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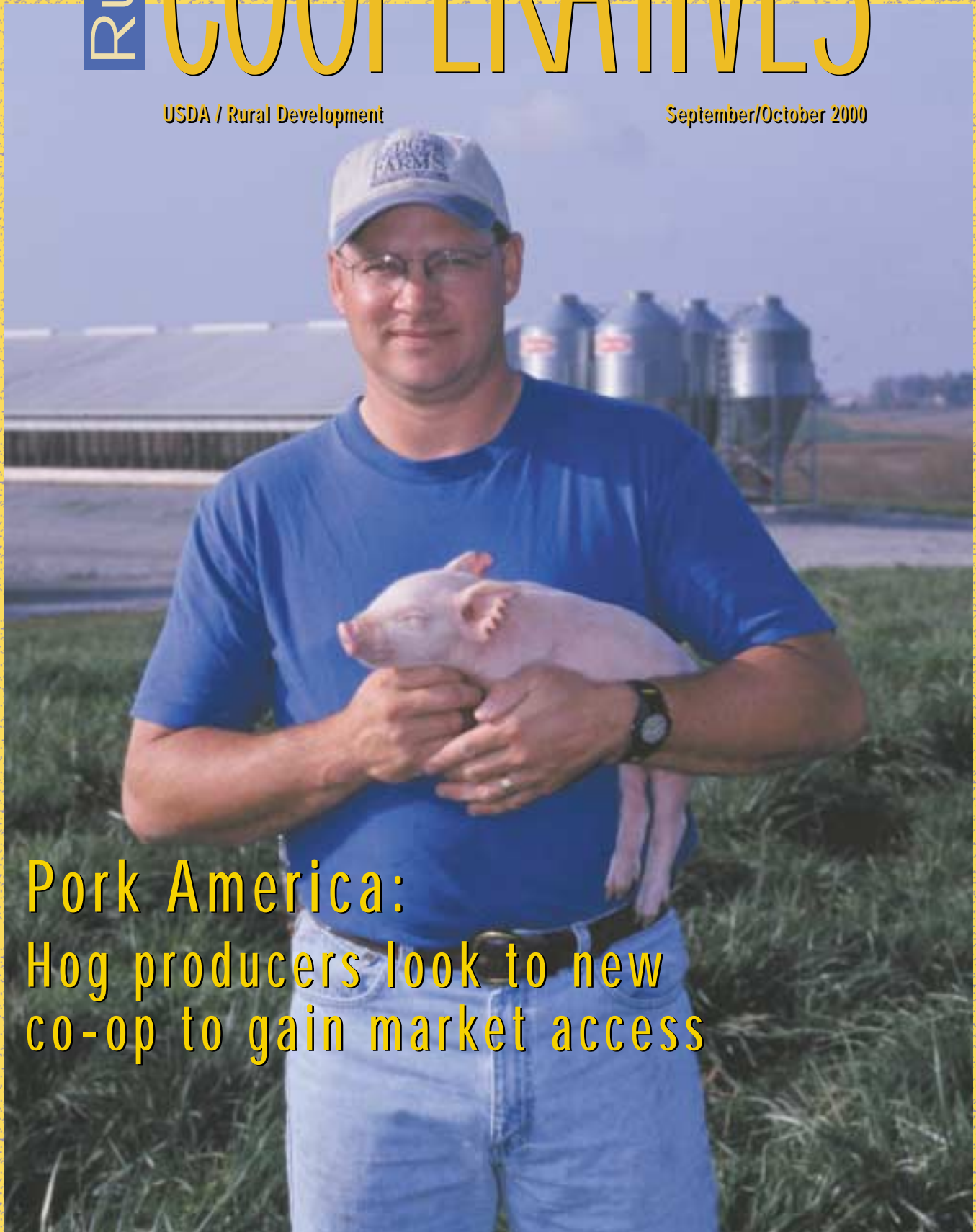
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# Rural COOPERATIVES

USDA / Rural Development

September/October 2000



**Pork America:**  
Hog producers look to new  
co-op to gain market access

## Cooperatives: Getting the Job Done

America observed National Cooperative Month during October, a time when we pause to consider the impact of user-owned and controlled businesses on virtually every city, town and village across the nation. There are about 48,000 cooperatives in the United States generating more than \$500 billion in annual economic activity.

Whether it's a credit union providing consumer loans to members, a day-care cooperative providing affordable child care, a farmers' co-op that sells supplies or processes and markets its members' crops, or a rural utility co-op that meets the energy and telecommunications needs of rural communities, cooperatives are getting the job done.

The U.S. Department of Agriculture has been assisting rural Americans in forming and improving the operations of cooperatives for 74 years, and we continue in that role today under the banner of USDA Rural Development. In addition to USDA's traditional role supporting co-ops with technical assistance, research and educational materials, a major thrust of the past five years has been to expand USDA's rural business programs to help launch new cooperatives and to expand the operations of existing cooperatives.

A major emphasis of this effort has been to help finance farmer co-ops that process their members' crops and livestock, thus keeping more of the value-added profits at home in rural America. In 2000 alone, USDA provided nearly \$100 million in financing for agricultural cooperatives. That's up from \$29 million in 1998.

Farmers who transition from being producers of a commodity to being owners of a co-op that processes crops into value-added products stand a bet-

ter chance of surviving the cyclical downturns in the farm economy that have mercilessly reduced the ranks of the nation's family-owned farms.

Last May, Congress enacted the Agricultural Risk Protection Act, which includes provisions for a new grant program to provide assistance to producers in marketing value-added agricultural commodities. This legislation compliments USDA's efforts to bolster farmer-owned cooperatives. The Act also provides for a pilot project to develop a resource center to coordinate research, data, business, legal, financial and logistical operations involved in developing markets for new products. The latter is similar to the incubator concept that is being used widely in providing the foundation for new high technology business ventures.

In enacting this provision, Congress recognizes that American producers are without parallel in the production of agricultural commodities, but frequently lack the experience and knowledge needed to successfully market their products. This is particularly true when developing new markets for new value-added products.

A strong rural infrastructure is also critical to the nation's future. USDA Rural Development provided about \$2 billion last year to help finance the expansion and maintenance of the nation's rural electric systems, most of which operate as consumer-owned cooperatives. It provided about \$1.5 billion to build rural water/wastewater and telecommunications systems. The later program now includes efforts to spread the Information Superhighway and Distance Learning and Telemedicine services throughout rural America.

We are currently working with other



lending institutions to provide more funds to speed the construction of combustion turbine generators to help meet peak energy demands in many parts of the nation. Rolling gray-outs and black-outs and sharp peaks in energy prices that impacted some areas last summer underscore the need for this effort. USDA is also working to finance more renewable energy sources — including wind turbines and solar power — to lessen the nation's dependence of expensive foreign oil.

If you want to learn more how USDA can help your co-op, or help you form a co-op, call our national cooperative office at (202) 720-7558, or call (202) 720-4323, then press "1" to be connected to your USDA Rural Development state office. You can also visit our website at: [www.rurdev.usda.gov](http://www.rurdev.usda.gov), which includes more than 100 cooperative publications and past issues of "Rural Cooperatives" on-line.

*Jill Long Thompson*

Jill Long Thompson,  
Under Secretary USDA Rural Development



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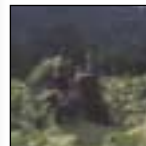
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### *On the Cover:*

*Gary Ledger is a hog farmer in Williamsburg, Iowa, and a board member of the new Pork America cooperative. He and many other like-minded producers say that without a strong, national marketing cooperative, producers' ranks will continue to be decimated by market downturns. Story on page 6.*  
Photo for USDA by Mark Tade, Cedar Rapids Gazette



# Lower commodity prices cause drop in co-op sales

*Farmer-owned co-op assets hit record \$47.7 billion*

**Editor's note:** Information for this article was compiled by the statistics staff of the Rural Business-Cooperative Service, a division of USDA Rural Development: Charles A. Kraenzle, Celestine C. Adams, Katherine C. DeVille, Jacqueline E. Penn and Ralph M. Richardson.

The nation's farmer-owned cooperatives experienced a drop in both sales and income in 1999, reflecting a general, 9-percent downturn in farm commodity values. However, cooperatives' combined total assets reached a record-high \$47.7 billion, 2.4 percent (\$1.1 billion) more than in 1998.

The 3,469 farmer cooperatives surveyed by USDA account for nearly one-third of U.S. farm output and farm supply sales.

Total cooperative business — which includes receipts from the sale of crops, livestock, farm supplies and services — was \$100.1 billion in 1999, down 4.4 percent from \$104.7 billion in 1998 (table 1).

A 19.2-percent (or \$4.1 billion) decline in the value of grains and oilseeds marketed and sharp drops in feed and fertilizer prices were among the major causes for the decrease.

Cooperative-provided services (such as cotton ginning, livestock breeding, trucking, etc.) and miscellaneous income was a bright spot in the sales picture, rising an impressive 12.1 percent, to nearly \$3.9 billion. Dairy co-ops also bucked the downtrend, with a 3.8-percent gain in sales to \$26.3

**Table 1 — Farmer Co-ops' Net Business,<sup>1</sup> 1999 and 1998**

Commodity or function	1999	1998
<b>Products marketed:</b>		
	Million dollars	
Cotton	2,083	2,961
Dairy	26,287	25,329
Fruits and vegetables	9,707	9,391
Grains and oilseeds <sup>2</sup>	17,196	21,291
Livestock and poultry	9,530	9,555
Rice	912	932
Sugar	2,514	2,445
Other products <sup>3</sup>	<u>4,420</u>	<u>4,737</u>
<b>Total</b>	<b>72,650</b>	<b>76,642</b>
<b>Supplies sold:</b>		
Crop protectants	3,082	3,166
Feed	4,639	5,405
Fertilizer	4,834	5,170
Petroleum	6,388	6,616
Seed	781	732
Other supplies <sup>4</sup>	<u>3,795</u>	<u>3,462</u>
<b>Total farm supplies</b>	<b>23,518</b>	<b>24,551</b>
Related-services <sup>5</sup> and other income:	<u>3,894</u>	<u>3,473</u>
<b>Total</b>	<b>100,062</b>	<b>104,667</b>

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

<sup>1</sup> Excludes inter-cooperative business. Volume includes value of products associated with cooperatives that operate on a commission basis or bargain for members' products.

<sup>2</sup> Excludes cottonseed.

<sup>3</sup> Includes dry edible beans and peas, fish, nuts, tobacco, wool and other miscellaneous products.

<sup>4</sup> Includes building materials, containers, hardware, tires-batteries-accessories (TBA), farm machinery and equipment, food and other supplies.

<sup>5</sup> Includes trucking, ginning, storage, artificial insemination, rice drying and other.

*The 3,469 farmer cooperatives surveyed by USDA account for nearly one-third of U.S. farm output and farm supply sales.*

**Table 2 — Farmer cooperatives' net income,<sup>1</sup> 1999 and 1998**

Cooperative type	1999	1998
<b>Marketing:</b>	<b>Million dollars</b>	
Cotton	69.9	64.0
Dairy	303.9	447.2
Fruit and vegetable	99.7	76.9
Grain and oilseed	323.7	441.4
Livestock and poultry	62.1	-71.2
Rice	6.1	7.3
Sugar	-19.3	-12.1
Other marketing <sup>2</sup>	<u>94.5</u>	<u>64.0</u>
<b>Total</b>	<b>940.6</b>	<b>1,017.5</b>
<b>Farm supply</b>	<b>350.5</b>	<b>578.8</b>
<b>Related-service<sup>3</sup></b>	<b>105.7</b>	<b>146.0</b>
<b>Total</b>	<b>1,396.7</b>	<b>1,742.3</b>

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

<sup>1</sup> Net income less losses and before income taxes.

<sup>2</sup> Includes dry edible bean and pea, nut, tobacco, wool, fish and miscellaneous marketing cooperatives.

<sup>3</sup> Includes trucking, ginning, storage, artificial insemination, rice drying and other.

billion in 1999. Also posting an increase were fruit and vegetable co-ops, up 3.4 percent to \$9.7 billion.

Co-ops realized \$72.7 billion from marketing farm commodities (selling, bargaining for and/or processing members' crops and livestock) and \$23.5 billion from the sale of farm supplies (including fertilizer, crop protectants, seed, feed, etc.).

Total net income of \$1.4 billion for farmer cooperatives in 1999 was down 19.8 percent from \$1.7 billion in 1998 (table 2) — the lowest level since 1993 and well under the record of \$2.36 billion set in 1995, according to data compiled by the Rural Business-Cooperative Service of USDA Rural Development. Cooperatives earned \$940.6 million in net income from marketing farm commodities and value-added goods in 1999, a decline of 7.6 percent; they earned \$350.5 million from farm supply sales, 39.4 percent less than in 1998.

The number of U.S. farmer-owned cooperatives dropped to 3,469, down from 3,651 in 1998, reflecting the ongoing trend of mergers, consolidations, acquisitions and dissolutions.

Memberships in farmer cooperatives totaled 3.19 million in 1999, down 4.8 percent from 1998. The number of memberships is larger than the number of farms (about 2 million) because many farmers belong to more than one cooperative.

Agricultural cooperatives are major sources of jobs in both rural and urban areas, employing 172,814 full-time workers in 1999. ■

# Last train leaving?

*Some say Pork America represents best, and possibly last, chance for hog farmers to gain significant market access*

By James Matson and  
Brad C. Gehrke, Ag Economists  
*USDA Rural Development*

*Editor's note: The authors have served as USDA Rural Development's technical assistance team advising Pork America leaders on cooperative development issues.*

**I**n December 1998, an over-supply of market-ready hogs collided with the nation's limited slaughter capacity, causing pork prices to collapse to the lowest level in nearly 50 years. The average producer's portion of retail pork value plunged to 12 percent, down from 39 percent in 1997. The situation has left pork producers grappling for ways to secure a larger stake in the pork marketing chain. Their goal: to share in the returns from the other 88 percent of retail value of the \$36 billion pork industry. Many are looking to cooperatives — including the new Pork America cooperative — as the best way to ensure market access for independent producers and share in returns generated beyond the farmgate.

