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Rural

# COOPERATIVES

USDA / Rural Development

March/April 2001

A photograph of a man in a blue long-sleeved shirt and dark pants standing in front of several large, tan-colored industrial silos. The man is looking towards the camera with his hand near his chin. The silos are tall and cylindrical, with various pipes and ladders attached. The background is a clear blue sky.

Co-ops cope  
with power  
crisis

## *Research key to expanding co-op knowledge and understanding*

Research on cooperatives has diminished, as noted in the article by legal scholar James Baarda on page 21. New efforts are needed to invigorate thought and understanding about major forces impacting the operations of cooperatives and how they adapt structurally and functionally to them. Baarda shows the opportunity to draw on new, cutting-edge developments in disciplines such as legal theory, economics, sociology, political science and behavior management and how to apply them to cooperatives. Such an interdisciplinary approach to addressing these issues has the potential to enrich understanding of the role cooperatives play and better promote cooperative development in the United States and worldwide.

Sound far-fetched? Building intellectual capital about cooperative methods of operation, practices and principles is one of the missions of USDA's Cooperative Services program, first authorized in the Cooperative Marketing Act of 1926. At a time of increasing concentration in food manufacturing and distribution, cooperative approaches to marketing are being looked to increasingly by Congress as a means for farmers and other rural residents to access markets and to gain a modicum of control in the market chain, rather than being subservient to outside interests. It is ironic that – at a time of renewed interest in value-added marketing and improved rules for negotiated pricing over contract terms – research support for work on these important areas is lacking.

Such research is important for

identifying keys to successful operation of cooperatives and understanding the causes of cooperative failures. It is also important to shedding light on how changes in various means of

*Research is important for identifying keys to successful operation of cooperatives and understanding the causes of cooperative failures.*

finance can affect member control and influence in their cooperatively owned businesses. Seldom do long-term consequences of deviations from conventional cooperative practices merit the in-depth assessment required to determine if they alter the

basic nature of cooperatives. What may appear to be the idea of the moment or just “keeping up with the Joneses” can end up costing members their equity and market presence. Just observe what has happened to Tri-Valley Growers and the Saskatchewan Wheat Pool. Could unwise courses of action have been averted by better understanding the nature of the cooperative business itself?

USDA's cooperative research program involves in-house efforts and coordination with university scholars through agreements that augment work on mutually agreed-upon projects. This effort needs to be elevated to meet the critical needs identified in the Baarda article and to avert a crisis in cooperative knowledge. Results can assist cooperative boards of directors and management in strategic planning, identification of best practices, and shed light on issues inherent in the increasingly complex organizations required for responding to global competition. They can also assist producers and other rural residents with economies in transition from centralized government to more democratically run and market-oriented ones.

The opportunity for application of the cooperative idea and its use has never been greater. It is through research and education that the cooperative idea expands and is nurtured.

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



# Rural COOPERATIVES

March/April 2001

Volume 68 Number 2

**Rural COOPERATIVES** (1088-8845) is published bimonthly by Rural Business-Cooperative Service, U.S. Department of Agriculture, 1400 Independence Ave. SW, Stop 0705, Washington, DC. 20250-0705. The Secretary of Agriculture has determined that publication of this periodical is necessary in the transaction of public business required by law of the Department. Periodicals postage paid at Washington, DC. and additional mailing offices. Copies may be obtained from the Superintendent of ZDocuments, Government Printing Office, Washington, DC, 20402, at \$3.50 domestic, \$4.38 foreign; or by annual subscription at \$15.00 domestic, \$18.75 foreign. Postmaster: send address change to: Rural Cooperatives, USDA/RBS, Stop 3255, Wash., DC 20250-3255.

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This publication was printed with vegetable oil-based ink.



United States Department of Agriculture

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*Alan Pierson contemplates the grim energy picture facing California as he stands outside milk-storage silos at the Land O' Lakes processing plant in Tulare. The plant has experienced numerous power outages, forcing some members to divert milk to animal feed. Story on page 12. Photo by Josh Yoshimoto*



# On the sea of grass

*Colorado ranchers band together to cut cattle-grazing costs*

By Coleman Cornelius,  
*Denver Post*  
*Northern Colorado Bureau*

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by permission*

**L**ogan County, Colo. — The sprawling prairie owned by the Chimney Canyon Grazing Association harbors all of human history on the Eastern Plains.

This arid landscape — where cattle grazing is managed at a ratio of just one animal per 15 acres — has its own desolate beauty, and many of its features have remained unchanged over time.

Atop a sweeping mesa, there are tepee rings left from Plains Indian ceremonies. From here, native people could see forbidding canyons coursing through distant chalk cliffs, the canyons for which the grazing association is named.

A stone-buttressed dugout, not much bigger than desktop, hints at the hardships of an early homesteader who sought meager shelter on the land where he staked claim.

A collection of immaculately preserved stone buildings and barns is all that's left of a ranch once controlled by John W. Iliff, one of Colorado's legendary cattle kings in the late 1800s, whose family later founded the Iliff School of Theology in Denver.

In the Iliff tradition, the Chimney Canyon Grazing Associations' 35 members — 31 men and four women — make a living raising crops and cattle. They banded together to improve their chances of success in a harsh landscape, in a harsh economic climate.

## Strength in unity

The Logan County group formed in 1965 with a simple idea: by pooling their money, small-scale farmers and ranchers could buy more land for cattle grazing than they could afford individually, giving each a firmer financial foothold.

The grazing association is the largest of its kind in the state and is the biggest landowner in Logan County, according to county assessors.

The group owns nearly 32,000 acres in northwestern Logan County; with additional holdings in adjacent Weld County, the ranchers control about 37,000 acres. The northern Colorado property amounts to about 58 square miles.

"In order for the small farmer to compete, he had to get organized with other small farmers. That way we could buy land, because large-unit costs were a lot less," said Joe Cucarola, 80, the group's founder and an ongoing member.

The association has allowed the small farmer to be more diversified, and through diversification, they were able to stay in business, said Cucarola, who lives near Sterling.

The idea of a grazing cooperative retains its appeal for many struggling in an agricultural economy that is almost perpetually in the pits. In this economy — where production costs routinely outstrip commodity prices — the Chimney Canyon Grazing Association has afforded its members a measure of financial stability, and has even helped some to dramatically expand their operations, members say.

"How would you go buy acreage

for 100 cows today? It's almost unheard of," said Jerry Meisner, the group's secretary-treasurer. "I don't think a grazing association can be beat







*Jerry Meisner, left, secretary-treasurer of the Chimney Canyon Grazing Association, discusses the grazing outlook with ranch manager Dick Rogers. The association manages nearly 32,000 acres for its members in Logan County, Colo.*

for a smaller operator.”

Grazing associations sprang up in Colorado during the 1960s with encouragement from the federal government. The Chimney Canyon Grazing Association secured private funding for its land, and a government agency had administered the loans.

The grazing association bought its first parcels for about \$35 an acre at an interest rate of 5 percent, officers said. The land is worth perhaps \$100 an acre today.

Ranchers join by buying membership in the association. In addition, members pay annual fees.

These days, the yearly fee is \$55 per ‘animal unit,’ meaning a cow-calf pair, bull or steer. On average, association members graze 80 animal units on the land, making the average annual membership fee \$4,400 — a sizable cash outlay for many small-scale farmers and ranchers, but still less than it would cost to individually lease or buy grazing land, the association’s officers said.

The fees cover land payments, taxes, insurance, equipment and the salary of a full-time ranch manager, among other costs.

In just a few years, the association will retire its loans and will own its land. That will reduce annual fees and should boost cattle profits, members said.

The five-month grazing season begins in May, when association members move their cattle onto the hardy and nutritious buffalo and blue grama grassland.

Grazing continues through October, when ranchers collect their cattle and move the animals to wintertime plots on

their private land. At that time, calves are weaned and steers head for feedlots to be fattened for slaughter.

### **Babysitting the cattle**

During the summertime grazing season, ranch manager Dick Rogers and his wife, Lynn, watch over some 4,500 head of cattle. In pickups and on horseback, they keep tabs on about 150 miles of fence line and make sure electric pumps and windmills are working to draw water for grazing cattle.

While the couple tend the cattle, most association members are raising crops, including alfalfa, feed corn and wheat on their farmland. The arrangement allows association members to focus on farming while their cattle graze under someone else’s watchful eyes.

While the grazing association has improved profit margins for its members, their interest in the shared land is not all money-driven.

A decade or so ago, when many of the farmers and ranchers could have used the cash, a group of investors offered to buy grassland from the Chimney Canyon Grazing Association to convert it to dryland wheat production.

But the members didn’t want to see the windblown grassland plowed up, and they knew the long-term benefits of association ownership outweighed short-term cash gains. So they declined the offer.

Though the members are mostly people of few words, they quietly admit a pride of ownership and a sense of responsibility for their shared land. In private conversations, they recalled sunsets viewed from prairie bluffs on their communal property and agreed that the grazing association has offered a sense of hope during tough times for agriculture.

“We hope it will keep operating the way it has for the past 35 years,” Meisner said.

Added association president Basil Stieb: “We don’t plan on selling to anybody.” ■

# Earnings, sales dip for local cooperatives

Beverly L. Rotan, Ag Economist  
*USDA Rural Development*

**L**ocal cooperatives handling farm supplies experienced a slight decrease in earnings during 1999, with net income averaging almost \$327,000. Sales were also down slightly, averaging just over \$13 million. About 26 percent of the cooperatives in this study suffered losses.

Although patronage refunds were down from 1998, they were still an important source of revenues. These refunds allowed 19 (out of 77) cooperatives that suffered losses on their local farm supply operations to post a gain in net income.

Current assets of local co-ops that market farm supplies declined, but total assets increased 7 percent from 1998 to 1999. Investment in plant, property and equipment (PP&E), grain and oilseed inventories, farm supply inventories, and accounts receivable for farm supply sales grew slightly.

Current liabilities declined 0.6 percent in the two-year period, with patrons' credit balances and "other" liabilities having the largest decrease. Current term and seasonal short-term debt used for financing operating expenses grew in double digits. Also increasing were accrued expenses, long-term debt, cash patronage refunds and dividends. Long-term debt increased by 10 percent from 1998 to 1999.

Farm supply sales followed the downtrend, posting a 3-percent decrease. Petroleum was the most

important farm supply item sold. Feed was the second most important farm supply item sold, although there was a 6-percent decrease from 1998. Surprisingly, seed, tires, batteries and accessories and "other" farm supplies showed some growth, but these gains were offset by a steep drop of about 20 percent for other farm supplies sold by local co-ops. Service income was up about 10 percent.

Crop marketing sales also suffered sharp declines, with grain sales off the most, sliding 9 percent, to just over \$5 million per co-op, on average.

Cost of goods sold and total sales (including farm supplies, grain, etc.) almost offset each other, with cost of goods sold falling about 7 percent and total sales falling 6 percent. Cost of goods sold averaged more than 85 percent of net sales. Total expenses were up from 1998, increasing about 7 percent.

Agricultural cooperatives contin-

ued to play a vital role for farmers, supplying them with both production goods and marketing their crops and livestock. These co-ops are also important to rural communities, where they are often one of the largest employers. These co-ops generate considerable tax revenues for rural towns.

The expense for a single employee averaged \$34,493, and the local co-ops employed an average of 29 people, up about 4 percent from 1998.

Directors' fees and expenses were a small part of total costs. However, director compensation was an important factor in getting farmers to re-channel time normally spent on their own operations to helping to guide their cooperatives. Board expenses were rather modest, averaging \$896 per director annually. The co-ops surveyed averaged 10 board members.

Production and prices for most grains and oilseeds decreased greatly

**Table 1—Size and type definitions used for respondent cooperatives**

Cooperative	Definition	Number
Small	up to \$5 million in total sales	122
Medium	\$5 million to \$10 million	75
Large	\$10 million to \$20 million	59
Super	\$20 million and more	35
<b>Cooperative type</b>		
Farm supply	total net sales from farm supplies	180
Mixed farm supply	from 50 to 99 percent	49
Mixed marketing	from 25 to 49 percent	48
Marketing	less than 25 percent	



in 1999 and most inventories were probably stored until cooperatives could capture higher prices.

Because co-ops are owned by their farmer/member/patrons, and as long as those farmers want to own a business where they can purchase their supplies and market their products, cooperatives will continue to adapt to changing economic conditions. Local cooperatives cannot depend on large patronage refunds to generate net earnings. During the past two decades, consolidation reflected an attempt to maintain an adequate size from which to provide their members with expanded products and markets. With numerous local co-ops losing money, further consolidation may be necessary in the future.

Information for this article was compiled from a study that collected detailed financial information from 291 cooperatives. Most respondents were small farm supply cooperatives, with sales averaging less than \$2.5

million. Cooperatives were grouped into four sizes by sales volume, using actual figures. No attempt was made to deflate these values. Sales group-

ings used in this report were the same as in similar USDA studies and, for the 291 cooperatives, sizes and types used are summarized in table 1. ■

## Most financial ratios confirm downtrend

Most financial ratios used for this study have both a financial and operational impact and measure various performance levels of cooperative operations. To ensure a complete and accurate financial analysis, it is important to look at a group of financial ratios over a period of time and/or evaluate other cooperatives or companies with similar sales and functions in the geographical area.

