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# Rural COOPERATIVES

USDA / Rural Development

November/December 2004

Something new under  
Colorado's blue sun

page 4





## *Through good times and bad*

When Farm Credit Services of America (FCSAmerica) pulled the plug on its proposed sale to Netherlands-based Rabobank in mid-October, it came as welcome relief to many. Opposition to the sale was loud, adamant and rapidly building steam nationally, not just in the four-state district (Iowa, Nebraska, South Dakota and Wyoming) served by FCSAmerica.

At a Congressional hearing in Washington (see page 13) on Sept. 29, Myron Edleman, a South Dakota cattleman and president of the grassroots group Farmers for Farm Credit, testified that the opposition among his fellow member-borrowers was “overwhelming.” A number of major farmer organizations — the National Farmers Union and National Association of Wheat Growers among them — also weighed in against the deal.

Regardless of the pros and cons of the proposed sale, it appears that there was a serious failure to communicate here. It was incumbent upon the board to make its case to members and to get some read on their reaction to liquidating the co-op before plowing forward. Indeed, for a step as radical as selling a co-op, there should be substantial support before taking any such action.

While members would have eventually been asked to vote on the proposal, this was a classic case of putting the cart before the horse. Many co-ops are attractive takeover targets for outside firms, and Rabobank obviously saw this as an opportunity to enter farm lending in America’s heartland. It should serve as a wake up call to other co-ops to be vigilant.

Widespread concern has also been expressed that the sale of FCSAmerica

could pull the first thread that would eventually unwind the entire Farm Credit System (FCS). All farmers have a stake in this debate, since the existence of FCS forces other lenders to be more competitive. Thus, the FCS system benefits even non-members in the same way ag marketing and supply

*The Congressional hearing showed how fervent producers still are about controlling their fate through cooperatives that they own and direct.*

co-ops have a beneficial impact on prices and services for both members and non-members.

The hearing turned the spotlight on a much broader area than just the Rabobank deal; it showed sharply divergent viewpoints regarding the need for, and role of, a cooperative system of farm lending in rural America. Commercial banking industry trade groups say “mission creep” has been going on for years, and that the FCS is no longer serving its intended farm niche. As such, FCS should have its charter yanked, or at least severely scaled back, they say.

The FCS and its backers’ stance is the polar opposite: they say the charter needs to be expanded to allow it to

serve more rural Americans with more services.

Given the uproar over just the proposed sale of one of its member institutions, the odds of Congress yanking the FCS charter seems remote, to put it mildly. Some have speculated that the real strategy of the banking groups in making these arguments is to keep FCS from gaining increased lending flexibility, not taking away what it already has.

The commercial bankers say they are more than willing to meet any and all farm credit needs in America, but the track record shows that when the going gets rough for farmers, so does the interest of too many of these lenders. The farmer owned and directed FCS, on the other hand, will always be there, through good times and bad, with its mission to serve farmers, not outside investors.

Some have commented that FCSAmerica was an inviting target for takeover because it has accumulated large unallocated reserves. This situation has been at least partially addressed by a recent announcement that the co-op is allocating some of these funds back to members.

The Congressional hearing was a key event for co-ops in the early years of the 21st century. It showed how fervent producers still are about controlling their fate through cooperatives that they own and direct. Among the nation’s network of farmer-owned cooperatives, none is more vital than their FCS associations. Any actions taken that could directly or indirectly raise farmers’ cost of capital, or reduce its availability in times of economic stress, would be precisely the wrong step at the wrong time. ■

— Dan Campbell, *editor*

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### On the Cover:

Members of the Blue Sun Cooperative are growing rapeseed (a close cousin of canola) in Colorado's San Luis Valley and High Plains to produce high-quality biodiesel. About 45 percent of the weight of rapeseed is oil, compared to 20 percent of soybeans. See page 4. Grant Heilman Photo





# Biodiesel with altitude

*Colorado's Blue Sun Co-op grows rapeseed for biodiesel production*

**By Stephen Thompson, assistant editor**

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**E**thanol is being embraced nationally by farmers looking to add value to their crops, but biodiesel has gotten off to a slower start. Most U.S. biodiesel producers are relatively small operations that use soybeans or recycled cooking grease as their feedstock. Now there's something new under the sun: the Blue Sun Producers Cooperative and its LLC partner, based in Colorado's high altitude San Luis Valley.

Blue Sun's approach to biodiesel production differs from that taken elsewhere in the United States to date. Its feedstock is a special variety of rapeseed bred to do well in the arid climate of southern Colorado. The biodiesel produced is blended at a 20-percent ratio with conventional petroleum diesel to produce a high-quality fuel, known as B20.

Blue Sun Producers, which currently has more than 40 member-producers from Colorado, will be offering memberships this year to farmers throughout the region as far north as Montana. Blue Sun has an affiliated co-op exclusive to Nebraska which is actively seeking more members from that state. This year, the co-op harvested its first big rapeseed crop — more than 3 million pounds.

The cooperative's affiliate, Blue Sun Biodiesel LLC, recently opened a major state-of-the-art distribution terminal in Alamosa, Colo., which lies 7,544 feet above sea level and is surrounded by the Sangre De Cristo and San Juan mountain ranges. In May 2005, it will open a processing plant and refinery co-located with the transportation facility. Both openings will be welcome events in Alamosa and the surrounding San Luis Valley, an area of southern Colorado that has been hurting economically, in part due to low commodity prices and drought conditions.

## **Rapeseed widely used in Europe**

Rapeseed, some varieties of which are used to make mustard and others to make canola oil, is the preferred biodiesel feedstock in Europe. About 45 percent of the weight of rapeseed is oil, as compared with only 20 percent for soybeans. It can be planted and harvested with the same equipment used for small grains. In addition, its oil offers certain advantages in the production of biodiesel.

The seed for Blue Sun was planted when former Duracell Batteries executive Jeff Probst came to Colorado looking for an opportunity to start a new business venture in the energy sector. Among other new



product and technology projects, Probst had worked on Duracell's worldwide objective to replace the environmentally hazardous mercury battery. He was attracted to biodiesel because, he says, he wanted his new effort to help the environment as well.

B20 fuel has many environmental advantages over straight petroleum diesel. Its exhaust is cleaner, especially when it comes to soot particulates that form the black smoke often seen coming from the stacks of diesel-powered vehicles.

Breathing diesel soot has been linked by some to illness among children, including asthma, bronchitis, pneumonia and, in adults, even cancer. In addition to being healthier, the exhaust generated by biodiesel or biodiesel blends doesn't have as much of an objectionable smell as does the exhaust from 100 percent petroleum diesel.

### Is rapeseed the answer?

Probst soon concluded that buying feedstock, such as soybeans, on the open market would be risky for the operation because of wide price fluctuations.

"Feedstock is 85 percent of the cost of 100 percent biodiesel," he says. "So, we felt that we had to have our own source. We can always go to the commodity markets if we lose a crop or have a shortfall."

In 2002, Probst spent months talking to farmers in the San Luis Valley area and elsewhere. "It was difficult," he says. "In the early days, we'd drive lots of miles just to talk to four farmers." What he found was that farmers were interested in finding a crop that was outside the commodity markets. Soybeans and other commodity crops posed too many risks involving government price supports and other factors.

On the other hand, they were wary of the risk of sinking money into a new cooperative. Local service and other co-ops hadn't paid dividends in 10 years. Further, recent weather conditions had damaged crops and hurt

farmers financially, making them doubly cautious.

Despite farmers' caution, Probst felt that if they were presented with a well-thought-out business model, a value-added co-op could fly.



### From idea to reality

After talking with agronomists at several universities, Blue Sun decided that rapeseed was the best choice for feedstock. They began working with researchers at Colorado State University and other universities to identify the most suitable varieties.

Meanwhile, Probst turned to lawyer Mark Hanson of Lindquist and Vennum, an advocate of the new-generation co-op movement, for assistance. "He gave us a lot of help and encouragement," says Probst. "He came to the office, looked at our business plan, and told us it could be made to work."

Hanson helped with the legal paperwork needed to set up the producers' cooperative, which would hold equity in the manufacturing and distribution company, and advised that the corporate side of the operation change status from a regular corporation to a limited liability corporation (LLC). The reason was simple and vital: to allow the profits to get to the producers without first being taxed. They both agreed that producers had to be paid first if the venture was to be successful, Probst says.

With the legal groundwork done, Blue Sun began actively recruiting members for the co-op. One of the first farmers to join was Brian Starkebaum, who grows wheat, corn and millet on his land in Phillips

County, in northeast Colorado. A member of his local conservation board, he sat through a Blue Sun presentation at one of the board meetings. Starkebaum was impressed, he says, because of their willingness to invest in rural Colorado. Afterward, he volunteered to set up a meeting of producers.

### Adding value a necessity for family farmers

Starkebaum was interested in value-added ventures because, he says, "Value-added is the only way family-sized farmers are going to survive. It's often the money from an outside source that makes the difference between breaking even and making a profit."

However, ethanol production, currently the most popular value-added activity, didn't attract him. "Ethanol hasn't been doing as well around here as it was billed," he says. "They oversold the idea."

The rapeseed producers' co-op offers farmers not riches, says Starkebaum, but a way to mitigate risk, and to earn some extra money above the price of the crop.

"With the rapeseed, we're promised a known, consistent price, and we also make money on the 'back side' through the value-added activities," Starkebaum says. Blue Sun is already planning to make its first dividend payment to co-op members.

Starkebaum agrees that generating interest among farmers has been challenging. "It's been a battle," he says. "Asking people to give \$5,000 (the required minimum equity stake last year) is hard, especially with current farm conditions. Farmers want to see other people try it first, to see if it'll work out."

Blue Sun is planning to split the stock for current farmers, providing them with twice the amount of units that they can sell, lease or increase their acreage planted. In addition, the minimum investment will be reduced this year to one unit at \$1,000 vs. five units at \$5,000.



Organizing efforts are not helped by the fact that local traditional co-ops haven't been paying dividends, says Starkebaum. "It's hard to get guys to understand [the concept of] not making all your money back with the crop, but instead getting a return on your shares with dividends."

"It's going to be tough," says Starkebaum, "But the retail and business side has been set up well."

"We're gaining momentum. First it



*Jeff Probst, CEO of Blue Sun Biodiesel LLC, had to drive long distances at first to talk to a few skeptical farmers about setting up a rapeseed co-op. Now, he says, "they're asking me to come out and talk to them."*

was hard to get their attention," adds Probst. "Now they're asking us to come out and talk to them."

### Commodity, or branded product?

If the rapeseed-biodiesel model works, and a market is created for Blue Sun's fuel, they expect to see competitors springing up to take advantage of the market. How, then, can Blue Sun avoid becoming just another commodity supplier?

Probst thinks he has the answer. "I wanted to do better than the standard. I wanted us to have an advantage." That advantage would be selling Blue Sun biodiesel as a differentiated product — a product perceived to have advantages over other diesel fuels. That meant aggressive innovation, marketing and quality control.

Having control over the processing and distribution infrastructure is the best way to assure quality, which is the

route Blue Sun is taking. Although the firm still has to use a contractor to do its seed crushing, all the production and blending will soon be done in Blue Sun's Alamosa plant.

Depending on when the minimum amount of acreage is achieved in the Valley, plans will move forward for a crushing facility at the same location. And Blue Sun retail pumps are already in operation in a growing number of localities, most recently in Santa Fe, N.M.

Overall, says Probst, the firm is spending close to \$4 million on the plant, aided by a \$500,000 Renewable Energy Systems grant and a \$450,000 Value-Added Producer Grant from USDA Rural Development. "USDA has given us major help in getting going," he says. "When the Value-Added Producer Grant was announced in the fall of 2003, it really helped our credibility in the farm sector."



*Part of Blue Sun's new transportation facility arrives, prefabricated, at the construction site in Alamosa, Colo. Blue Sun Biodiesel is spending \$3.2 million on a combined transportation and blending facility, slated for completion this May. Photos courtesy Blue Sun*

### Improving biodiesel

Blue Sun has decided that establishing its brand will center around improving on biodiesel's advantages. It continually researches new ways to improve its fuel, working closely with diesel manufacturers, especially Cummins, to develop new additives and blends.

Scott Bentz, vice president for Operations and Marketing with

Cummins Rocky Mountain, was skeptical when Blue Sun approached for help. "Diesel manufacturers have traditionally been hesitant about biodiesel," he says. "There's so much variability with the feedstocks, and quality control hasn't been that good."

But Blue Sun's commitment to quality has made him a believer, says Bentz. "I'm really impressed with their quality control. They control the quality from the source to the pump. They've developed their own infrastructure for blending and distribution, so they can eliminate most of the opportunities for problems. And they make a superior product."

Many school districts have switched, or are contemplating a change, to biodiesel for their school buses to reduce what they perceive as a health risk to their students. Municipal bus systems are beginning to adopt the new fuel as well.

Denver, with its serious air-pollu-

tion problem (often caused by air inversions), offers a big potential market. Says Starkebaum, "Denver's transit system is already running 10 buses on Blue Sun as a test. If they decide to run their entire fleet on it, they could use our entire production — 10 million gallons per year!"

Biodiesel and B20 also offer significant advantages to operators of diesel

*continued on page 34*

# Co-op completes purchase of Virginia turkey plant

By Michael Leach,  
USDA Rural Development

**T**he newly formed, Virginia Poultry Growers Cooperative (VPGC) has acquired the Pilgrim's Pride turkey processing operation in Hinton, Va., in the heart of the Shenandoah Valley, for about \$35 million. The newly formed co-op will keep the plant, which can process 8 million birds annually, operating under farmer ownership. Also purchased as part of the deal is a feed mill in Broadway, Va.

Producers are using a combination of equity they raised among themselves and outside sources, grants and low-interest loans from federal, state and local governments, and financing from Farm Credit of Virginia to buy the plant. The remainder of the financing was close to being finalized at press deadline in late October, with CoBank expressing strong interest in the deal.

The plant was closed temporarily in mid-September, but the co-op plans to have it back in operation by the end of November.

Last April, Pilgrim's Pride announced plans to close the facility unless a buyer was found by Oct. 1, which sent an economic tremor rumbling throughout the region. If the plant were shut down, it would have left a \$200-million dent in the economy of the Valley. Lost annual wages for the plant's 1,300 workers alone would have been about \$38 million annually, and up to 200 farmers were

faced with the prospect of bankruptcy. While not all the jobs are being saved, the co-op hopes to hire back more staff in coming months as plant volume increases.