## Crisis for pork producers

"Producers lost between \$4 billion and \$5 billion of equity in the last go-round," said Linden Olson, secretary-treasurer of Pork America, a producer-owned cooperative which seeks to help producers gain a stake in marketing their products. "The factors that brought about the price collapse of 1998 and 1999 have not changed," he continued. "In fact, those forces may have consolidated and strengthened. The possibilities

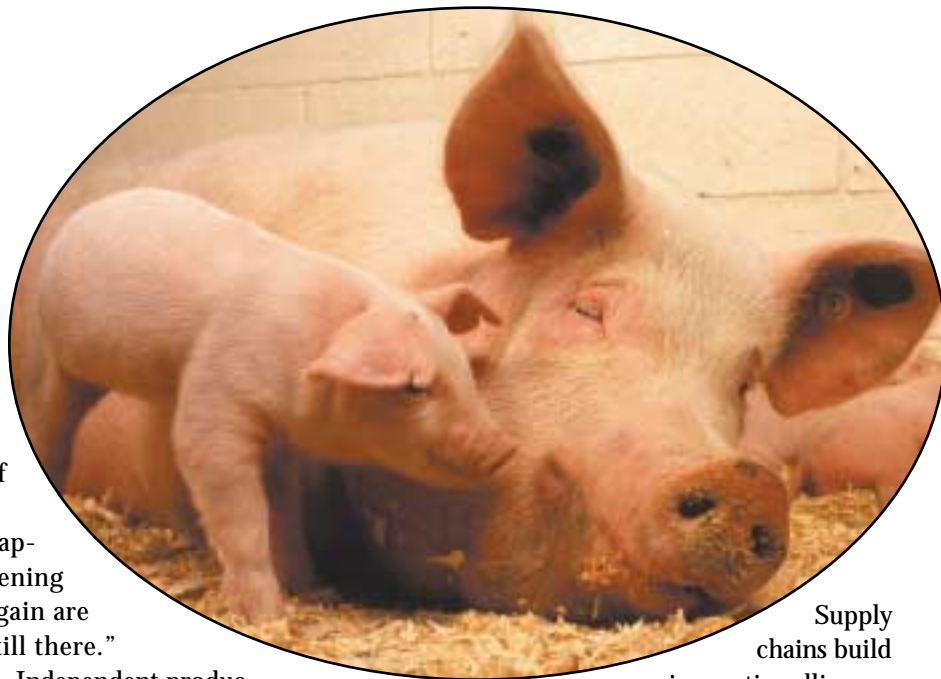
of it happening again are still there."

Independent producers suspect that the 1998-99 market crisis has accelerated the trend toward fully integrated production, as occurred in the U.S. chicken industry in the 1960s. Independent operations are often as technically sophisticated and efficient as integrated production units. In addition, they are predominantly family owned and operated. However, many of these producers question their ability to remain in the industry under these market conditions. These fears may not be unfounded.

The number of pork producers has fallen from nearly 3 million in 1950 to less than 100,000 in 1999. In 1997, 40 percent of hogs were farrowed and 44 percent were finished through some form of production contracting.

Estimates show that 74 percent of hogs were marketed by means other than spot markets in January 2000. This number rose from 59 percent in just two years. Independent production sold into spot markets is not the wave of the future.

Pork supply chains — vertically coordinated systems extending from the genetic base of a herd to retail sales — have emerged as the industry model.



Supply chains build innovative alliances

among vertical units in the market channel with the objective of delivering greater consistency, quality, specificity and reliability to meet or exceed the end user demands.

Despite the expansion of supply chains by investor-owned firms, opportunities still exist for independent pork producers to thrive and prosper. Growth of global markets offers tremendous potential for the U.S. pork industry. The Meat Export Federation estimates that worldwide pork trade will increase 36 percent during the next 10 years. The U.S. pork industry, with the world's lowest cost of production, is positioned to capture a significant part of this expansion.

Nonetheless, independent producers cannot simply manage input costs and expect to remain competitive in the supply chain model. Racing to the bottom of the long-run average cost curve is not the answer for these producers. The economic crisis presents an opportunity for independent producers to band together and form producer-owned supply chains that will increase their competitiveness.

Olson believes "control is not going



to come through the ability to negotiate individual contracts with packers. It's going to be joining with other producers and having leverage in the marketplace." Marvin Hayenga, Iowa State University economist, and others echo these producer concerns: "Access to markets for independent producers is limited, especially outside the Midwest. They face the decision of becoming linked with packers either individually or via cooperative processing or marketing initiatives, or of becoming residual suppliers inherently bearing more risk."

Producers and analysts both feel that independent pork producers must move up the value chain to capture a greater share of the consumer's pork dollar.

### Potential for co-op formation

Increased pork consumption is partially the result of efforts by those independent producers who now are residual suppliers. Producer-funded programs, including the National Pork Producers Council's "other white meat" campaign, were designed to increase demand. Independent producers, however, have not been able to take advantage of the market opportunities these programs created.

Historically, livestock producers,

especially pork producers, have participated in cooperative marketing efforts to a lesser degree than other agricultural producers. Evolving industry structure and recent market conditions might change this. In the past 12 months, independent producers have officially incorporated several organi-

*"The factors that brought about the price collapse of 1998 and 1999 have not changed."—Linden Olson*

zations and many more are considering the formation of cooperatively owned pork marketing businesses.

The cooperative concept can directly address many of the challenges facing today's independent pork producers. "Valued-added cooperatives can provide producers with the tools required to capitalize on increasing world demand for U.S. pork," said Earl Dotson, vice president of research, environment and production research for the National Pork Producers Council (NPPC). He feels that "cooperatives can help restore

the profitability of independent producers and keep them in pork production into the 21st century."

Agricultural economists at Purdue University, including Don Paarlberg and Michael Boehlje, support the need for livestock marketing cooperatives. "Cooperation and pooled production and marketing appear to be key to offsetting the impacts of consolidation and integration in today's pork industry." They recognized, however, that "the livestock producing community has little experience and expertise in using these alternatives and will likely need public policies and assistance to get them functioning."

The primary objective of cooperative pork marketing is to increase market access for independent hog producers, and allow them to participate in additional levels of the marketing chain to increase their net returns. Despite increased interest in cooperative initiatives, the economic inefficiency of many separate, uncoordinated efforts may still leave independent producers at a disadvantage compared with larger investor-owned firms.

### Task force studies potential

The NPPC's board of directors recognized this and decided to explore the potential of a national cooperative. Al Tank, NPPC chief executive officer, says, "Doing nothing is not an option. Producers cannot stand a repeat of this crisis..." In the spring of 1999, the NPPC formed a 15-member Cooperative Task Force to study the viability of a national cooperative. Jack Rundquist, a producer who was instrumental in the formation of the Hog Inc., a regional pork producer cooperative, headed this effort. The task force requested technical assistance from USDA Rural Development, which assigned two economists to work with them.

The closest available models on which to base a national cooperative were found in the U.S. dairy and the Danish pork industries, but both of these groups had achieved their national scope through more than 100 years of evolution. The NPPC staff and USDA advisors worked with the task force to

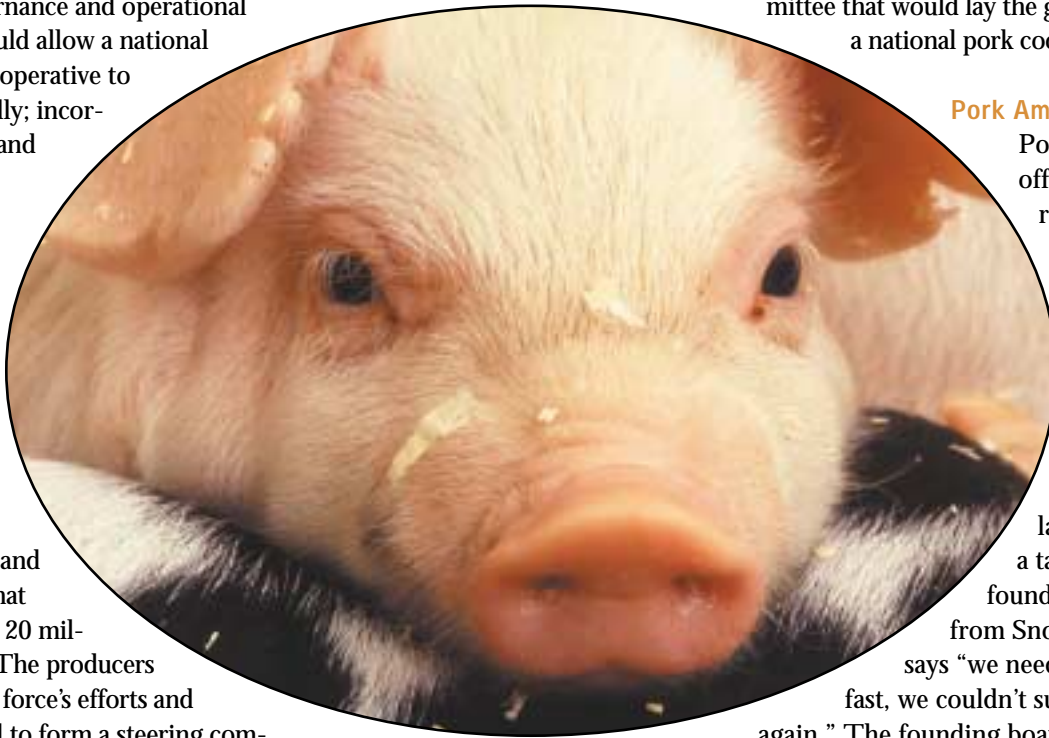


The number of pork producers in the United States has fallen from about 3 million in 1950 to fewer than 100,000 today. USDA Photos (pages 6, 7 & 8)



explore both governance and operational structures that would allow a national pork marketing cooperative to function successfully; incorporate local, state and regional groups as members; and be responsive to the rapidly restructuring pork industry.

Last November, the task force presented its findings to a gathering of more than 50 producers and producer groups that represented nearly 20 million market hogs. The producers supported the task force's efforts and unanimously voted to form a steering com-



mittee that would lay the groundwork for a national pork cooperative.

### Pork America emerges

Pork America was officially incorporated less than a month later, on December 29, 1999, as a stock company under Minnesota's favorable cooperative law. John Adams, a task force and founding member from Snow Hill, N.C., says "we needed to move fast, we couldn't survive \$8 hogs again." The founding board consisted of

## Small co-ops and marketing groups formed in wake of hog crisis

By Jeff Jobe, Director, Cooperative Services  
*USDA Rural Development, Iowa*

In the midst of the nation's largest hog producing region, not all producers are thinking big. Forced by the disastrously low prices of 1998, many pork producers began a desperate search for ways to retain more pork-generated dollars in their pockets. In Iowa and Nebraska, this has meant that many family farm pork producers are finding ways in which they can skip the middleman and sell pork directly to the consumers. Many are forming cooperatives or quasi-cooperative businesses. Here are some examples of what producers in Iowa and Nebraska are doing.

**Eden Farms** — Kelly and Nina Biensen are selling high-quality Berkshire pork produced in Iowa. Pork is sold directly to white-tablecloth restaurants in Des Moines, Chicago and Dallas. Eden Farms pork has been featured in articles in the *New York Post* and *Wall Street Journal*. Eden Farms uses a USDA-inspected plant to slaughter its hogs. The pork is then delivered to various processors for further processing. Eden Farms currently has more than 20 different products. The Biensens have developed a long list of fine restaurants in the Des Moines area serving Eden Farms pork.

**Delaware County Meats** — This group of family farm pork producers grew out of the Delaware County Economic Development Value-Added Agriculture Committee. Delaware County Meats has developed nine ready-to-eat products and two types of bratwurst. Recipes for their products were developed with the assistance of Terry Kerns of the Edgewood Locker. Product is currently being marketed through Nash Finch Co. food stores and at local food institutions.

**Tabor Family Meats** — Is a family-owned business that is selling top-quality pork directly to consumers. The hogs are raised in open lots, and are given no growth hormones or antibiotics in the finishing stages of production. Pork is sold either in individual packages or in 12-45 lb. bundles.

**Audubon County Family Farms** — Is a group of five small family farmers in Audubon County, Iowa, eager to share their heritage and production from their family farms. Pork is processed locally in a state-inspected locker facility and sold directly to consumers in individual packages or bundles. Audubon County Family Farmers also sells chicken, honey and beeswax candles.

**Northstar Neighbors** — Is a group of small farm producers,

eight members from six states with Jack Rundquist, of Butler, Ill., as chairman.

The board asked USDA to continue providing technical assistance and guidance during the cooperatives start-up operations.

Jim Lewis, Pork America's vice chairman and a hog producer from Welcome, Minn., described the cooperative as "a national umbrella organization that will facilitate and coordinate among local and regional groups, as well as individual producers. The cooperative will act as a resource center for activities related to production, delivery, and marketing of hogs." Lewis said that in this capacity, Pork America will address future research and development needed to assure that the cooperative provides quality products precisely targeted to the needs and wants of consumers and end users.

One of Pork America's first decisions was to conduct an in-depth strategic study. This market plan was partially financed through a cooperative agreement with USDA. Don Senechal, of Senechal, Jorgenson, Hale and Company (SJH), which was hired to conduct the study, said, "This has more upside potential than any other plan SJH has worked on."

