terms were not disclosed.

Select Seed will continue to operate as an independent brand within the GROWMARK family, and Kevin Eggerling will continue to manage the company's operations. Select Seed serves more than 450 growers in Indiana, Ohio, Illinois, Michigan and Kentucky through direct sales and a network of more than 100 farmer dealers.

"Becoming part of the GROWMARK family of brands will enable Select Seed to continue to offer growers high-performing seed corn along with access to an even broader

range of agricultural products and services to improve farm profitability," says Eggerling.

"Select Seed and GROWMARK share a similar history of focusing on providing progressive growers exceptional products to increase their productivity and profitability," Ron Milby, GROWMARK Seed Division manager, says.

GROWMARK Inc. provides agriculture-related products and services and grain marketing in 31 states and in Ontario, Canada. The co-op owns the FS trademark, which is used by affiliated member cooperatives.

## Binder new CEO at FCCServices

FCCServices, a Denver-based provider of business consulting services for the Farm Credit System and other clients, has named Scott Binder as its president and CEO, effective Sept. 1. Binder most recently served as senior vice president for the Mile High Region of Comcast.

"Scott brings a wealth of experience, ingenuity and work ethic to FCCServices," says Chairman Loyd Rutherford. "FCCServices helps its clients achieve greater success by providing services focused on leadership and operational excellence — both areas where Scott has a proven track record and can help continue a legacy of profitable growth."

Prior to leading Colorado and New Mexico operations for Comcast, Binder served in leadership roles in Kentucky, California and Wisconsin with an emphasis in marketing, finance, human resources, learning and leadership development, customer care and technical operations. Binder currently serves as board chairman of the Mile High United Way, is a board member of the Denver Public Schools Foundation and recently served on the boards of the Metro Denver Sports Commission and Denver Metro Chamber of Commerce.

Retiring president and CEO Roger Shaffer has been with the Farm Credit System for 28 years and served in his current capacity for the past eight years.

Under his leadership, the company saw unprecedented revenue growth and an expanded suite of management consulting service offerings.

## Grainland Co-op members approve joining CHS

Members of Grainland Cooperative, Holyoke, Colo., have voted to approve a merger with CHS Inc. The proposal passed with 67 percent approval. Once finalized, management will begin planning for enhanced grain shuttle-loading capabilities.

"We are confident this decision will allow us to accomplish things for our patrons and members that we might not be able to do otherwise," says Rick Unrein, Grainland Cooperative general manager. "We need to keep up with our customers' growing needs and expectations."

"The combination is a good match for both companies," says John McEnroe, senior vice president of CHS. "And it aligns with the CHS core commitment to always return value to its member-owners."

The Colorado co-op, which has seven locations, will continue to operate under the Grainland name. It provides agronomy, feed, grain and energy products and services.

In other CHS news, the co-op has sold its shares in Multigrain S.A., a Brazilian joint venture company it has owned with PMG Trading and Mitsui & Co. Ltd., to Mitsui & Co. Ltd., Japan.

## Hazen addresses White House Councils

NCBA President and CEO Paul Hazen participated in a round table discussion on economic development and the economy with President Obama's top business and economic councils on June 2. Hazen was one of only a few presenters to address representatives from the President's Council on Jobs and Competitiveness, the Council of Economic Advisors, the National Economic Council, the White House Business Council, the Office of Public Engagement and the Office of



*2011 inductees into the Cooperative Hall of Fame are (from left): Gloria and Stanley Kuehn, who spent 25 years working internationally with small farmers to grow non-traditional and organic crops; Shirley Sherrod, a veteran of the civil rights movement who found ways to achieve economic justice and rural land ownership for small and lower-income farmers through collective farming and cooperative development; Noel Estenson, who, as CEO of Cenex, joined forces with Harvest States Cooperative, creating CHS Inc., the nation's largest cooperative; Daniel A. Mica, who served for 14 years as president and CEO of the Credit Union National Association (CUNA), a period of significant accomplishment for the credit union movement. Photo Courtesy Cooperative Development Foundation*

Science and Technology Policy, as well as representatives from the U.S. Departments of Labor and the Treasury.

In his remarks, Hazen stressed the important role that cooperatives play in the U.S. economy as businesses that pay taxes, hire workers, provide benefits and create wealth in the communities where they operate. "Cooperatives are focused on the triple bottom line: economic success, social progress, and environmental stewardship. As businesses, they have business needs. In these economic times, now more than ever, cooperatives need access to capital to grow and to create jobs," Hazen said.