Highlights of the impact of ratio include:

- Liquidity ratios – the current ratio (current assets/current liabilities) was fairly steady, around 1.5 between 1990 and 1999, with a slight downturn in 1995. The quick ratio (current assets-inventory/current liabilities) mimicked the current ratio's trend;
- Leverage ratios – debt ratio was at a high of 0.47 in 1996. After 1996, the ratio starts to decline, with the sharpest downturn in 1997;
- Activity ratios – total-asset-turnover ratio fell from 2.13 in 1998 to 1.92 in 1999 because total sales decreased 6 percent while assets increased only 5 percent; much of the increase was in inventories;
- Profitability ratios – return on total assets ratio fell from 7.88 in 1998 to 6.53 in 1999 because total assets increased while net income decreased (13 percent). ■

## Growmark, TFC to study possible merger

The boards of directors of Growmark Inc. and Tennessee Farmers Cooperative (TFC) have approved a study that will examine the potential combination of the two regional agricultural cooperatives. Dan Kelley, chairman of Growmark, and David Rieben, chairman of TFC, said, "We are both federated cooperatives owned by our local member organizations. We share a deep commitment to serving the needs of our members. Given our geographic proximity and similar business philosophy, it makes sense to look at how we can work together more closely to benefit our member-owners."

Preliminary discussions have focused on potential benefits in the following key areas: (1) building on mutual strengths to enhance and strengthen product and service offerings to members; (2) utilizing each cooperative's areas of expertise for the overall benefit of a combined organization, and (3) utilizing the human resources of each organization to support future expansion opportunities. No timetable was announced for the study, but management indicated a combination could occur by early 2002 if the study results are positive and members support a plan of consolidation.



# Minnesota leads nation in co-op business volume

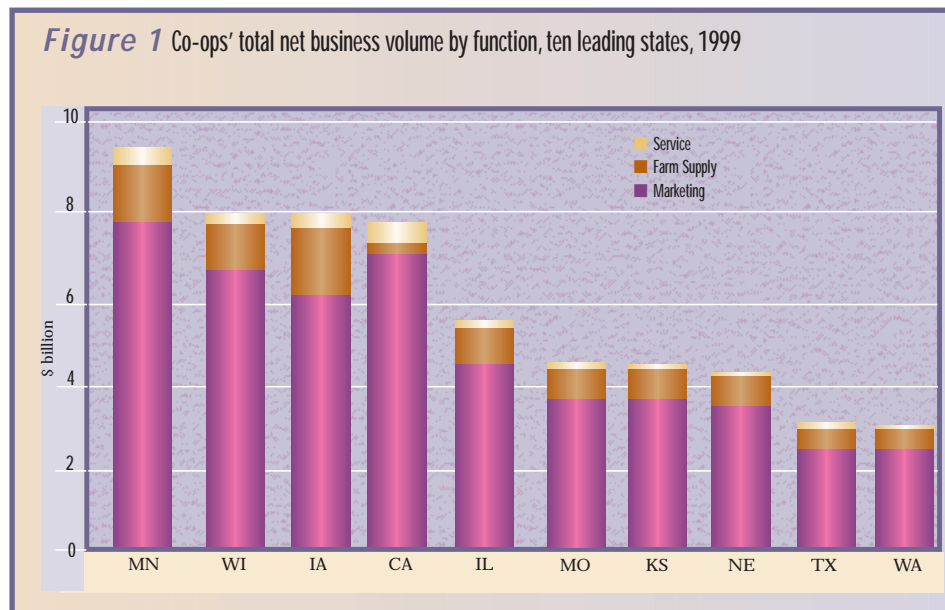
Charles A. Kraenzle, Director,  
Statistics Staff  
USDA Rural Business-Cooperative  
Service

**Editor's note:** Information was collected by statistics staff members Celestine C. Adams, Katherine C. DeVille, Jacqueline E. Penn and Ralph M. Richardson

**D**espite dwindling numbers of farms, Upper Midwest agricultural cooperatives - paced by Minnesota - led the nation in co-op business volume, according to data compiled by the U.S. Department of Agriculture's Rural Business-Cooperative Service.

Minnesota cooperatives, with \$9.3 billion in net business volume in 1999, led all states for the first time since USDA began tracking co-op performance by state in 1951. Wisconsin ranked second among all states, with \$8 billion in co-op business volume, while Iowa (the leading state in 1997) dropped to third place, with \$7.9 billion in co-op business volume. California co-ops placed fourth with \$7.8 billion. California co-ops led the nation from 1951 through 1977 and again from 1987 to 1995. Iowa was the nation's leading farmer co-op state from 1979 to 1985 and again in 1997. The 10 leading states ranked by net business volume are shown in fig. 1.

Total net business volume of co-ops in Minnesota was down in 1999 compared to 1997 (USDA compiles state-by-state data for co-ops only in every other year). Decreased marketings of farm products, especially grains and



oilseeds, and a decreased volume of farm supplies combined to drop Iowa to third place. Decreased marketings of milk, cotton, fruits and vegetables and other commodities, as well as lower sales of farm supplies, caused California to slip to fourth place in the state rankings.

Wisconsin co-ops, with increased sales of milk, livestock and farm supplies, moved up into second place. Wisconsin co-ops increased their net business volume to \$8 billion in 1999 (table 1) from \$6.5 billion in 1997.

Cooperatives in these 10 states accounted for \$59.2 billion, or 59.7 percent, of the \$99.1 billion in total net business volume handled by the nation's 3,466 agricultural cooperatives in 1999. This compares with \$62.1 billion (58.2 percent) of the \$106.7 billion generated by the nation's co-ops in 1997. The 10 leading co-op states also accounted for 53.8 percent of the total co-op memberships and 56.5 percent

of all co-ops in 1999, compared with 53 percent of memberships and 57.5 percent of co-ops in 1997.

Marketing sales (derived from sales of crops and livestock) accounted for 76.1 percent of the business volume handled by co-ops in the top 10 co-op states in 1999, up from 75.3 percent in 1997. Minnesota co-ops, with \$7.1 billion in 1999, led all states in farm marketing, followed by California (\$6.8 billion) and Wisconsin (\$6.5 billion). Co-op marketing in Minnesota accounted for 76.1 percent of their total net business volume, up from 75.2 percent in 1997.

In California, marketing accounted for 86.9 percent and sales of farm supplies accounted for only 8.9 percent of the total business volume in 1999. Service revenues and other income accounted for the remaining 4.2 percent.

Iowa led all states in volume of farm supplies sold, followed by Minnesota and Illinois, the same as in

**Table 1—Farmer cooperative numbers,<sup>1</sup> memberships, and net business volume by State, 1999<sup>2</sup>**

State	Cooperatives headquartered in State	Member ships in State <sup>3</sup>	Net business volume <sup>4</sup>	State	Cooperatives headquartered in State	Member ships in State <sup>3</sup>	Net business volume <sup>4</sup>
	—————Number—————		Mil. dol.		—————Number—————		Mil. dol.
Alabama	63	53,886	1,170	North Carolina	26	98,404	826
Alaska	9	1,815	76	North Dakota	268	118,435	3,041
Arizona	9	3,376	930	Ohio	83	55,970	2,277
Arkansas	53	56,038	1,643	Oklahoma	94	68,611	1,386
California	181	53,604	7,824	Oregon	35	24,638	1,717
Colorado	47	32,613	929	Pennsylvania	56	45,008	1,353
Connecticut	4	2,728	176	South Carolina	6	3,458	247
Delaware	3	43,422	90	South Dakota	136	107,046	2,451
Florida	39	26,050	2,419	Tennessee	79	139,124	730
Georgia	16	26,673	2,007	Texas	251	118,064	3,401
Hawaii	28	2,768	104	Utah	17	10,013	461
Idaho	40	18,583	1,332	Vermont	5	5,981	472
Illinois	189	195,258	5,316	Virginia	59	174,308	997
Indiana	55	75,409	1,931	Washington	84	33,903	3,325
Iowa	189	180,168	7,932	West Virginia	27	75,083	89
Kansas	137	133,269	4,659	Wisconsin	191	205,690	8,018
Kentucky	41	231,862	773	Wyoming	13	5,145	259
Louisiana	48	12,294	564	Other States	4	30,121	96
Maine	24	8,348	203	Foreign	-	4,789	490
Maryland	21	71,953	352	United States	3,466	3,173,323	99,064
Massachusetts	13	5,551	628				
Michigan	62	29,788	1,925				
Minnesota	305	186,902	9,306				
Mississippi	76	105,239	949				
Missouri	71	142,771	4,860				
Montana	73	28,720	686				
Nebraska	110	92,353	4,543				
New Jersey	18	7,347	313				
New Mexico	10	2,974	555				
New York	98	17,770	3,235				

<sup>1</sup> Includes centralized and federated cooperatives and those with mixed organizational structures. <sup>2</sup> Data covering operations of cooperatives ending their business years during 1999. Data for states with fewer than three cooperatives or where disclosure is a problem are included with other states. Totals may not add due to rounding.

<sup>3</sup> Includes farmer members (those entitled to vote for directors), but not nonvoting patrons. Duplication in these membership numbers occurs because many farmers belong to more than one cooperative. <sup>4</sup> Excludes inter-cooperative business.

1997. Cooperative supply sales in Iowa totaled more than \$2.3 billion, \$1.9 billion in Minnesota and \$1.5 billion in Illinois. Iowa was the leading state in cooperative sales of feed, crop protectants and fertilizer. Illinois co-ops led all states in seed sales, Minnesota led for petroleum sales and Wisconsin in other farm supply sales.

#### Leaders in number of co-ops

Minnesota, North Dakota and Texas were the leading states in number of cooperatives (as determined by co-op headquarters locations), the same rankings as reported in 1997 and 1995. The top 10 co-op states were home to 1,957 (56.5 percent) of the nation's co-ops in 1999 (fig. 2), down

from 2,180 co-ops and 57.5 percent in 1997. Among the 10 leading states, Minnesota and South Dakota had about an equal number of marketing and farm supply cooperatives. Texas had the largest number and proportion of service co-ops (mainly cotton ginning) and Wisconsin the largest proportion of farm supply coopera-

tives. Minnesota, however, had the largest number of farm supply co-ops. Illinois and Iowa had about the same proportion of marketing and farm supply co-ops.

Among the top 10 co-op states, Minnesota (35) and Wisconsin (30) led in the number of dairy cooperatives. California, with 67 fruit and vegetable cooperatives, accounted for 29 percent of the nation's 231 fruit and vegetable cooperatives. North Dakota had the largest number of grain cooperatives (119), followed by Kansas (113), Illinois (110) and Iowa (106). These four states accounted for 63.7 percent of all grain cooperatives in the top 10 co-op states and 50 percent of the 896 U.S. grain cooperatives.

### Leaders in co-op memberships

Kentucky led all states in number of cooperative memberships with 231,862. Memberships in the 10 leading states totaled 1,707,787 and accounted for 53.8 percent of the total U.S. cooperative memberships in 1999 (fig. 3), up from 53 percent in 1997. Among these states, Kansas (87.2 percent), followed by Illinois (59.9 percent), had the largest percentage of memberships in marketing cooperatives.

Virginia (81.6 percent) and Missouri (76.5 percent) had the largest percentage of memberships in farm supply cooperatives. Wisconsin (10.4 percent)

was the leader for memberships in related-service cooperatives (those that perform services such as livestock breeding, trucking, storage, etc.). Overall, 52.1 percent of the total memberships in the top 10 states were in farm supply cooperatives.

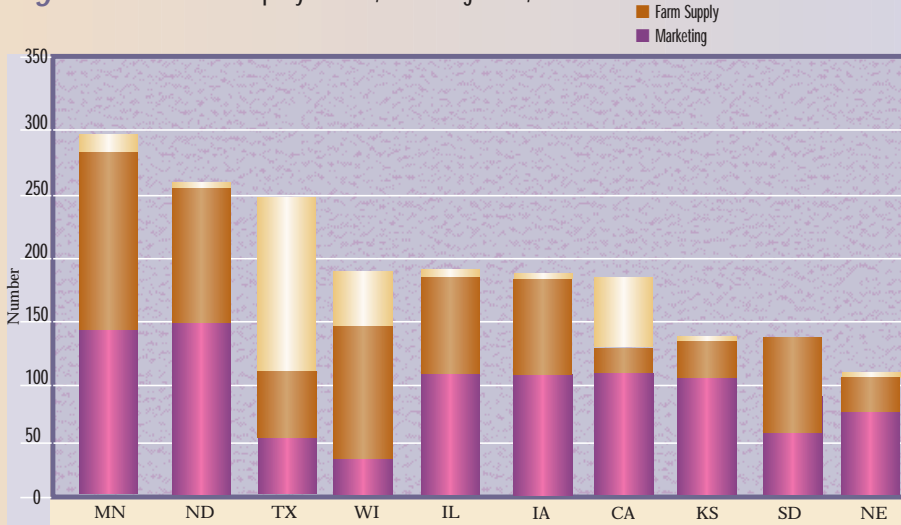
Among the 10 leading states in co-op memberships, Kentucky had the highest number of memberships per co-op, with 5,655. Virginia was second with 2,954 and Missouri ranked third with 2,011. North Dakota ranked 10th with 442.