Co-op President Sonny Meyerhoffer says VPGC had to do in a few months what typically takes at least 18 months to accomplish. Organizers had to accelerate the takeover process — including forging a solid business plan in a matter of weeks — because the window of

birth place of the modern turkey industry, Hyde noted. Additionally, in recent years it has been the largest turkey-producing county in the United States.

Texas-based Pilgrims' Pride said it wanted to sell the plant, which processes whole birds and turkey breasts, to focus more on value-added, deli turkey products. The co-op will be phasing in de-boning operations to produce more processed parts. A positive sign of the co-op's prospects in the marketplace came when a strategic partner in the high-end meat processing business agreed to purchase turkey breasts from VPGC.

Cooperative members had invested \$2.6 million by early August. USDA Rural Development provided an \$8 million grant — through its Rural Economic Development Loan and Grants program — to the Shenandoah Valley Electric Cooperative, which in turn made a low-interest loan to the turkey

co-op. The state of Virginia's Department of Agriculture and Consumer Services provided the co-op with a \$500,000 grant, and West Virginia provided a \$250,000 grant. Rockingham County also chipped in with a \$100,000 grant.

When delivering the grant from Virginia, VDACS Commissioner Carlton Grant said the farmers who formed the co-op "represent the true spirit of American agriculture; they are people who look adversity square in the eye, brace harsh reality and then band together to find a solution." ■



*USDA Rural Development presents the new Virginia Poultry Growers Cooperative with a grant during a ceremony in Hinton, Va.*

opportunity was so limited. "The dream is alive," Meyerhoffer said at a co-op meeting.

"It's almost a miracle that they were able complete a fairly complex deal in such a short amount of time, but it's also evidence of just how crucial this plant is to the poultry industry and the economy of the region," says Norm Hyde, a spokesman for the Virginia Farm Bureau Federation. "It would have been a crushing economic blow had it closed."

Rockingham County, Va., where the plant is located, is considered to be the





# Warming up to cold tofu

*Ohio soybean growers study entry into emerging frozen tofu market*

**By Mark Berry**

*Editor's note: Berry is media relations manager for Battelle Co., a research and technology company based in Columbus, Ohio. This article is provided courtesy the Ohio Soybean Council.*

**M**ost U.S. consumers have so far turned a cold shoulder to tofu. However, the big chill may be ending. The development of a new, frozen tofu product shows that a thaw in this relationship may be just around the corner.

Recent product testing shows consumer interest is growing for this highly adaptable, protein-rich food that is a staple in many Asian nations. The key is a new technology that allows the soy-based product to be frozen while maintaining all of the characteristics of fresh tofu.

That news should warm the hearts of soybean farmers everywhere.

"Based on information and analysis from previous projects examining this opportunity, the financial projections appear to be quite attractive," says John Lumpe, new-use development director for the Ohio Soybean Council (OSC). "This technology can benefit the Ohio soybean industry by increasing the use of soybeans as a food product."

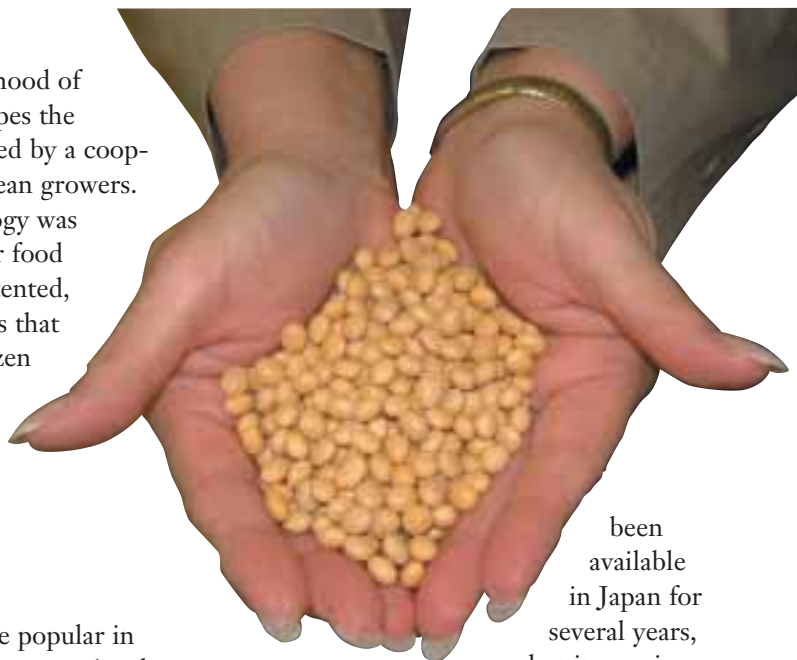
If a USDA-assisted marketing study and research ultimately

shows a strong likelihood of success, the OSC hopes the project will be pursued by a cooperative of Ohio soybean growers.

The new technology was developed by a major food processor using a patented, flash-freezing process that allows storage of frozen tofu for up to a year. Fresh tofu can be stored no more than seven to ten days.

## **Frozen foods less common in Japan**

Tofu is much more popular in Japan and other Asian countries than in the United States. Frozen tofu has



been available in Japan for several years, but it remains little more than

an afterthought for Japanese consumers. The reasons range from the quality of the product — it is inferior to fresh tofu, according to the demanding standards of Japanese diners — to cultural habits and market logistics.

While U.S. consumers rely heavily on frozen foods, the Japanese do not. The country doesn't have the large fleet of freezer trucks that allow easy transportation of frozen products in the United States.

Also, Japanese houses are smaller and so are their refrigerators. The Japanese are much more likely to buy food daily for same-day meals because they lack the storage room for large quantities of frozen foods. It's a fundamental difference in cultures and buying habits.



*Amy Sigg Davis, vice chair of the Ohio Soybean Council, checks out some of the tofu food products during a recent market research trip to Japan. The council is using grants from USDA to help gauge the market for frozen tofu made with Ohio soybeans. Photos courtesy Ohio Soybean Council*



*The Japanese have never had much of a yen for frozen tofu, but new technology that produces a superior product may help change that.*

All of those factors that work against the frozen tofu market in Japan make the product attractive in the United States.

“Simply put, U.S. consumers are used to frozen food. Japanese consumers aren’t,” says Bhima Vijayendran, senior research leader and vice president for technology commercialization at Battelle. “The advantage with frozen tofu is they can buy a half-pound and use just a small amount, then put the rest in the freezer for another time. They can’t do that now.”

Vijayendran, Lumpe, Amy Davis, vice chairman of OSC, and Steve Miller, chairman of OSC, were part of a group commissioned by the OSC that traveled to Japan in March 2003 to study the technology and research Japanese consumer habits as they pertain to fresh and frozen tofu. Among the conclusions they reached was that the convenience of frozen tofu, while not a terribly important factor in Japan, could make the product a viable alternative in the United States. A second study mission to Japan is planned for the near future.

#### **VAPG grants help council gauge feasibility, develop business plan**

USDA Rural Development has provided \$200,000 in grants for the pro-

ject under its Value-Added Producer Grants (VAPG) program (see page 10 of this issue for more on this program). The grants are helping OSC study the technical feasibility and market viability of a commercial frozen tofu plant in Ohio.

In 2002, USDA awarded the council a \$50,000 VAPG to investigate the feasibility of such a plant. In 2003, it received a second VAPG for \$150,000 to develop a business and marketing plan.

Product convenience would make little difference to consumers if the product was deemed inferior. Unlike the product on the market in Japan, a new freezing process doesn’t compromise quality.

Recent food tests of tofu with focus groups of consumers in Chicago and New York City triggered “very favorable” responses, says Vijayendran. The consumer groups could not tell the difference between the frozen tofu and the fresh tofu they typically eat.

The chef, who prepared a wide variety of meals with tofu — including salads, soups and pasta — confirms the enthusiastic response.

“I do a lot of work with soy foods in general, so this is an area of specialty,” says Christopher Koetke, associate dean of the School of the Culinary

Arts of Kendall College in Evanston, Ill. “The frozen tofu performs wonderfully. It behaves surprisingly like fresh tofu. It has a soft texture to it. It’s very pleasing and not rubbery at all. The groups loved it.”

Performance and convenience are two huge steps in the right direction, but tofu remains a marginal product in the United States. So consumer education is key to the success of frozen tofu in America. Consumers do not know much about the product or its many positive characteristics.

Not many vegetable proteins are as rich in protein as soy. There are specific health benefits for menopausal women and people with high cholesterol. Whereas soy alternatives used to be displayed separately from the more traditional products, soy milk can now often be found in the dairy section.

Tofu in the United States is a slowly growing market, “but it’s gaining traction here,” says Vijayendran. Soy protein is recognized as a good, nutritious alternative.

Obviously, it’s an emerging market, says Vijayendran. “The health-conscious are early targets. At first, it probably will be more attractive on the West Coast than Chillicothe, Ohio.” ■



# 27 co-ops among recipients of \$13 million in USDA Rural Development VAPG funding



Agriculture Secretary Ann M. Veneman in mid-October announced the approval of 97 Value-Added Producer Grants

(VAPG), totaling more than \$13.1 million, in 34 states. Farmer-owned cooperatives were awarded 27 of the grants. The grants will help farmers and ranchers increase their economic opportunities through the development of new products and markets for agriculturally based products.

In support of President Bush's 2001 energy plan, 16 percent of the proposals selected will support biomass/renewable energy-related ventures. "The Bush administration continues to place a high priority on creating new sources of renewable and biomass energy through such grant programs as the value-added producer grant program," Veneman said. "Creating an energy independent nation, through utilization of our nation's natural resources, is a valuable investment in America's future."

"These grants are critical to helping America's farmers and ranchers increase markets for their commodities and to increase their profitability," added Agriculture Acting Under Secretary for Rural Development Gilbert Gonzalez. "President Bush is committed to helping more rural families live the American Dream through the creation of new business ventures that employ more rural Americans. This program is a significant investment in the future of rural



*Sunsweet Ones — individually wrapped dried plums — are being aimed at the young adult market. Sunsweet Growers will be using VAPG funds from USDA Rural Development to help establish the market. Photo Courtesy Sunsweet Growers*

families and communities."

Authorized as part of the 2002 Farm Bill, the VAPG program provides an opportunity to refine agricultural com-

modities and products to increase their value in the marketplace.

Of the \$13.1 million announced, \$2.1 million will fund 16 proposals ranging from determining the feasibility and creating a business plan for harnessing wind energy in Colorado, to determining the feasibility of marketing ethanol from a 50-million-gallon, dry-grind ethanol plant in Illinois, to determining the feasibility of converting dairy biogas into purity pipeline or automotive quality fuel in Idaho.

VAPG is a highly competitive grant program that attracted nearly 400 applications. An independent review of applications is conducted to ensure that selected proposals are scored based on the criteria established in the announcement of the funding availability. Funding of selected applicants will be contingent upon meeting the conditions of the grant agreement. Following is a list of the co-ops that received a VAPG. A complete list of the selected grant recipients can be found posted on at the USDA Rural Development Web site at: <http://www.rurdev.usda.gov>.

USDA Rural Development's mission is to deliver programs in a way that will support increasing economic opportunity and improve the quality of life of rural residents. As a venture capital entity, Rural Development provides equity and technical assistance to finance and foster growth in homeownership, business development and critical community and technology infrastructure. ■

# Cooperative recipients of 2005 Value-Added Producer Grants

Recipient	State	Amount	Description
1Soy	Missouri	\$95,000	Grant funds will be used for a feasibility study, business and marketing plans for marketing soy flour for use in premium soy food products targeting health-conscious American consumers.
Burnett Dairy Cooperative	Wisconsin	\$150,000	Grant funds will be used for working capital expenses for marketing deli cheese and individually-packaged string cheese products.
Cloverdale Growers' Alliance	North Dakota	\$20,000	Grant funds will be used to study the economic feasibility of marketing fresh and processed pork products to retail grocers under a producer-owned label in partnership with Cloverdale Foods Company.
Country Side Cooperative	Nebraska	\$415,000	Grant funds will be used to evaluate the feasibility of marketing soybean meal and soybean oil.
Darigold Inc., West Farm Foods	Washington	\$249,000	Grant funds will be used to evaluate the feasibility of marketing whey fractions and ultra-filtrated milk products and to develop business and marketing plans for the venture.
Diamond Walnut Growers, Inc.	California	\$450,000	Grant funds will be used for working capital expenses for expanding the market for Diamond culinary and in-shell walnuts in U.S. retail markets by creating new healthy lifestyle packaging and point-of-purchase materials.
Farmer's Cooperative of El Campo	Texas	\$209,484	Grant funds will be used for working capital expenses for marketing identity-preserved sorghum that has been evaluated using Near Infrared technology to determine the nutritional value of the product.
Gateway Beef Cooperative	Missouri	\$249,140	Grant funds will be used for working capital expenses associated with expanding domestic and export markets for CAB kosher and non-hormone-treated beef products.
Golden Ridge Cheese Co-op	Iowa	\$500,000	Grant funds will be used for working capital expenses for marketing blue cheese.
Heartland Corn Products	Minnesota	\$279,000	Grant funds will be used for planning activities associate with adding value to the by-product stream of ethanol.
Kearney Area Ag Producers Alliance	Nebraska	\$130,700	Grant funds will be used to conduct a feasibility study and develop a business plan that identifies alternative products for processing and/or markets for alfalfa byproducts at a lutein-extraction plant.
MaxYield Cooperative	Iowa	\$50,000	Grant funds will be used to conduct a feasibility study to determine the viability of developing a community-based advanced bio-waste recycling and energy generation system, capable of recycling 100,000 to 250,000 gallons per day of hog manure from up to 100,000 sows.