The study identified two keys for success:

- *First, the organization must be market driven* — Pork America must develop innovative, dynamic models to meet market demand, and penetrate the market with solid deal making, through-the-chain alignment and carefully structured producer-to-consumer coordination;

- *Second, Pork America must be a significant national player* — this depends on the ability to control, participate in, drive and create pork-based food activities on a very significant scale, by participating in the top tier of the industry.

Nonetheless, the scope of the project may have slowed membership recruitment efforts. "We didn't quite realize how difficult it was going to be, to get everything done on a legal basis," Olson says. "A national cooperative had never been done like this before. Most of the other national cooperatives had come together as a result of mergers of regional cooperatives. We're starting something really new."

Pork America's initial activities included its Foundation Membership

located around the former town of Northstar, Neb. Northstar Neighbors sells farm-fresh meats directly to consumers or through farmers markets in Lincoln, Grand Island and Omaha. Products can also be shipped by mail. Newsletters are mailed to customers, asking them to place orders, and then designating a time and place to pick up their purchases.

**Nebraska Farmers Choice** — This cooperative is being formed to market and process members' pork for a greater profit. It has completed a feasibility study and is developing a business plan to begin operations.

**Iowa Premium Pork Co.** — This cooperative was formed as a result of a task force initiated in December 1998 by the Iowa Pork Producers Association. The task force was charged with determining whether independent Iowa pork producers could increase their profitability through cooperative marketing of their products. Iowa Premium's initial focus will be on developing joint ventures with existing packers or processors. In the first phase of operation, the cooperative will provide marketing services to its members, and will also begin gathering carcass information on members' hogs to assist the cooperative in targeting marketing opportunities. Iowa Premium Pork Co. currently has more than 1,400 members.

**Family Quality Pork Processors** — Was formed as a result of a task force formed in January 1999 by the Nebraska Pork

Producers Association to determine whether independent Nebraska pork producers could increase their profitability through cooperative marketing of their products. The group is studying the feasibility of building and operating a small pork processing plant for marketing under its own label. Family Quality Pork Processors . . . currently has 105 members.

• • •

USDA Rural Development is often contacted by producer groups that indicate they want to sell 30,000 hogs per year directly to consumers. However, they have no idea as to the size of market they must have to sell 30,000 hogs.

USDA makes rough calculations to determine the number of consumers required to support such an enterprise, which tends to bring producer groups back to the reality that it may take years of hard work to develop the type of market they desire.

As a result of these many inquiries, USDA Rural Development and Iowa State University Extension's Value-Added office contracted with the Center for Industrial Research and Services (CIRAS) to develop a value-added pork manual. The manual is available to the public over the web at: [iowaagopportunity.org](http://iowaagopportunity.org). Call (515) 294-5008 if you need a hard copy. The manual provides producer groups with the tools necessary to determine if niche-marketing their own pork is feasible for them. It also outlines the steps necessary for producers to develop their own value-added business. ■



# Kentucky hog co-op to explore value-added alternatives

By Bill Brockhouse, Agricultural Economist  
*USDA Rural Development*

The Central Kentucky Hog Marketing Association (CKHMA) got off the ground in 1991. USDA Rural Development provided the group with technical assistance to help in its formation.

The hog producers who formed the cooperative began shipping truckloads of hogs to a local packer. This was less expensive than shipping individually and the 25 members were also able to negotiate a better base price with the packer.

Even though some members have retired, the cooperative is marketing more hogs now than when it was formed. This year the cooperative will sell more than \$2 million worth of hogs and continues to expand the services that it offers to its members.

In 1991, producers didn't realize how the cooperative would help them in other ways. For example, in December of 1998, when the hog-price collapse was at its worst, CKHMA hog shipments were never turned away by their packer, as were shipments from some other small-scale producers.

The cooperative's leadership was instrumental in starting Pork America. Two of CKHMA's members are founding members of the board of directors for Pork America.

The members perceive supply chain management and industry integration as potential threats to future viability as independent producers. To combat this, the producers are receiving technical assistance from USDA Rural Development to study the feasibility of further value-added activities for the cooperative. Their experience in developing their own cooperative is invaluable as they move on to a bigger project. ■

drive, which closed June 30. These members receive priority to participate in all future Pork America projects. Foundation members are from 17 states, and include individual producers and 30 regional and local pork producer groups.

About 10 million hogs, approximately 10 percent of the U.S. total, are produced by Pork America's members. Pork America is accepting members from states where it is registered, and continuing to pursue Securities Exchange Commission (SEC) registration in other states.

"The model we are building — the virtual, vertical food company — is somewhat unique," said John McNutt, hired as director of development for Pork America after completing his term as NPPC president. "It will primarily operate by undertaking activities through partnerships, alliances, contractual production, brokerage programs and other arrangements."

Jim Lewis feels that "success in these types of ventures generally comes from good management, a thorough understanding of the industry and significant control of at least one vital segment of the industry. Our ultimate goal as a vertical food company is to participate in every segment of the business. Sharing in the risks and rewards of our cooperative value-added enterprise."

Pork America recognizes that it may require some innovative financing. If producers had considered a cooperative option prior to the economic crisis, Olson says "...the lost equity could have bought all the processing facilities in the United States; we could have controlled the whole thing."

Board members believe that the equity needed to enter the industry on the scale advocated by the SJH study may exceed the liquid capital pork producer members can generate. However, they feel that Pork America's leveragable asset is hog production — and the control of that production through the market chain. "We have \$4 invested in production facilities for every dollar they have in processing; we need to use that leverage," Olson says.

If these financing hurdles can be overcome, Pork America and its independent pork producers believe it will be able to operate successfully — generating sustainable income for producers and retaining those producers and their operations as viable rural businesses.

Pork America has identified five strategies to achieve these goals:

- Increase efficiency by improving producer-to-consumer information flow;
- Coordinate production, processing and marketing through real-time internet-based information management systems;
- Develop systems and partnerships to sell as close to retail consumers as possible, including development of an independent producer brand;
- Avoid head-to-head competition with existing



large players by identifying and supplying underserved segments and niches; and

- Support new and existing producer groups and return profits to the local level by developing and supporting pork merchandising opportunities.

Not everyone in the pork industry feels that Pork America can succeed. In the June 18 *Des Moines Register*, Jerry Perkins recounted his interview with Smithfield Foods chief executive Joseph Luter III. Smithfield Foods is the largest pork processor in the world and is an investor-owned firm. Luter predicted that farmer-owned pork marketing organizations will fail. Luter declared, "They'll have their head handed to them... The idea that a bunch of farmers are going to get together and build a plant and make money is laughable."

Thousands of independent producers from other agricultural sectors, though, have clearly shown that "a bunch of farmers" can succeed in creating and operating viable busi-

nesses to participate in value added beyond the farmgate. Charles Kraenzle, director of the Cooperative Services Statistics Division at USDA Rural Development, reports that nearly one-third of all U.S. farm commodities and products were marketed through cooperatives in 1998. Leading the way were dairy cooperatives, marketing 86 percent of U.S. milk and milk products.

Whether the efforts of Pork America or other recently organized pork cooperatives prove Luter right or wrong remains to be seen. Still, despite the high level of risk, independent pork producers are motivated by the stories of new-generation cooperatives such as the Dakota Growers Pasta cooperative. The prospect that producers can form a cooperative, build a plant, and develop a producer-owned business that is among the three largest pasta manufacturers in the United States is tempting when the only other palatable alternative is exiting the industry.

As John McNutt said, "Pork America may be the last train leaving the station for independent pork producers." ■

## Finding new ways to market 'this little piggy'

By Joe Folsom, Program Director  
*Community and Cooperative Development*  
*USDA Rural Development, Minnesota*

The small group of Minnesota hog producers who formed Prairie Farmers Cooperative has developed a strategy to take advantage of a segment of the pork market not being served by the larger meat processors.

The cooperative is committed to delivering a high-quality pork product through a new, 72,000-head-per-year slaughtering/processing facility with:

- a shorter time interval from slaughter to delivery;
- a pricing mechanism that reflects the quality of primal cuts from each producer's hogs;
- information transfer on production and genetics that enhances product quality and service;
- flexibility in providing a value-added product mix of fresh and processed products, including meeting requests for specialized products and packaging.

Pork cut, wrapped, labeled and ready for the grocery case is an example of a fresh product designed to meet the needs of a retail store without a meat cutter.

High-quality, custom pork products such as barbecued pork, sausages and precooked products using proprietary recipes will be high-margin activities for the cooperative.

"The flexibility gained from small-scale plant operations provides an opportunity for the cooperative to serve niche market areas rejected by the larger processors," says Kevin Edberg, marketing director for the Minnesota Department of Agriculture.

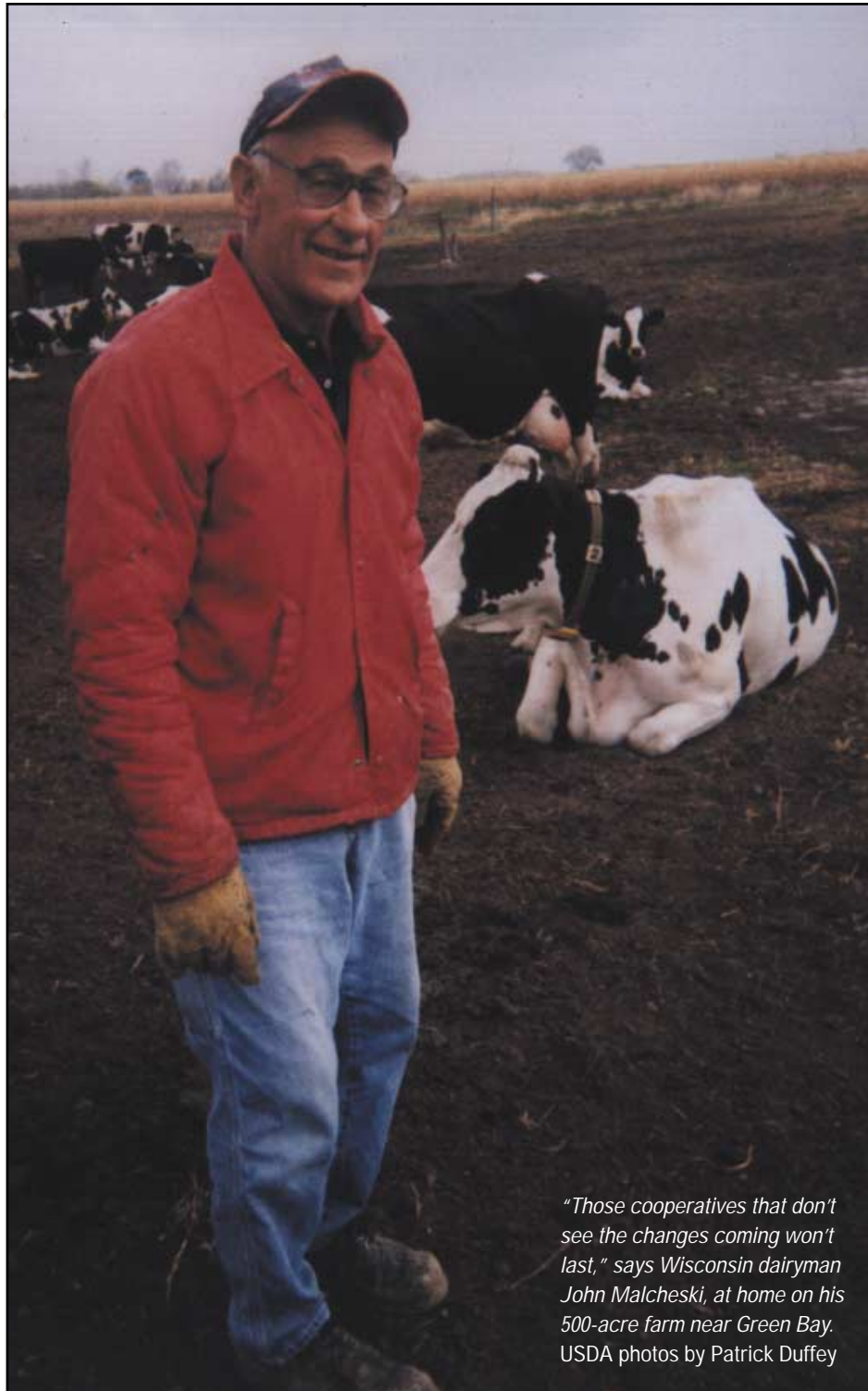
Marketing channel attention will focus on direct store deliveries, distributors and food service companies. Small local retail chains that market to more upscale consumers, wanting a fresher product not containing moisture enhancements or pumped additives, will be targeted. Products will be targeted for local and regional distributors and food service companies.

Entry into this mature and competitive environment will be challenging. "We firmly believe opportunities are present without going head-to-head with the large processors and that we will be able to return added value to our producer members," said Dennis Timmerman, chairman of Prairie Farmers Cooperative. ■



## Life in the cooperative lane

*John Malcheski, Wisconsin's roving co-op ambassador, spreads cooperative skills and knowledge worldwide*



*"Those cooperatives that don't see the changes coming won't last," says Wisconsin dairyman John Malcheski, at home on his 500-acre farm near Green Bay. USDA photos by Patrick Duffey*

Patrick Duffey,  
USDA Rural Development

**Editor's Note:** In late September, John Malcheski departed for Siberia on his 14th mission for ACDI/VOCA and the eighth country he has traveled to for that organization, which uses American co-op volunteers to help improve the food-production systems of other nations. In this interview, Malcheski relates some of his extensive experiences with cooperatives at home and abroad.

Malcheski came from a family background with strong cooperative roots, which became his springboard into a career as a prominent Wisconsin dairyman and cooperative leader in both national and international arenas. Today, at 68, Malcheski still operates a 500-acre dairy farm near his hometown of Pulaski, near Green Bay.