The American Sustainable Business Council hosted the meeting to emphasize innovative business strategies. Hazen was one of three presenters who discussed cooperative enterprise. Other organizations presenting on cooperative business included the Democracy Collaborative

and Local Government Federal Credit Union. More than 25 business and economic development organizations attended the meeting.

In other news, at the recent Consumer Cooperative Management Association conference in San Diego, Calif., NCBA Vice President of Public Affairs and Member Services Adam Schwartz helped lead a workshop on ways that food cooperatives can market their "cooperative difference" during the International Year of Cooperatives (IYC).

NCBA is creating a communications toolkit for cooperatives to help promote the IYC and their own cooperatives. The goal is to create content for use at the local level that amplifies messages in use at the national and global levels. NCBA is planning to deliver the toolkit in August. Cooperatives that would like NCBA to deliver a workshop on planning for the International Year of

Cooperatives can contact IYC Coordinator Eric DeLuca at: [edeluca@ncba.coop](mailto:edeluca@ncba.coop).

### **Accelerated Genetics honored for export success**

Accelerated Genetics, Baraboo, Wis., is a recipient of the 2011 Governor's Export Achievement Award. Governor Scott Walker presented the annual Export Achievement Awards in May to recognize firms and organizations that have achieved extraordinary results in international sales or have contributed to Wisconsin's increased ability to compete in a global market. Walker says the companies selected serve as excellent examples of how to succeed in international markets and proved they could prosper despite the ups and downs of the global economy.

Accelerated Genetics — which does half of its business outside the United States — was recognized for being a top



agricultural exporter. Award criteria include degree of export-related growth, innovative techniques and approaches that resulted in the company's success, and demonstration of extra effort in capturing worldwide markets.

The co-op, which began international sales in 1957, constructed a 24-stall European Union Qualified Sire Isolation facility in 2008 and has added staff members who are native to various countries it operates in to help "cross the bridge into the global community." During the past few years, Accelerated Genetics says it has initiated cutting-edge marketing techniques to promote the co-op's sires.

"Our tremendous growth in international sales is a result of many things, including our international sales teams' efforts, the respect that international dairy and beef producers have for our genetics program and the great superiority of the American beef and dairy genetics, which enhance our efforts to meet the needs of many diverse and evolving markets around the world," says Gary Fassett, the co-op's vice president of sales and communication. The co-op is celebrating its 70th anniversary this year with the theme: "Celebrating 70 Years of Innovation."

"International sales have enabled Accelerated Genetics to better serve our membership, including their needs for competitive prices, superior genetics, a complete line of animal health products, and providing reproduction management programs along with other services," Fassett adds.

## **Dairy co-op CEO sentenced for fraud**

Richard Ghilarducci, former CEO of Humboldt Creamery in Northern California, was sentenced in May to 30 months in prison and ordered to pay \$7 million in restitution for loan fraud in a case that led to the bankruptcy and eventual sale of the co-op. Ghilarducci had previously pled guilty to the charges, which were filed following a year-long investigation by the FBI.

U.S. Attorney Melinda Haag announced that under a plea agreement, Ghilarducci admitted that he falsified numbers in the co-op's yearly financial statements from 2005 to 2008 to prevent lenders from learning the true financial condition of the creamery. Specifically, he inflated the value of the creamery's accounts receivable and inventory in various financial statements prepared for and submitted to CoBank. Ultimately, Humboldt Creamery defaulted on its loan, causing a loss of between \$7 million to \$20 million, Haag said in a press release issued by the U.S. District Court for Northern California.

Humboldt Creamery, near Ferndale, Calif., was formed in 1929. It had converted to a producer-owned LLC by the time of the sale, although 75 percent was owned by the cooperative of local dairy farmers. Many people from the local community worked for, invested in, or were affiliated with the creamery.

Ghilarducci had worked for the creamery for more than 20 years, serving as its Chief Financial Officer and then CEO. Shortly after Ghilarducci's fraud was discovered, the creamery declared bankruptcy.

"The unraveling of the creamery has had a profound impact on the community," Haag said. "This prosecution holds Mr. Ghilarducci accountable for defrauding the bank and the damage his actions caused."

U.S. District Court Judge Charles R. Breyer also sentenced the defendant to a three-year period of supervised release. Ghilarducci began serving his sentence on May 20. The creamery was purchased by Foster Farms, Modesto, Calif., one of the state's largest privately held dairy food companies.

## **USDA accepting VAPG applications**

Deputy Agriculture Secretary Kathleen Merrigan has announced that applications are being accepted for grants to provide economic assistance to independent producers, farmer and rancher cooperatives and agricultural

producer groups through the Value-Added Producer Grant Program (VAPG).