Net business volume per membership among the 10 leading states in total memberships was highest in Minnesota (\$49,791) followed by

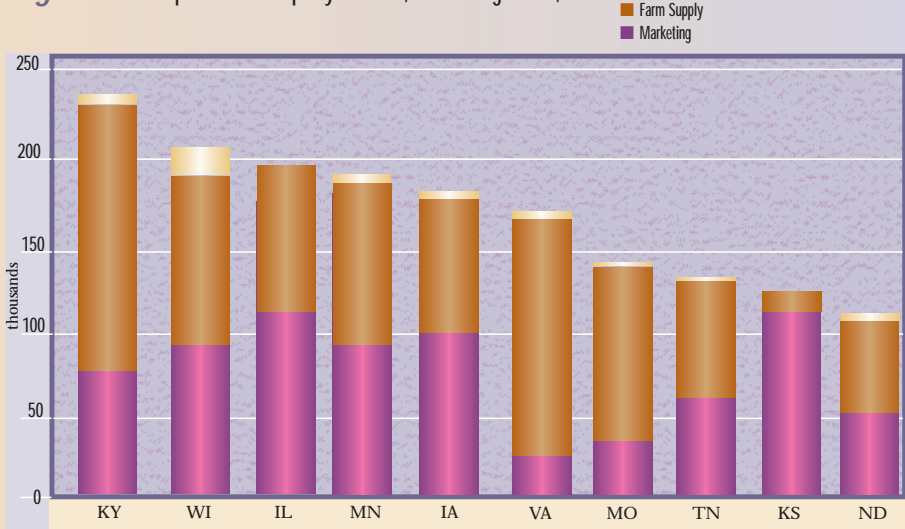
Iowa (\$44,026) and Wisconsin (\$38,981). Kentucky ranked tenth with \$3,334 per membership. Among the 10 leading states in net business volume, California accounted for 296 memberships per co-op and \$145,951 per membership. The net business volume per membership in California was nearly triple of that reported for Minnesota.

Total net business volume (excluding business done between cooperatives) in 1999 was \$99.1 billion, down from \$106.7 billion in 1997 and \$104.7 billion in 1998. This includes marketing (the value of products sold, bargained for or handled on a commission basis),

**Figure 2** Number of co-ops by function, ten leading states, 1999



**Figure 3** Co-ops' memberships by function, ten leading states, 1999



farm supplies (sales of fertilizer, crop protectants, petroleum, feed and other supplies to members and patrons) and receipts from services, such as trucking, storage, ginning, drying and artificial insemination, and other income.

Information on farmer cooperative activity in individual states is collected every other year through USDA's annual survey of farmer cooperatives. Data requested are on memberships by state, origin of farm products marketed and destination of supplies and equipment. These data are tabulated to show memberships and commodity business volumes at the state level. ■





# Robert A. Cropp

*Agricultural Economist*

*University of Wisconsin-Madison Center for Co-ops & UW-Extension*

**Personal background:** Born on a Wisconsin dairy farm, Cropp remembers attending with his dad a Pure Milk Association meeting, at which the little tyke was bored. But as he grew, so did his interest in agriculture. A bout with polio exempted him from military service and he headed to the University of Wisconsin-Platteville to study agriculture education. While working at UW-Madison on his master's degree and Ph.D. in agricultural economics, with thesis work in milk marketing, he had to teach a co-op class. That's now a responsibility he relishes teaching every fall semester.

**Education posts:** For nearly 20 years, Cropp taught ag-economics at his alma mater. He then served as executive director to a special task force studying the future of America's dairyland and coupled that assignment with duties in the UW Cooperative Extension Service. Then, after serving as dean of the UW-Platteville College of Agriculture, Cropp accepted new responsibilities as director of the UW Center for Cooperatives in 1990. He now splits time between the Center for Cooperatives and the UW-Madison Agricultural and Applied Economics Department, where he is a dairy marketing and policy specialist.

**Co-op honors:** Cropp received the Distinguished Extension Program award from the American Agricultural Economics Association in August 2000. In 30 years, recognitions have come from the American Institute of Cooperation, Association of Co-op Educators, St. Paul Bank for Co-ops, Wisconsin Federation of Co-op, UW-Platteville and Extension, Wisconsin Association of County Ag Agents, Wisconsin Milk

Marketing Board, Wisconsin 4-H and FFA, Alpha Gamma Rho (ag fraternity), Wisconsin Farm Bureau, GROWMARK, Farmers Union Milk Marketing Co-op and Accelerated Genetics.

**Why such a commitment to co-ops?** "It consumes you. I think people who work in the co-op arena share the same philosophy of supporting a system of self-help to create a better bottom line for members. We have a soft spot for farmers and rural communities and, through a cooperative, you see the benefits going back to those people. I'd like to think that I'm of some use, that what I do is of some value and that I've made a difference while working with people. And that's the part of my job that I like the best. I think I've learned more from working with co-op boards and members than I've been able to help them learn."

**What co-op lessons do you find yourself continually teaching?** "We know that when farmers aren't doing well, the co-ops aren't doing well either. So it gets frustrating when you have good, hard working farm families that are looking to their co-ops to do things for them. But it's difficult to understand the complex changes going on throughout agriculture that are impacting members and co-ops. And it can become difficult to demonstrate the value of cooperatives during times like these. So we spend a lot of time at the Center working with boards to get them to think about where they are now, what trends are impacting their co-op and how they need to respond to them. Frankly, there are some co-ops out there that need to make some



*Robert Cropp says today's complex business environment increases the need for more specialized training for co-op board members.*

Photo by Pamela J. Karg, courtesy Foremost Farms USA

changes in how they operate. Otherwise, I fear they might not be around in another five years."

**Where do you think co-ops are headed?** "Director education is more important than ever because of their responsibilities to be visionary and do long-range planning in a more complex business environment. And we find ourselves doing more specialized training with individual co-op boards. That's because directors today represent a more heterogeneous membership. We have differentiated services, a shrinking farm population whose operations are getting larger at the same time we have consolidations on the other side of the marketing equation with our customer base. There is more technology on the farm and in the co-op. Business structures can be more complex as co-ops bring in non-member investments. So the answers become more critical to questions of how we structure the co-op, who our customers are, what their needs are, how and if we're going to serve them, and how we're going to finance all of this at a time when farm income is depressed." ■

# Power in peril

*California co-ops struggle to cope with the state's energy crisis*

By Catherine Merlo

**T**he telephone call – and the realization that a serious crisis was at hand – came on Jan. 16. Land O' Lakes officials were told they would lose all energy in 30 minutes at their milk processing plant in Tulare, Calif. The call came from Southern California Edison, the plant's power provider and one of California's two largest utilities.

*At first, no one was greatly alarmed. Despite a few brief power interruptions in late 2000, the plant had never experienced a serious energy loss in its 10 years.*

*This time, however, was different....*



On Jan. 16, as California's energy reserves fell to less than 1.5 percent – creating a stage-three (crisis situation) alert – power to the Land O'Lakes plant was cut for 10 consecutive hours. The following day, power was shut off for 17 hours. On Jan. 18, after the plant had been without power for more than 10 straight hours, Land O'Lakes officials made an agonizing decision.

"We had to keep the plant running," says Alan Pierson, vice president of finance and administration for Land O'Lakes' Western Division. "So we chose to pay premium rates in exchange for keeping the power on. We had no choice."

Land O'Lakes paid a high price for its dilemma. To process the 11 million gallons of milk it was receiving daily, the plant incurred extra costs of \$70,000 an hour to keep the power on. That week, its losses soared to more than \$1 million. Many of its 220 members were forced to divert millions of gallons of milk – much of it to calf-feeding operations – because they had no way to store or process their highly perishable commodity.

That was the case at the Van Beek Bros. Dairy farm near Tulare, one of three large dairy farms operated by Bill Van Beek and his two brothers. Although they have back-up generators to keep their milking machines running during a power outage, the Van Beeks had to sell milk for only pennies on the gallon to a calf-feeding farm when the Land O' Lakes plant shut down.

"We lost close to \$1.50 a gallon on more than 5,000 gallons of milk," Bill Van

Beek says. "Yesterday (March 20) the farm itself was hit by a power outage for the first time, which lasted about an hour. It slowed us down a bit, but we're afraid the power situation is going to get worse this summer."

From Jan. 1 to Feb. 28, the Land O' Lakes plant sustained 19 power outages. Each time, the plant, which sits in the heart of California's \$4.3 billion dairy industry, was forced to stop its processing operations for hours. Lights, phone service and computers were useless.

"We had never experienced power interruptions like that before," says Pierson. "It was literally a nightmare."

### Power shock

Land O'Lakes power problems may be among the worst, but the milk processor is certainly not the only California co-op hit hard by energy troubles these days.

Across the Golden State, agricultural co-ops of all kinds -- from fruit and nut, to cotton, plant nursery and dairy – are caught in an unprecedented energy crisis. They are wrestling not just with power blackouts and the threat of more to come, but with skyrocketing energy prices for electricity, natural gas and diesel. Many co-ops have seen a five-fold increase in monthly power bills.

"The energy crisis has been disastrous for California agriculture," says Bob Graf, executive vice president of field operations for Pacific Coast Producers, a fruit processing and marketing co-op in Lodi, Calif.

All this could not come at a worse time. Certainly, California has faced crises before. But now, the state's farming woes have come together all at once in a "perfect storm" that has created a situation of emergency proportions.

Prices for nearly every agricultural commodity in the state are down. It's been a drier-than-normal winter, and water may be in short supply. On top of that, the economy appears headed for a slowdown, a further blow to the state's already beleaguered agricultural industry.

"We've always had issues and challenges to deal with in California," says Rich Ghilarducci, CEO of Humboldt Creamery Association, a 75-member dairy marketing cooperative in northern California.

"But if it's industry specific, you have the knowledge and experience to take care of it," Ghilarducci says. "The energy situation is out of our control. It's hard to make decisions to take care of this challenge."

Worst of all, this winter's energy crisis may be just the beginning. Fears of what looms on the horizon are widespread, especially with the approach of California's triple-digit summer temperatures. Power demands are expected to rise



*Doug, left, and Bill Van Beek had to divert more than 5,000 gallons of milk to animal feed recently when power outages shut down the Land O' Lakes dairy plant in Tulare, Calif. They say environmental and other regulations which discourage construction of new power plants bear much of the blame for the crisis.*

*Photo by Josh Yoshimoto*



even higher when the state's residents turn on their air conditioners, increasing the threat of more blackouts.

At the same time, growers and processors will be faced with the harvest demands of many of the state's perishable food crops. Will there be power, they ask? And if so, at what cost? Co-ops, consumers and utilities alike are bracing for the worst.

"The magnitude of this problem has not sunk in for most people," says Pierson. "This summer will be worse than anything we've gone through so far."

The consequences of California's energy problems are far-reaching. California has the world's sixth largest economy, is the nation's most populous state, and, with a \$27 billion farming industry, is the No. 1 agricultural producer in the United States.

What caused California's energy crisis is open to heated debate. Critics point to the state's flawed energy deregulation policy. Others cite the lack of new power plants, caused in part by what they say is too much bureaucratic red tape and an over-zealous environmental regulation which "handcuffs" energy development efforts. Everyone is pointing fingers these days.

What matters now, though, is just getting through the crisis. And for the state's agricultural co-ops, that hasn't been easy.

### Uneasy aftermath

Today, the Land O'Lakes plant in Tulare is running with bated breath. By early March, the blackouts had diminished. Still, its employees keep the lights and the thermostat turned down. All available power goes to production to make butter, cheese, whole milk, non-fat powders and fluid milk. While the plant has not had to resort to layoffs, it has curtailed employee hours.

"The Public Utilities Commission has temporarily waived the fees we incurred during this winter's power interruptions," says Pierson. "But the issue is not resolved."

Land O'Lakes – like many industrial businesses in California – operates on an interruptible power contract with Southern California Edison. Under its agreement, the plant agrees to curtail energy use for up to 6 hours at a time whenever California's power reserves are threatened.

In return, the plant receives a 15-percent discount on its power rates. If it chooses not to lose power during those peak energy times, it keeps its energy but pays severe fines. January's outages, which lasted more than 6 hours at a stretch, remain a point of contention for Land O'Lakes. At issue is whether the utility had the right to implement back-to-back interruptions with no break in between. While it works to resolve its differences with Southern California Edison, Land O'Lakes has remained on its interruptible contract.

"After this winter's power interruptions, our first reaction was to get off the interruptible system," says Pierson. "But then we realized rolling blackouts, which come without warning, are more devastating. At least, under the current system, we have some warning."

### Interruptible power — an iffy situation

But there are many businesses on the interruptible power system that are deeply unhappy with it. Fruit Growers Supply Co., the supply arm of the Sunkist Growers citrus cooperative, tried to get out of its interruptible power contract with Southern California Edison when it came up for renewal in late 2000. Although its contract assured no more than 150 hours of outages a year, the co-op was concerned. It had already sustained a few outages at its carton-making plant in Ontario, Calif., and feared the situation would get worse. But Fruit Growers Supply was not allowed out of its contract.