**Rural Cooperatives:** Where did you gain your strong commitment to cooperatives?

**Malcheski:** My father, Edward, lived and breathed cooperatives. It was a big part of our home life. He was an active leader in Wisconsin agriculture and in 1927 opened a small cheese-making cooperative that served 12 area farmers. This was in addition to his dairy farm operation. After all, he had a wife and nine kids to feed! The cheese factory continued operating until 1947, when big changes began in the dairy processing business. He helped form and was a director of three area cooperatives: Pulaski Chase for farm supplies; the Brown County Production Credit Association and Federal Land Bank, which provided post-Depression credit for farmers; and a Pulaski livestock shipping association to give farmers



access to better prices at the Milwaukee terminal market.

The idea of foreign service also stemmed from my father. Poland, the former breadbasket of Europe, was demolished in World War II. People needed food, so the United States introduced the Marshall Plan for rebuilding Europe. It was administered by the United Nations (U.N.). My father headed its farm machinery distribution program in Poland. While he was gone, my mother and the family operated the farm. My sister, Helen, took over the cheese factory and became the first woman to be a licensed cheesemaker in the state.

**RC:** When did you first become active with cooperatives?

**Malcheski:** I was a delegate to Badger Breeders (now Genex) and Consolidated Badger dairy marketing cooperative and later was elected to the boards of Pulaski Chase and Consolidated Badger. During my 20 years on the dairy cooperative board, six of them as chairman, we changed its corporate name to match its popular brand name, Morning Glory. It was the third largest dairy marketing cooperative in the state in 1988 when we merged with Associated Milk Producers, Inc. (AMPI). When AMPI was realigned in the early 1990s, Foremost Farms dairy cooperative, based at Baraboo, purchased the assets of Morning Glory. During my 25 years on the Pulaski Chase board, its sales grew from \$3 million to \$20 million. In 1978, I joined the Land O'Lakes (LOL) board, served for 15 years and witnessed a lot of changes and growth.

Our Wisconsin Federation of Cooperatives (WFC) is one of the finest trade organizations in the country. I'm currently in my last term on its board. With an annual operating budget of \$3 million, it brings together cooperatives from varied interests under one umbrella. Members range from farm supply and marketing cooperatives to those representing insurance, housing, health, rural electrics, town and home mutuals and credit unions.

WFC also monitors proposed legis-



*This shrine near the Malcheski farm was built by Polish Catholic farmers who settled in large numbers around Pulaski, Wis. The town is home to the largest rural church in the world.*

lation related to our broad membership, much of it with a rural base. In our alliance with Minnesota Association of Cooperatives, we discuss ways to make our programs more efficient, with emphasis on improving cooperative education. The future of young members lies in educating new generations about how cooperatives work and why they need to support them. We also want to reinforce the knowledge of those who are already involved with cooperatives. Our state organizations also cooperate with the Iowa Institute for Cooperatives in a common cooperative development program.

**RC:** Wisconsin is served by a number farm supply cooperatives. Is there any pending consolidation activity?

**Malcheski:** Our cooperatives are moving in that direction, trying to keep pace with shrinking numbers but larger size of remaining farms. Fewer cooperatives in the future will cover larger territories and provide more technical services to create more efficiencies for their members. Local cooperatives will either

volunteer or be forced to merge with their neighbors. Cooperatives need to tap more of the profits from moving farm products to consumer markets. Feed and agronomy centers already are creating more efficiencies for farmers. And since labor is a critical part of farm operations, cooperatives such as ours must provide technical services with a highly trained staff.

Although our cooperative's farm supply business is larger, we also buy and sell farmers' grain. In time, we'll offer services members want if the cooperative can make a profit at it. Those cooperatives that don't see the change coming won't last.

**RC:** How have the Malcheskis survived when so many dairy farmers have been forced to quit in recent years?

**Malcheski:** As evidence of how dairy farm numbers have shrunk on just our country road, at one time 14 dairy farmers flourished compared with only five today. We brought in the second generation and have farmed in partnership with my sons John and Scott since 1996. We developed a rent/purchase agreement with my sons so the cattle, farm and equipment will eventually flow to them. The milk production average for our 200-cow herd is 25,000 pounds per cow per year. My son Steve operates an adjoining farm of nearly 100 acres and milks 60 cows. We market our milk supply to Land O'Lakes, Inc. (LOL).

**RC:** How has your cooperative benefited from the joint agronomy venture between CENEX and LOL?

**Malcheski:** It made our fertilizer system more efficient and lowered members' nutrient costs that were passed on in patronage returns. We also built our cooperative's service base with improved facilities, delivery equipment, and a trained staff. Some further centralizing of local services may be in the offing.

**RC:** Does your cooperative encourage young farmers to participate on the board of directors?

**Malcheski:** We meet twice a year with local young farmers to provide crop and livestock production information and also educate them about



cooperatives. We also participate in education programs of regionals and the WFC. Producers need continuous education about how to use and patronize cooperatives and how they are structured and controlled. The University of Wisconsin Center for Cooperatives in Madison also has programs for young farmers that encourage them to get involved with their cooperatives and serving other members. Those leadership skills often pour over into local communities. By contrast, non-cooperatives offer no such leadership opportunities.

**RC:** How did you become involved in international development work?

**Malcheski:** When communism in Eastern Europe collapsed along with its centralized food production system in 1989, it left a void. Food costs were running 60-80 percent of people's income. Congress expanded the farmer-to-farmer program to include U.S. support to the former Soviet states to address food production, marketing and finance needs. Dr. Vern Freeh, LOL's vice-president of international development while I was on its board, was also a director of ACIDI/VOCA, which was affiliated with the National Council of Farmer Cooperatives. He invited me to participate in its program. I was one of the first seven to enter the program in Poland in 1990. I had seen the failure of communism there firsthand during private visits in 1983 and 1985.

When the Soviet empire collapsed and ACIDI/VOCA wanted volunteers, I was eager to share my farming and cooperative experiences with people who were being introduced to capitalism and free enterprise. We tried to show the Polish farmers that our U.S. cooperatives were examples of building better agricultural enterprises and markets. The idea was challenged in Eastern Europe because producers likened our cooperatives to the old communist system. It took time to reeducate them as to the real goal of cooperatives: to strengthen the hand of producers, not the state.

**RC:** How does the ACIDI/VOCA program work?

**Malcheski:** We plant "seeds" by encouraging producers to look at the U.S. cooperative system as a way to provide supplies and market produce and livestock. We sought people with a burning in their bellies to move forward. When the old state collective farms were split, land was returned to original owners or their relatives. Parcels were small according to the old European system and often scattered. Former office workers, cooks and truck drivers were becoming new farmers. We encouraged them to swap parcels to gain more contiguous acres. We also worked with government agricultural ministries to help farmers expand this private sector.

ACIDI/VOCA established offices in various countries and developed contracts with groups or individuals who had ideas on helping agricultural organizations. Usually, ACIDI/VOCA recruited volunteers and provided money for food and lodging. The host recipients provided transportation and translators. It was always nice to find aggressive persons or groups who wanted to change or improve their system.

We found the right person in Poland and in three short weeks put together Agro-Wisconsin, a farm supply and grain marketing cooperative complete with bylaws, elections and a manager. The cooperative purchased grain from local farmers. I worked with Norval Dvorak, a retired executive from Packerland Packing Company at Green Bay. We each invested \$100 to give Agro some start-up cash flow. The cooperative lasted for a time, but later fell apart due to bickering on the board. That led to its financial ruin. In subsequent visits to Poland by other volunteers, including Dvorak, Agro was consolidated with another cooperative, so our efforts weren't entirely wasted.

Former Agro leader Alex Bohenski is now the sweet corn king of Poland. He slowly began planting sweet corn and selling it on the streets of major Polish cities and to a government processing plant. He now owns the plant, contracts with farmers to grow sweet

corn, sells it to Burger King and also markets it under the trade name of Zolty Ameriky, which translated means 'Gold of America.' Thanks to another volunteer, a retired executive with Dean Foods at Green Bay, surplus processing equipment was purchased from the company and installed to update the plant in Poland.

**RC:** What was your most memorable experience with ACIDI/VOCA?

**Malcheski:** All my trips were memorable, but Egypt stands out because of its early recorded history, the pyramids and their culture. I was impressed with the Egyptians' ability to produce food by irrigation. Canals laid out during the days of the pharaohs 4,000 to 5,000 years ago are still in use and are helping the Egyptians turn the desert green.

Four of my 14 volunteer trips were to Egypt. I kept getting involved and going back on a new project. Egypt was the most eye opening because of the tremendous amount of hand labor required to produce food. The kids start working at age 6 and 7. Many can't read or write. It's very sad to see. So, we need to tie in some basic level of education in future programs. But, the people we met were very happy and hard working. Poverty was prevalent by our standards, but they don't see poverty as such. Something as common as a three-tine pitchfork from an American farm would be an innovation in some countries. If I go again, I'd like to take one along just to show what can be accomplished with a simple pitchfork.

Egypt's long-standing, two-class system is gradually changing with the rise of a middle class. But it will take another 50-100 years to raise the living standards for a lot of people. My work in Egypt was always with different dairy farmers, large and small. We tried to offer technical advice to fit particular situations we encountered such as cattle comfort, milking procedures, nutrition, feed storage, genetics and raising calves and heifers. To help Egypt become more self-sufficient, in 1997 ACIDI/VOCA instituted a five-year AgLink program. A cooperative will be in place when the project is completed



*Malcheski explains changes needed in a dairy operation in Egypt during one of his many overseas trips as an ACIDI/VOCA volunteer. Photo courtesy ACIDI/VOCA*

there's nothing comparable to the agricultural education provided by our Extension Service and other USDA agencies. Some people in this country, with a mouthful of food, criticize these programs. Yet, those programs created our system that produces ample food supplies.

**RC:** What connection did you see between food production costs and national stability?

**Malcheski:** These programs help build the agricultural sector of host countries, but are a small part of U.S. foreign aid, which accounts for four-tenths of 1 percent of the total federal budget. We're getting a good return on our investment. In just

so they can help themselves in any area needed. They have a tremendous knowledge about dairying in Egypt, but individual farmers don't share their experiences with others. The AgLink program will change that. The return on investment will be a lot more agricultural trade with Egypt.

**RC:** What obstacles did you encounter in other countries you visited?

**Malcheski:** In Macedonia, about one-third the size of Wisconsin, they had many languages and customs to penetrate. Armenia was the toughest assignment. During my visit, most people had no electricity for a number of hours each day due to a fuel shortage brought on by a war with neighboring Azerbaijan. Farming equipment from the old collective farm system was in short supply, so we encouraged the formation of cooperatives that could rent tilling and harvesting equipment to farmers.

Latvia showed the need for more open borders between small countries to allow freer movement of supplies and produce. The farmers had a labyrinth to penetrate to accomplish

what to us was the simplest of tasks. If a farmer was running short on hay for his cattle, his herd might be half starved by the time he could get in an emergency supply. By contrast, if my farm's hay supply is running low, I can call a source in Kansas and have a truckload delivered overnight.

In Lithuania, I worked with Chuck Steen from Growmark helping newly privatized farmers with cattle management, improving milk quality and building design. We'd team up for night meetings to discuss marketing, food packaging, appearance and customer satisfaction — things they didn't have to deal with under communism.

**RC:** What other problems do volunteers encounter in host countries?

**Malcheski:** One of the primary impediments is inadequate legal statutes to assist cooperative development. Others are inflation and high interest costs, unwillingness to invest in agriculture, political instability, lack of marketing information and transportation, government price setting and poor transfer of research from universities to farmers. Worse yet,

dairying, for instance, as we help others improve that sector, we open the door to expanding our agricultural export markets. Because of our extensive experience, we can help them avoid some of the pitfalls we faced years ago.

In every country I visited, I tried to find out what percent of an average worker's income was spent on buying food. It was shocking — from 40 percent in Egypt to 80 percent in Armenia and Russia. You cannot have national peace and stability with these conditions. I think the developed countries such as the United States and Western Europe should devote more foreign aid money toward improving food production in these developing countries.

**RC:** Would you encourage others to participate in ACIDI/VOCA?

**Malcheski:** Participation brings you great experiences and personal enrichment. We encountered wonderful people in all of our visits. You'll learn more than you think and you'll like sharing ideas. It will enrich your soul and you'll come back really appreciating the USA. ■



# Net savings dipped in 1999 for most corn-soybean and wheat-barley co-ops

By David Cummins,  
*Agricultural Economist*  
*USDA Rural Development*

**N**et savings averages were generally lower in 1999 than in 1998 for local grain cooperatives in the Corn Belt and Pacific Northwest, particularly for large grain

co-ops in the Corn Belt. This was primarily because of continuing declines in grain prices and higher operating expenses.

Lower net savings in 1999 was reported by 64 percent and 62 percent of the large and medium-sized grain co-ops, respectively, in the Corn Belt. Comparable percentages for the Pacific Northwest were 70 percent and 25 percent.

For medium-sized local grain cooperatives in the Pacific Northwest, the plunge in average net savings that occurred in 1998 was reversed in 1999, largely because of poorly performing co-ops going out of business.

Positive factors on the grain income side were increased grain volumes marketed and improved grain margins and margin rates.