"By creating value-added products, farmers and ranchers can expand economic opportunities, create jobs and keep wealth in rural communities," Merrigan says. "These funding opportunities will promote business expansion and entrepreneurship by helping local businesses gain access to capital, technical assistance and new markets for their products and services."

VAPGs may be used for feasibility studies or business plans, working capital for marketing value-added agricultural products and for farm-based renewable energy projects. Eligible applicants include independent producers, farmer and rancher cooperatives and other agricultural producer groups. Value-added products are created when a producer increases the consumer value of an agricultural commodity in the production or processing stage.

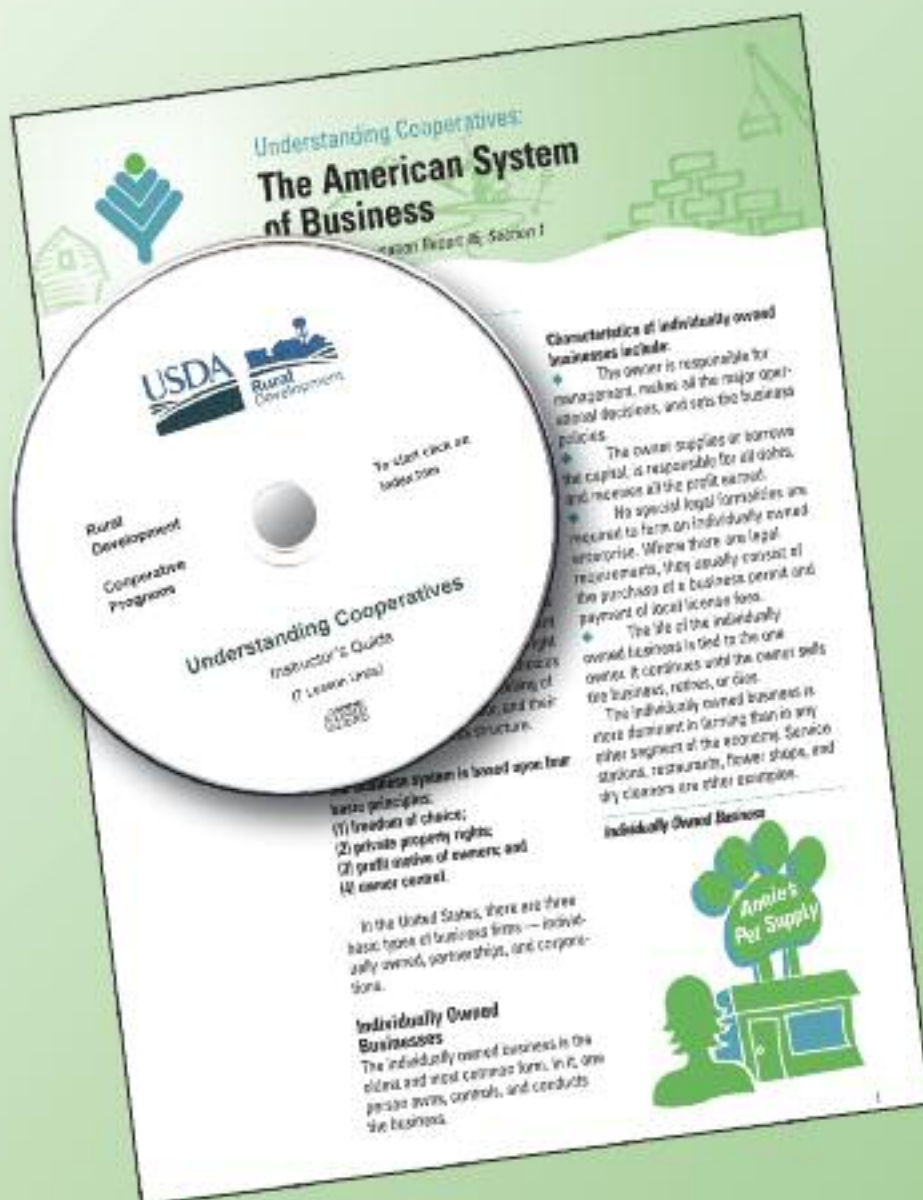
For example, in Caroline County, Md., Richard and Wenfei Uva, owners of Seaberry Farm, received a VAPG to expand their processing capacity to produce beach plum jams and jellies, juice and puree for retail and wholesale markets. The Beach plum is a native fruiting shrub that grows in coastal sand dunes from southern Maine to Maryland. Seaberry Farm planted three acres of Beach plum in 2006 and will double the acreage in 2011.