*continued next page*



Recipient	State	Amount	Description
Miss-Lou Blueberry Growers Association Cooperative	Mississippi	\$28,400	Grant funds will be used to develop a business plan for marketing frozen, free-flowing blueberries.
Missouri Northern Pecan Growers	Missouri	\$140,000	Grant funds will be used for working capital expenses for marketing organic pecans.
Niman Ranch Pork Cooperative	Iowa	\$250,000	Grant funds will be used for working capital expenses for marketing Nitrite-Free and Ready-To-Eat pork products to expanded markets.
Olive Growers Council of California	California	\$249,170	Grant funds will be used for working capital expenses to market sliced olive salad and nacho toppings.
Pacific Coast Producers	California	\$300,000	Grant funds will be used for working capital expenses for marketing private label canned tomato products, including organic tomatoes, petite diced tomatoes, and flavored tomatoes.
Prairie Land Cooperative	Iowa	\$107,000	Grant funds will be used to develop a marketing plan for marketing soybeans processed into oil using continuous super-critical carbon dioxide oil-extraction technology.
Puna-Hawaii King Papaya Co-op	Hawaii	\$50,000	Grant funds will be used for a feasibility study to determine the viability of marketing tree-ripened papayas and to develop a marketing plan.
Siouxland Energy & Livestock Co-op	Iowa	\$150,000	Grant funds will be used for working capital expenses for marketing E-85 fuel.
Small Farms Cooperative	Nebraska	\$250,000	Grant funds will be used for working capital expenses for marketing pre-cooked, ready-to-eat natural meat entrees.
Southeast Milk, Inc.	Florida	\$185,000	Grant funds will be used for a feasibility study to identify value-added products, and determine the market potential, viability, and profitability of the products from dairy park effluent.
Sunkist Growers, Inc.	California	\$450,000	Grant funds will be used for working capital expenses for marketing Sunkist Smiles, a packaged fresh-cut orange product.
Sun-Maid Growers of California	California	\$150,000	Grant funds will be used to conduct a feasibility study for implementing radio frequency identification into the handling and distribution of raisins.
Sunsweet Growers, Inc.	California	\$500,000	Grant funds will be used for working capital expenses associated with introducing individually-wrapped dried plums to the U.S. market.
Valley Fig Growers	California	\$61,348	Grant funds will be used for working capital expenses for marketing products made from California fig paste, including Soft 40 Fig Paste and E-Diced Figs.
Wisconsin Dairy Graziers Co-op	Wisconsin	\$38,540	Grant funds will be used for working capital expenses for marketing cold-pack cheese products.

# Rabobank proposal sparks debate on role of FCS in farm & rural lending

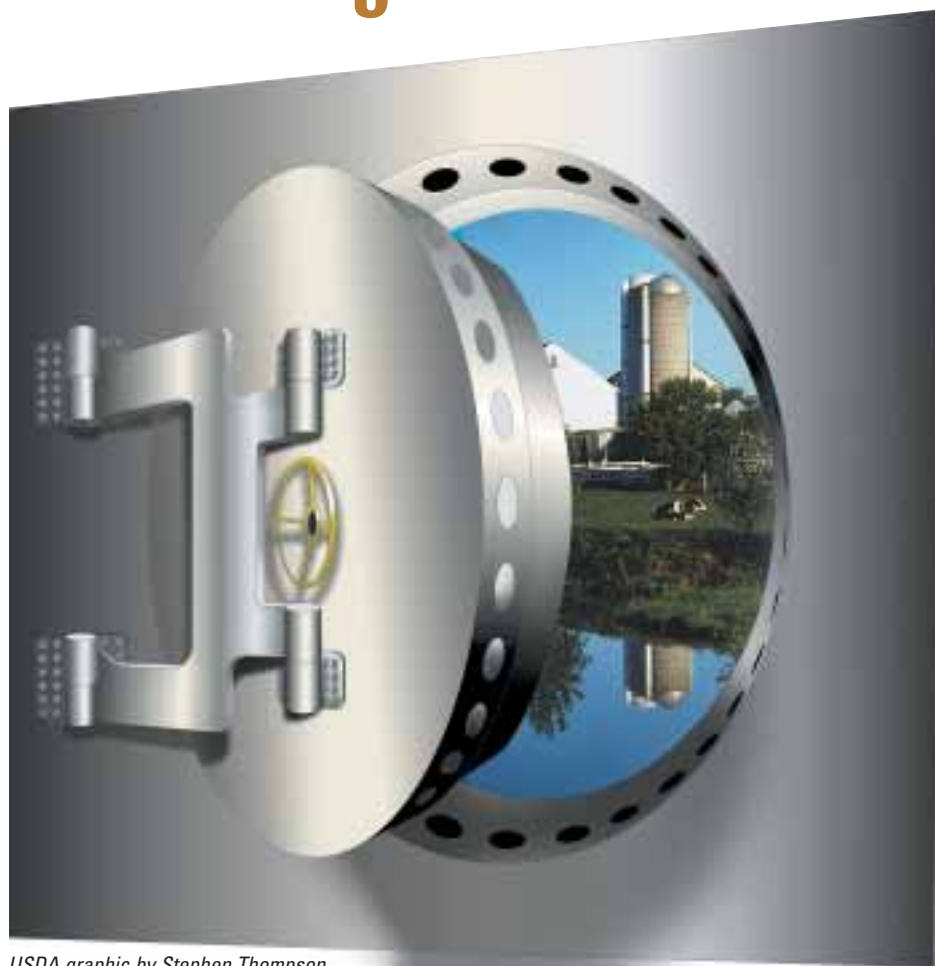
By Dan Campbell, editor  
dan.campbell@usda.gov

*Editor's Note: in late October, FCSAmerica announced that it was breaking off negotiations to sell to Rabobank (see page 35). However, the issues raised during the Congressional hearing about the future of FCS in rural America remain of great importance.*

**A** Congressional hearing Sept. 29 in Washington, D.C., examined the state of the nation's Farm Credit System (FCS) and the likely ramifications of a proposed sale of a key FCS lender to a foreign bank. The hearing presented sharply contrasting views about the nature of farm lending in America and the role of the 92, farmer-owned associations that comprise FCS in meeting farm and rural credit needs.

If there was ever any doubt, the hearing confirmed that the proposal to exit the FCS by Omaha-based Farm Credit Services of America (FCSAmerica) had indeed stirred up a hornet's nest. It also revealed just how passionate many producers remain about the need for a farmer-owned cooperative lending system for the nation.

Opponents said the proposed sale of FCSAmerica to Netherlands-based Rabobank for \$600 million should be blocked because it is a poor business deal for FCSAmerica stockholder-members and could threaten the continued viability of the overall FCS.



USDA graphic by Stephen Thompson

They said Congress should also expand the FCS charter to enable it to provide a greater range of financial services to more customers.

During the hearing — held by the House Subcommittee on Conservation, Credit, Rural Development and Research — several witnesses stressed that their opposition was not based on any ill feeling toward Rabobank. Rather, they said they oppose allowing any private bank — let alone a foreign bank — to gain control of a vital piece of FCS, which Congress created in

1916 to ensure a steady, reliable supply of affordable credit is available to fuel the nation's farm economy through good times and bad.

Banking industry proponents of the sale to the Netherlands-based Rabobank used the hearing to not only voice support for the sale, but to blast FCS as a “predatory lender,” which they said has outlived its mission and is abusing its present charter from Congress.

As a government-backed entity with access to low-cost funds, FCS can offer



interest rates that cannot be matched by community banks, they said. The banking groups accused FCS of using its advantages to cherry pick well-to-do, low-risk farm borrowers, rather than catering to higher-risk borrowers, as they say Congress intended. FCS maintains that its mission is to serve all sectors of U.S. agriculture.

### **Deal criticized as 'breathhtakingly bad'**

Myron Edleman, a South Dakota cattleman and grain/hay grower, spoke on behalf of a group of FCSAmerica borrowers who have formed Farmers for Farm Credit, of which he is chairman. The group was formed, he said, to "ensure that other FCSAmerica stockholders could learn the awful truth about the sale of their co-op." The proposal to sell the co-op lender to Rabobank is "so bad that it is breathtaking," said Edleman, former Farm Credit Council chairman.

Opposition to the deal among FCSAmerica stockholders is so overwhelming, he testified, that many suspect the board is "now struggling to find a way to unwind this decision without costing stockholders millions of dollars." He asked that Rabobank and FCSAmerica be required to disclose the terms of any contracts between them, including compensation and management bonuses.

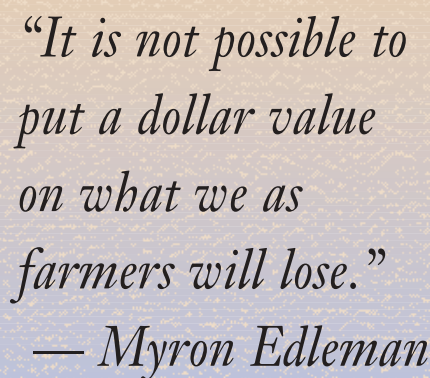
If Rabobank succeeds, "over \$1 billion of borrower-contributed capital will be wiped off the books of FCSAmerica," Edleman testified. "Hundreds of millions more dollars will be flushed down the drain as FCSAmerica exits the system and pays over \$800 million as an exit fee into a fund designed to protect Wall Street investors — not farmers. None of this money belongs to the management of FCSAmerica; it belongs to the stockholders..."

Edleman said FCSAmerica's capital was built up over many years from earnings generated on thousands of loans. "This capital helps to ensure that our families and future generations of Midwest farmers will have

access to a financially strong, borrower-owned source of credit."

If Rabobank becomes lender for FCSAmerica's 51,000 customers, all business decisions that are today subject to the scrutiny by farmers, Congress and the FCA will instead become the sole prerogative of Rabobank management, he noted. "It is not possible to put a dollar value on what we as farmers will lose."

The principal of maintaining FCS as a system of "farmer-owned, farmer-controlled lending cooperatives" is absolutely essential to the future of American agriculture, Edleman said.



*"It is not possible to put a dollar value on what we as farmers will lose."*  
— Myron Edleman

### **NCFC, FCC urge repeal of 'termination' option**

Glen Keppy, speaking on behalf of the National Council of Farmer Cooperatives (NCFC), urged that Congress revise the system's charter to eliminate the possibility of other such terminations from the FCS in the future. NCFC also supports additional changes to modernize the Farm Credit Act, he said, citing as an example a proposal that CoBank be allowed to lend to new and emerging types of farmer cooperatives.

"Many things have changed when it comes to agriculture in today's global economy," said Keppy, a hog/grain farmer and CHS member from Davenport, Iowa. What has not changed, however, is the need for farmers, ranchers and their cooperatives to have dependable, competitive sources of credit and capital to operate to mod-

ernize and expand, and to take advantages of new market opportunities."

AgBank CEO Jerold Harris, representing the Farm Credit Council (FCC), the industry trade association for the FCS, also urged Congress to repeal the Act's termination authority "as soon as possible." That authority was only inserted into the Act 17 years ago to serve the interests of one small, statewide credit association for livestock producers, he said. He, too, stressed the need for more lending flexibility and authority for FCS.

Harris said the Rabobank purchase is not a good deal for its member stockholders. In exchange for \$600 million, Rabobank would be getting a lending institution with total assets of \$7.8 billion, including \$1.35 billion in capital and unallocated surplus, more than \$200 million in loan-loss reserves and 40 offices staffed by 900 employees.

The decision to sell out to Rabobank was far from unanimous, according to Harris. Quoting "reliable sources," he said "a significant number of FCSAmerica board members voted against" the deal.

As a system employee for 40 years, Harris said, "I have seen very good times in agriculture and very bad times. I know first hand that the presence of a healthy, competitive, farmer-owned Farm Credit System institution helps all farmers — even those who borrow from other sources — receive a much more competitive interest rate."

### **Bankers support sale; oppose broader charter**

Representing the American Bankers Association (ABA), Roger Monson, president of Citizens State Bank in Finley, N.D., spoke in favor of the sale. His testimony also stressed ABA's grave concern over the parallel discussion about expanding the FCS charter.

Monson called FCS "a company which feels it has outgrown farming and the rural America it was chartered to serve," and is now "pursuing an expansionist agenda" without willingness to give up the advantages of being a government-sponsored entity (GSE).

The FCS must recognize that “with the advantages Congress has bestowed upon it, there are limits and responsibilities. There is no economic or public policy argument that can be made to justify expanding the charter of the system.”

Monson said FCS is providing government-subsidized credit to “those that need it least...the rural rich,” even helping them finance “country estates, weekend getaways, hunting preserves and golf courses.”

For those FCS associations that wish to expand their financial services, the answer is to cut their ties to the federal government, as FCSAmerica has proposed to do, he said. “This is natural evolution, and we support it.” Monson called FCS “a large, sophisticated and highly profitable financial services institution” with \$119 billion in assets, \$94.3 billion in loans and a net profit of \$1.8 billion in 2003.

FCS is the only GSE that competes directly with the private, tax-paying bank sector by doing direct, retail lending, he said. “From a public policy perspective, the justification for why the system continues to enjoy such extraordinary governmental support is tenuous.”

Monson noted that American taxpayers had to “bail out” FCS during the farm credit crisis of the 1980s, after what he termed “a decade of spectacularly poor lending practices.” Farmers in the early ‘80s made extensive use of low-interest loans from FCS, but began to fail in large numbers when interest rates began to shoot up. Ultimately, Congress had to offer \$4 billion in bonds to shore up the system in 1988, he said.

Private sector lenders now see FCS as a competitor that “exploits its GSE status to the fullest,” such as offering below-market pricing to gain market share, Monson said. Complaints about these practices to the FCA have been largely ignored, he continued.

Further, the system has made “deft use of statutory and regulatory loopholes” to take in more non-insured deposits, and has ignored its mandate

to serve young, beginning, small and women-owned enterprises, instead of focusing on low-risk loans to larger, wealthier borrowers,” he said.

Opponents of the sale have questioned the motives of FCSAmerica management and directors, but Monson said the same accusation could be aimed at FCS management. “When it is convenient for system managers to extol the virtues of their local boards, they do so; but when a local, farmer-owner board makes a decision that displeases them, they heap abuse on their motives and their character. Who really runs the Farm Credit System?”



*Myron Edleman (left), South Dakota cattleman and chairman of Farmers for Farm Credit, and Glen Keppy, an Iowa farmer representing the National Council of Farmer Cooperatives, both testified against the proposed sale of FCSAmerica to Rabobank. The deal has since been called off, but the Congressional hearing raised issues crucial to the future of farm and rural lending in America. Photo courtesy Farm Credit Council*

### **Wheat growers support AgStar's counter offer**

Mark Gage, a North Dakota grain grower and president of the National Association of Wheat Growers (NAWG), said his group supports preserving the FCS as a farmer-owned lending system. NAWG does not oppose Rabobank's entry into U.S. ag lending, he said, calling the bank “a respected and strong lender with a good track record in agricultural finance.”

However, Gage said acquisition of FCSAmerica by Rabobank “will adversely affect the entire Farm Credit System.” The sale could start a chain reaction, in which the strongest FCS institutions would be cherry picked away, leaving the weaker ones to hold up the roof. Each time one institution is sold, it requires the remaining FCS institutions to recapitalize a new association to take its place, drawing away vital system resources, he said.