**Table 1 - Compare your corn-soybean cooperative with averages for similar cooperative operations**

Group/Item	Unit	Total sales group (million dollars)				Your Cooperative
		5-14.9 (1998 Data)	15 or more (1998 Data)	5-14.9 (1999 Data)	15 or more (1999 Data)	
Storage capacity	Million Bu.	1.288	5.471	1.597	6.477	_____
Grain marketed	Million Bu.	2.013	9.079	2.665	10.793	_____
Turnover rate	Times	1.56	1.66	1.67	1.67	_____
Proportion grain	Percent	75.9	71.0	76.2	69.3	_____
Total assets	Million \$	3.448	16.086	3.839	18.530	_____
Long-term debt <sup>1/</sup>	Percent	6.7	12.5	9.4	13.8	_____
Member equity <sup>1/</sup>	Percent	60.1	47.3	58.5	47.0	_____
Total sales	Million \$	9.712	44.633	9.899	42.736	_____
Margins on sales	Million \$	.573	3.206	.640	3.634	_____
Total expenses	Million \$	.859	4.364	.994	5.096	_____
Net savings (losses)	Million \$	.174	.909	.168	.816	_____
Labor of total expenses	Percent	44.7	46.2	45.7	46.6	_____
Net savings paid in cash <sup>2/</sup>	Percent	34.5	33.7	37.2	35.3	_____
Current ratio	Number	1.48	1.24	1.42	1.21	_____
Debt/assets	Ratio	.15	.20	.19	.27	_____
Net savings(loss)/tot. sales	Percent	1.8	2.0	1.7	1.9	_____
Gross margins/total sales	Percent	5.9	7.2	6.5	8.5	_____

1/ Of total liabilities and member equity. 2/ Of total patronage allocation.



Farm supply sales and farm supply margins and margin rates were higher in 1999. Except for the slight increase for the medium-sized grain co-ops in the Corn Belt (where corn-soybean co-ops predominate), total sales averages were lower there and in the Pacific Northwest, where wheat-barley co-ops are most common.

The most damaging negative factor was the sharp drop in commodity prices in 1999. The weighted averages of prices received by large and medium-sized local grain co-ops in the Corn Belt were 21 percent and 23 percent, respectively, lower than in 1998. Corn, oats, wheat and soybean prices ranged from 19 percent to 26 percent lower. Comparable lower weighted averages for grain co-ops in the Pacific Northwest were 15 percent and 13 percent. In fact, weighted

average prices received by local grain co-ops in both areas in 1999 were the lowest since the mid-1980s.

Loss rates for the medium-sized co-ops in 1999 were about the same (about 12 percent) as in 1998 in the Corn Belt and sharply lower in the Pacific Northwest (29 percent to 12.5 percent). In contrast, no losses were reported in both years by the large co-ops in the Pacific Northwest and the rate rose only slightly (from less than 3 percent to over 4.5 percent) in the Corn Belt.

Total assets and member equity averages were higher in the Corn Belt. For wheat-barley co-ops in the Pacific Northwest, total assets and member equity averages were higher for medium-sized co-ops, but lower for large co-ops. Total debt averaged higher

across the board in 1999, and represented a significantly higher proportion of total assets for corn-soybean co-ops than for wheat-barley co-ops.

### Benchmarking your co-op

Benchmarks are common in business management to measure how well your cooperative is performing. However, such figures don't reveal how your cooperative compares with others.

If your cooperative is primarily a first-handler of wheat and barley or of corn and soybeans, comparative data for 1999 are available below. Tables 1 and 2 contain average financial and structural data compiled from a survey of Pacific Northwest and Corn Belt cooperatives marketing wheat and barley and corn and soybeans, respectively. ■

**Table 2- Compare your wheat-barley cooperative with averages for similar cooperative operations**

Group/Item	Unit	Total sales group (million dollars)				Your Cooperative
		5-14.9 (1998 Data)	15 or more (1998 Data)	5-14.9 (1999 Data)	15 or more (1999 Data)	
Storage capacity	Million Bu.	4.344	8.932	4.324	9.807	_____
Grain marketed	Million Bu.	3.036	9.945	2.937	10.766	_____
Turnover rate	Times	.70	1.11	.68	1.10	_____
Proportion grain	Percent	93.0	81.9	80.5	87.6	_____
Total assets	Million \$	2.702	12.732	3.736	11.080	_____
Long-term debt <sup>1/</sup>	Percent	1.1	6.2	4.0	8.4	_____
Member equity <sup>1/</sup>	Percent	89.6	58.7	73.0	63.8	_____
Total sales	Million \$	10.381	40.813	10.051	35.281	_____
Margins on sales	Million \$	.226	1.972	.579	1.767	_____
Total expenses	Million \$	.784	3.994	1.060	3.169	_____
Net savings (losses)	Million \$	.022	.849	.171	.825	_____
Labor of total expenses	Percent	45.9	44.6	40.7	46.0	_____
Net savings paid in cash <sup>2/</sup>	Percent	—	40.3	33.0	41.7	_____
Current ratio	Number	4.46	1.42	2.34	1.67	_____
Debt/assets	Ratio	.04	.16	.18	.23	_____
Net savings(loss)/tot. sales	Percent	0.2	2.1	1.7	2.3	_____
Gross margins/total sales	Percent	2.2	4.8	5.8	5.0	_____

1/ Of total liabilities and member equity. 2/ Of total patronage allocation.

# Trade Takes a Tumble

*Cooperative trade plunges 41% as Asian markets cool*

Tracey L. Kennedy,  
Agricultural Economist  
USDA Rural Development

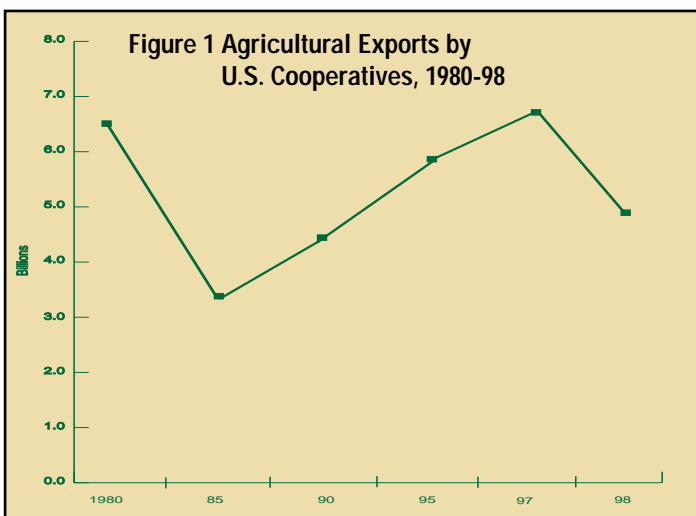
**Editor's note:** The Rural Business-Cooperative Service of USDA Rural Development began an annual survey of cooperative involvement in international markets in 1997. Prior to 1997, cooperative exports and imports had been measured at five-year intervals. An overview of survey findings for 1998, with comparisons to 1997, is presented here. A follow-up article in a future issue will provide further detail.

**A**gricultural exports by U.S. cooperatives were down more than 41 percent in 1998, reflecting declining demand and the subsequent fall in commodity prices in Asian markets, as well as the economic pressures related to currency devaluations and other policy changes in other regions.

Cooperative exports had climbed to a record \$7.8 billion in 1997 before falling off to \$4.59 billion in the wake of worldwide economic woes (figure 1).

Participation in exporting has remained relatively steady with 96 cooperatives reporting exports for 1998. Magnitude of export sales ranged from less than \$100,000 to more than \$1 billion.

Exports continued to be heavily concentrated among a few cooperatives, with the top five exporters accounting for 60 percent of all cooperative exports. However, this compares to



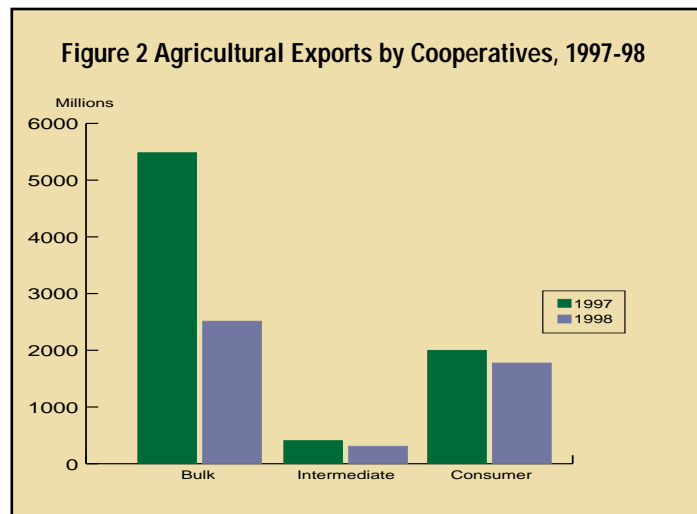
a 76 percent concentration among the five largest cooperatives exporting in 1997.

Cooperative exports were down from 1997 in all major product groupings: bulk commodities, intermediate products and consumer-oriented products (figure 2). Demand for bulk commodities in particular showed the effects of the Asian downturn, falling 54 percent to \$2.5 billion.

Exports of intermediate products — partially processed or ingredient products — fell 24 percent to \$308 million, while consumer products, including fresh and processed fruits and vegetables, meats and other food products, turned in the smallest decrease, falling by just 10.8 percent to \$1.78 billion.

U.S. cooperatives also reported exports of nonagricultural products — mainly farm inputs — valued at \$83.5 million, for a total of \$4.68 billion.

Bulk commodities continue to account for the largest — albeit a shrinking — portion of all cooperative exports, accounting for 53.7 percent in 1998 compared with 69.6 percent in 1997. Intermediate and consumer-oriented products gained in importance in 1998, rising from 5.2 to



6.7 percent and 25.3 percent to 39.6 percent, respectively, of all cooperative exports.

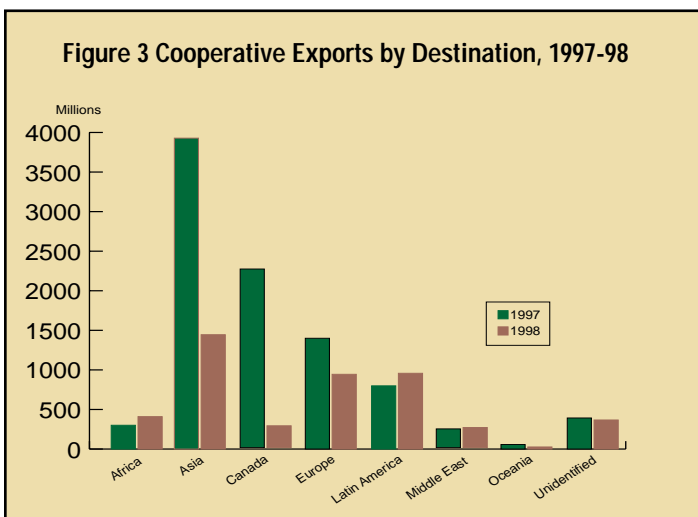
After establishing a record 13.8 percent share in 1997, the cooperative share of U.S. agricultural exports fell back to 8.8 percent in 1998. Cooperatives accounted for 12.8 percent of all U.S. exports of bulk commodities, down from 23.3 percent in 1997.

Cooperatives' consumer product share dropped to 8.8

percent from 9.5 percent in 1997, while their share of intermediate product exports fell from 3.2 percent to less than 1 percent.

### Where the markets were

Trade patterns and flows for cooperative exports showed significant change in 1998. Although Asia continued to be the most important destination for cooperative exports, markets in this region accounted for only 31 percent of all cooperative exports, compared to almost 50 percent in 1997. Significantly, the second largest regional market for cooperatives was Latin America, accounting for about 20.5 percent of cooperative exports, vs. 10 percent in 1997. European markets increased marginally in importance from 17.7 percent to 20.2 percent.



Canada fell from almost 9 percent to about 6 percent, while Africa became a more significant player, increasing from 5 percent to 8 percent of cooperative exports.

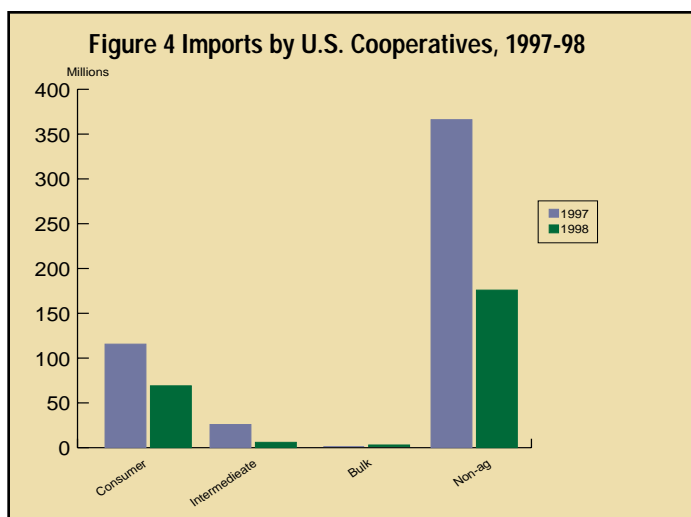
The impact of much of the global economic situation is clearly reflected in changes in trade flows to most major regions from 1997 to 1998, with the only gains in Latin American, Middle Eastern and African markets (figure 3). As expected, exports to Asia experienced the most significant drop, down 63 percent from \$3.9 billion in 1997 to \$1.4 billion in 1998.

Exports to Canada fell almost 60 percent, from \$684 million to \$275 million, while sales to Australia and New Zealand (Oceania) fell almost 54 percent, from \$57 million to \$26 million. On the other hand, export sales to Latin American markets increased 20 percent, from \$796 million to \$957

million. Sales to Middle Eastern markets increased 7.5 percent from \$236 million to \$254 million.

### Imports by cooperatives

Cooperatives import a variety of products, mainly non-agricultural and consumer-oriented products. In 1998, cooperatives imported products valued at \$203 million, down



from \$252 million in 1997. Non-agricultural products — mainly fertilizer and petroleum products, along with farm supplies, equipment, and machinery — accounted for 67 percent of cooperatives' imports.