In January, at the peak of carton-making operations, the Fruit Growers Supply plant sustained repeated outages. "In one week in mid-January, we had 45 hours of interruptions," says Vice President Fielding Thompson, who heads up the co-op's supply division.

As operations fell behind, Fruit Growers Supply incurred unusually high overtime costs to keep employees working through the weekend to catch up on order commitments.

"In late January, as reported through Southern California Edison, the Public Utilities Commission (PUC) announced

there would be no more fines for those on interruptible power who chose to keep their power on," Thompson says.

"Frankly, we are concerned about their credibility, especially when it comes to saying there won't be any fines," he says.

### Power bills skyrocket

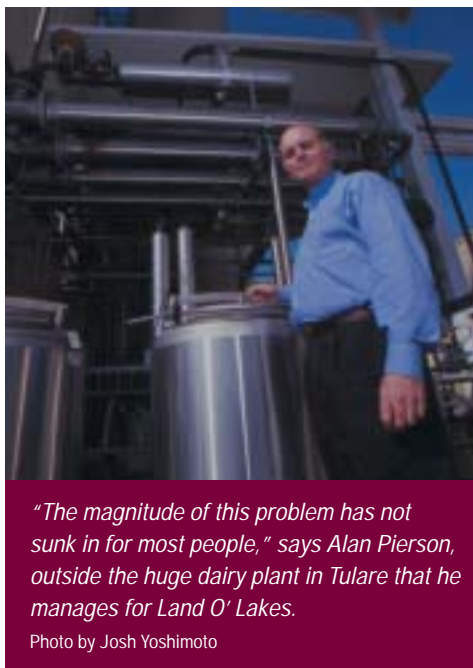
While many co-ops did not experience power interruptions during the January-February crunch, the energy crisis has been a nightmare for them all the same.

At Humboldt Creamery Association, soaring natural gas prices have increased the dairy co-op's monthly energy bills by a whopping \$100,000 per month since Dec. 1, 2000.

"On top of that, Pacific Gas & Electric (PG&E) implemented a new 15-percent surcharge that started in February," says Ghilarducci. "That new surcharge alone costs us \$15,000 a month."

PG&E is one of the state's three major utilities, along with Southern California Edison and San Diego Gas & Electric.

Though subject to rolling blackouts, Pacific Coast Producers of Lodi, Calif., has not suffered any power outages



*"The magnitude of this problem has not sunk in for most people," says Alan Pierson, outside the huge dairy plant in Tulare that he manages for Land O' Lakes.*

Photo by Josh Yoshimoto

yet. But with its peak harvesting and canning season set to begin in June, the 150-member co-op is deeply concerned about the energy situation. To process its fresh fruit and tomatoes, Pacific Coast Producers relies heavily on natural gas to fuel its canning and evaporation operations. The co-op's cold storage warehousing and shipping operations also use substantial amounts of energy.

"We cannot afford to lose power availability or experience delays during the harvest," says Graf. "We would lose a considerable amount of raw and canned product. We have to pay whatever it takes to keep our operations going. If we were to shut down, our losses would be even greater."

Like many other co-ops, Pacific Coast Producers says it is not that easy to pass on costs to customers. "Higher costs just might be enough to make a consumer turn away from fruit to eating a Twinkie instead," Graf says.

The situation is the same for Humboldt Creamery, where natural-gas price hikes have raised the co-op's production costs by 5-6 cents a pound. The co-op is absorbing the increases.

"I can't just go out and raise our prices," Ghilarducci says. "Sixty percent of our sales are outside of California. My competitors outside of California don't have these problems or these added costs."

### What's being done

Although Humboldt has not experienced any blackouts, it has stood on the brink. More than once, the co-op has

received notice that its power would be shut down in an hour. For a facility that processes 100,000 gallons of milk a day, that's too close for comfort. As a result, the co-op is looking at diverting milk away from energy-hungry operations like powder drying that rely on natural gas. Instead, Humboldt will process more milk in its ice-cream manufacturing facilities.

Humboldt Creamery also is considering the purchase of a powerful generator that could supply power during any future outages. The price tag for the new generator, says Ghilarducci, is a hefty \$500,000.

Likewise, Land O'Lakes has approved a \$2.7 million capital expenditure to buy a 6.5-megawatt generator to serve as a back-up for the Tulare plant. Fueled by natural gas, it will provide 60-70 percent of the plant's energy needs.

Saticoy Lemon Association, a 350-member co-op with four packinghouses in Ventura County, has rented three generators to provide back-up power during outages. Together, the generators will raise the co-op's expenses by \$20,000 a month. Saticoy, which also operates on an interruptible power system, experienced 14 power outages from December through February.

"Our biggest concern is what is going to happen this summer, which is our busy season," says Saticoy president Glenn Miller. "We may have to purchase one or two more generators. I've learned a lot about power in the last couple of months. We can expect that there won't be enough power and there will be rolling blackouts."

## A lucky few unscathed by crisis

A few lucky co-ops in California have operations in place that are helping them through the energy crisis.

For example, Diamond Walnut, a 2,000-member walnut processing and marketing co-op in Stockton, Calif., operates a co-generating plant at its headquarters — and has since 1980. The 4.5-megawatt plant, fueled by walnut shells, produces enough power to run the walnut-processing facility and generates excess capacity that the co-op sells to Pacific Gas & Electric, one of the state's two largest utilities.

In Sacramento, Blue Diamond Growers fortunately has missed the power outages, although the almond processing and marketing co-op has seen its natural gas prices jump five-fold. It's also expecting a 15-percent increase in its electricity costs by April. That's no small amount of money.

"Our costs for electricity average \$1.5 million to \$2 million per year," says Joe Carlone, Blue Diamond's director for facilities and engineering.

On the plus side, however, Blue Diamond has for many years had a "good neighbor" policy with its power

provider, Sacramento Municipal Utility District. The co-op voluntarily reduces its power load when the utility's energy supply drops sharply. "In doing so, we shed, or contribute, 1 megawatt of power back into California's grid system," Carlone says.

But Blue Diamond also has something else going for it. For years, the co-op has run a steam-producing boiler in its almond processing plant. Fired by methane gas from a nearby landfill, the boiler warms the plant in the winter. Mostly, however, the boiler is used to pre-condition, dry and roast the almonds. Not only does the boiler not rely on electricity, natural gas or diesel, but cost of the methane gas is just 20 cents per thermal unit (therm). That compares to February's natural gas prices of about \$1.40 per therm.

"That boiler is a gold mine for us right now," says Carlone.

While Blue Diamond has worked to install more energy efficient equipment, it too is looking at acquiring a back-up generator to run its operations should the power go out. ■



Fruit Growers Supply has located a 1.5-megawatt generator to serve as a back-up power provider. But the co-op hasn't hooked it up yet. Cost to complete permitting and setup for the generator, says Thompson, is \$70,000. Then another \$12,500 a month would be spent to lease the generator, with additional costs for its diesel. By March, as the power blackouts came to a stop, Fruit Growers Supply was still studying the ramifications of installing the generator.

"Legislation is being proposed that would limit blackouts to no more than six hours per day," says Thompson. "If that were to be the case, we could schedule our operations around that. If the generator is not needed, it's not a good decision to spend that kind of money to hook it up. The problem is we don't know what's going to happen. If the energy situation gets worse, there won't be any generators available when we need them."

### Gloomy outlook

Co-ops across the state are working with state officials to find solutions to the crisis, particularly in the area of power availability, rate increases and the interruptible power system.

Whatever solutions are developed must keep the long term in mind, Thompson says.

"We need to make sure we get the energy system in California under control without making mistakes now that will cost us for many years to come," he says.

Many stress the importance of building more dams, which would not only provide hydroelectric power but, at the same time, increase water-storage capacity — a critical issue in a state where so much of the agriculture depends on irrigation. And they believe the recent crisis has encouraged state officials to be more receptive to new power generation. But they recognize that such projects will not happen quickly.

"Building new power generation will take at least two years," says Saticoy's Miller.

Faced with uncertainty and the threat of more blackouts, most are not optimistic.

"The worst is yet to come," says Humboldt Creamery's Ghilarducci. "California's power demand increases by 50 percent in the summer. If we can't make it now, how are we going to make it through the summer?"

Tulare County dairyman Bill Van Beek lays most of the blame for the power crisis on what he and many others consider to be overly-stringent environmental regulations that have deterred construction of new power generating

## Farmers looking at back-up power systems

As farmers look for ways to ensure adequate power for routine operations such as pumping water, some are considering the use of back-up generators as insurance against future blackouts.

Gerry Rominger is an almond and alfalfa producer in Arbuckle, Calif., and a member of Blue Diamond's board of directors. He operates his own almond hulling and shelling operation from September through November. Concerned about his power costs for next fall, Rominger is looking into the possibility of renting a generator for the season to assure availability of power. The cost would be more than \$30,000 a month. And that's not counting the diesel fuel costs, "which would be double that," he says.

The price increases in natural gas, which is used to make fertilizer, are being felt on his farm too. "Fertilizer for my trees has risen to \$230 per ton compared to \$120 last year," Rominger says. "Today, we're getting about \$1 per pound for almonds. Three years ago, we were getting \$1.50."

Rominger adds, "This is probably the worst crisis we've had because it comes at a time when we have low commodity price for everything and a water shortage too. We're all competing for California's limited resources. We're on a collision course and there are no quick fixes." ■



Gerry Rominger is looking at possible back-up power sources for his new almond-hulling plant. "It may get worse before it gets better," he says. Photo by Gregg Rihl

plants in the state. The "half-way" approach the state took to power deregulation has also left California with some of the worst of both regulated and deregulated power systems, he adds.

Environmental regulations are also frustrating Van Beek and his brothers as they pursue plans to build another, 2,700-head dairy farm in the Tulare area.

"Environmental organizations from San Francisco are fighting us in the courts, even though the local community is behind us," Van Beek says. "Why should they be able to tell us we can't build a new dairy farm in Tulare — where farming is the lifeblood of the economy — and create 30 new jobs and who knows how many indirect jobs in a county where we have 16 percent unemployment? It just seems as though some of these organizations want to make it impossible to do business in California."

Has he ever thought of moving his operation out of the state?

"No. This is where I grew up and where all my family is — this is my home. It's where I want to farm — if they don't turn out the lights on us." ■

**Editor's note:** Merlo is a freelance writer based in Bakersfield, Calif., with extensive experience working for, and writing about, cooperatives.



# Neighborhoods warm to bargaining power of co-ops

By Tux Turkel, Staff Writer  
*Portland Press Herald*

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**N**ot far from the stores and traffic at busy Cook's Corner, Maine, stand quiet neighborhoods of clustered, cape-style homes, clad in weathered clapboards. At Coastal Estates II, a trained eye can spot metal vents sticking out from the wooden siding, an indicator that most occupants here warm their homes with through-the-wall kerosene heaters.

Efficient and easy to install, kerosene heaters have become a popular weapon to battle the Maine winter. Too bad the fuel isn't less expensive. Last week kerosene was running \$1.65 a gallon or so in the Brunswick area, roughly 25 cents more a gallon than heating oil.

But for 41 of the 50 homes in this planned development, kerosene is a relative bargain. The residents have organized a homeowners fuel-buying cooperative that negotiated a discount with a local dealer. In exchange for handling one master bill and coordinating delivery schedules, the owners bought a total of 15,000 gallons of kerosene last year at roughly 25 percent below the retail cash price. That added up to an estimated savings of about \$100 a home.

"In a cold winter, people could save much more," said Jim Friedlander, a resident who helped organize the buying group.

Cooperative fuel buying isn't a new concept. It's commonly used by compa-

nies and government. Dealers can give a better price when they deliver large volumes to a single group of commercial customers.

But residential, neighborhood co-ops are a recent and growing trend, driven by high energy prices. Dealers say they are getting more inquiries from organized groups of homeowners.

That said, neighborhood fuel-buying co-ops aren't easy to organize and sustain, and they may not be financially attractive to dealers. The one operated by the Coastal Estates II homeowners association, however, is an example of how some Maine residents can save money on heat by banding together.

The co-op was conceived by Friedlander, who is retired and moved with his wife two years ago to the development. Friedlander had experience with cooperative fuel-buying for town governments when he was director of the Greater Portland Council of Governments from 1979-1981. He also participated in a fuel co-op with innkeepers in Freeport, where he owns a bed and breakfast. He wondered why a buying group wouldn't work at Coastal Estates II.

The 15-year-old units in his development are good candidates. The homes were originally heated with electricity. When that became too cost-



*Jim Friedlander organized a consumers' fuel cooperative in Brunswick, Maine. The co-op negotiated a discount rate on kerosene that saved its 41 members 25 percent on the retail price.*

*Photo by Gordon Chibroski, copyright Portland Press Herald*

ly, most owners put kerosene heaters in their living or dining rooms, fed by tanks installed in attached garages.

Everyone fended for themselves until last winter, buying from a variety of oil dealers. But at a homeowners association meeting last year, Friedlander suggested putting a questionnaire in the group's monthly newsletter, to see if residents were interested in saving money through collective purchasing. Forty-one owners said 'yes.'

Friedlander called six oil dealers and sent out bids. The bids asked for the lowest mark-up for delivery over the wholesale price in Portland Harbor, where oil products enter southern Maine. Four replies came back. The lowest was from C.N. Brown.