He, too, questioned the economics of the sale, saying FCSAmerica would be sold for 41 cents on the dollar of assets, including a reserve that represents dividends due to the association's

farmer members. FCSAmerica has “an excessive amount of unallocated capital that has not been paid as patronage,” he said.

FCSAmerica should instead embrace the merger proposal from Minnesota-based AgStar Financial Services, another FCS member, Gage said. AgStar has offered \$650 million in cash to FCSAmerica stockholders, and said future patronage could push the value of the offer to more than \$1 billion. Most important, farmers

would remain in control, since it would stay within the FCS.

Gage also called attention to the massive changes that have occurred in agriculture since the FCS charter was last revised 30 years ago, urging that the debate be used as a stimulus to update that charter and enable FCS to provide more services to producers and rural America.

"The message of the National Association of Wheat Growers is to ensure that this cooperative remains healthy and viable," he said.

### **Community bankers blast 'unfair' lending advantage**

John Evans Jr., appearing on behalf of the Independent Community Bankers of America (ICBA), said "regulator-assisted mission creep" has

occurred, allowing FCS to overreach its charter. "If FCS banks are allowed to offer the same products as us, small town banks will be a thing of the past."

Evans, president and CEO of D.L. Evans Bank in Burley, Idaho, accused sale opponents of "wanting to have it both ways." Last June, FCS representatives "had the audacity" to lobby the FCA to expand the scope and eligibility of the system's authority so that FCS entities could make loans to individuals who "have little relation to agriculture," he said.

CoBank's desire to have its charter expanded so that it can lend to producer-owned LLCs (considered by some to be a new form of hybrid co-op), with both producer and investor class stockholders, is another contradiction of principle, Evans said. The

LLCs can wind up with producers holding only 50 percent of the stock, "allowing outside investors to easily take control over this new style of LLC-cooperative.

"Why is the system supporting legislation to potentially allow every other cooperative in the United States to be put on the chopping block except for its own?"

Evans said ICBA surveyed its members on the sale, and found that the majority favored the sale to Rabobank. However, some ICBA members have expressed concern over the Rabobank proposal, Evans noted. They say Rabobank would become yet another major new competitor for community banks, and that it would be buying "a large book of business that was built

*continued on page 33*

## **FCA chair: stakes huge in credit debate; changes sorely needed**

Nancy Pellett, chairman and CEO of the Farm Credit Administration (FCA), which regulates the FCS, testified at a Congressional hearing Sept. 29 as to the critical role FCS plays in the nation's food and fiber system. However, Pellett said she would not take a position on the Rabobank proposal, since the FCA board may ultimately have had to decide its fate.

She provided important background for the debate, stressing that farmers and the rest of rural America have a huge stake in the outcome. FCS has more than \$100 billion in loans, representing about 30 percent of the nation's total ag credit market. The system is "sound in all material respects," Pellett stressed.

"Without the FCS, we believe the soundness of agriculture and the quality of life in rural America would be greatly diminished," Pellett warned. FCS is a vital key to the nation's agricultural strength, the ultimate beneficiaries of which are American consumers, she said. On average, Americans now spend only 14 percent of their income on food, down from 21 percent in the 1970s.

In the early 1990s, Congress directed the General Accounting Office to study the cost and availability of credit in rural America, Pellett said. The results, released in 1994, concluded that no new statutory authorities were needed for FCS in the near term. However, the study said that the restructuring of American agriculture could make changes necessary in the long term.

A decade later, "those changes have arrived," Pellett said. She noted that average farm real estate prices have skyrocketed from \$196 per acre in 1970 to \$1,360 in 2004, a 594-percent increase.

At the same time, the rural population has declined from 26 to 21 percent of the nation's total. Many rural towns are losing population and critical infrastructure, Pellett continued. The number of farmers and ranchers has declined from 3 million to 2 million since 1970, and farmers have become increasingly reliant on off-farm income and government payments. Much of the capital in rural areas is in fixed assets and not easily converted for investment purposes, she said.

In response, FCA developed a five-year plan which calls for giving system lending institutions greater flexibility and to reduce or eliminate regulations that "unnecessarily impair" their effectiveness. It recommends that the FCS be allowed to expand operations, not only within agriculture, but also to serve a broader portion of rural America. Specifically, Pellett said Congress should consider changing the Act so that FCS institutions can make home loans in rural towns of more than 2,500 people (the current cap), and to enable them to engage in syndication lending (bringing in other banks to help them finance projects that exceed their lending limits).

The Farm Credit Act "must be brought into the 21st Century," Pellett said. ■

— By Dan Campbell



# Four leaders selected to Co-op Hall of Fame



our outstanding cooperative leaders — Pete Crear of the Credit Union National Association,

Robert Kabat, formerly with the National Rural Electric Cooperative Association, and the late housing co-op advocates Charles and Eva Rappaport — will receive the cooperative community's highest honor next April 20, when they are inducted into the Cooperative Hall of Fame. The Hall of Fame recognizes those whose contributions to cooperative enterprise are "genuinely heroic." Two committees of national co-op leaders select the inductees.

- **Pete Crear** has been a passionate promoter of cooperative enterprise for more than 40 years. The breadth of his contribution is reflected in the words used to describe him: organizer, statesman, educator, ambassador, advocate, mentor and leader. His skill as an organizer resulted in the establishment of numerous credit unions in many states, including close to 20 in metropolitan Detroit alone, which brought the first stable, non-predatory financial services to the inner city and its mostly minority population.

His statesmanship has been evident throughout his career as he repeatedly demonstrated an ability to read the politics of situations, apply his senses of humor and fairness, and broker compromises that produced solutions. His commitment to education is evident in the major role he played in establishing CUNA's partnership with the National Endowment of Financial Education, which now brings financial education to

nearly 1,000 high schools across the country.

- **Robert "Bob" Kabat** is credited with creating a culture of continuing cooperative education within the electric cooperative industry. As director of NRECA's Management Services Department for 40 years, Kabat put in place the management programs and consulting services that have enabled electric and telephone cooperatives to thrive in a changing utility environment. No single person has been more instrumental in the development of effective governance and management expertise within this cooperative sector. Literally thousands of locally elected directors have benefited from the "institutes" that he established to provide training on the duties and responsibilities of board members.

Still in use today is the unique model he developed, with assistance from the Rural Electric Management Development Council, for evaluating management effectiveness for general managers and CEOs. He developed the Management Internship Program, a six-week university-based training program on all aspect of electric cooperative management that graduates more than 60 students a year and is conducted at the business school of the University of Wisconsin-Madison.

- **Charles & Eva Rappaport (deceased)** for more than 30 years were tireless volunteers and influential leaders of the New York City and national housing cooperative community. Charles served as president of

the Federation of 213s —later the Federation of New York Housing Cooperatives — founded in the 1950s by 100 moderate-income co-ops. Eva served as the organization's executive director, working as editor, writer, conference coordinator and membership director in their home office.

In a city where a third of all ownership housing is in cooperatives, Charles was a strong advocate and made sure housing cooperatives were heard on issues like asbestos, lead, energy and citywide labor contracts, as well as real estate tax abatements for veterans and senior citizens.

While much of their focus was on New York City, the Rappaports advocacy has been felt throughout the country. Charles directed his attention to the national level, where he led the Federation's successful campaign to separate 213 premiums from all other Federal Housing Authority insurance funds and create the Cooperative Management Housing Insurance Fund as a true mutual. More than 40 years later, the Fund is still returning patronage dividends to Section 213 cooperative housing corporations.

The Cooperative Hall of Fame was established in 1974 by the National Cooperative Business Association and is now administered by the Cooperative Development Foundation, a national foundation that uses cooperatives to help people improve their lives. The Hall of Fame is housed in the offices of the National Cooperative Business Association in Washington, D.C., and can also be visited on the Web at: [www.heroes.coop](http://www.heroes.coop). ■



# Sen. Dave Landis, as co-op champion Sen. George Norris

**D**avid Landis, a state senator from Nebraska since 1978, has been getting rave reviews at co-op annual meetings for an inspirational, one-man performance in which he portrays co-op pioneer and champion George W. Norris. Born at the outset of the Civil War in 1861, Norris was elected from Nebraska to the House of Representatives in 1902, spending 10 years in the House before moving on to the Senate, where he served another 30 years. During the 1930s, he authored legislation that created the Rural Electrification Administration (REA) and the Tennessee Valley Authority (TVA).

These organizations gave millions of Americans access to many of the simple conveniences city people had enjoyed for decades. Rural electricity revolutionized farm life in America. Throughout his career, Norris' conscience was his only guide, and he fought for the farmers and the common men and women of this country.

*Q. How did you first become familiar with Sen. George Norris, and what about his life and work inspired you to create your one-man show based on his life?*

A. When I was first elected to the Nebraska unicameral, non-partisan legislature, I discovered that both of those innovations, unicameralism [a legislature composed of a single body] and nonpartisanship, were the ideas of George Norris. The idea for a one-man show, or for doing Norris,



*Dave Landis in costume as Senator George Norris, who spearheaded efforts to bring electricity to rural America through the use of utility cooperatives. Photo courtesy Dave Landis*

*"...we need to think in terms of what is good today and what is good in the future, that our legacy runs across generations and the shadow of our life falls upon generations yet unborn."*

was prompted by a request from the Nebraska Humanities Council to impersonate Norris at our 125th statehood anniversary celebration. The Humanities Council felt Norris' legacy was slipping in the mind's eye of Nebraskans, and that he was no longer a vital part of our communal memory.

*Q. What major messages or lessons do you think Sen. Norris would want the leaders and members of today's cooperatives to remember, based on his experiences?*

A. Norris would remind us that the cooperative is a mechanism for self-help. It is people determining their own fate, getting together and charting their own course. He was a great believer in that kind of responsibility, and that's one of the reasons he loved the cooperative movement. Second, I think he would remind them that cooperatives sprang up because the marketplace had failed them. The desire for profits that motivates the investor-owned utility was not sufficient justification to run electricity to low-profit or no-profit customers. Co-ops are a product of the failure of the investor-owned utilities to care enough to extend service to people that needed that service.

*Q. Are the challenges confronting today's cooperatives much different than the ones faced in Norris' day?*

A. I'm sure there are new complexities and difficulties facing co-ops today that were not present in Norris' time;

however, those days were also difficult and complex. Co-ops sprang up, for the most part, in the days of the Depression and WW II. They grew up with the envy of the investor-owned operators who wanted to stymie co-ops at every turn, including the use of lawsuits to stop the creation of co-ops. I guess you could say that the co-ops have never had an easy row to hoe. They've always had critics and challenges and they've always risen above and succeeded in the face of those challenges.

*Q. Is there one particular anecdote about Norris that you think reveals the type of man he was?*

A. There is a particular anecdote that's helpful to understand Norris, although it's one that he would say reveals not himself, but his mother. When he was ten and had spent a hard day working on the family farm, his mother called him over to plant a tree. Both of them were glistening with sweat, it was hot and a hard day of work that they'd just finished. Norris said, "Mother, why do you work so hard? You won't even see this tree in fruition." And she looked him in the eye and said, "Willie, I may not see this tree bear fruit, but someday someone will."

Norris used that anecdote over and over in his life to say that we need to think in terms of what is good today and what is good in the future, that our legacy runs across generations and the shadow of our life falls upon generations yet unborn. He thought in terms of a legacy that would last decades as it affected people's lives and he found that obligation or responsibility in that anecdote of his mother and his childhood.

*Q. The sheer tenacity of Norris — continuing to push for laws supporting co-ops even though he was defeated time and again — is a striking feature of your presentation. Even the fact that he*

*was left as a widower with three children prior to making his first run for Congress might have defeated a lesser man. What do you think kept him fighting against such formidable odds?*

A. Norris grew up on a farm, fatherless, with a mother and six older sisters trying to eke out a living on relatively poor soil in Ohio. He didn't go to kindergarten so he could help on the farm. At the age of 11, he paid the taxes on that farm by working on the county road gang. Norris knew nothing but tenacious effort. It would not have made a difference what line of



*Nebraska Senator George Norris tours the Norris Dam in Tennessee, which is part of the Tennessee Valley Authority (TVA), of which he was a champion. Photo courtesy TVA*

work he ultimately went into. The kind of energy and fight that he had was obvious by the age of 16. Norris never calculated the odds, so that they could intimidate him or dissuade him. He calculated the public good and was motivated by that alone.

*Q. Who are the primary audiences for your performances? How many shows do you perform per year? How can interested parties contact you?*

A. Co-op annual meetings are a major audience, although I also speak at meetings of credit unions, which are also organized as cooperatives. Norris was a supporter of them as well. He believed in the idea of the cooperative one-person, one-vote form of self-determination. The Nebraska legislature is on-line; you can find me there for e-mail or home telephone number.

*Q. Are you able to "tailor the content of the presentation if the audience is one or the other type of co-op?"*

A. I try to tailor the content of the presentation to the audience. Norris' general approach did not distinguish between utilities and [farm or other types of] co-ops. His basic distinction was between private and public power. He found the virtues of public power to straddle both the utility and the cooperative.

*Q. What would the nation lose if our utility and farmer co-ops pass out of existence?*

A. I regard that future as unthinkable. In a more light-hearted response, I would just quote Mark Twain who said, "There is nothing so irritating as a good example." If there is tension between the investor-owned utility community and public power, it's because public power and cooperatives have been such a shining example of service, fair prices, community, outreach and fair dealing. Those are things we can't afford to lose in our communities. ■





# Dairy co-op acquisition does not violate antitrust law

**By Marlis Carson**

*Vice President, Legal, Tax and Accounting  
National Council of Farmer Cooperatives*

Section 7 of the Clayton Antitrust Act makes it illegal for one business to acquire, directly or indirectly, the stock of another business, where the effect of the acquisition may be to substantially lessen competition or tend to create a monopoly. A U.S. District Court in Kentucky has ruled that Dairy Farmers of America (DFA) did not violate this provision when it purchased 50 percent of the voting interest in the company that controlled one fluid milk processing plant and a 50-percent non-voting, non-managerial interest in another company that operated a competing fluid milk processing plant.

## Case facts

DFA, a milk marketing cooperative, markets raw, unprocessed milk to dairy processors. It invests in downstream dairy companies that process milk for consumption. Such investments help DFA secure outlets for its members' raw milk and allow its members to share in the earnings from the sale of finished dairy products.