Consumer-product imports — primarily of fresh and processed fruits and vegetables — accounted for almost 30 percent of the total, while intermediate product imports (primarily sweeteners and frozen bovine semen) accounted for a little over 2 percent (figure 4). A negligible amount (less than 1 percent) of grain imports accounted for all bulk agricultural commodity imports.

The majority of consumer products — mostly horticultural products — originated in Latin American countries (46 percent), while Canada was the largest originator of non-agricultural products (42 percent).

It remains to be seen whether 1998, the height of the world economic instability, has had a long-lasting impact on cooperatives' activities in international markets. A follow-up article in a future issue of this publication will take a more detailed look at 1998's results and look ahead to 1999 and 2000. ■



# New Directions:

## *Co-ops help tobacco farmers transition to new crops*

By Pamela J. Karg  
Field Editor

**T**obacco quotas have been cut by more than 60 percent during the past two years, leaving Kentucky with 110,000 acres of quality farmland that's "basically up for sale as farmers try to figure out what they're going to do next," says Jim Mansfield, horticulture/aquaculture program director for the Kentucky Department of Agriculture.

While some Americans have applauded recent court settlements levied against the tobacco industry, it's the small farmers across 20 states — stretching from Minnesota to Florida — who are paying the ultimate price. The 1997 USDA Agriculture Census counted 89,706 tobacco farmers in the United States and approximately 286,500 farms with assigned tobacco quotas. This year's quotas, announced at the beginning of 2000, dropped throughout the tobacco industry. So did prices.

In 1999, Congress appropriated \$328 million under broad farm disaster legislation to help compensate farmers for cuts made in tobacco quotas. USDA, under the Tobacco Loss Assistance Program, administers this one-time-only compensation fund. In late June and early July, farmers also received checks from their state governments through the \$5.15 billion Tobacco Growers Trust, established by tobacco companies to help cushion the fall for farmers. The checks can be spent any way a farmer sees fit, but many officials hope farmers will use the money to find an alternative to tobacco.



*A migrant laborer from Mexico harvests tobacco in Virginia. USDA photo by Ken Hammond.*

### **A huge challenge**

"Tobacco is a crop that is non-perishable, fairly easy to grow and harvest, you know the value per acre and you know what you're going to get paid for it before you even plant it. To replace that is going to be a big challenge," Mansfield says.

But he believes some farmers do



*Karen Calhoun (above) is making the switch to aquaculture to offset a two-thirds reduction in her tobacco quota. Photo courtesy of Kentucky State University. Opposite page: University of Kentucky horticulture specialist Jim Mansfield (center) discusses the fine points of growing eggplant, one of the vegetable crops seen as an alternative to tobacco. Photo courtesy of Kentucky Dept. of Agriculture.*

have options. They just need to be willing to consider new crops, change how they are farming and work with neighbors to market these new agricultural products. That's a tall order, but one that was not lost on Karen Calhoun.

The Harrison County, Ky., tobacco and beef cattle farmer had her burley quota cut by more than two-thirds dur-

ing the past three years. She could raise more beef cattle, but that requires more land, and good farmland is something that doesn't come cheap. And she also has limited access to labor.

Calhoun found her niche, with assistance from the Kentucky Department of Agriculture and Kentucky State University. "I'm trying new things. I am now in the farm-raised shrimp business,

local consumers. Because she's the first in her area to begin an aquaculture enterprise, the shrimp harvest generated a large amount of publicity, attracting consumers eager to buy Kentucky-bred "seafood." The high demand for her shrimp surprised Calhoun, who plans to lease the remaining tobacco portion of her farm this year so she can concentrate on beef cattle and shrimp, and some vegetables and pumpkins.

### Writing on the wall

Mansfield says shrimp production is just one example of aquaculture endeavors open to Kentucky tobacco farmers. The state also has projects and financial programs that support trout, catfish, paddlefish, minnows and bass production farms.

"We have a progressive group of farmers. They see the writing on the wall that they're going to have to be changing their business because they can't just hang their hats on tobacco any more," Mansfield says.

Cooperatives and quasi-cooperative organizations are playing a large role in helping farmers make the transition to new crops. Working with the Kentucky Agriculture Department are groups such as the Commodity Growers Cooperative Association; the Kentucky Center for Cooperatives; Kentucky Network for Sustainable Agriculture; the Kentucky Farm Bureau and state Resource, Conservation and Development councils (RC&Ds).

In fact, the Jackson Purchase RC&D Foundation received a state value-added grant for \$194,650 to pay for two efforts: construction of a catfish processing plant, to be owned and operated by the newly formed Purchase Area Aquaculture Cooperative Inc. (PAAC), and establishment of a revolving loan fund for aquaculture infrastructure development.

The PAAC has a goal of producing 1 million pounds of fish within two years. The plant will create approximately 20 new jobs and is expected to need production from more than 100 farmers who will convert low-production soil into fishponds to meet PAAC's



Where tobacco plants once grew, Jill Streck helps harvest shrimp, a new crop her aunt hopes will replace lost tobacco income. Photo courtesy of Kentucky State University.



and it looks to have some real potential," says Calhoun.

To help spur the business, the state provided a \$149,528 grant to the university to help build a shrimp hatchery at its Frankfort research facilities. This infusion of money into the state's agricultural infrastructure enables Kentucky farmers to buy seed stock from a nearby source rather than shipping it in from Texas and running the risk of high mortality.

Within an hour-and-a-half of harvesting her first shrimp crop, Calhoun had sold out her entire crop directly to



need for 2,000 acres of water.

"This alternative to tobacco should aid many local farmers and will also help our grain farmers, as there will be a need of 750,000 bushels of grain each year for feed," said Robert B. Johnson of the Jackson Purchase RC&D.

### Other alternatives have potential

In addition to aquaculture, Kentucky tobacco farmers are switching to greenhouse and nursery crops, willow trees, meat goats, beekeeping, grapes and wine production, Christmas trees and other fruits and vegetables. Still others are switching to more traditional farming endeavors, says Mansfield,

including beef and hog production, raising dairy heifers for export (especially for the Mexico market), and grain production.

But in southeastern Kentucky, grain production is limited due to a lack of suitable land and storage facilities. Most of the corn grown in the area is fed to local cattle.

Research conducted at the University



USDA photo

## Grower co-ops to coordinate marketing

Faced with a cut of more than 50 percent in their tobacco quota, farmers of the Owensboro, Ky., area responded by forming the West Kentucky Growers Cooperative (WKGC) to help them produce and market sweet corn and other vegetables.

"These farmers have taken action to ensure the strength of agriculture in their region as well as the continuation of their own agriculture-based economy with the founding of this cooperative," Kentucky Agricultural Commissioner Billy Ray Smith said at the opening of a new farm market facility this spring.

The Kentucky Department of Agriculture approved a grant for \$100,000 to assist the West Kentucky Growers Cooperative (WKGC). It now joins cooperatives already established in Georgetown, Horse Cave and Monticello/Russell Springs, Ky.

"We think there is a major opportunity for Kentucky in the produce industry," says Jim Mansfield, director of Kentucky's Division of Value-Added Horticulture/ Aquaculture. "Now is the opportune time to establish a network of facilities with coordinated sales and value-added processing."

The WKGC leases a large facility originally built by the J.C. Ellis family in Stanley, Ky. The plant has ample cold storage space, hydro-coolers, icemakers and a slush-ice injection unit suitable for produce grading, packing and cooling.

But the enterprise doesn't stop there. WKGC is extending outside its borders to cooperate with another

growers' cooperative. Owensboro farmers, together with representatives from the state agriculture department and the University of Kentucky, traveled to Florida and entered into an agreement with the Pioneer Grower Cooperative of Belle Glade.


"Pioneer Growers Cooperative has corn growing in Florida and Georgia, and wants to become year-round marketers of sweet corn," Mansfield said. "There is a 10-week period through July and August, however, when they are unable to produce sweet corn. This is where the West Kentucky Growers Cooperative comes in."

The Kentucky cooperative will grow 1,000 acres of sweet corn that will be marketed by the Florida cooperative. A third of the corn will be tray-packed in Kentucky and sold as value-added corn. Two-thirds will be sold to retailers.

Patrick Rupinen of the Commodity Growers Cooperative in Lexington, Ky., says that more and more tobacco growers are learning about the cooperative way of doing business. Some are realizing that by pooling their resources and their bounty, they are able to tap into more retail markets.

"And if farmers can sell directly through some of these retail channels, that will mean better prices for them," Rupinen said. In addition to corn, the Kentucky co-op is selling 150 acres of mixed vegetables grown by the Owensboro farmers, although a different distributor will market it. ■





of Montana suggests that echinacea — an herb which proponents claim has medicinal properties — could be an alternative crop for tobacco farmers. Other research is focusing on the industrial hemp market.

“We want to diversify and stabilize the number of farm enterprises that generate income for our farm families,”

explains Jim Lacy of the Kentucky River RC&D Council. “So more and more of our farmers are looking to grow vegetables to supplement their income from the lost tobacco poundage.”

A farmers’ market was established in Campton, Ky., to allow producers to sell their crops at a central location. The state Farm Bureau has assisted in the formation of new farm-

ers’ markets through its Certified Roadside Farm Markets program.

### Interest high in vegetable co-ops

In Lewis County, Ky., the Vegetable Growers Association was formed in November and had 18 farms sign on for the season. They received a grant for just over \$7,000 for vegetable production demonstration equipment used in connection with the farmers’ market.

## End nears for tobacco warehouse co-ops

By Isaac J. Bailey  
*The Sun News*  
Myrtle Beach, S.C.

For more than 30 years, Robert Boyd, a tobacco market sales supervisor, has heard the rumors. For more than 30 years, the anticipated demise of the auction-style tobacco sale has been exaggerated. But time may finally be catching up to the event that has for decades been a celebration of bountiful harvests for farm families.

Warehouses, such as Twin City Farmers Cooperative Inc., where Boyd is supervisor, may become storing houses, he said. Tobacco companies are signing more farmers to contracts, with which a given company pays farmers a determined amount, rendering useless the time-honored tobacco auctions.

Companies want to better control the quality of crops and the harvesting process, Boyd said, and better farm equipment has caused some of the changes.

“The number of farmers is decreasing every year,” he said. “And companies want to get more mileage out of their tobacco.”

Next year, or maybe the one after, could be the last of the auctions, but maybe the end will never come, Boyd said.

“For the entire 35 years I’ve been in this business, I heard that every day,” Boyd said Tuesday, sitting on an 800-pound stack of baled tobacco during the opening of markets in Loris. “It may continue indefinitely. But it appears now it is closer than it’s ever been.”

The scene of families gathering in the warehouses, maybe eating hot dogs and drinking lemonade, on opening day has been replaced by lone farmers checking prices marked on small pieces of paper on the tops of tobacco piles.

Some visit on days when they aren’t selling to get a

glimpse of the price they can expect when they do. The strong scent of tobacco — sweet to some noses, overwhelming to others — permeates the entire place. Signs imploring farmers to keep their tobacco clean decorate warehouses.

“Whole families used to do it, so this was a big day,” said Sarah Strickland, who was in Loris Tuesday to sell her aunt’s harvest. “You had snow cones and saw everybody you knew. Now, they just sell and go.”

The farmers sell when they feel a fair price has been offered, and many sold tobacco in mid-August at the two warehouses in Loris.

At Brick Tobacco Warehouse, 157,421 pounds of tobacco were sold for \$249,743.90, an average of \$158.65 per 100 pounds. At Twin City Farmers Cooperative Inc., 251,505 pounds of tobacco were sold for \$400,986.30, an average of \$159.43 per 100 pounds. The total figures for Loris tobacco markets by Aug. 15 were: 408,926 pounds of tobacco sold for \$650,730.20, an average of \$159.13 per 100 pounds.

Representatives of Dimon, Export Leaf, Standard Commercial and J.P. Taylor tobacco companies walked up and down rows of tobacco bidding on baled and loose-leaf crop, sometimes pushing prices more than 20 cents above the minimum listed. They followed Steve Ivey, who has been an auctioneer for 25 years.

“Dollar bill, dollar bill, dollar bill,” Ivey uttered in a voice distinguishable only to the trained ear. A bale here sold \$170 per 100 pounds, a pile there sold for \$160 per 100 pounds, another for \$155 per 100 pounds.

Loris farmer Marcus Gerald has seen a lot in the 25 years he’s grown tobacco. While farming has been good to him, Gerald said, all the change has made him feel uncertain.

“You don’t know whether to keep investing in farming or not,” he said. ■



“Commercial vegetable farming is a new challenge to our producers. A high level of management is required,” says Lacy, of the Kentucky River RC&D. With a grant from the Wolfe County Conservation District and the state agriculture department, the RC&D council received money to purchase mulching equipment so farmers could begin converting to commercial vegetable farming.

However, if every tobacco farmer sells fresh produce, there’s the possibility of a glut in the marketplace that would drive down prices. Or production could fail to adequately target what consumers want to buy. That’s why more grower associations are being formed, and these groups are coordinating their production and marketing with other cooperatives — even some outside their region, says Mansfield. (See related story, on page 22)

“We have really been asking ourselves how we can form more marketing alliances and partnerships to have better coordination of our value-added products,” Mansfield adds.

The Commodity Growers Cooperative (CGC) in Lexington addresses both the dependence of Kentucky’s farm families on tobacco and the need for a local, sustainable food system by providing market development assistance to farmers who are trying to diversify their crops. The CGC has already developed markets for family farm products — primarily in the horticultural area — by building a base for locally grown products. These efforts, due to the support of many partners, have greatly increased Kentucky’s commitment to diversification initiatives, says Patrick Rupinen, CGC administrative manager.

“Kentucky is the No. 1 one burley tobacco producer, and we have 40,000 farm families out there producing it. We don’t want 40,000 burley tobacco growers to suddenly disappear. So there are a lot of us trying to help farmers find alternatives,” Rupinen says.