The association is staying this year with C.N. Brown, which has offered a price of 17 cents per gallon above wholesale, if the bill is paid within 30

days. After that, the price differential rises to 27 cents per gallon.

For example: The wholesale price for kerosene at the middle of last week was around \$1.27 a gallon. That means homeowners would pay C.N. Brown \$1.44 for kerosene that the company was selling retail for \$ 1.70 a gallon, a cash price that reflects transportation, overhead and profit.

C.N. Brown can offer a discount to the homeowners because of two important economies of scale. First, the company sends one master bill to the homeowners association. That saves on accounting expenses. Second, C.N. Brown has arranged twice-monthly deliveries for all homes. That saves big money. High diesel and labor costs are pinching oil dealers, who would rather not have their trucks criss-crossing the countryside, dropping 100 gallons here and 200 gallons there.

"We go up there and empty a whole truck," said Mark Cyr, heating oil sales manager at C.N. Brown.

Cyr said the cooperation of the homeowners group helps make the deal workable. For instance: The fill-up spigots for the kerosene tanks are inside garages at Coastal Estates II. Homeowners have to open their garage

doors or give the driver access on specific days. Those kind of logistics make the company cautious about accepting bids from less-organized homeowners.

"This is a unique situation," Cyr said. "It works for us."

The association also needs to operate like a small business.

One resident, who acts as the finance manager, agreed to get the master bill and distribute individual bills to each home. He receives a 2-cents-a-gallon stipend for his trouble. Last year, a renter in one of the units skipped out without paying the final bill. This year, the association has taken a \$ 100 down-payment from everyone.

A successful co-op will also need someone like Friedlander, who has the time and interest to oversee the bids and organize homeowners.

"Someone's got to take the bull by the horns," he said.

The association has also offered to help organize other groups. Paul Putnam, past president of the association, has met with representatives from seven other planned developments in Brunswick.

"With all the news about oil prices you'd think everyone would want to get in on it," Putnam said.

Elsewhere in Maine, other neighbor-

hood associations are doing just that. Their agreements take different forms.

Robert Tracy, a regional manager for Irving Oil, said the company has negotiated fixed-price contracts with a dozen homeowner groups in southern Maine. Each homeowner is billed separately, but the efficiency comes by delivering large volumes of oil to one place on scheduled days.

In Freeport, for instance, homeowners in the Bishop Farm Road subdivision were savvy enough to negotiate a fixed-price contract with Irving early last summer, when oil prices were much lower. Irving was able to secure a supply that will allow it to sell the homeowners oil this winter for 98 cents a gallon.

"Homeowners are becoming very sophisticated in this type of market," Tracy said. "They understand the details of oil buying and they buy early to lock in prices."

At Coastal Estates II, Friedlander said he's happy to hear from residents in condominiums or subdivisions who want more information about how to organize a fuel-buying co-op. (His e-mail address is Ikesspot@aol.com.)

"Falmouth and Portland are loaded with developments like this," he said. "They have more opportunity to make something like this succeed." ■

## Tennessee Farmers' sales top \$408 million

Fiscal 2000 sales were up \$21 million from 1999, to hit \$408.7 million for Tennessee Farmers Cooperative at La.Vergne. Pre-tax net savings reached \$4.2 million while total assets rose to \$156.2 million. Increased sales were reported in beef and horse feed, farm hardware, equine products, and seeds. Fertilizer sales hit a record 468,000 tons, and sales were also boosted by expanded tire lines, higher fuel sales (due in part to higher prices), and \$26.2 million in sales (up \$1 million from the previous year) for the home, lawn and specialty department.

David Rieben of Decherd, Tenn., was elected new chairman of the board, replacing Gerald Caldwell. Johnny Daniel was elected to succeed Rieben as vice chairman.

In other Tennessee Farmers news, the co-op presented its highest annual honor, the James Walker Cooperative Spirit Award (named for a retired vice president of sales), to Kenneth Michael of Scotts Hill. Michael spent nearly 40 years in the cooperative's system, including local cooperative management and most recently as an operations specialist in West Tennessee.

In a letter to local cooperative managers at his retirement, Michael encouraged them to work together and support each other. "This federated cooperative is like a marriage – it must be built on trust and mutual respect to survive. The cooperative principles should never be compromised, but we must be ready to compromise our method of accomplishing our objective." ■

# Keep the co-op candle burning

*Effective member relations essential to keep co-op spirit alive & kicking*

By Jim Wadsworth  
Education and Member Relations  
USDA Rural Business-Cooperative  
Service



*e just don't feel our cooperative is a cooperative anymore." Sound familiar?*

This disturbing perception is becoming all-too common among some cooperative members. This feeling and similar ones — such as, “I don’t feel my co-op has any more interest in me than would an investor-owned corporation,” etc. — provide stark evidence that a cooperative’s member relations efforts are lacking. Greater contact with members and improved member communications may be needed to reverse this negative perception. If this type of perception spreads among your members and is not adequately addressed, your co-op’s future is not bright — regardless of where the markets go.

Without proper attention to member relations, member loyalty will often deteriorate. Under these circumstances, members’ use, control and ownership of the co-op will slip. While some members may continue to be committed to their co-op, others may slip away. Most members need to be regularly reminded that they indeed are a critical asset to their cooperatives. Their participation in the co-op is the defining link to reaping benefits and success.

The need for enhanced work in member relations’ area is well understood, but is often overlooked.

Of course, some cooperatives are doing a great job with member rela-

tions. Others are trying to fix their member relations program after their cooperative culture has slipped. Others choose to ignore this vital area until it is too late to correct it.

New cooperatives often concentrate hard on member relations. Lately, we’ve heard much about new, new-generation or value-added cooperatives. With their closed- or limited- membership policies, member relations in these cooperatives are probably pretty healthy. At the same time, we are also in an era of continuous structural change in cooperatives. Many cooperatives are restructuring their operations — large-scale mergers, joint ventures and other strategic measures have been consummated. Global markets have evolved.

Thus, many of today’s large cooperatives have complex operations and/or expansive geographic membership regions. In these cases, it is quite likely that some members feel disconnected from their cooperatives. Depressed markets for many farm commodities have also created economic turmoil and even led to some co-op bankruptcies, which further hurts the cooperative culture and image.

Many co-op leaders believe providing quality services is their best member relations’ tool. Indeed, it is extremely important. But quality service alone isn’t always enough to create cooperative loyalty. Given the intense competition they face, cooperatives must do more. They need to be more assertive in building member relations in other ways. Otherwise, members may become dissatisfied and the cooperative’s future may be endangered.

## Continuous effort needed

Cooperatives must work continuously to strengthen member relations. This is critical for a strong cooperative culture and future success. Well developed and implemented member relations goals/strategies need to be outlined. Some important ones include:

- Communicate with members (a fundamental necessity);
- Educate members (a continuous need);
- Promote the co-op (the cooperative image);
- Motivate members (member responsibility, loyalty).

Effective **communication** channels are necessary in cooperatives for disseminating timely information to members, to educate, promote and motivate. Strong communication builds a cooperative connection to members. Cooperatives that talk to their members make them feel more connected and important and more apt to be loyal.

Communications with members should regularly include information about:

- The cooperative’s background, objectives, organization and general operations.
- Cooperative principles and practices and the benefits that members receive from the co-op.
- Cooperative policies — especially when adopting new ones, or changing old ones. Members must know why policies are being developed or changed. Members must be kept apprised of how policies affect them.
- Products/commodities — where



they come from, where they go and how they are handled.

- Services — what's offered, what's new and what to expect.
- Cooperative plans — changes in operation methods, equipment, services offered and overall strategic direction.
- Future outlook — for business, agriculture in general, and for their commodity product in particular.
- Cooperative finances — encompassing sales, savings and losses; overall budgets and future financial plans; development of new products/services, and equity position and redemption plans.

Member communication is accomplished through the annual meeting, local meetings, educational forums, open houses, planned tours, newsletters, bulletin boards, informational leaflets, promotional activities and through electronic means (i.e., radio, television, Internet). Management, directors and employees need to take an active role in communications with members.

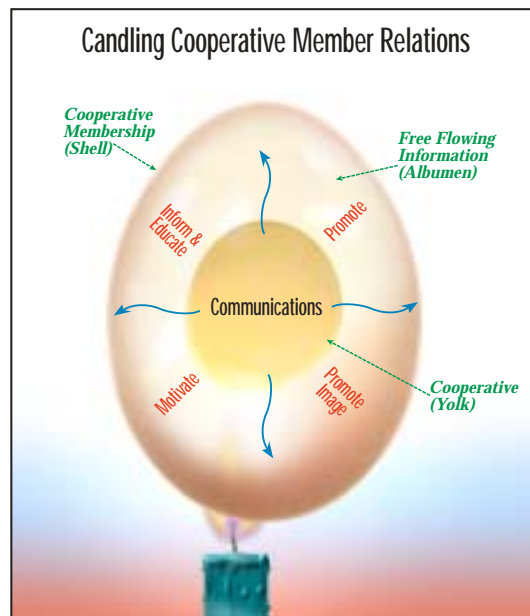
Cooperatives should communicate information that tells members everything they should know on a regular basis. No member should be left in the dark about important aspects of their business. Talk to them in good and bad times. Make them understand their cooperative's unique principles and practices and remind them of their responsibilities in those respects.

Strong communication should be the foremost goal for improving member relations in cooperatives. Cooperative relations benefits flow from good communication and well-informed members are usually more loyal and conscientious toward their cooperatives. Cooperatives must "talk" to their members and establish a relationship that nurtures cooperative culture.

**Education** about cooperative principles, practices and benefits is extremely important in cooperatives. "Education is a social process....Education is growth.... Education is not a preparation for life; education is life itself." Those words, spoken by philosopher and theorist John Dewey, convey that

education is a vital lifelong process.

For cooperatives, with their unique principles and business and governance structure, education is their lifeblood and must be a continuing priority. If members are to live by cooperative principles and practices to gain economic benefit as an extension of their farm operations, they must consistently be taught those very aspects of cooperation. Members use, control, and benefit from their cooperatives. They need to



be reminded of it and hear it regularly.

The unique principles of cooperation should be taught to members, youth and the general public. Directors need to be educated on any number of important aspects to successfully meet their responsibilities. Cooperative employees also should be well-schooled in cooperative principles and should be responsible for improving member relations as part of their job.

Educational activity must not only be directed at members, but members themselves also need to be active cooperative educational stewards to youth, potential future cooperators and the general public.

Members or potential members are educated through written materials, visuals, meetings, conferences and workshops; by management, directors, other members and various programs and school classes or programs. Fully understanding cooperatives and their

unique nature is a relationship-building tool that cooperatives cannot afford to ignore. They must commit to education and see that it is an intricate part of their organizations.

**Promoting** cooperative image is a goal often overlooked by cooperatives. However, this goal appears to have been reborn, at least in some areas and by some cooperatives. Two examples of such image promotion include Blue Diamond Growers with almonds and

Cabot Cooperative Creamery (owned by AgriMark, Inc.) with Cabot cheese. These cooperatives not only promote their brand products, but also are assertive in letting the public know that these products are derived in cooperative businesses *owned and controlled* by farmers.

Cooperatives should let the world know about their unique organizations. They should heavily promote to all the farmer-ownership aspects, the quality of their products and services associated with farmer-ownership, and the unique principles of cooperatives. This promotion not only helps the business overall, but is a member-relations tool as well. Member pride and loyalty is most likely to swell if the impact of the cooperative business is seen and felt by many.

**Motivation** of members is born from strong member relations. Member identification — where members are made to feel directly connected to their cooperative — is a strong motivational tool. All three of the member relations' strategies discussed work to create member cooperative identification. Successful co-ops must employ communications that points out how a cooperative is working for members as an extension of their farm businesses, and how the co-op needs their support and helps them overcome the obstacles they face. This type of communication can provide a sense of fulfillment and pride in members and thus, motivate them to use and control their cooperatives.

Motivated members further help by instilling that same pride and loyalty in other members, since many members

*continued on page 30*

# Critical need seen to broaden, invigorate current approach to cooperative research

By James Baarda

**Editor's note:** Baarda is a former legal affairs specialist with USDA's Agricultural Cooperative Service and former educational program director for the National Council of Farmer Cooperatives. He is currently an attorney with The Ackerson Group in Washington, D.C. This article was inspired by his recent international experiences dealing with cooperatives in former Soviet republics, by trends with new-generation cooperatives, the recent failure of a large U.S. cooperative, the restructuring of other cooperatives and member lawsuits that seek to force dissolution of their cooperatives. "These events challenge the very existence and character of cooperatives as we know them; combined, they suggest that cooperatives are indeed at a crossroads," says Baarda.

**C**reative thinking about cooperatives seems to have flagged during the past 10 years. Cooperative scholarship has become increasingly fragmented and, in some cases, irrelevant. Failure to bring the full range of scholarship, thought and research to bear on cooperatives (in disciplines other than traditional agricultural economics) may lead to an isolated, inbred field of co-op scholarship. Failure to produce meaningful research will ultimately do irreparable harm to the nation's cooperative movement at a time when it is in critical need of sound scholarship.