In 2001, DFA joined with several individuals to form National Dairy Holding, L.P. (NDH), which owns the Flav-O-Rich dairy bottling plant in London, KY. The individuals collectively owned 50 percent of the voting interests in NDH; the remaining 50 percent was held by DFA.

In 2002, DFA and a family-owned limited partnership formed Southern

Belle Dairy Company, LLC (Southern Belle). Southern Belle owns a fluid milk processing plant in Somerset, KY. DFA owned 50 percent of the voting interests in Southern Belle and the family limited partnership owned the

*DFA's 50 percent share of each venture, in and of itself, did not translate into the degree of control necessary to establish an antitrust violation.*

other 50 percent.

In 2003, the U.S. Department of Justice and the State of Kentucky filed a civil antitrust lawsuit against DFA and Southern Belle to compel DFA to divest its interest in Southern Belle. The complaint alleged that DFA's purchase of its interest in Southern Belle, after it had secured the 50-percent interest in NDH, would substantially lessen future competition for the sale of milk to schools in Kentucky and Tennessee.

In 2004, the ownership and control of both joint ventures was restructured. In February 2004, one of the individual owners of NDH, Allen Meyer, acquired the interests of the other individual owners. Now Meyer and DFA each owned 50 percent of NDH. They each also owned 50 percent of another joint venture, Dairy Management LLC, that served as the managing partner for NDH, with Meyer and DFA as limited partners. Meyer was clearly identified as the manager of Dairy Management LLC, and thus of NDH. Furthermore, the operating agreement of NDH was modified to ensure the NDH was operated and controlled solely by its manager, Meyer.

In July 2004, DFA exchanged its voting interests in Southern Belle for nonvoting preferred capital interests. DFA no longer had the right to vote on any matter and did not have a seat on the governing board of Southern Belle. The family limited partnership had the right to sell Southern Belle at any time, including DFA's interests. Southern Belle, and hence the Somerset plant, were managed by a member of the family partnership. The family partnership did not own any interest in DFA and DFA did not own any interest in the partnership.

The court issued its opinion in late August 2004, holding that as the ventures are now structured, DFA is not in a position to control the sale of milk to schools in the area.

## Holdings of the court

The district court identified the issue at hand as to whether DFA's 50

percent non-voting interest in Southern Belle, when combined with a 50-percent voting interest in NDH (and thus Flav-O-Rich, Southern Belle's competitor), would substantially lessen competition. Citing the U.S. Supreme Court decision in *U.S. v. Philadelphia National Bank*, 374 U.S. 321 (1963), the district court noted that Section 7 of the Clayton Act is violated if the market is sufficiently concentrated and an acquisition would enhance that concentration.

The court noted that the *Philadelphia National Bank* standard requires that the acquisition results in at least some control of a large percentage of a market by one firm. Here, the court concluded DFA's acquisition "has not resulted in DFA controlling a large portion of the relevant market for the sale of processed milk to schools." The purchase of shares does not enhance DFA's ability to influence the market because "DFA's non-voting interest in Southern Belle does not give it any control over the business decisions made by Southern Belle," the court stated. The balance of control in the market has not shifted to DFA, so the acquisition of an interest in Southern Belle by DFA has not enhanced con-

centration and thus is not illegal.

The United States argued that DFA's interest in Southern Belle and NDH gave the dairies incentive and opportunities to collude and diminish competition. The court was not convinced, however, noting that with respect to school milk bidding, DFA has no voting rights and thus cannot directly affect Southern Belle's school



milk business decisions. Similarly, the court concluded that DFA's 50 percent interest in NDH does not result in any participation in business decisions. The court noted that the operating agreements for both Southern Belle and NDH leave the operational aspects of the company with the operational owners/partner, not DFA. The court noted that there must be "some mechanism by which the alleged adverse effects in the sale of milk are likely to be brought about by DFA's acquisition of a non-operational interest in Southern Belle." While DFA

had an obvious interest in the success of both dairies to maximize its 50-percent share of the earnings of each venture, that in and of itself did not translate into the degree of control necessary to establish an antitrust violation.

Referencing the limited nature of DFA's ownership interest, including the lack of involvement in the day-to-day operations of either NDH or Southern

Belle, the court found that the "incentives and opportunities for collusion are not substantially greater by virtue of DFA's dual ownership interests than they were prior to this challenged acquisition." Accordingly, the

court granted a motion by DFA for summary judgment, in effect holding that even if all the evidence, facts, and inferences before the court are viewed in the light most favorable to the government, DFA would still prevail as a matter of law.

The U.S. Department of Justice has notified the court that it intends to appeal the decision to the U.S. Court of Appeals for the 6th Circuit. Justice contends the ruling permits companies to invest more heavily in competitors than antitrust enforcers believe is appropriate. ■

## Northland vs. Ocean Spray antitrust settlement preserves co-op win

In the Oct.–Sept. 2004 issue of *Rural Cooperatives*, "Legal Corner" reported on a decision in antitrust litigation by Northland Cranberries against Ocean Spray Cranberries. As part of a larger business deal, Northland agreed to dismiss, with prejudice, its lawsuit alleging antitrust law violations on the part of Ocean Spray. This leaves in place the U.S. District Court opinion in the case holding the presence of foreign (Canadian) producers in Ocean Spray's membership does not strip the cooperative of its antitrust protection under the Capper-Volstead Act.

In addition to ending the litigation, the deal provides that Ocean Spray will purchase all cranberry processing assets and the current inventory of unprocessed cranberries of Northland. Ocean Spray and Northland also signed a 10-year agreement through which Ocean Spray will, for a fee, receive and convert into concentrate all of the cranberries produced by Northland and its contract growers. Northland will then be free to bottle and market its own cranberry juice, in competition with Ocean Spray and other juice companies at the wholesale and retail levels. ■

# Co-ops help keep rural towns alive

By Annie Baxter

*Editor's note: the article originally was broadcast on Minnesota Public Radio.*

**T**he little farming communities of Vesta and Echo in southwestern Minnesota know the plight of small towns first hand. As local farms shut down over the years, so did many businesses. The townspeople tolerated the loss of the pool hall or the gas station. But when the café closed its doors down in Vesta, that's where people had to draw the line.

In Echo, the loss of the little grocery store was the last straw. So the townspeople took matters into their own hands and have established new businesses through cooperatives they formed.

The Vesta café is a perfect postcard picture: country knickknacks, like teacups and tiny plastic apples, decorate the walls, and the smell of strong coffee fills the air. At three in the afternoon, business is brisk. A group of retired farmers plays a cut throat game of cards in the corner.

"Sometimes they almost kill each other just for a quarter," one farmer jokes.

A few feet away sit three Vesta ladies, exchanging gossip over slices of lemon meringue pie. They say they're here at least once a day.

"I think it was three times today for me," one woman admits.

For decades, a café next door was the local hangout. It closed nearly three years ago. The cafe seemed to



*Vesta community members, such as these retired farmers, teamed up to open the Vesta Café a year ago. The co-op café was built with volunteer labor and paid for by donations from community members. Photos courtesy Minnesota Public Radio*

have plenty of customers, so locals guess it wasn't well-managed.

Carole Jordan works at the new café and she waitressed at the old one, too. She says when it closed, she lost more than just a job.

"The town died without a café," Jordan says matter-of-factly. "There were no cars on the street. I said pretty soon the tumbleweeds will be blowing down the street."

Once the café closed, that brought the number of empty storefronts to four — half the businesses on the street. The farmers who play cards had nowhere to go. Sometimes, they'd resort to setting up a card table in the liquor store.

Finally, people in town took action. They pooled their resources together to build this cafe. Dan Holmberg has lived in the area all his life. He was one of the organizers.

"A lot of people got their heads together and decided maybe we can

build this thing if we get donations. So we asked for donations from the community, and I think we put about \$90,000 together. It was all volunteer labor, except for the electrical. I think it took about eight months to build the place, but I think we did a good job," Holmberg says.

The community founded a non-profit organization to pay for the café. Then they interviewed potential managers and decided to lease the business to Yvonne Ellis. She and her husband run the operation now.

If it weren't for this cafe, Vesta residents would have to drive about 20 miles to Redwood Falls or Marshall for a restaurant. But it's not the commute that really bothers people. The town needs a café for reasons that go beyond convenience, according to the local bank's loan officer, David Widman.

"If we don't have this, we're not gonna have a community," Widman



asserts. "This is what's facing small towns throughout the Midwest."

Vesta has a lot in common with its neighbor Echo, just five miles up the road. The town's about a mile wide and a mile long, with a crush of abandoned buildings at the center.

Echo residents Nancy Harvey, Corlys Chase and Guila Kurtz point to the town's landmarks, or what remains of them.

"The grocery store just closed in December," Kurtz notes.

"And didn't that used to be a hotel?" Harvey asks. "There's nothing in there now, I believe."

"The pool hall had been there for years and years and years. But it's been vacant for a long time. Someone lived on the second floor," Chase says, shaking her head.

"So you see, there are vacant buildings everywhere. And that's what we

don't want," Harvey concludes.

These three women are shaking things up in town. When the grocery store closed last year, they were spurred to do something about it. They're part of a group of mostly retirement-age women who raised enough money to build the town a new store.

It turns out they're familiar with the do-it-yourself approach. A few years ago, the public school closed down, and people in town got together to open a charter school. Since then, attendance has more than tripled.

Guila Kurtz says people in Echo learned a lesson from the school, and they're applying it to the grocery store.

"No one is going to do it for us. We decided to take over!" Kurtz says with a smile.

More and more rural towns are coming to the same conclusion. In fact,

Minnesota has more than 1,000 co-ops. It's one of the leading states embracing the cooperative business model.

The store in Echo will be nonprofit and small-scale. They'll keep a limited inventory of items like milk, cereal, and coffee. And it will bear the apt name of Hope Market.

"One thing that's happened since we started this grocery store, is that there have been people who are interested in starting other businesses in town," Nancy Harvey says. "That's gonna bring in other income, it's gonna be good for the city — to help the town start thriving again." So far, no other new businesses have opened up. And at this point, Hope Market is still an empty lot marked off by some plastic orange fencing. But construction is supposed to move fast, and the market should open this fall. ■



Waitress Carole Jordan and café manager Yvonne Ellis prepare for lunch business.

# USDA providing \$6.3 million in grants for rural co-op development in 24 states



rural cooperative development in 24 states got a \$6.3 million boost from USDA Rural Development in

September, when Agriculture Secretary Ann M. Veneman announced the recipients of 2004 Cooperative Development Grants.

"Viable cooperative ventures are important to increasing economic development in rural areas," Veneman said. "These funds are important to ensuring farmers and ranchers have added opportunity to fully use their natural resources to create value-added ventures."

The grants were awarded on a competitive basis and are intended to foster rural cooperative development through projects that provide rural residents with education and technical assistance in areas of cooperative startup, marketing and managing, and other self-help tools.

In Pennsylvania, for example, Veneman said the Bush administration is providing grant funds to the Keystone Development Center of State College, which is working to support the formation of 11 farmer alliances and cooperatives. The effort includes developing cooperatives for forest-owners, biodiesel production and other natural resource-based ventures.

Another example is the Center for Rural Cooperative Business Development (CRCBD) at South Carolina State University, which received a \$146,656 grant to help rural residents start new co-ops

and to develop marketing plans and improve co-op management practices. In 1999, South Carolina State became the first historically black college or university to house a CRBCD. In

2001, the Center launched a farm-to-school produce project which encourages school districts to buy fresh fruit and vegetables from local co-ops of small farming operations. ■

## USDA RURAL DEVELOPMENT Rural Cooperative Development Grants

STATE	PROJECT	GRANT AMOUNT
AL	Federation of Southern Cooperatives	\$300,000
AR	Winrock International Institute for Ag Development	299,935
CO	Rocky Mountain Farmers Union Educational & Charitable Foundation	300,000
GA	Golden Triangle RC&D	266,816
IA	Iowa State University	299,943
IL	Western Illinois University	189,044
IN	Indiana Rural Development Council, Inc.	85,000
KY	Kentucky Center for Ag and Rural Development	184,150
MA	Cooperative Development Institute, Inc.	294,930
MD	University of Maryland Eastern Shore	296,500
MN	Northcountry Cooperative Foundation	300,000
MO	Missouri Farmers Union Family Farm Opportunity Center	298,065
MS	Mississippi Cooperative Development Center	300,000
MT	Montana Cooperative Development Center	300,000
ND	North Dakota Association of Rural Electric Cooperatives	300,000
NE	Nebraska Cooperative Development Center	299,958
NH	New Hampshire Community Loan Fund	300,000
OH	Ohio State University Research Foundation	299,867
PA	Keystone Development Center, Inc.	299,832
SC	S.C. University, Center for Rural Co-op Business Dev.	146,656
SD	Value-Added Agriculture Development Center	200,000
VA	Southern States Cooperative Foundation	299,989
WA	Northwest Cooperative Development Center	181,950
WI	Cooperative Development Services Fund, Inc.	300,000
<b>TOTAL:</b>		<b>\$6,342,635</b>

# Survey shows dairy co-ops in generally strong financial state

## Carolyn Liebrand, Agricultural Economist

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*Editor's note: This article is based on USDA's annual survey of all U.S. cooperatives, which gathered 2002 financial and marketing data for dairy cooperatives. More detailed results are presented in Research Report 203, "Financial Profile of Dairy Cooperatives, 2002" available at: [www.rurdev.usda.gov/rbs/pub/newpub.htm](http://www.rurdev.usda.gov/rbs/pub/newpub.htm). For a hard copy, call (202) 720-8381, or e-mail: [dan.campbell@usda.gov](mailto:dan.campbell@usda.gov).*

**I**n 2002, all types of U.S. dairy cooperatives were negatively impacted by lower milk and dairy product prices.

Nevertheless, dairy cooperatives in general appeared to be in good shape financially, irrespective of operating type. Cooperatives successfully employed a variety of methods to market members' milk. While some used few assets and operated on narrow margins, others employed considerable capital and generated wider margins.

This report uses some basic financial yardsticks for measuring the fiscal status of co-ops, based on the type of operations.

### More assets per cwt

Dairy co-ops used about \$1 per hundredweight (cwt) more of assets in 2002 than they did five years before. Data analyzed by USDA Rural Development shows that dairy cooperatives employed \$6.22 of assets per cwt to market their members' milk in 2002

(table 1).