Now the CGC is collaborating with the Kentucky Center for Cooperative Development to award \$80,000 in grants to conduct market feasibility studies by groups interested in forming cooperatives. The deadline is September 2001.

“We have a lot of interest by some people — people who are willing to take a chance on something new,”

Rupinen says. “You have to understand that tobacco farmers didn’t really have to work together with other tobacco farmers. Now that they’re looking at other crops, cooperatives are slowly forming. It’s a new idea for them that will come about as they realize that they can share equipment or facilities, and do more coordination to get the job done.” ■

## Pursuing other uses for tobacco

The Burley Tobacco Cooperative Association Inc., in Lexington, Ky., is participating in a pilot program with Star Scientific Inc. to experiment with low-nitrosamine burley tobacco. One hundred farmers in central Kentucky and the Owensboro area have entered into an agreement with Star to produce the low-nitrosamine tobacco.

Nitrosamines are thought to be one of the major carcinogens in tobacco. Farmers will have to prime the burley tobacco and cure it in special curing structures. If the experiment is successful, Star plans to expand its efforts and include more farmers next season.

Farmers also have the option of converting from chemically intensive tobacco production to organic production. Willing buyers exist, such as the Santa Fe Natural Tobacco Co. in New Mexico, but with a three-year resting period before soils can be certified as pesticide-free, few growers have explored that possibility.

A versatile crop, tobacco leaves can be used to create ethanol or biomethane, alternative energy fuels. Biomass tobacco, a minimal-nicotine crop that is converted to fuel, not smoked, can thrive in poor soil and a wide range of environments, is not labor-intensive and also requires minimal chemical treatment. Tobacco can also become animal feed. ■



USDA photo

### Florida's Natural breaks sales record — again!

Record sales for the 10th consecutive year have been announced by Florida's Natural Growers fruit cooperative, based at Lake Wales. Sales for fiscal 2000 were up 10 percent from 1999.

The record \$605 million sales included an average of 1 million cases of juice, or about 3 million gallons boxed and shipped per week, and 23 million cases of citrus processed during the year.

The cooperative exports to 40 countries, primarily in Europe, Japan and the Caribbean. The booming sales are related to growing popularity of not-from-concentrate (NFC) juice, said Steve Caruso, chief executive officer. In June, Florida's Natural completed a \$7.2 million purchase of Sun Pac Foods' citrus processing plant in Barrow. It can process 5.5 million boxes of juice annually into frozen concentrate. However, the cooperative will gradually convert it to process NFC juice. The cooperative's 12 grower organizations represent 1,100 grower-owners with more than 60,000 acres of citrus.

### Neb. court backs co-ops on hedge-to-arrive contracts

The Nebraska Supreme Court has decided unanimously that eight Nebraska farmers who reneged on hedge-to-arrive grain marketing contracts in 1996 will have to pay a total of \$2.3 million in damages to two cooperative grain elevators. When grain prices

soared in 1996, the farmers sought to void the 1995 contracts they signed with Tri-Valley Cooperative and Great Plains Cooperative. The farmers alleged that the contracts outlined no definitive delivery date and that they had the right to defer delivery.

The court disagreed, ruling that the farmers had knowingly entered into the contracts that were clear and unambiguous. The court noted the contract contained no provision for indefinitely deferring delivery. Great Plains, because of financial trouble, was forced to merge with Aurora Co-op Elevator. The settlement money will be used to pay off any outstanding debts of Great Plains. Any remaining funds will be divided among former customers.

A similar case involving 10 farmers who reneged on their contracts in 1996 with North Central FS, in Hampton, Iowa, is being appealed to the Iowa Supreme Court. The Franklin County District Court awarded the cooperative \$3.18 million in damages. Both parties agreed to the amount so it could form the base of the appeal case. Claims against another farmer were dismissed after he and North Central reached a settlement.

### Co-ops Blend Feed Lines

In a further consolidation of their farm supply businesses, Land O'Lakes and Farmland Industries have formed a joint venture, called Land O'Lakes Farmland Feed LLC, to consolidate all aspects of their feed businesses. Annual feed production will be about 9 million tons and, based on 1999 sales, will have initial sales of about \$1.6 billion. The venture will be governed by a management committee having an equal number of representatives from each cooperative. It will be managed under contract by Bob DeGregorio, vice president of the LOL feed division. The venture will create North America's largest livestock feed company. Products sold will carry current trademarks and brand names used by each cooperative.

### USDA fruit buys help TVG

California's Tri Valley Growers (TVG), currently operating under Chapter 11 bankruptcy protection, got a boost in the form of \$9.1 million in canned fruit purchases by the U.S. Department of Agriculture. The cans of mixed fruit and peaches were earmarked for USDA's domestic food



Photo courtesy Florida's Natural Growers



assistance programs. The cooperative is buying only 70 percent of its members pear crop, 85 percent of their peaches and 33 percent of their tomatoes due to an unexpected reduction in its operating loan.

USDA also has committed to buy tomatoes from TVG to ease the financial strain on the cooperative's 500 grower-owners. TVG's three tomato canneries remain shut under the bankruptcy protection program.

In a related development, California Canning Peach Association's tree-pulling program has removed 1,000 acres of peach trees from production. Members were paid \$160 per ton for their average production, with payments capped at \$3,500 per acre. The aim was to prevent a glut of peaches on the market, particularly when TVG, the intended fruit recipient, has cut production.

The Federal Land Bank Association of Yosemite is providing \$8 million in low-interest loans to its borrowers who also are TVG members and to other TVG members who qualify for a loan.

TVG will use its \$270 million finance package to cover part of the \$400 million it owes to more than 1,000 creditors, with the rest used to process fruits and vegetables this season.

### Glickman named 'Honored Cooperator'

National Cooperative Business



Agriculture Secretary Dan Glickman, with Under Secretary for Rural Development Jill Long Thompson looking on, receives the Honored Cooperator award. Photo courtesy NCBA

Association has awarded U.S. Agriculture Secretary Dan Glickman its honored cooperator award. Participating sponsors were CoBank, Land O'Lakes, Kansas Cooperative Council, Federation of

Southern Cooperatives, National Rural

Electric Cooperative Association and Nationwide Insurance. Glickman was cited for his work in promoting and securing resources for cooperative development. Under his leadership, the U.S. Department of Agriculture has increased funding for the Rural Cooperative Development Grants program, thus providing critical help to groups to promote and support new and existing cooperatives.

### Southern States expands aquaculture business with NMFS fisheries loan

With an eye toward a greater presence in the food industry, Southern States Cooperative (SSC) at Richmond, Va., has received a \$10 million loan to expand its presence in the aquaculture business. The loan came from the National Marine Fisheries Service (NMFS), an agency of the U.S. Department of Commerce's National Oceanic and Atmospheric Administration. Program Director Brian Squyars said SSC "will use most of the money to help farmers finance state-of-the-art closed systems for tilapia production that we have been developing for several years. Construction of a fingerling nursery and a processing plant will account for the rest."

Tilapia, also known as St. Peter's fish, is a popular, high-protein, low-fat fish known for its mild, white-meat filets. NMFS Director Penny Dalton said the SSC program was a way to encourage environmentally sound aquaculture. "About 30 percent of the seafood the world currently consumes is produced through aquaculture. We are looking for ways to encourage U.S. production that expands sources of healthy seafood and also could help ease the strain on wild stocks."

The world fish catch in oceans and inland waters has increased more than five-fold since 1950 and reached 93 million tons by the mid-1990s. That demand will rise to an estimated 115 million tons annually by 2010. However, only a small increase in the wild harvest is predicted because many of the world's major fishing grounds are stressed and stocks of fish are overhar-



vested. Aquaculture — the controlled cultivation of finfish, shellfish and aquatic plants — will have to take on an expanded role if demand is going to be met in the next decade.

SSC currently has 28 independent tilapia grow-out facilities in operation, under construction or on the drawing board in southeast Virginia, northeast North Carolina and southern Georgia. SSC's goal is to expand the program's availability beyond the initial locations as business conditions permit. Though its Farmer's Catch Division, SSC completed the development work Aquaculture can help protect farm income through crop diversification and can supplement incomes threatened by low commodity prices, plummeting demand for tobacco and weather-devastated crop yields.

Participating farmers will purchase a 6,000-square-foot production facility that is constructed on a five-acre farm plot. Producers supply labor (about two hours per day) and utilities and are paid part of the wholesale farm-gate price, based on individual contract terms. SSC provides the fingerlings, feed, technical expertise, training, grow-out facilities, insurance and financing plus transportation, harvesting and marketing.

### N.Y. grape co-op enters marketing pact

Westfield Maid Grape Cooperative at Portland, N.Y., has signed a 25-year marketing agreement with Cliffstar Corporation. All Concord grapes contracted with Westfield will be delivered to Cliffstar, which dominates the private-brand segment of the market. Its sales have almost doubled in the past

five years. The president of the 60-year-old cooperative said the corporation's "willingness to commit to both the 25-year contract and to annual price negotiations will be important in stabilizing the Concord grape market." The Westfield cooperative is one of the oldest in the Lake Erie grape belt.

#### Select Sire Power formed

Higher member returns brought on by reduced duplication and improved markets are expected from the merger

of a pair of artificial insemination (AI) cooperatives. Sire Power Inc., Tunkhannock, Pa., has merged with Virginia-North Carolina Select Sires to become Select Sire Power, part of the Select Sires federation based at Plaines, Ohio. The merged cooperative serves producers from New England and New York and along the east coast to Florida. Merger talks began five years ago.

"With the fiscal efficiencies we gain, Select Sires will be the most price-competitive A.I. organization," said David

Thorgan, Select Sires general manager. "We will be able to lower our collective costs and, in turn, increase returns to our member patrons." The Select Sires federation will offer a 40-percent expansion in sampling capacity, using 360 bulls per year, believed to be the pool largest in the United States.

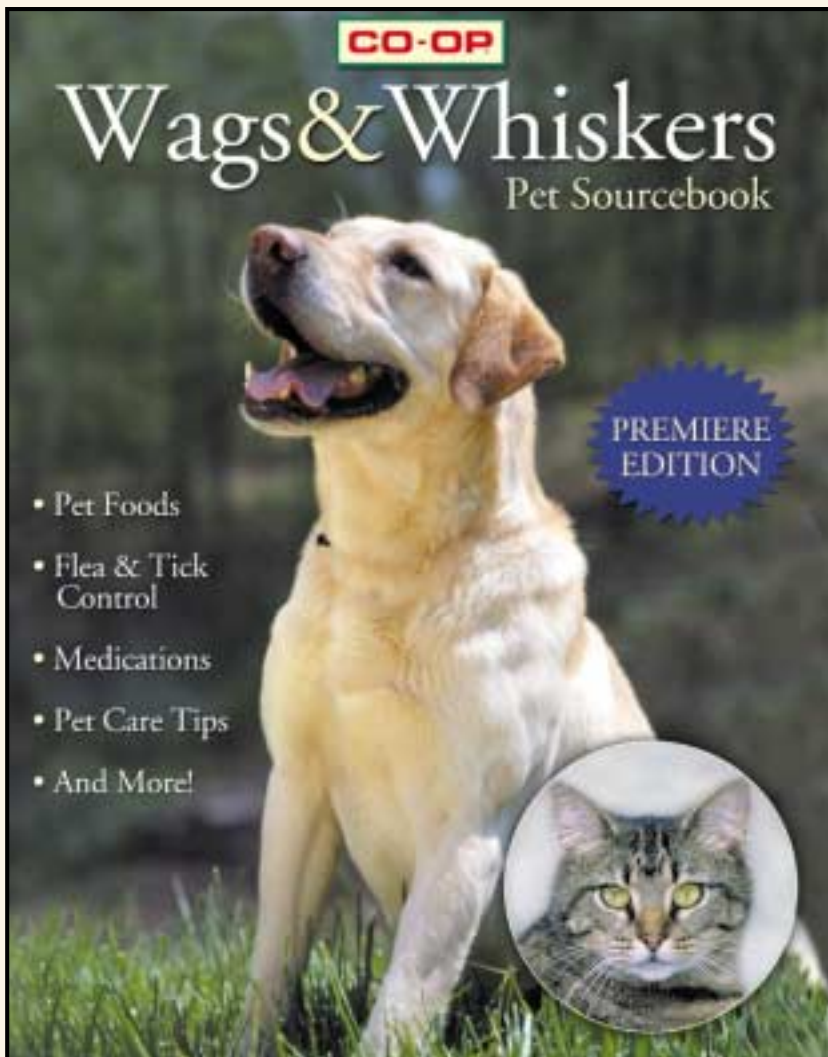
#### Lamb co-op conducts equity drive

Having completed a business plan and identified markets for premium and natural lamb, Dakota Lamb Growers Cooperative embarked on an equity drive in three states in September. The cooperative will hire a chief executive officer and begin selling lamb products in niche markets. The cooperative attracted 126 grower-members from North and South Dakota, Minnesota and Montana when it formed in April of 1999. Each initially invested \$100 to become members. North Dakota's Agricultural Products Utilization Commission, area banks and other organizations also have made contributions.

#### NorthStar expands services

NorthStar (dairy herd improvement) Cooperative Inc., at Lansing, Mich., will expand services to new Wisconsin members following a favorable merger vote by the Fox Valley DHI Co-op, Appleton, Wis. Mike Bills, NorthStar general manager, said the majority vote "showed their strong support in these organizations becoming more value-driven. We feel this continues to build on our long-term strategic vision of being a total service provider to our owners."

Fox Valley had about 300 members and operated a milk analysis lab which will now serve NorthStar customers. Fox Valley customers will be issued one share of voting common stock or 20 shares of non-voting preferred stock. To be eligible for either stock offering, a Fox Valley member must use the association's services, including DHI testing, for another year. Those qualifying will be issued stock on June 1, 2001. Meanwhile, BioStar Research, a subsidiary of NorthStar, is working to develop a complete animal health testing program.