San Miguel Produce, in Oxnard, Calif., is owned by Roy Nishimori and Jan Berk, independent producers of organic and conventional cooking greens. In 2009, they received a VAPG for socially disadvantaged farmers and ranchers. The grant enabled San Miguel Produce to expand markets for their "Cut 'n Clean Green" products and increase revenues.

The application deadline is August 29, 2011. For further details about eligibility rules and application procedures, see the June 28, 2011, Federal Register. ■

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## Hogs on the Range

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meal, in its pork. From birth, hogs must never receive antibiotics, a stricter standard than pork labeled “natural,” which permits no antibiotics 30 days prior to slaughter. Hogs must have continuous outdoor access, wallows, shaded areas and corn stalks for bedding.

Other rules pertain to how hogs are unloaded at the packing plant, which can be problematic when dealing with hogs that have never seen a concrete floor. Experienced cooperative members share information on standards and how to meet them, especially with new members with less experience in pasture-based hog production.

### Manager coordinates efforts

The cooperative’s management is carried out by Jones, NC NHGA’s president, who acts as coordinator between growers, the packing plant and buyers. It can be a monumental task

pulling together enough hogs from among the membership that meet the weight ranges demanded by buyers. Smaller growers, for example, may have only a few hogs in the weight range ready for slaughter in a given week.

Jones contacts other board members occasionally if problems arise. His wife, Jessica, does the billing for growers and is paid for her time. There are no other paid employees. At this time, there are no plans to hire a part-time manager, although the topic has been discussed.

The current fee of \$1 per head, plus \$250 per member per year, may not be sufficient to cover the cost of employing a manager. If the day comes when a part-time manager is hired, Jones says the co-op will need someone who knows the industry to help ensure the cooperative’s continued viability.

Since the membership is scattered over six counties, holding member meetings can be difficult. Even so, until recently there have been monthly meetings held in conjunction with the Niche Pork Grower School session held at Duplin County Extension office. Members vote on accepting new buyers

and other cooperative issues. Some have been turned away because they appear more likely to be short-term buyers.

### The co-op’s future

Jones foresees an expanding market for the cooperative’s pork, with little effort needed from the cooperative to obtain new buyers. He thinks the additional hogs needed to meet increasing demand will come from existing members who will increase their operations, as opposed to adding new members to the cooperative.

Only five new members have been added to the co-op during the past two years. New members will always be welcome, Jones says, if they are willing to work hard to meet the demanding standards of pasture-based hog production.

***Author’s note:** The author wishes to thank Bruce Pleasant, director of Business and Cooperative Programs, USDA Rural Development/North Carolina, and Michelle Eley, Ph.D., North Carolina Agricultural and Technical Cooperative Extension Program for their input to this article. ■*

## Pilot Mountain Pride

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and increase market share of locally grown goods in the region.

The program is open to farms in the greater Winston-Salem area. Pilot Mountain Pride gives 80 percent of its revenue back to farmers. The other 20 percent goes to supplies, labor and other costs.

### GAP training required

An important part of the PMP project is that, to participate, all growers must receive Good Agricultural Practices (GAP) training on food safety handling and harvesting techniques. This training gives growers logical guidance in implementing best management practices that will help to reduce the risks of microbial contamination of fruits and vegetables.

GAP training includes worker hygiene and health, proper use of manure and protecting water quality throughout the production and harvesting process. Growers, packers and shippers are urged to take a proactive role in minimizing food safety hazards potentially associated with fresh produce.

Being aware of, and addressing, the common risk factors outlined in the GAP training results in a more effective, cohesive response to emerging concerns about the microbial safety of fresh fruits and vegetables. Furthermore, PMP growers also encourage the adoption of safe practices by their partners along the farm-to-table food chain. This includes distributors, exporters, importers, retailers, producer transporters, food service operators and consumers.

### Early returns encouraging

PMP managers initially expected sales last year of around \$30,000 to \$50,000, but sales dramatically exceeded expectations after PMP partnered with Lowes to sell members’ local produce. That deal resulted in gross sales of about \$250,000 in 2010. Sales for this season are ongoing, but the “buy local food” movement seems to be going strong in the greater Winston-Salem area, thanks in big part to Pilot Mountain Pride.

“This is a new beginning,” Pilot Mountain Mayor Earl Sheppard said of PMP. “I’m excited because I’m a farmer. This is going to be a new beginning for our young farmers.”

To learn more about Pilot Mountain Pride, visit: <http://pilotmountainpride.com>, call (336) 444-8000 or e-mail [sales@pilotmountainpride.com](mailto:sales@pilotmountainpride.com). ■

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