The growth in assets stemmed from an increase in fixed assets (property, plant, equipment and other fixed assets). Much of this increase was supported by a rise in long-term liabilities per cwt of member milk relative to 1997 — the last time a detailed look into dairy cooperatives' financial performance was taken by USDA Rural Development.

Total liabilities came to \$4.13 per cwt of member milk, which amounted

assets exceeding current liabilities by 18 percent, the short-run solvency picture looked strong for dairy co-ops in 2002.

Member equity of \$2.10 per cwt of milk represented one-third of total assets. Member investment in cooperatives per cwt was about the same as in 1997, but made up a slightly smaller share of total assets. Furthermore, the ratio of long-term liabilities to equity almost doubled from that in 1997 (.83 vs. .44).



*Natalie and Katelyn Horning — daughters of Jeff and Lynda Horning — perform calf-feeding chores on the family dairy farm near Ann Arbor, Mich. The Hornings, fifth generation dairy farmers, were honored as 2004 Outstanding Young Dairy Cooperators by Michigan Milk Producers Association (MMPA). Photo by Mindy Pratt, courtesy MMPA*

to two-thirds of total assets. The \$2.39 in current liabilities represented mostly pending payments to members and made up 58 percent of all liabilities.

On the other side of the ledger, dairy cooperatives had \$2.81 per cwt in current assets and \$2.90 per cwt of property, plant and equipment in 2002 -- each representing around 46 percent of total assets. With current

Relatively low milk and dairy product prices in 2002 were reflected in the operating statement. Milk and dairy product sales were about \$3 per cwt of milk handled below those reported in 1997 (table 2). Milk and dairy product sales of \$15.73 per cwt, the largest single income item, represented 86.1 percent of total dairy cooperative income in 2002.



Supply and other sales was the next largest source of income, at \$2.19 per cwt, accounting for a slightly larger share of total income than in 1997. Total income was \$18.27 per cwt while net margins before tax came to 21 cents per cwt of milk handled. Return on sales was a modest 1.2 percent in 2002.

These figures come from a survey of U.S. dairy cooperatives conducted by the Rural Cooperative-Business Service of USDA Rural Development. Forty-one percent of the dairy cooperatives in the United States provided financial information in sufficient detail to be included in the financial profile of dairy cooperatives for 2002. However, these 80 cooperatives represented almost all (98 percent) of the combined total assets and most (97 percent) of the net milk volume handled by all U.S. dairy cooperatives.

#### Performance varies by type of operation

U.S. dairy cooperatives use a variety of means to market members' milk. The various types of operations require differing levels of capital and generate differing amounts of income and returns.

Cooperatives providing data for this study were grouped into four general operating methods: bargaining only; commodity manufacturing; niche marketing; and diversified and fluid processing. The diversified and fluid processing cooperatives handled about two-thirds of the net milk volume reported while bargaining-type co-ops handled 23 percent (fig 1). Commodity manufacturing cooperatives made up 9 percent of the net cooperative milk volume in 2002 while niche marketing cooperatives represented less than 1 percent.

Diversified and fluid processing cooperatives were also the dominant operating type in terms of assets, holding 91 percent of all assets of reporting dairy co-ops while bargaining only co-ops held just 4 percent. Similarly, diversified and fluid milk processing cooperatives had almost three-fourths

of cooperative milk volume and dairy product sales. Bargaining-only co-ops had the next largest share, 18 percent. Niche-marketing cooperatives' shares of assets and dairy sales were less than 1 percent.

The assets supporting the various methods dairy cooperatives used to market their members' milk ranged from \$1 to \$10 per cwt, depending on the type of operations employed (table 3 and figure 2). Likewise, total income per cwt varied by almost \$8 while net margins came to between 4 and 32 cents per cwt of milk handled (table 4).

#### Bargaining-only dairy co-ops

Bargaining-only cooperatives seek the most profitable outlets for their members' milk at the first-handler level and do not own or operate plants. Thus, they require the fewest assets to market a cwt of milk, \$1.02 in 2002. This was the only operating type of

co-op to show lower total assets in 2002 compared to 1997. Current assets represented 75 percent of total assets used.

Likewise, bargaining-only cooperatives had the fewest liabilities and member investment on a per-cwt of member milk basis. As such, long-term liabilities came to just 6 percent of total assets, the lowest level of the four operating types.

At the same time, bargaining-only cooperatives generated the lowest milk and dairy product sales per cwt, \$12.84. Net margins of 4 cents per cwt were well below those of any of the other types. However, due to the low use of equity and fixed assets, return on equity (17.2 percent) and return on fixed assets (18.5 percent) were highest among the operating types. Further, return on total assets was a modest 4.7 percent, below the average for all cooperatives (5.3 percent).

**Table 1—Balance sheet items per cwt<sup>1</sup>**

U.S. dairy cooperatives	2002	1997
Current assets	2.81	2.89
PP&E and other assets	2.90	1.79
Investments in other cooperatives	.51	.57
<b>Total assets</b>	<b>6.22</b>	<b>5.25</b>
Current liabilities	2.39	2.26
Long-term liabilities	1.74	.92
<b>Total liabilities</b>	<b>4.13</b>	<b>3.18</b>
<b>Equity</b>	<b>2.10</b>	<b>2.07</b>
<b>Total liabilities and equity</b>	<b>6.22</b>	<b>5.25</b>

<sup>1</sup>Per cwt of member milk

**Note:** Totals may not add due to rounding.

**Table 2—Operating statement items per cwt<sup>1</sup>**

U.S. dairy cooperatives	2002	1997
Milk and dairy product sales	15.73	18.75
Supply and other sales	2.19	2.24
Service receipts and other income	.31	.19
Patronage refunds	.03	.06
<b>Total income</b>	<b>18.27</b>	<b>21.25</b>
Estimated expenses	18.06	20.96
<b>Net margins before tax</b>	<b>.21</b>	<b>.28</b>

<sup>1</sup>Per cwt of milk handled

**Note:** Totals may not add due to rounding.

### Commodity marketing dairy co-ops

Commodity marketing cooperatives operate plants to produce bulk dairy products in high-volume plants. Many of these plants capture economies of scale in producing undifferentiated, storable commodity dairy products. They required the second lowest level of assets, \$3.41 per cwt, in 2002. Like bargaining-only cooperatives, current assets made up a majority (53 percent) of their total assets. Commodity manufacturing cooperative members had the next to lowest investment in their cooperatives, \$1.60 per cwt.

Like bargaining-only cooperatives, more than 90 percent of the commodity manufacturing cooperatives' total income came from the sale of milk and dairy products. Net margins for commodity manufacturing cooperatives were almost four times those of bargaining-only cooperatives, yet they were well below the other two operating types. However, perhaps reflecting efficiency of operation or economies of scale, return on total assets was 6.7 percent, the highest of all operating types in 2002.

### Diversified and fluid processing dairy co-ops

Diversified and fluid processing cooperatives were lumped together in one category. Fluid processing cooperatives aim to capture value for their members by processing and packaging fluid milk, as well as products such as ice cream, sour cream, cottage cheese and/or yogurt. Diversified cooperatives have a broad spectrum of operations, selling a large portion of their milk supply to other handlers while maintaining a steady volume at their own processing or manufacturing plants to

**Table 3—Consolidated balance sheet per cwt of member milk, by type of dairy cooperative, 2002**

Item	Type of cooperative			
	Bargaining only	Commodity manufacturing	Niche marketing	Diversified and fluid processing
Dollars per cwt of member milk				
Current assets	.76	1.80	2.50	3.68
Net PP&E <sup>1</sup> and other assets	.20	1.54	6.70	4.03
Investments in other co-ops	.06	.07	.83	.73
Total assets	1.02	3.41	10.03	8.44
Current liabilities	.69	1.39	1.82	3.13
Long-term liabilities	.06	.42	2.41	2.51
Total liabilities	.75	1.81	4.23	5.64
Total equity	.27	1.60	5.80	2.80
Total liabilities and equity	1.02	3.41	10.03	8.44
Member milk (million pounds)	31,772	12,535	344	89,800

Note: Totals may not add due to rounding.

<sup>1</sup>Property, plant and equipment.

**Table 4—Consolidated operating statement per cwt of total milk handled, by type of dairy cooperative, 2002**

Item	Type of cooperative			
	Bargaining only	Commodity manufacturing	Niche marketing	Diversified and fluid processing
Dollars per cwt				
Milk and dairy product sales	12.84	15.36	18.30	16.69
Supply and other sales	.68	.62	3.44	2.88
Service receipts and other income	.23	.24	.13	.34
Patronage income	.01	.02	.07	.05
Total income	13.75	16.25	21.94	19.96
Total expenses	13.71	16.09	21.62	19.68
Net margins before tax	.04	.15	.32	.27
Milk volume handled (million pounds)	33,856	13,857	344	106,748

Note: Totals may not add due to rounding.

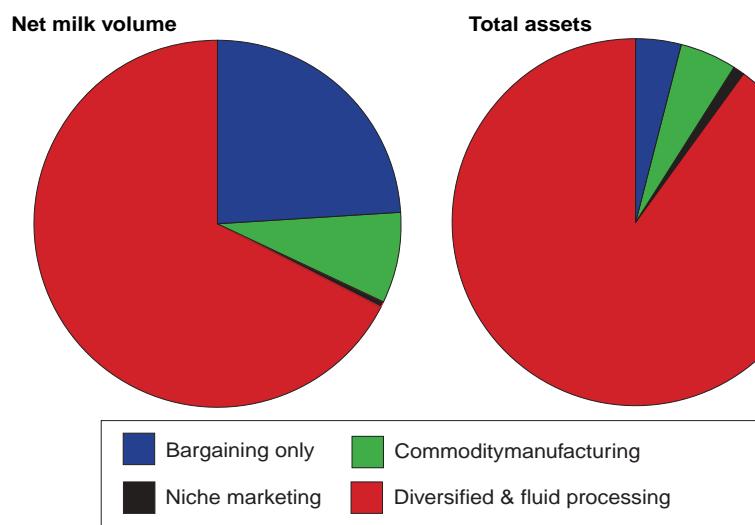
make both commodity and differentiated products.

The system of plants operated by diversified and fluid processing cooperatives and their marketing operations

### Niche-marketing dairy co-ops

Niche-marketing cooperatives typically process most of their members' milk into specialty or branded dairy products for particular market niches.

Fig. 1 Dairy cooperatives net milk volume and total assets, by operating type, 2002



required the next highest level of assets in 2002, \$8.44 per cwt. They also showed the largest increase in asset use compared to 1997's \$6.96 per cwt.

Long-term liabilities represented 30 percent of total assets, the highest level among the different operational types. Furthermore, long-term liabilities came to 90 percent of the equity members had in the cooperatives. The other operating types had ratios that were less than one-half of that.

Supply and other sales made up more than 14 percent of total income for diversified and fluid processing cooperatives, well above the level of supply and other sales of either bargaining-only or commodity-manufacturing cooperatives. Total income and net margins before tax for diversified and fluid processing cooperatives were also far above those two types and were only slightly below that of niche-marketing cooperatives.

Return on total assets was 5.3 percent, a bit below returns for commodity manufacturing cooperatives, but above the other two operating types. Diversified and fluid processing cooperatives achieved the second highest return to members' equity, 11.7 percent.

Most handle relatively small volumes of member milk and, relative to the other types, require the most assets per cwt of member milk for cooperative operations.

Assets employed in 2002, \$10.03 per cwt, were similar to asset use in 1997, \$10.07. The small volume of milk handled by most niche-marketing cooperatives diminishes their ability to capture the level of economies of size

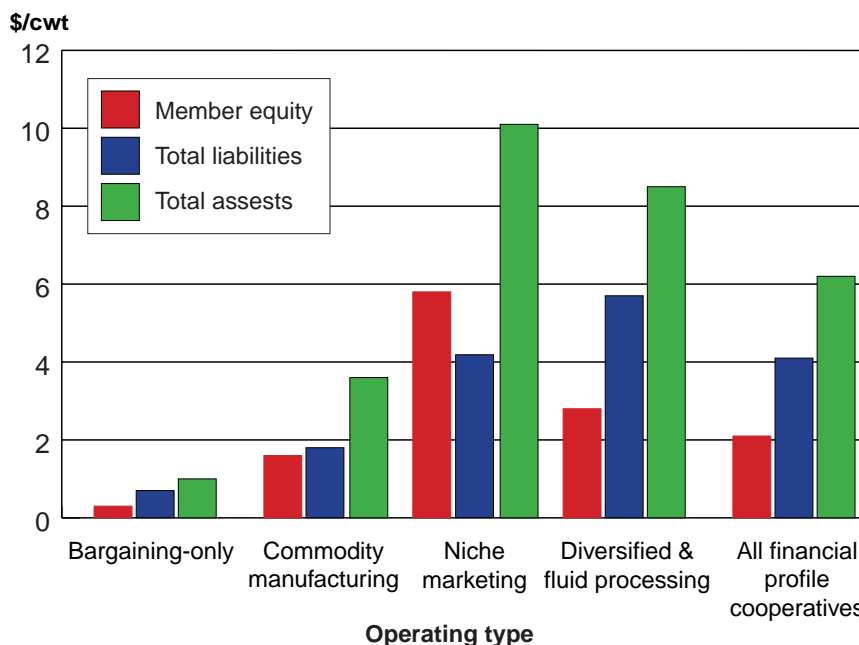
that commodity-manufacturing and diversified cooperatives do.

Niche-marketing cooperatives made the most use of member equity -- the only operating type where equity represented a majority of total assets (58 percent). Their members' investment of \$5.80 per cwt was twice as high as diversified and fluid processing cooperative members' investment in their cooperatives. Additionally, niche-marketing cooperatives, along with diversified and fluid processing cooperatives, had significantly larger total liabilities per cwt of milk than the other two types.

Niche-marketing cooperatives generated the largest milk and dairy product sales per cwt. Niche-marketing cooperatives also had the most supply and other sales per cwt of all operating types. Thus, niche-marketing cooperatives had the highest total income per cwt, \$21.94.

Niche-marketing co-ops also had the largest net margins before tax per cwt, 32 cents. Return to sales was 1.4 percent, the same as diversified and fluid processing cooperatives, and well above the other two operating types. Nevertheless, return to assets for niche-marketing cooperatives of 3.7 percent was lowest of all operating types in 2002. ■

Fig. 2 Dairy cooperative assets per cwt of member milk, by operating type, 2002.







# How does your local co-op rate?

## Beverly L. Rotan, Economist

USDA Rural Development, Cooperative Services

Another year has come and gone with some of the larger regional supply cooperatives no longer in business. How did this affect your local cooperative?