Useful research is being done and excellent people are working on important cooperative issues. However, for two reasons, I do not believe that the overall impact of this work is meeting its potential.

My first concern is that each scholar/researcher is working in a vacuum without appreciating and incorporating what other researchers and scholars are contributing in other disciplines. Secondly, some cooperative scholars and researchers may be

losing touch not only with other disciplines, but with fundamental changes throughout the agricultural sector that will determine the future of cooperatives in the United States and in significant portions of the rest of the world.

The time has come to break out from parochial views of cooperative theory and initiate a new campaign to revitalize cooperative scholarship.

The three major issues I see are: (1) The overly restricted scope of the current body of cooperative scholarship; (2) consequences of this narrowness for cooperative scholarship and cooperatives; and (3) the failure of institutions to address important issues and possible solutions.

## I. Why traditional scholarship is failing to answer questions about co-ops

There are five areas in which cooperative research and scholarship does not adequately incorporate the full range of relevant scholarship, or is not oriented toward events that have the greatest significance to cooperatives.

### ***Integrating legal and economic theory for cooperatives***

Cooperative scholars have done a reasonably good job of borrowing from, and adapting corporate business theories. The work growing out of USDA Agricultural Cooperative

Service's cooperative theory project about 15 years ago is one example. More recently, scholarship at several U.S. and Canadian universities and others have continued to explore the field. It appears to me, however, that the well of creativity is beginning to run dry and that recent work is more an exercise in re-casting established ideas in new terms or refining unresolved, but rather minor, problems.

This is not to say that economic theory has been applied adequately for cooperatives. Indeed, much research and methodology in economics has not yet been explored sufficiently, and no one seems to have successfully tackled new frontiers.



*James Baarda tours the Makariv Service Cooperative in Kyiv Oblast, Ukraine, where he discusses rabbit production management with a young co-op member. His experiences working with overseas and U.S. co-ops helped spark the accompanying article on the state of co-op research. Photo courtesy James Baarda*

At the same time that economic theory has developed, no body of legal theory has been developed for cooperatives that parallels corporate theory. Thus, the enormous deepening and broadening of ideas that exist in corporate legal theory, for example, have not progressed for cooperatives. This is not to say that cooperative legal analysis is lacking. But the fundamental rationale for cooperative law and economics has not been developed as well as legal theory and economics for corporations, partnerships, inter-firm arrangements and other forms of business organization.

### ***Rich world of scholarship beyond cooperatives***

I believe the most serious failing of cooperative research is that economic and business (or “firm”) theory for cooperatives is restricted to basic economics and is further largely restricted to traditional economics with traditional underlying assumptions. The relationship between cooperative vs. corporate legal theory is almost nonexistent, as are the cross-linkages between corporate law and cooperative theory — and cooperative law and non-cooperative theory. This situation leaves fundamental questions unexplored that are of critical interest to cooperatives.

Nowhere is this more evident than in corporate legal theory. Current scholarship in corporate law theory is extraordinarily rich in ideas that are directly applicable to cooperatives. Needless to say, the theory of business organizations has been extensively explored in corporate legal theory. Corporate legal scholarship has progressed far beyond that, however, to address and challenge some of the foundations of corporate existence, structure and behavior.

Examples include corporation contract theories, theories based on public policy and public good, theories based on the sharing of responsibilities among participants, theories based on stakeholder obligations and fiduciary principles, and theories that challenge the “rationality” assumptions upon which economic theories are founded.

Contributions of research on individual and group motivation, the role of institutions, social consciousness, historical patterns and political science are incorporated into corporation legal theory far more than they have been for cooperatives. Corporate legal scholarship challenges the foundations of the assumptions of pure rationality upon which neoclassical economics is based, challenges assumptions of profit maximization

and the assumed consequences, challenges assumptions of shareholder value maximization objectives in corporations and the assumed consequences, and adds the important elements of personal motivations. Corporate structure and operation is far more complex than anything that can be totally explained by simple theories as they now exist. This all rings true for cooperatives.

Cooperatives actually have more of an interest and far more at stake in the issues and answers discussed in corporate law theory than do corporations. Indeed, some of the challenges to standard corporate theory and the economic analysis of the firm are the very reasons why cooperatives were created, why they continue to exist and why they distinguish themselves from other businesses even though cooperatives, too, are corporations.

Yet all this has gone almost totally unexplored because

cooperative theory at this point has no mechanism in which to address the issues. Corporate legal theory provides just such a mechanism. The results of such scholarship and the lessons that can be learned may be appropriated for cooperatives through fundamental research so long as the breadth of such research is adequate.

### ***Fundamental changes in agriculture***

It appears that there is a scarcity of careful and in-depth consideration of how three important “sea changes” in agriculture may relate to cooperatives. The

first is that of the increasing prevalence of contract agriculture, the industrialization of agriculture and the resulting changes facing production agriculture, which is the foundation of farmer cooperation.

The second shortage of interconnected scholarship is related to biotechnology. This is similar to the industrialization issue, but addresses yet another process in the diminishing independence of farmers and their economic position as producers.

Third, the economic and social impacts of concentration have not received enough attention in cooperative scholarship. This includes concentration not only in the supply and marketing chains, but in the production subsector itself.

While others have written about these issues, no one is investigating the deeper meanings and foundations of such phenomena and relating them to theories of cooperatives to reach conclusions about cooperatives and their future. This needs to be based on scholarship and research rather than on opinion or casual observation.



*James Baarda (left) discusses cooperative law and taxation with Edward Pikaloff, attorney for the Makariv Service Cooperative in Kyiv Oblast, Ukraine. Also with him is translator Nadia Potabenko. Ukraine adopted a new cooperative law in 1997, and many co-ops there are now operating for the first time under a modern law.*



### ***Cooperative lessons throughout the world***

Better understanding of international cooperatives is also needed to develop a deeper understanding of cooperatives, both in theory and in practice. My experiences in several former Soviet Union republics and other Eastern European countries have been extraordinarily enlightening regarding issues facing cooperatives in rapidly changing agricultural sectors. Not only are the changes rapid, but they are also directly connected to the most basic cooperative characteristics.

The enormous challenges facing cooperatives in the national economies and agricultural sectors of economies in transition, the varied and conflicting opinions of what cooperatives are and what roles they play, and the massive changes in legal and economic forces at work all paint vivid pictures of every aspect of cooperatives. They cast an entirely new light on cooperatives as businesses that are operated by and for farmers.

Public discourse in other countries is serious and important, addressing issues as fundamental as: "What is a true cooperative?" Because every issue is just as important for contemporary U.S. cooperatives as for cooperatives elsewhere, exchanges between U. S. and foreign cooperative scholars can be extraordinarily beneficial to both. Hard and painful lessons learned elsewhere may offer lessons we in this country cannot ignore.

### ***Unification, leverage and multipliers***

Finally, I do not see a concerted effort to integrate and use the results of all research and thinking done on cooperatives. Many research projects are, by their nature, rather narrow in application and cannot add much to a deeper understanding of cooperatives. Other projects are used only for the superficial results, but their broader implications are not appreciated when considered in isolation.

In some instances, follow-up projects or a concerted effort to draw the fullest implications from existing results would greatly magnify the usefulness of the research. This includes the failure to fully appreciate the interrelationships of different kinds of cooperatives.

In the United States, agricultural cooperatives too often have tended to consider themselves the true representatives of business cooperatives while other types of cooperatives are more the products of social, ideological and non-economically oriented ideologies. If the fundamentals of cooperatives and the distinctions between cooperatives and other kinds of businesses are to be fully appreciated, however, cooperatives of every type should be studied and the essence of cooperation drawn from comparisons and contrasts.

In short, a big-picture attitude toward cooperatives is needed; the scope of research and scholarship should be designed to reflect this perspective.

## **II. Consequences**

The focus of any assessment or critique should naturally be on those things that lead to solutions and specific plans of action. I see three primary consequences.

### ***Information and analytical tools***

Interdisciplinary scholarship would establish a basis for a deeper understanding of cooperatives and their role in a profoundly changing agricultural system, as well as a dramatically changing world economy. The tools for analysis growing out of the new body of thought would be more powerful to explain cooperatives and predict the economic ecology in which they will exist in the next few decades, and would further enhance the tool kit that might be used to look into the future. Results of interdisciplinary research and scholarship would provide a significantly greater set of guides to cooperatives and those using cooperatives to respond to changing forces in agriculture and the economy as a whole.

### ***An academic community of interest***

Unfortunately, no broad-based community of scholars and researchers exists outside of agricultural economics in academia, government or cooperatives. As a consequence, the benefits of interdisciplinary exchanges are lost, as is the benefit of additional work contributed by those in other professional disciplines. They do not know or appreciate cooperatives or cooperative-oriented research. Needless to say, if cooperative researchers and scholars reach into other disciplines to draw from them what is useful for cooperatives, the breadth of available knowledge will be increased.

A quantum leap in the total "intellectual" power devoted to cooperatives would occur if researchers and scholars from many other disciplines began to produce articles, books, presentations and other products about cooperatives. This will not occur until those who set the agendas and produce the research in other disciplines realize that cooperative business is a subject worthy of their talents, time and professional career development.

I firmly believe that if an interdisciplinary approach to cooperatives mentioned in the first section were to be carried out effectively in the near future, and the commensurate professional results became part of the literature, many others would see the connection to their own disciplines and would eagerly turn attention to cooperatives.

Two additional benefits could realistically be expected. First, students would become interested through the influence of faculty and because cooperatives are inherently interesting. This would most certainly lead to graduate work and writing on cooperatives, would contribute to cooperative literature and would bolster the dwindling number of individuals who have at least a passing understanding of cooperatives.

Second, and of equal importance, those who teach would find that cooperatives provide an interesting and important addition to the topic taught. A cooperative element – or at least a mention – could be added to classes in law, economics, business and business management, finance, accounting, public policy, sociology, ethics, economic planning, community development, rural development, international development, international trade, government, political science and many others. This will not occur, however, until a professor's interest is peaked sufficiently or the topic is included in textbooks or other

publications upon which the professor relies.

### ***Guidance and coordination***

Because cooperative scholars and researchers have not successfully established the kind of research and linkages mentioned earlier, little guidance exists for those who wish to explore new topics in cooperatives and no mechanism exists to show in what way effective research can or should be coordinated. The only coordination that would offer any cohesiveness is the individualized interest of researchers and students.

If, for example, a single research project identified a topic of substantial interest to multiple disciplines, projects to find solutions to the issues presented in each discipline would be a method of “passive” coordination, much like Adam Smith’s “invisible hand.” The self-fulfilling actions of many researchers and scholars would naturally lead to a growing body of knowledge on cooperative issues but only if the core research is done very well.

### **III. Responsibilities and solutions**

At present, I do not see an organization or individual that has, or is prepared, to take the interdisciplinary, focused approach to research that is needed. None of the cooperative centers conduct the research required of the type of work suggested. Similarly, no universities appear to have the full complement of faculty, students and commitment to engage in this effort. No national organization is in a position to provide the leadership and coordination needed, let alone the professional capabilities to actually engage in the work.

Neither is there any mechanism – through funding or research project control – that can provide specific coordination and leadership to achieve a sustained and effective attack on the issues presented above. Rather, the only effective “coordination” appears to be provided by the leadership of one or more scholars who address the issues so effectively that they establish a focal point around which others wish to gather in a scholarly community of shared interests. If the true creativity and extraordinary professional interest in these topics exist and can be communicated well, I believe scholars in other professions will take up the cause.

To initiate this process, it will fall heavily on one or more scholars who are now steeped in cooperatives but who are also able and willing to conduct research suitable for publication in journals written for other disciplines. For example, to engage members of the legal profession who specialize in corporate legal theory in activities related to cooperative theory, someone “in cooperatives” will need to conduct research of such a kind that it can be published in law reviews or other specialized journals that are read by those who write and conduct research in corporate law theory. The greater the volume and extent of such publications by the cooperative researcher, the greater will be the response and the enhanced interest from outside the agricultural economics profession.

Several locations can be considered for the initiation of interdisciplinary projects. A university would seem to be well suited for this purpose, but universities face several drawbacks. Limitations include the specific interests of individual faculty members and the typical independence of faculty to pursue those interests, limitations on most university commitment to cooperatives, pressures on faculty to publish in their own profession, and teaching and administrative burdens preventing scholars from devoting the time and resources that it will take to be effective.

These observations apply to law schools and as well to agricultural economics departments. As noted above, I don’t see much possibility that any of the cooperative centers will, or can, take on this task. And no national organization is capable of this work, nor would they be likely to allocate sufficient resources to such a project.

Clearly, USDA should be considered as a possible center of such broad-based, creative and interdisciplinary scholarship. The advantages of such an arrangement are that a focus on cooperatives and a long-term commitment to the idea of farmer cooperatives now exists at USDA’s Rural Business-Cooperative service. In addition, it is a center where public funding has been dedicated to improving cooperative businesses and public understanding of cooperatives.

Unfortunately, USDA faces some serious obstacles. Although USDA has a team of researchers who understand various aspects of cooperatives, no individual “faculty” member there is in a position to engage in the concentrated work needed to initiate the interdisciplinary work required by the above-mentioned issues or to carry it forward as an integral part of USDA’s cooperative mission.