Many local cooperatives that would

have had positive net incomes had negative net incomes due to loss on disposal of investments. Has your cooperative fared better, about the same or lower compared to cooperatives with similar functions and factors, including sales, product mix, etc.?

Comparisons with other cooperatives may help to determine whether your cooperative is doing well or poorly.

The following tables can help you make industry trend and norm comparisons.

The tables shown here contain average financial data compiled from a survey of 287 cooperatives for 2002 and 2003. Fill in the blanks and compare these benchmarks with your cooperative's financial data.

So how's your cooperative doing? ■

### Compare your farm supply cooperative<sup>1</sup> with averages for cooperatives with similar functions.

Measure/Item	Unit	Size (2002) <sup>2,3</sup>				Size (2003) <sup>2,3</sup>				Your cooperative
		Small	Medium	Large	Super	Small	Medium	Large	Super	
Sell farm supplies only	Number	68	36	31	9	68	36	31	9	_____
Total assets	Mil. dol.	1.8	4.2	8.0	14.3	2.0	4.1	8.1	15.6	_____
Long-term debt	Thou. dol.	106.2	382.0	649.5	2,087.5	126.2	330.0	602.2	1,675.3	_____
Total liabilities	Thou. dol.	540.4	1,504.8	3,014.9	6,019.8	586.3	1,423.5	3,347.3	6,199.4	_____
Total sales	Mil. dol.	2.7	6.9	13.1	25.9	2.8	7.0	13.9	28.2	_____
Total service revenue	Thou. dol.	64.1	239.8	207.4	478.1	77.1	170.5	382.9	774.8	_____
Total revenue	Mil. dol.	2.8	7.4	13.6	26.8	2.9	7.2	14.5	30.0	_____
Net income (losses)	Thou. dol.	64.8	196.8	353.0	261.9	22.8	106.3	311.1	803.6	_____
Labor of total expenses	Percent	55	51	54	53	55	53	53	53	_____
Patronage refunds received	Thou. dol.	37.9	105.1	207.4	417.1	1.4	32.5	89.4	344.3	_____
<b>Liquidity ratios</b>										
Current	Ratio	2.00	1.60	1.42	1.40	2.07	1.56	1.37	1.37	_____
Quick	Ratio	0.98	0.88	0.81	0.58	0.99	0.81	0.71	0.61	_____
<b>Leverage ratios</b>										
Debt	Ratio	0.29	0.36	0.38	0.42	0.30	0.35	0.41	0.40	_____
Debt-to-equity	Ratio	0.41	0.56	0.60	0.72	0.42	0.53	0.70	0.66	_____
Times interest earned	Ratio	5.45	5.96	6.25	2.34	2.51	3.81	5.49	5.10	_____
<b>Activity ratios</b>										
Fixed asset turnover	Ratio	7.19	6.51	5.90	6.16	6.81	6.60	6.34	6.81	_____
Total asset turnover	Ratio	1.47	1.66	1.64	1.80	1.43	1.70	1.71	1.81	_____
<b>Profitability ratio</b>										
Gross profit margins	Percent	18.32	16.46	19.12	16.94	17.66	16.31	17.39	17.00	_____
Return on total assets before interest and taxes	Percent	4.55	6.02	5.71	3.60	1.90	3.70	4.98	7.40	_____
Return on total equity	Percent	6.77	9.76	9.57	4.16	2.27	5.23	9.05	11.58	_____

<sup>1</sup> 100 percent of sales were generated from farm supply sales. <sup>2</sup> Small = Sales are \$5 million or less; medium = over \$5 million to \$10 million; large = over \$10 million to \$20 million; and super = over \$20 million. <sup>3</sup> There were 287 cooperatives surveyed in both years.

## Compare your mixed farm supply cooperative<sup>1</sup> with averages for cooperatives with similar functions.

Measure/Item	Unit	Size (2002) <sup>2,3</sup>				Size (2003) <sup>2,3</sup>				Your cooperative
		Small	Medium	Large	Super	Small	Medium	Large	Super	
Market farm products and sell farm supplies	Number	10	11	21	28	10	11	21	28	_____
Total assets	Mil. dol.	1.5	4.1	8.6	22.9	1.5	3.3	8.1	22.4	_____
Long-term debt	Thou. dol.	74.2	308.3	901.2	3,218.1	181.3	243.0	725.5	2,715.0	_____
Total liabilities	Thou. dol.	504.9	1,500.5	3,491.9	11,156.2	600.7	1,310.8	3,147.4	11,035.7	_____
Total sales	Mil. dol.	3.1	6.5	13.3	38.1	2.9	6.7	13.6	45.1	_____
Total service revenue	Thou. dol.	172.3	329.1	619.6	1,660.5	116.8	249.3	646.6	1,626.7	_____
Total revenue	Mil. dol.	3.2	7.0	14.3	40.6	3.1	7.1	14.5	47.2	_____
Net income (losses)	Thou. dol.	(94.1)	83.5	320.3	518.9	28.3	75.0	206.5	588.4	_____
Labor of total expenses	Percent	52	47	52	51	54	48	52	52	_____
Patronage refunds received	Thou. dol.	(3.9)	86.1	181.4	1,660.5	24.9	92.4	33.5	197.0	_____
Liquidity ratios										
Current	Ratio	2.00	1.44	1.39	1.34	1.87	1.49	1.44	1.31	_____
Quick	Ratio	1.11	0.66	0.72	0.66	1.04	0.73	0.71	0.67	_____
Leverage ratios										
Debt	Ratio	0.34	0.37	0.41	0.49	0.39	0.40	0.39	0.49	_____
Debt to equity	Ratio	0.50	0.58	0.69	0.95	0.64	0.66	0.64	0.97	_____
Times interest earned	Ratio	-5.52	3.47	4.49	2.55	3.48	2.77	3.56	2.89	_____
Activity ratios										
Fixed asset turnover	Ratio	8.21	5.30	5.75	5.78	7.37	8.33	6.29	7.35	_____
Total asset turnover	Ratio	2.04	1.58	1.55	1.66	1.89	2.03	1.69	2.01	_____
Profitability ratio										
Gross profit margins	Percent	13.47	14.77	15.92	15.90	12.69	12.88	14.49	13.40	_____
Return on total assets before interest and taxes	Percent	-5.28	3.65	5.00	4.02	2.74	3.32	3.92	4.26	_____
Return on total equity	Percent	-14.35	4.16	8.62	5.96	4.11	5.29	5.94	6.96	_____

<sup>1</sup> 50 to 99 percent of sales were generated from farm supply sales. <sup>2</sup> Small = Sales are \$5 million or less; medium = over \$5 million to \$10 million; large = over \$10 million to \$20 million; and super = over \$20 million. <sup>3</sup> There were 287 cooperatives surveyed in both years.

## USDA awards \$22.8 million to support renewable energy

USDA Rural Development has awarded \$22.8 million in competitive grants to 167 recipients in 26 states to support President Bush's renewable energy efforts. The funds will be used by rural small businesses, farmers and ranchers to develop renewable energy systems and promote energy efficiency improvements.

"The Bush administration is committed to advancing renewable energy ventures in rural America," Agriculture Secretary Ann M. Veneman said in announcing the grants. "We have the natural resources and the ingenuity to create new forms of energy and to use it more efficiently."

Veneman said the Renewable Energy Systems and Energy Efficiency Improvements program was created as part of the 2002 Farm Bill to assist farmers, ranchers,

and rural small businesses develop renewable energy systems and make energy efficiency improvements to their operations. Under this program in 2003, the Bush administration invested \$21.7 million to develop or improve wind power, anaerobic digester, solar, ethanol and other bioenergy related systems or energy efficiency improvements in 24 states.

A large percent of the 94 renewable energy applications selected this year will support anaerobic digesters and small and large wind power type ventures. A pre-dominate number of the 73 energy efficiency grants will go to agricultural producers who will use the funds for buildings.

A complete list of the selected grant recipients and projects can be found at: <http://www.rurdev.usda.gov/rd/newsroom/news.htm>. ■

# 1890s Land Grant Institutions to use USDA funds to promote business growth, new jobs



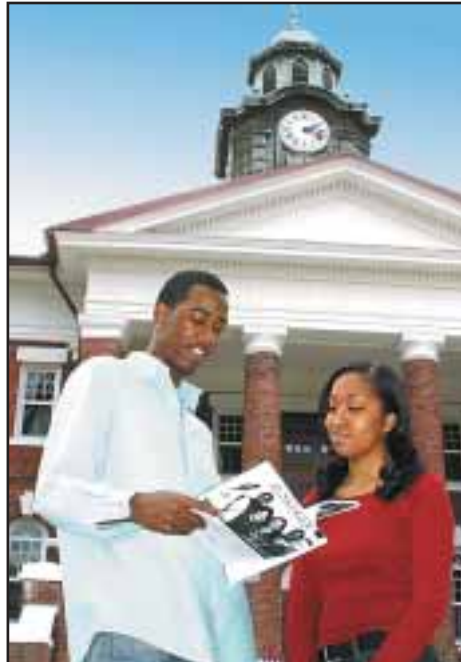
fifteen 1890s Land Grant Universities are receiving nearly \$1.8 million in business and technology development assistance

from USDA Rural Development. These funds will provide outreach and technical assistance in developing new businesses, including cooperatives, and to create employment opportunities in under-served rural communities, and to promote use of Rural Development programs.

"USDA's partnership with 1890 Institutions is critical to the development of new business opportunities in under-served areas and supports President Bush's economic plan to create jobs in rural America," said Agriculture Secretary Ann M. Veneman. "I commend the 1890 Institutions for placing a priority on integrating new technologies into local business initiatives. It is critical to the ability of entrepreneurs to compete domestically and globally."

The 1890 Institutions have some of the best agricultural science and business education programs in the nation. Through the cooperative agreement, USDA will be building upon the strength of these programs to ensure that quality education related to small business development is also available in these communities.

"Underserved communities and businesses are benefiting from the effort to match up the technical and financial resources of USDA Rural Development with the technical busi-



*Tuskegee University in Alabama (above) and the other 1890 Land Grant Universities and colleges, offer some of the best ag science and business education programs in the nation. Photo courtesy Tuskegee University*

ness expertise at the 1890 Institutions," said Agriculture Acting Under Secretary for Rural Development Gilbert Gonzalez.

Gonzalez said that USDA has a strong track record of support for such 1890 initiatives and cited two examples of how the funds have created new economic opportunity and improved the quality of life for residents in economically challenged communities. For example, the Center for Rural Life and Economic Development at Alcorn State University Entrepreneurial Outreach program has provided train-

ing and technical assistance to individuals in business and planning to start new businesses in its five-county area of Southwest Mississippi. In addition to the awards listed below, \$75,000 grants were issued to: North Carolina A&T State University; Tennessee State University; Virginia State University, and West Virginia State University.

Other funds have been allocated for the following projects:

**Tuskegee University** in Tuskegee, Ala.—\$150,000 for strengthening entrepreneurial and business development activities in the Alabama Black Belt counties and other targeted communities by providing business economic development training, technical assistance and develop information technology for business and rural development.

**University of Maryland-Eastern Shore** in Princess Anne, Md.—\$125,000 to conduct outreach and provide technical assistance to develop entrepreneurs and businesses, including cooperatives. Funds will be used to develop a micro-lending program and develop and train micro-enterprise businesses in business operations and e-commerce in cooperation with Maryland Capital Enterprises, a non-profit organization. Additionally, funds will be used to develop a network of hydroponic greenhouse growers.

**Southern University** in Baton Rouge, La.—\$150,000 to provide the residents in four rural communities and parishes (counties) with essential

*continued on page 32*





Send items to: [dan.campbell@USDA.gov](mailto:dan.campbell@USDA.gov)

### **Southern States turn-around continues with \$68-million profit**

Southern States Cooperative, Richmond, Va., continues to show financial improvement with a pre-tax profit of \$68.5 million for the fiscal year that ended June 30. The cooperative's overall results and its balance sheet benefited not only from improved operations, but also from debt restructuring that resulted in a gain of nearly \$65 million, the co-op announced. The showing represents a

major turn-around from losses in the previous three fiscal years, when the cooperative was involved in major restructuring efforts.

"In many ways, the recently completed fiscal year was the most successful in Southern States' history," said Thomas R.

Scribner, president and CEO. "The year showed that efforts to focus on our core business of production agriculture, to reduce debt

and operating expenses and to re-establish sound business principles have resulted in a successful turn-around."

The co-op closed on a new, \$265 million financing package in October, which will refinance all but a small piece of the co-op's long-term debt. In addition to paying off existing debt, the refinancing will provide one of the nation's largest farmer-owned co-ops with the capital it needs



### **1890s Land Grant Institutions to use USDA funds to promote business growth** *continued from page 31*

technical and financial services assistance through conducting seminars, entrepreneurial conferences, and provide information technology training and support services.

**University of Arkansas-Pine Bluff** in Pine Bluff, Ark.—\$135,000 to be used to provide outreach and technical assistance to develop entrepreneurs and businesses, including cooperatives. Funds will be used to focus on the creation of business enterprises that develop and/or utilize technology-based products and services, along with implementation of a business support incubator to house 12 to 15 new or start-up businesses.

**Fort Valley State University** in Fort Valley, Ga.—\$150,000 to provide services for expansion and enhancement of economic development, creation of new business and cooperative development opportunities, community development and revitalization, tourism and increased usage of computer technology.

**Delaware State University** in Dover, Del.—\$150,000 to provide sus-

tainable business and economic development efforts that meet community needs and assist in enhancing the quality of life, wealth creation and employment opportunities that will serve as a catalyst for community revitalization.

**Prairie View A&M University** in Prairie View, Texas—\$115,792 to focus on business start-up and expansion in 13 targeted rural counties. Funds will also be used to provide technology outreach services in the form of on-sight, on-hand internet/economic development seminars and to continue to provide entrepreneurship education to primarily Hispanic and African-American youth.

**Alcorn State University** in Alcorn, Miss.—\$149,608 for support and enhancement of the program "Strengthening Entrepreneurship and Small Business in Five Counties (Adams, Claiborne, Franklin, Jefferson and Wilkinson) of Southwest Mississippi."

**Langston University** in Langston, Okla.—\$149,600 for strengthening and growing rural enterprises in under-

served communities; bringing to rural entrepreneurs information about programs and services available through USDA by conducting seminars, symposiums, workshops and community meetings. Funds will also assist and support business development and growth through counseling, business planning, grant writing and loan packaging preparation.