Neither can the allocation of research project funding on a piecemeal basis, even if such funding exists, effectively generate the results required. This is primarily because contracted projects are neither long-term nor typically granted to those who are already sufficiently knowledgeable about cooperatives to make efficient use of the funds rather than expend substantial resources learning the basics.

I am convinced from my current research and general observations that this effort is badly needed. The rewards to cooperatives will be immense, and the failure to explore interdisciplinary research and scholarship will place cooperatives in a very bad position when they are seriously challenged as they will be in the future.

New and creative scholarship based on fresh ideas is critically needed by cooperatives immediately, and little focused leadership appears to be in the wings to revive cooperative scholarship and appropriate research. I strongly recommend that USDA assert aggressive leadership to seek a solution to the lack of research, writing and thinking about critical cooperative issues that can only succeed by initiating a dialogue with other professions that will eventually yield information, analytical frameworks and a community of interest in cooperatives, unrestrained by boundaries of professional disciplines and that is not limited by traditional methods. ■



# Yakama Power Tribal Utility

**CEO/President** — Lonnie Salam, chairman of the Yakama Tribal Council

**Board governance** — The Tribal Council is in the process of selecting the utility board.

**The Yakama Nation** — The Confederated Tribes and Bands of the Yakama Indian Nation are descendents of 14 tribes and bands that are federally recognized under the Treaty of 1855. The Nation's Cultural Heritage Center is located in Toppenish, Wash.

**Geographic area served** — The utility will serve approximately 15,000 people who reside on the 1.4-million-acre Yakama Reservation in central Washington along the eastern slopes of the Cascade Mountain Range. The reservation is 1 1/2 times larger than the state of Rhode Island.

**Background** — The Energy Policy Act of 1992 deregulated the electricity industry. Bonneville Power Administration (BPA) —the federally sponsored power marketing agency — recognized the Yakama Nation and other Pacific Northwest tribes in late 1999 as “public bodies” or “cooperatives.” The ruling allowed the Yakama Nation to start forming its own tribal utility. Federal law then grants first priority to public bodies — municipalities, public utility districts and cooperatives — that want to purchase power from the Columbia River Power System.

Tribal and all other new utilities had to meet certain requirements to be eligible for service in the 2001-06 contract period. Among the qualifications, districts had to be established and well on their way to acquiring distribution systems.

As a rule, BPA requires utility cus-



*Preston Harrison, of the Yakama tribe's economic development office, sees major benefits derived from tribal ownership of its utility system. Photo courtesy Yakama Tribal Council*

tomers to own an entire distribution system to be eligible for service. But some Northwest tribes may have unique circumstances, given their large, sparsely populated areas and fragmented distribution facilities within reservations. Therefore, it may not make sense for them to own all the distribution facilities they will need to serve consumers. On a case-by-case basis, the BPA is considering whether to waive full ownership requirements. Meanwhile, the U.S. Department of Energy also provided grants to tribes to identify and study participation in a deregulated electrical industry.

Why did the Nation decide to form a tribal utility? Through an extensive study and development of a business plan, it was determined that purchasing low-cost power from the BPA will

reduce electricity costs for all the consumers on the Yakama Reservation. The new utility will provide jobs and promote economic development on the Reservation. It will expand access to energy efficiency and low-income weatherization programs available to residents on the Reservation.

At what point is the Nation in putting together the tribal utility? The Yakama Nation has negotiated a power sales contract with the BPA. Its next effort will be to begin discussions with PacifiCorp regarding the purchase of the distribution system. The Nation has also started to explore financing, training and a number of other issues as it establishes its own tribal utility. The anticipated timeline is for the Nation's power to flow through its own system by late 2001. ■





### Farmland to expand branded-bread distribution

To expand distribution of its branded breads, Farmland Industries of Kansas City, Mo., has formed United Bakeries International. The new business is a joint venture with Mountain View Harvest Cooperative, and gives Farmland a stake in the Mountain View-owned Gerard's Bakeries at Longmont, Colo. For members, Gerard's represents another market outlet for their wheat.

Mountain View was formed in 1997 by 225 grain producers who purchased Gerard's and who grow grains that meet particular specifications for the bakery's breads. Gerard's sells rolls and breads to restaurants and hotels in 40 states. Last year, Farmland test-marketed its own brand of breads (baked by Gerard's) under the Farmland and Carando brands. Five bread products were first test-marketed last fall: a multigrain loaf, sourdough loaf, sourdough dinner rolls, deli sandwich rolls and potato rolls – all carry the Farmland brand. The Carando brand is featured on focaccia bread and an Italian loaf.

"We are interested in helping consumers link Farmland bread to Farmland beef and pork products," says Ken Thomas, director of Farmland Grain processing. "When consumers put Farmland's beef or pork products on their plates, they can now add our quality bread products too."

### Sunkist revenues down

Revenues for Sunkist, the California citrus marketing cooperative, dropped about 2 percent, to about \$847 million last year. Payments to growers were down 3 percent, to \$682 million. Acting President James Mast said factors



in the decline included poor fruit quality, retail consolidation and foreign competition. The cooperative also decided to quit marketing Argentine lemons out of concern that it could introduce harmful pests or diseases.

### Ag stress prompts cutbacks at Southern States

Reflecting the current stress in agriculture, Southern States Cooperative (SSC) based at Richmond, Va., has begun reviewing its operations and trimming its staff. The cooperative has about 5,000 employees in 25 states, including 750 employees at its headquarters. The cooperative's 300,000-plus farmer members have been hard hit by low commodity prices and cuts in tobacco quotas.

In line with that reduction, SSC has forged a marketing link with United Producers, Inc. (UPI), at Columbus, Ohio, to provide livestock marketing and credit services to livestock producers in the Midwest and Southeast. UPI will lease and operate with the option to buy selected SSC livestock marketing facilities. Producers Credit Corporation, a UPI subsidiary, will provide livestock credit services to the mem-

bership. UPI serves 40,000 livestock-producing members.

### Calcot to end almond sales

The two-year-old almond marketing division of Calcot, California's cotton marketing cooperative at Bakersfield, is being disbanded due to low grower returns and soft prices. The almond business never generated the kind of revenue the co-op had hoped when launching the almond division in 1998, according to Calcot president Tom Smith. Of its 1,800 cotton members, 500 also grow almonds. Calcot handled about 11 million pounds of almonds last year and is expecting 10 million pounds this year. Grower-members will have to find a new home for their almonds next season. California's largest almond processor and marketer is Sacramento-based Blue Diamond Growers, also a grower-owned cooperative.

### USDA to award \$25 million to boost value-added ag

USDA Rural Development is making \$25 million in grants available for the development of agricultural producer-owned processing businesses. The new

Value-Added Agricultural Product Market Development grants program is designed to encourage producers of agricultural commodities to process their raw products into marketable goods, thereby increasing farm income.

Of the total amount, \$20 million will go to help associations of independent producers establish value-added business ventures. The remaining \$5 million will be awarded to establish a pilot project known as the Agricultural Marketing Resource Center. Ventures in which agricultural producers add value to their products by processing, packaging, or other means are eligible to apply for grants. Grants can be awarded for such activities as conducting feasibility analysis, developing business and marketing plans, or as working capital while the venture develops cash flow.

Grant funds cannot be used for the development or acquisition of buildings or other facilities, or to purchase, rent, or install fixed equipment. The maximum allowable grant amount is \$500,000, and grant recipients must provide 1-to-1 matching funds.

Grant applications for this purpose will be accepted in two rounds. Applications for the first round must be received by 4 p.m. Eastern Time, April 23, 2001. The deadline for the second round is 4 p.m. Eastern Time, June 27, 2001.

Nonprofit corporations and institutions of higher learning are eligible to apply to establish the Agricultural Marketing Resource Center. The center will collect and make available information on value-added processing to independent producers and processors. It will also develop a strategy to establish a nationwide market information and coordination system.

The recipient of the \$5 million grant must supply an additional \$5 million in matching funds. All applications for this grant must be received by 4 p.m. Eastern Time, April 30, 2001. This program is administered by USDA's Rural Business Cooperative Service. Further information is available at USDA Rural Development state offices, or at the following Web address: <http://www.rurdev.usda.gov/rbs/coops/vadg.htm>.

### **ACDI/VOCA seeking farm credit specialists for overseas missions**

Loan officers, credit association managers, and farm credit bank employees who would be willing to work for several weeks with financial institutions in developing nations are sorely needed for ACDI/VOCA missions. ACDI/VOCA is a nonprofit international development organization that helps farmers, rural finance institutions, agribusinesses, cooperatives and private and government agencies abroad. Its members consist of leading U.S. agribusiness cooperatives and farm credit banks.

ACDI/VOCA volunteers donate their time and talent to work side by side with farmers and entrepreneurs who are pushing for economic progress and democratic reforms around the world. Some continue with long-term assignments after that. There is growing demand for expertise in four categories:

- Bank Management;
- Financial Planning and Management
- Rural and Micro-Credit
- Agricultural Lending

Volunteer assignments are for a period of two to four weeks, depending on project needs and volunteer availability. Requests for specialists arrive regularly, with approximately six weeks' lead time before a volunteer is needed in the field. Paid assignments as international advisors can last from two weeks to three years.

For more information, visit the website: [www.acdivoca.org](http://www.acdivoca.org), or (800) 929-8622, fax: (202) 626-8726 or e-mail: [volunteer@acdivoca.org](mailto:volunteer@acdivoca.org)

### **LOL earnings best since '96**

Land O' Lakes Inc. (LOL) reported its strongest earnings in four years thanks to strategic moves in its dairy division, stabilized cheese and butter prices and a rebounding swine market this past year. Net earnings for fiscal 2000 reached \$102.9 million while net sales topped \$5.8 billion. LOL's dairy division posted earnings of \$87.9 million on sales of \$3.2 billion, but that reflected \$44 million gained from selling its fluid dairy business to Dean Foods.

In other news, LOL and Dairy

Farmers of America (DFA) have formed a joint venture to own and operate a cheese plant at Melrose, Minn., that LOL purchased from Kraft Foods. Built in 1970, the plant processes about 1 billion pounds of milk annually into bulk cheese which is then shipped to other plants for further processing and packaging. The 150 employees were invited to continue in their jobs. LOL members have long been a suppliers to the factory. Kraft will continue purchasing cheese from the plant. This will be the first partnership between the two dairy cooperatives. DFA has 19,500 members in 45 states and processes nearly 37 billion pounds of milk a year. LOL produces 600 dairy products and processes 12 billion pounds of milk annually.

LOL is also developing a large cheese plant in South Dakota in a joint venture with Davisco Foods International and is considering construction of a cheese plant in Wisconsin with Alto Dairy Co-op at Waupun.

Jack Gherty, chief executive officer of Land O' Lakes has been elected chairperson of the National Council of Farmer Cooperatives during its annual meeting. Gherty succeeds Don Schriver, executive vice president of Dairy Farmers of America. The council's first Director of the Year Award was presented to Jack Hardesty, president of Maryland-Virginia Milk Producers Association at Reston, Va.

### **CENEX Harvest States buys Rodriguez Food**

CENEX Harvest States (CHS) has acquired Rodriguez Festive Food Inc. of Fort Worth, Texas, a manufacturer of wheat and corn tortillas, tortilla chips and a full-line of Mexican foods. The purchase price was not announced. Rodriguez Food represented a "strategic fit [for CHS] as we continue to expand our tortilla, chip and Mexican food business," said Joel Bachul, CHS vice president and general manager. "The facilities at Fort Worth will help us better serve our national and regional customers." CHS' tortilla and Mexican food sales now top \$65 million

annually. Its Mexican food brands include: La Canasta and Arizona Brand tortilla chips, Paradisio tortillas and El Gran Deli, among others. It operates additional Mexican food processing plants in Minneapolis, Minn., and Phoenix, Ariz.

In other CHS news, the St. Paul-Minn.-based co-op has joined a new, on-line agricultural commodity marketplace – Pradium – headquartered at Annapolis, Md. Pradium will be an on-line, business-to-business marketplace.

### Tri-Valley sells S&W brand; Sale of canneries imminent

Bankrupt Tri-Valley Growers has agreed to sell its S&W food brand to Del Monte for \$39 million. Del Monte says it plans to contract with Tri-Valley's successor to produce S&W fruit and vegetable products for this season, but will then move production to its own facilities in California. The S&W brand was the "jewel" in Tri-Valley's product line.

At press deadline for this issue in mid-March, a final sales agreement was expected any day that will likely transfer ownership of the co-op's huge fruit packing canneries in Central California to Signature Fruit LLC, a new company formed by John Hancock Life Insurance, Tri-Valley's largest creditor. Separate sales are being pursued for the co-op's tomato processing business.

Some \$20 million in federal disaster payments from USDA will also be made to the cooperative's 500 members — mostly tomato, peach, pear and apricot growers — who lost money on Tri-Valley contracts when the co-op cut back production of canned fruits and tomato products due to its deteriorated financial condition. Members may be able to collect up to half their losses.