**Florida A&M University** in Tallahassee, Fla.—\$100,000 to implement business and economic development outreach service to eight selected rural counties in North Florida who have the most economic need and to establish long-term and sustainable economic and business growth.

**South Carolina State University** in Orangeburg, S.C.—\$125,000 to provide business consulting in the area of marketing, customer service, human resource development, business management, accounting, bookkeeping, finance, and international trade. In addition, funds will be used to work with community youths to promote and encourage future entrepreneurship. ■

to focus on the future, Scribner said.

According to Scribner, progress was made in a number of key areas during the past year, including:

- continued reductions in operating expenses;
- further reductions in debt — now 70 percent below where it stood three years ago;
- customer service improvements;
- improved inventory control and efficiency at the co-op's distribution centers;
- steps to boost marketing effectiveness and efficiency;
- development of a strategic plan.

Southern States also made its first acquisition in four years by exercising an option late in fiscal 2004 to buy out Agway's 50 percent ownership of a live-stock feed mill at Gettysburg, Pa. Southern States and Agway had operat-

ed the mill as a joint venture since 1999.

Southern States serves more than 300,000 producer-members with a range of farm inputs, including fertilizer, seed, feed and pet food, animal health supplies and petroleum products, as well as other items for the farm and home. The cooperative's distribution network includes more than 1,200 retail outlets in an area that extends from Maine to the Gulf Coast and as far west as Kentucky.

#### **NCB's Top 100 Co-ops had revenue of \$117 billion**

National Cooperative Bank (NCB) reported that the nation's 100 highest revenue-earning cooperative businesses



had more than \$117.4 billion in sales in 2003. The list illustrates the vital role cooperatives play in the nation's economy, says Charles E. Snyder, NCB president and CEO.

"As the nation continues to struggle and face challenges during this difficult economic period, cooperatives continue to enrich and empower Americans everyday, providing strong returns to its members," Snyder said. "Americans are demanding dependable businesses in which they maintain a personal stake and an active role in the decision-making process."

The continued strong performance of cooperatives is especially notable, with these companies impressively rebounding from the recession and the

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## **Rabobank proposal sparks debate on role of FCS in farm & rural lending** *continued from page 16*

up over many years using GSE tax and funding advantages." Further, FCS would likely set up a new bank to serve the region "with the same advantages."

Some ICBA members are also questioning why an FCS member that exits the system should be required to pay a large fee (about \$800 million in the case of FCSAmerica) into the FCS insurance fund. Evans said American taxpayers had to "bail out" FCS during the farm crisis of the 1980s, while rural ag banks were "allowed to fail in staggering numbers, ruining many communities."

### **NFU fears "lethal precedent"**

John K. Hansen, president of the Nebraska Farmers Union, spoke on behalf of the National Farmers Union and its 260,000 family farm and ranch members. He said NFU has taken a "position of firm opposition" to the sale, and is "extraordinarily concerned" about its short- and long-term impacts. NFU fears that a "potentially lethal precedent" would be set, damaging the entire FCS network.

FCSAmerica is the second largest FCS association, and one of the system's "most stable, profitable and secure units," Hansen said. A sale to Rabobank would forever end the potential of dividend payouts to members who have "decades of equity in their own institution." The sale could shove aside FCS' Congressional mandate to assist beginning and minority farmers and to help local communities, he added.

FCSAmerica "would go from a farmer controlled and directed lender to instead being owned by the world's largest ag lender, one that lends to huge, vertically integrated industrialized operations that often compete unfairly with our family-owned farmers and ranchers."

Unlike some of the other sale opponents, Hansen indicated that caution is needed regarding proposals to broaden the FCS charter. NFU opposed the "Choice" proposal several years ago, which ultimately failed to gain traction in the farm community or on Capitol Hill. It would have allowed FCS associations to lend outside their designat-

ed territories and to take on expanded lending roles, he said.

"We were concerned that the Choice proposals could have jeopardized the Farm Credit System's tax-exempt status, promoted "cherry picking" of borrowers and reduced local services. We also opposed differential interest rates for FCS member-borrowers because they are contrary to cooperative principles."

Hansen urged that further, regional hearings be held in each of the affected states before any action is taken on the Rabobank offer.

At the conclusion of the hearing, Subcommittee Chairman Frank Lucas of Oklahoma pledged continued oversight of the FCS and FCA, adding that "I will work to ensure any future actions taken by the subcommittee are in the best interest of America's farmers and ranchers."

In mid October, Rabobank Chairman Bert Heemskerk told the *Omaha World Herald* that if the FCA should turn the deal down, the bank will look for other avenues to enter the U.S. market. ■

difficult economic situations created by times of global conflict. Unlike investor-owned firms, cooperatives are controlled by their members, the individuals who use and benefit from the goods and services provided.

Cooperatives are organized to maximize economic returns for members, not top-ranking executives or distant investors.

According to the National Cooperative Business Association, there are 48,000 cooperatives in the United States. These entities exist in a number of industries including agriculture, grocery, hardware and lumber, finance, energy and housing. Many cooperatives on the NCB Co-op 100 list are such well-known household names as Ocean Spray, ShopRite and The Associated Press.

The entire NCB Co-op 100 report, as well as additional information on cooperatives, is available at [www.co-op100.coop](http://www.co-op100.coop).

#### **WestFarm Foods names John Underwood as CEO**

John Underwood has been named president and CEO of WestFarm Foods, the \$1.3 billion dairy products manufacturing and marketing arm of Northwest Dairy Association (NDA), the fourth largest dairy co-op in the nation, with 700 dairy farm members in Washington, Oregon, Idaho and California. NDA Board Chairman Rod DeJong says Underwood's knowledge of the company and industry, his leadership skills and his performance dur-

ing his tenure as interim CEO were key factors in the 14-person board's unanimous decision. "John exemplifies the leadership skills our members want running this company," he said. "He has gained the confidence of the members, as well as our customers, suppliers and employees."

Underwood has 22 years of experience with WestFarm Foods and served as Interim CEO since April 1, 2004. In his most recent prior position, as senior vice president of the Ingredients Division, he led worldwide sales and marketing initiatives for the company's bulk cheese, bulk butter and milk powder products that generate nearly 60 percent of the company's revenue.

Previously Mr. Underwood led operations at 12 milk processing facilities in four Western states; overseen multi-million dollar capital improvement projects, from initial design through start-up; raised manufacturing efficiencies and productivity; and introduced state-of-the-art manufacturing processes.

#### **Improved milk prices give boost to Dairylea**

Dairylea Cooperative Inc. reported sales of \$962 million for the fiscal year ending March 31, up 12.95 percent from the previous year. The Syracuse, N.Y.-based co-op paid its 2,500 members \$846 million, up from \$759 million the year before. Dairy lea reported \$892,000 in after-tax profits in 2004, up from \$696,000.

Co-op President and Chairman Clyde Rutherford said high milk prices

for the first time in many years helped the co-op's performance.

Dairy lea sells its members' milk to a number of processors and provides a variety of services to them, from financing to insurance.

#### **Michigan Sugar completes purchase of Monitor Sugar**

Michigan Sugar has completed the purchase of former rival Monitor Sugar for about \$40 million. The company now becomes the nation's third largest sugar beet cooperative, with sales of about \$300 million annually.

Michigan Sugar became a co-op in 2002, when producers organized to buy the operation from Texas-based Imperial sugar. Co-op leaders say the combined company will offer many improved operating efficiencies. The co-op will now have about 1,250 grower-members, 500 permanent employees and 1,800 seasonal workers.

#### **AMPI members receiving \$11 million in patronage**

Midwest dairy producers who market milk through Associated Milk Producers Inc. (AMPI), New Elm, Minn., will share \$2.9 million in earnings. Fifty percent, or \$1.45 million, is being paid in cash, while the balance will be allocated to member equity accounts.

AMPI's annual revolvment of capital retains and previously allocated earnings are budgeted for November and December. The total earnings and equi-

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## **Biodiesel with altitude** *continued from page 6*

engines: better detergency and lubricity — eliminating the need for polluting sulfur as a lubricity additive — and generally make engines run quieter and cooler, with increased durability due to reduced formation of harmful engine deposits.

"Our fuel provides better horsepower, 5 to 10 percent better mileage, and runs cleaner, with no drawbacks or tradeoffs," says Probst. "We have truck

operators telling us that they can cut the run over the mountains from Denver to Aspen by an hour using Blue Sun."

Scott Bentz agrees; he's using Blue Sun's product for something a bit more fun — fueling a diesel-powered dragster with 100 percent biodiesel. His team first tried it out by draining the tank of conventional diesel fuel and refilling it with Blue Sun. "When we fired it up, it was like the difference

between day and night. All our best times have been on biodiesel," he says. "I don't mind saying I'm sold on the product."

Probst thinks that kind of response will fuel a growing market for Blue Sun. "This is only the beginning," he says. "When this business model proves out, we plan to set up operations in other markets across the country, too." ■



ty that will be returned to owners this year is expected to be about \$11 million.

"AMPI is assuring member-owners a fair return on equity," said AMPI General Manager Mark Forth. "Sharing the profits is one of the benefits cooperative members expect from owning the business," said AMPI President Paul Tuft, a dairy producer from Rice Lake, Wis.

#### **LO'L changes name of animal feed unit**

Land O'Lakes Inc. has changed the name of its animal feed subsidiary from Land O'Lakes Farmland Feed, to Land O'Lakes Purina Feed. "Our new name leverages our existing brand equity and honors the heritage of our two leading brands," says Robert M. DeGregorio, president, Land O'Lakes

Purina Feed. "It also communicates the importance of both brands to our membership, the cooperative system and our customers."

Land O'Lakes Purina Feed serves producers through 2,800 local cooperatives and independent dealerships across the United States. The company, in combination with its wholly owned subsidiary, Purina Mills LLC, is North America's leading feed manufacturer.

#### **Countrymark to reduce emissions at Indiana refinery**

Countrymark Co-op, Indianapolis, Ind., is investing \$40 million to build an ultra-low sulfur diesel-fuel processing facility at the co-op's refinery complex in Mt. Vernon, Ind. The project will save about 125 jobs and will meet U.S. Environmental Protection

Agency's 2006 requirements for cleaner diesel fuel, the co-op says.

"Countrymark is a Hoosier company that is keeping Hoosiers at work," Gov. Joe Kernan said at the groundbreaking ceremony. "Not only is the investment for this complex good for the community and our environment, but it also reduces our dependency on foreign oil by using Indiana materials produced by Hoosier workers."

Countrymark expects to hire 15 production workers and up to five more technical employees at the Mt. Vernon refinery as a result of the new complex. The Co-op currently has 230 workers in Posey County and supports an additional 70 jobs through its statewide member network in the management, sales and delivery of diesel fuel and gasoline. ■

## **Plug pulled on FCSA sale; Webster resigns as CEO**

Bowing to a rising tide of opposition, the board of Omaha-based Farm Credit Services of America (FCSAmerica) in October announced that it was ending its proposal to sell the co-op bank to Netherlands-based Rabobank. That announcement was followed about two weeks later by the news that Jack Webster had resigned as CEO of FCSAmerica.

FCSAmerica has decided to go it alone at least for the time being, having also rejected a counter merger proposal from AgStar Bank of Minnesota. Some said that offer was preferable because it would have kept FCSAmerica as part of the Farm Credit System.

Webster, who had pushed for the sale to Rabobank, issued a statement saying that "For this company to move forward, the board and I felt it was in the best interest of this organization to continue to grow under new leadership."

FCSAmerica Chairman Paul Folkerts said he believes the sale would have provided greater opportunities for farmers and ranchers, but that ultimately the board decided "that it was not in the best interests of FCSAmerica to move forward with the transaction."

The proposed sale had sparked intense grassroots opposition from farmers and ranchers, which was spearheaded by a coalition of FCSAmerica stockholders who formed Farmers for Farm Credit (FFFC) to block the sale. A Congressional hearing was held Sept. 29 in Washington D.C. to examine

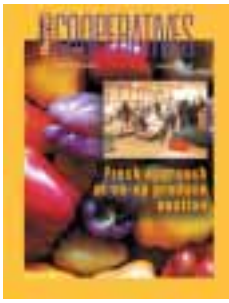
the proposed sale and related issues (see page 13).

"This decision is a clear and important victory for stockholders," said FFFC Chairman Myron Edleman, a South Dakota cattleman.

"They tried to sell our association for less than half its value, and farmers would have lost ownership and control," added FFFC Co-Chairman Alan Dillman. "And at least 80 percent of our shareholders didn't want their loans transferred to a foreign bank," he added, referring to a poll of about 700 FCSAmerica stockholders.

Opposition was based both on the price being offered, which Rabobank had boosted from \$600 million to \$750 million, and on the potential impact it could have had on the rest of the nation's Farm Credit System banks.

"We are disappointed by the decision of FCSAmerica's board, given that we had significantly increased our offer in order to clearly demonstrate our commitment to completing the transaction," said Cor Broekjuyse, head of Americas for Rabobank International. "We strongly believe our partnership would have offered tremendous benefits to FCSAmerica customers in terms of new products, improved services and, of course, a considerable financial payment to stockholders." He said the board's decision has denied stockholders the right to vote on the proposal (stockholders and the Farm Credit Administration board both would have had to approve the sale). ■



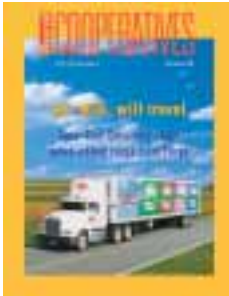
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Information appearing in *Rural Cooperatives* magazine during calendar year 2004 has been indexed to help you find past articles. Articles are indexed by month and page. Back issues can be found on-line at [www.rurdev.usda.gov](http://www.rurdev.usda.gov).

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CIR 45-1 -	The American System of Business
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CIR 45-4 -	Who Runs the Co-op? Members
CIR 45-5 -	Who Runs the Co-op? Directors
CIR 45-6 -	Who Runs the Co-op? General Manager and Employees
CIR 45-7 -	Financing Cooperatives
CIR 45-8 -	Income Tax Treatment of Co-ops

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CIR 45-9 -	Legal Foundations of a Cooperative
CIR 45-10 -	Strategic Planning
CIR 45-11 -	Co-op Business Management Functions
CIR 45-12 -	Base Capital Financing of Cooperatives
CIR 45-13 -	Farmer Cooperative Statistics (Not available in printed form)
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