### DFA reopens Dakota plant

After lying dormant for six months during refitting for new technology and product lines, a cheesemaking plant at Pollock, S.D., has been reopened by Dairy Farmers of America

(DFA) and has begun manufacturing cheese and dairy-based ingredients for sophisticated food applications. The joint venture between DFA and the New Zealand Dairy Board is called DairiConcepts and is based at Springfield, Mo. The limited partnership features equal ownership. The firm has production facilities at Hummelstown, Pa., Bruce, Wis., Zumbrota, Minn., and Eldorado Springs, Mo.

### New Minn-Dak CEO

David Roche is the new chief executive officer of Minn-Dak Farmers Cooperative at Wahpeton, N.D. He has extensive experience in the sugar industry, according to cooperative chairman Victor Krabbenhoft. Roche replaces Larry Steward who retired last September.

### Cabot offers organic cheddar

Cabot (Vt) Creamery Cooperative, owned by Agri-Mark, has introduced a



line of organic cheddar cheeses. Cabot's facility is now a certified organic plant. The new line is sold throughout the natural foods community and was developed out of concerns over food safety and animal welfare. Cabot has dramatically pushed up sales of hormone-free milk and organic milk in Maine.

### Swiss Valley pays dividend

A \$6 million profit earned this past year by Swiss Valley Farms, Denmark, Iowa, will result in cooperative members receiving a 22-cent-per-

hundredweight dividend in cash and stock. Farmers will receive a 12-cent-per-hundredweight cash payment (54.5 percent of the declared dividend) for every 100 pounds of milk marketed with Swiss Valley. The cooperative's milk production increased 37 percent during the year due to unifications. The extra supply helped the cooperative achieve an increased market share.

Two expansion projects will come on stream this year: a major expansion and renovation at Mindoro to meet an increased demand for blue cheese and a renovation at the Cedar Rapids cultured products plant to increase production and storage for cottage cheese, yogurt, sour cream and dips.

### Mullen heads food processors

Dennis Mullen, president and chief executive officer at Agrilink, a fruit and vegetable processing cooperative at Rochester, N.Y., was named chairman of the National Food Processors Association (NFPA) board of directors at its 93rd annual meeting in Chicago. The scientific trade association represents the \$460 billion food processing industry. With three laboratory centers, NFPA is the leading authority on food science and safety.

In marketing news, Agrilink is looking at growth opportunities in Canada via a reintroduction of its Birds Eye brand products after a long absence from store shelves.

A team developed distribution plans and redesigned packaging to meet Canadian requirements. Agrilink also exhibited at the Toronto Royal Winter Fair.

### Beef co-op opens marketing

The new Consolidated Beef Producers co-op, Amarillo, Texas, completed its first cattle sale in February, reports Gary Kaplan, the co-op's chief executive officer. Members pay an initial \$3,000 fee, commit cattle on a weekly basis for sale to packers, and agree to sell at least 5,000 head of cattle through the consortium. The co-op will negotiate with the packers.



# Dot what? Dot coop!

## *New Internet name for cooperatives provides new marketing, membership opportunities*

By Paul Hazen, President and CEO, National Cooperative Business Association

A little-known international body that yields tremendous power over the Internet and e-commerce announced on November 16, 2000 its selection of .coop as one of only seven new top-level domains (TLD) that will join .com and .org at the end of Internet addresses later this year.

This new dedicated Internet suffix will give co-ops a unique online identity and the opportunity to differentiate themselves in e-commerce — a privilege many other sectors sought, but failed to achieve, when the Internet Corporation for Assigned Names and Numbers (ICANN) began accepting applications for new top-level domains last fall.

In a highly competitive process, cooperatives beat out lawyers who wanted .law, financial groups that wanted .fin, telephone companies that wanted .mobile, and many other sector-specific groups. ICANN received 47 applications for some 180 proposed new names. The National Cooperative Business Association's (NCBA) application for .coop was among only a handful of applications by nonprofit organizations.

NCBA beat the competition because we had a solid application and strong grassroots support from cooperatives in the U.S. and overseas.

In the end, ICANN put .coop in the elite group of the well-known .com, .org, and .net, and now, .info, .biz, .name, .museum, .aero, and .pro — the other new names.

### **How can we use it?**

.coop presents new marketing and membership opportunities. Many co-ops already have websites under .com and .org. Co-ops can choose to register their name under .coop in order to increase their Internet exposure, while keeping their .com or .org addresses. Internet addresses using different top-level domains can point to the same website.

.coop can help consumer cooperatives emphasize their values and commitment to their consumer-members, providing an edge over other sellers of goods and services. And more importantly, .coop will help consumers find the co-ops they trust online.

.coop provides new membership opportunities for agricultural and other producer cooperatives. Since the domain name emphasizes the difference between co-ops and investor-owned businesses, .coop can help attract and keep new members by promoting the member-ownership benefits of co-ops. Cooperatives can also use the new .coop TLD for their members-only site.

And even producer cooperatives that have long-relied on .com for their consumer identity may wish to

begin using .coop to market the farmer-income benefits of co-ops to those consumers who value an economically vibrant rural America. More and more, co-ops are finding that their values and principles sell.

Perhaps most exciting, .coop can help increase public awareness of cooperatives. In just four letters, cooperatives have the opportunity to educate not just their own members, but the general public about what cooperatives are, why they matter

and how they contribute to the global economy. As ubiquitous as the Internet has become in daily life, there is simply no question that .coop will give cooperatives greater public recognition and a competitive edge.

Of course, cooperatives don't have to use .coop. But they'll probably want to reserve that option for the future by registering for .coop later this year.

### **What happened to the hyphen?**

NCBA applied for both .coop and .co-op. Many in the U.S. preferred the hyphen, but others who don't use the hyphen, such as those in Spanish-speaking countries, did not. In the end, ICANN rejected the hyphen in order to make the new TLD as globally applicable as possible.

### **Now what?**

NCBA, as the new owner of the .coop TLD, is negotiating a contract with ICANN and Poptel, a worker-owned cooperative Internet service provider in the U.K. that will serve as the registry operator and registrar. We should be able to begin registration sometime this summer. For now, co-ops can go to our website at [www.ncba.org](http://www.ncba.org) and click on the blue .coop button. From there, go to "How to Register," where you'll be able to put your name on an e-mail list for updates on registration details.



### ProGold resumes operations; Growers ponder crop options

Production of corn sweeteners resumed March 11 at the co-op-owned ProGold corn-milling plant in Wahpeton, N.D. The plant had been idle for two months due to high energy costs and sluggish demand for corn fructose sweeteners. The \$260-million facility processes 85,000 bushels of corn daily and pays farmers about 10 cents per bushel more than most local elevators. Despite the closure, Cargill met an obligation to buy corn for the plant – including 500 million bushels in January. Plant workers remained on the job during the shutdown, performing maintenance and servicing customers from existing inventory.

The plant has been leased and operated since 1997 by Cargill Inc. of Minneapolis, Minn. The company has not ruled out further shutdowns if economic conditions worsen. Uncertainty over the plant's status has left many corn growers pondering a switch from corn to soybeans or some other crop. Sharp rises in natural gas costs could prompt the plant to switch to fuel oil or another energy source. ProGold is owned by Golden Growers Cooperative (49 percent), Minn-Dak Farmers Cooperative (5 percent) and American Crystal Sugar Co. (46 percent).

### Farmland sets sales record but still records loss for 2000

In his first annual meeting as chief executive officer, Farmland Industries' Robert Honse reported record sales of \$12.2 billion for fiscal 2000, but the depressed farm economy continued to drag on the cooperative's profitability. Farmland's net-after-tax losses continued at \$29.2 million, with the nitrogen fertilizer business causing a special drain on earnings. After a decade of growing and diversifying to compete with large multinational companies, Honse said Farmland would refocus on profitability: attaining investment grade status among financial analysts to lower interest costs.

"We must find ways to rely less on others' money to run our business," he said. A key to that is building the Farmland brand, in which the cooperative has heavily invested, Honse stressed, by building the brand's value and expanding its reach so in time it reaches national recognition. Continued reliance is planned on joint food ventures: Farmland National Beef, Farmland Springwater Farms Catfish (the second largest catfish processor in the nation), and Farmland Pork, plus wholly owned divisions to provide farm production supplies.

It has also been announced that the co-op's Farmland National Beef sub-

sidiary will expand its operations to Moultrie, Ga., by investing \$8 million to rehabilitate an old plant there.

### Court rejects initial AGP bid for FCA

Ag Processing (AGP) Inc.'s proposed purchase of the bankrupt Farmers Cooperative Association (FCA) – a large, local grain marketing co-op in Lawrence, Kan. – for \$11.7 million was rejected March 13 by U.S. Bankruptcy Judge John Flannagan. He ruled that FCA will have to devise a plan for accepting and reviewing competing bids, including offers from Archer Daniels Midland Co. and Bunge Corp., among others. Omaha, Neb.-based AGP – the only cooperative seeking to buy FCA – may still have the best offer, but the judge says he wants more time to make sure. FCA had hoped to complete the sale to AGP, a grower-owned soybean processing co-op, by April 1, in time for growers to prepare for spring planting. AGP's offer was for most of FCA's inventories and all but three of its facilities.

In other AGP news, the co-op has just completed another successful year. Fiscal 2000 results showed the cooperative had pre-tax earnings of \$20.9 million on sales of nearly \$2 billion. The slight decline from 1999 reflected lower commodity prices. It was the first annual meeting with Marty Reagan at the helm, having succeeded Jim Lindsay.

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## Keep the co-op candle burning *continued from page 20*

tend to "follow the pack." The result of this should show members that they are better off serving themselves through their cooperatives than by doing business with others (e.g., non-cooperatives). Communication aimed at member identification creates the foundation for greater member motivation in cooperatives. Cooperatives must work continuously to create this quality that engages members to be active participants in their cooperative.

### Candling member relations

The egg-shaped *exhibit* depicting effective member relations shows that building member relations begins at

the core of the cooperative "yolk" with communications. Communication efforts in information, education, promotion and motivation flow freely through the cooperative's "albumen," reaching and nourishing the cooperative "shell." The cooperative membership makes up the "shell" of the cooperative "egg," providing a loyal nurturing environment that helps the "egg" to thrive. The lit candle indicates the need to keep member relations burning within the cooperative. While this exhibit provides some fun, it offers a serious message as well.

Building member relations begins and ends with communication. Show a lack

of it and cooperatives will likely find their members gaining a "non-cooperative" perception that can be very difficult to overcome. Conversely, making communication a core function of the organization — to implement important goals and strategies such as those discussed — will go a long way toward thickening the membership shell of the cooperative.

Indeed, to be cooperatives in every sense of their distinct principles and structures, a strong effort on behalf of member relations is required. Cooperatives need to commit and remain committed to keeping the member relations "candle" lit within their organizations. ■

# It's easy to read and/or download USDA publications about cooperatives from the Internet

The Rural Business Cooperative Service has more than 150 cooperative reports (as well as past issues of this magazine) available on the Internet for viewing or downloading. These titles cover a vast array of topics, ranging from the general, such as "How to Start a Cooperative" or "Cooperatives 101," to technical subjects, such as "Tax Treatment for Cooperatives" or "Managing Cooperative Antitrust Risk."

*To access any of these reports, follow these easy steps:*

1. Go to the USDA Rural Development home page, "<http://www.rurdev.usda.gov>"
2. Click on "Publications" in the lower blue bar at the top of the page
3. Click either "Rural Cooperatives magazine" or "Business/Cooperative Publications"
4. If you chose "Business/Cooperative Publications" in step 3, you can then click either "Cooperative Information Reports," "Research Reports," "Service Reports" or "Miscellaneous Reports."

Or, to go straight to the Library of Publications, access: <http://www.rurdev.usda.gov/rbs/pub/newpub.htm>  
If you know the title or publication number of the report you want, scan down the list until you come to it.

To locate a breakdown of publications by subject matter:

1. Click on any one of the four "Reports" categories in the middle of the "RBS Library" menu.
2. Access our catalog by clicking on "Rural Cooperative Publications" in the first line of the second paragraph on the screen that appears (regardless of the type of "reports" accessed).
3. The first option under "Contents" is "Publications by Subject Matter."

*Want to access other web sites about USDA programs that support cooperatives?*

- The Business and Industry (B&I) Loan Guarantee Program provides government backing for commercial loans to cooperatives and other businesses in rural areas and also guarantees loans to producers to pay for stock in new value-added cooperatives. See [http://www.rurdev.usda.gov/rbs/busp/b&i\\_gar.htm](http://www.rurdev.usda.gov/rbs/busp/b&i_gar.htm)
- Rural Cooperative Development Grants are made to nonprofit organizations and institutions of higher learning to establish and operate centers for cooperative development. See <http://www.rurdev.usda.gov/rbs/coops/rcdg.htm>
- Under the Market Access Program, Commodity Credit Corporation (CCC) funds are used to partially reimburse cooperatives and nonprofit regional and national agricultural trade organizations, among others, for the cost of conducting market development projects for eligible products in specific countries. See <http://www.fas.usda.gov/mos/programs/mapprog.html>
- In fiscal 2001 and 2002, USDA will use CCC funds to make cash payments of up to \$150 million to bioenergy companies, including cooperatives, that increase their purchases of corn, soybeans, and other commodities to expand production of ethanol and biodiesel in the United States from products grown in the United States. See <http://www.fsa.usda.gov/daco/bioenergy/bioenergy.htm>





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