"Wags and Whiskers" is a new publication of Tennessee Farmers' Cooperative, which will provide consumers with information on pet-care products, from flea control to pet food. About 25,000 copies are being printed annually to be used as an in-store sales tool, and for sales staff to leave with farmers when making house calls. The inaugural issue, above, is 31 pages, but next year's edition should be considerably larger.

NorthStar is one of 10 regional cooperative members of the Select Sires federation. In another development, North Star has been approved by the American Embryo Transfer Association to export embryos internationally, with no restrictions.

### Frozen dough co-op boosts production

An industrial line of equipment installed at Value-Added Products, Iva, Okla., has increased its production capacity from 3,000 pizza crusts per day to 4,400 per hour. Plans are being made to add a third shift by the end of the year and to increase employment to 70 people. The agribusiness is owned by 750 wheat producers and investors and uses wheat for the pizza crusts.

### Pasta plant lender named

Farm Credit Services (FCS) of North Dakota has been named as lead lender for Semolina Specialties, a cooperative planning to buy a pasta plant at Crosby, N.D. The cooperative will make specialty shaped and flavored pasta. FCS will disseminate information, prepare papers and maintain open lines of communication between the company and lending agency. FCS has been a lender for other value-added cooperatives throughout its operating territory. Half of the needed funds will come from member stock purchases and the rest from local lenders, with help from state and federal government agencies. USDA Rural Development is providing an 80-percent loan guarantee.

### Caspers named interim leader at Minn-Dak

Minn-Dak Farmers Cooperative has appointed Steve Caspers as interim president following the retirement of Larry Steward, the cooperative's president and chief executive officer since 1990. Caspers has been executive vice president and chief financial officer since 1985. He joined Minn-Dak in 1974 as an accounting supervisor. He is also president of Minn-Dak Yeast Co. and serves on the boards of United Sugars Corpo-

ration and Midwest Agri-Cooperatives. The two marketing cooperatives are owned by Minn-Dak and other cooperatives. Krabbenhoft has appointed a committee of directors to search for permanent president candidates.



Glenn Webb (left) receives Cooperative Hall of Fame Award from Growmark CEO Bill Davisson at the National Press Club in Washington, D.C. Photo courtesy of NCBA



Diamond of California walnut products were a popular item on the athletes' menu at the Sydney Olympics and will also be featured in foods served at the upcoming winter games in Salt Lake City.

### Diamond buys Berner nut

Diamond of California, the Stockton-based walnut marketing cooperative, has purchased Berner Nut Co. of Illinois. The purchase is expected to add \$50 million to the cooperative's fiscal 2001 sales. The pact makes Diamond the nation's leader for in-shell nut sales to consumers. Meanwhile, plenty of Diamond's walnuts were present at the summer Olympic games in Australia, just as there will be at future Olympic games through 2004. A spokesman for the Salt Lake

Olympics Committee, hosting the 2002 winter Olympic games, said Diamond products would figure prominently in the recipes five dozen chefs will use in preparing meals for the athletes, sponsors and spectators.

### Kelley succeeds Webb as Growmark president

Glenn Webb, chairman of the board and president of Growmark Inc., Bloomington, Ill., and a strong advocate of cooperative education, has retired, ending his nearly 20-year tenure as a Growmark officer. He will continue to remain active on the boards of CoBank and Archer Daniels Midland. In April, Webb was inducted into the Cooperative Hall of Fame.

Dan Kelley, a grain farmer from Normal, Ill., was elected to succeed Webb as chairman and president for a one-year term.

Kelley has been on

the board since 1995 and was one of two vice chairmen for the past two years. He earlier served as a director of Evergreen FS Inc., a Growmark member company, and as a director at First Farm Credit Services of Bloomington, and as chairman of Agribank FCB at St. Paul, Minn. He has also been active in the Ag Guild of Illinois, a group of farmers seeking ways to capture added value from the commodities they produce. Kelley farms 2,080 acres.

Growmark showed a dramatic business turnaround during fiscal 2000. It



will pay \$10 million in cash and stock patronage to its member co-ops. Estimated after-tax earnings were \$10 million, a major improvement on the 1999 loss of \$9.9 million, caused by the depressed farm economy and the lowest commodity prices in 20 to 30 years. The change was attributed to cutting overhead costs by \$13.8 million since 1998, as well as to operating improvements and increased sales of \$180 million to reach \$1.3 billion.

The cooperative's business strategy is to increase sales \$500 million over the next five years. Toward that goal, Growmark has expanded with agronomy and energy sales beyond its traditional territory of Illinois, Iowa, Wisconsin and Ontario into Nebraska, Kansas, Indiana, Ohio and Michigan. Grain division volume was up 5.6 per cent, focusing on specialty programs aimed as both processing and export markets. For the 14th consecutive year, MID-CO Commodities, a hedging and market advisory service for member companies, will pay \$625,000 in patronage refunds based on increased earnings of \$974,000.

#### Riceland completes trade with Iraq

Riceland Foods Inc., at Stuttgart, Ark., sold 1 million bushels of rice valued at \$5 million to Iraq in a food-for-crude exchange. It was the first American rice sent to Iraq since international sanctions were imposed a decade ago. The cooperative recently shipped 20 tons of rice to Guantanamo, Cuba, to help residents suffering from a drought. Dick Bell, Riceland's president and chief executive officer, said that in addition to helping people with a food shortage, the shipment will help the cooperative if trade restrictions against Cuba are lifted.

In other Riceland news, K. Daniel Kennedy has been named the new executive vice president and chief operating officer. He will focus on the day-to-day operations of the cooperative. Most recently he was vice president of North American markets at Monsanto Co.

#### LOL, DFA join Dairy.Com

Two major dairy marketing coopera-

tives, Dairy Farmers of America and Land O'Lakes Inc., are among initial investors in the new Internet website called Dairy.com, to be used for trading milk within the dairy industry. The business-to-business exchange is expected to lower costs by bringing widespread buyers and



#### Blue Anchor closing operations

One of California's oldest fresh fruit cooperatives, Blue Anchor Inc. at Sacramento, is closing its operations. It cited a declining grower base, dwindling fruit volume and continued consolidation pressure on the retail and supply side of the produce industry.

Blue Anchor, which will shut down within a few months, was formed in 1901 as the California Fruit Exchange by several Sacramento tree fruit growers. The closure will not affect Mayflower TCLA, of Exeter, Calif., a fruit marketing cooperative that had an alliance with Blue Anchor.

sellers together and reducing paperwork. The exchange is slated to open April 1, 2001, with live trading of milk, cream and other commodities. Although the founding members are financing the startup, the exchange will be open to any producer or dairy industry company. The group is looking for a chief executive officer for the business. A headquarters site has yet to be selected.

#### Calif. co-op/community parley slated

The University of California's Center for Cooperatives will sponsor its annual cooperative and communities conference Nov. 17-18 at Preservation Park in Oakland.

The program is aimed at both experienced and new cooperators who will share cooperative success stories. Conference topics will cover director education, accredited legal courses and innovations in cooperative development. For further information, check the center's web site: <http://cooperatives.ucdavis.edu>.

#### DFA returns \$20 million in equity

A \$20 million equity-retirement package — including \$10 million to fully retire the equities of 9,300 inactive members of predecessor cooperatives — has been announced by Dairy Farmers of America (DFA), the nation's largest dairy cooperative. Those equities covered marketings with the cooperatives before 1991. DFA — created by the consolidation of four regional dairy marketing cooperatives — began operating on Jan. 1, 1998.

Charles Beckendorf, chairman of the DFA finance committee and a dairyman from Tomball, Texas, said the new cooperative wanted to return equity of former members in a timely manner so that present equity is supplied by active members. The board's modified equity plan calls for all inactive accounts to be paid in the 10th year following last activity in the account. Those who last shipped milk in 1991 can expect full payment of equity accounts by next August. Those with accounts less than 10 years old may

apply for early redemption at a discounted rate. Last year, DFA's 24,000 dairy farmer-members in 45 states marketed 43 billion pounds of milk which generated sales totaling \$7.5 billion.

#### Ocean Spray gets boost from USDA

In an effort to bolster a cranberry industry sagging under crop surpluses and falling prices, the U.S. Department

of Agriculture has purchased 5.5 million pounds of cranberry sauce from Ocean Spray Cranberries cooperative at a cost of \$2 million. The cranberry sauce will be distributed to the nation's schools, food banks and other programs that feed the poor.

In the face of over-production, USDA has ordered growers to cut production or dump 15 percent of the crop

this fall to stabilize prices. A spokesman for the 804-member Ocean Spray cooperative said the real pressure will be on the cooperative to increase demand through its own efforts. Prices paid to growers have plummeted to \$11 per barrel from \$60 two years ago.

#### Sunkist sells Argentine lemons

Sunkist Growers has agreed to market about 400,000 cartons of Argentine lemons in the United States this year. The fruit is coming from two principal growers who have given Sunkist exclusive marketing rights in the United States, said Sunkist President Victor Lupinacci. Al Williams, chairman of the 6,500-member cooperative, said the purchase was essential for Sunkist to continue meeting challenges and opportunities in the global market. The California-Arizona citrus industry will produce an estimated 20 million cartons of lemons in the U.S. this year.

#### Allied Seed buys Agribiotech

Future supplies of legumes, forages and turfgrasses for cooperative members of Southern States, Tennessee Farmers and Agway Inc., have been assured by the purchase of certain assets of a bankrupt Nevada firm. The cooperatives and a group of former employees of Allied Seed Cooperative recently formed Allied Seed LLC. It purchased seed processing facilities in Idaho and Wyoming owned by Agribiotech Inc. of Henderson, Nev.

These facilities can handle about 230 million pounds of product annually. Allied Seed President Dave McWilliams says research is constantly developing new varieties of forages and turf seeds. Although new equipment will be installed in the Idaho plant, Allied Seed is already operating.

#### Potato growers OK dividend

The board of directors of Maine Potato Growers (MPG) Inc., has approved a patronage dividend payment of \$200,000 to its members. They will receive a dividend equal to 1.4 percent of their purchases from MPG during fiscal 2000. The dividend will be made in a combination of cash and Class A

## A Creed for Cooperative Members

***Editor's note:** This set of guidelines outlines how members should react to their cooperatives. It was popularized by the late Dr. Joseph Knapp in 1963 while administrator of USDA's Farmer Cooperative Service. It is appropriate to review them again during this year's National Co-op Month observance. Consider sharing this creed with members in your cooperative's publication:*

- I will keep myself informed on the affairs, problems, and methods of my cooperative so as to be an intelligent and constructive member.
- I will exert my influence to see that my cooperative has the best possible directors and officers in terms of general competence and integrity.
- I will faithfully support my cooperative with my patronage and encourage my friends to use it, because in volume there is strength.
- I will help build and maintain my cooperative by contributing my share of essential capital.
- I will insist that full information be provided me on the operations and financial condition of my cooperative, based on accurate accounting and proper auditing.
- I will not expect miracles from my cooperative, but I will insist on receiving from it honest values and efficient services.
- I will refrain from asking my cooperative to give me favors in the form of credit or other special services.
- I will take pride in my cooperative and use my influence to see that it assumes a fair share of community responsibilities.
- I will stand by my cooperative in its days of adversity and help protect it from weaknesses which come from prosperity.
- I will always remember that my cooperative is ME, and others like ME, and that its behavior is as reflection of MY behavior.

stock. Dividend payments of \$300,000 will be paid to shareholders and grower-members. Formed in 1932, the cooperative serves the needs of Maine potato and blueberry growers.

#### Catfish processors merge

Two catfish processors looking for more market power have merged to form Fresh Aquaculture LLC, to be headquartered in Hollandale, Miss. Farm Fresh Catfish Inc. merged with Farmland Catfish Processing Inc. John Gentry, Farm Fresh chief executive, will be president of the new company. The company may also consider raising other species of farm-raised fish or

shrimp. The Farmland Catfish cooperative serves catfish growers in the Mississippi Delta. The joint venture will operate out of a Farmland Catfish plant at Hollandale. Farm Fresh has four other plants in the Delta.


#### Consolidated Beef forming

Feedlots and individual producers from Texas, Oklahoma and New Mexico have agreed to join the new Consolidated Beef Producers, a marketing cooperative based at

Amarillo, Texas. Chairman Paul Hitch, Guymmon, Okla., said the group seeks to match the market clout of the four major meatpackers by secur-

ing rights to market about one-fourth of the fed cattle sold in Texas each year.

Facing an Oct. 1 deadline, the cooperative planned to have 1.5 million head of cattle enrolled and to begin marketing soon thereafter. Organizers recently discussed their marketing plans to gain higher prices with the Nebraska Cattlemen's Feedlot Council. Traditional cattle sales have only generated average prices, Hitch said, even for quality beef cattle. He said the cooperative seeks to enroll members to improve their bargaining power by selling more cattle instead of smaller lots. He said the cooperative wanted to get the best price by matching cattle to specifications meatpackers prefer. ■



AGP is the largest farmer-owned soybean processing cooperative in the world. AGP is also one of the four largest U.S. soybean crushing systems and one of the three largest vegetable oil refiners.

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*AGP ad wins plaudits: This advertisement developed by Ag Processing Inc, an Omaha-based soybean processing cooperative, won first place honors from the Cooperative Communicators Association for the powerful, succinct message it relates regarding the "cooperative difference" of member-owned businesses.*

### Correction:

The article on the 65th anniversary of the Rural Electrification Administration in the July/August issue said that the REA was initially part of USDA. Actually, the executive order, signed on May 11, 1935, created REA as an independent agency. When the permanent legislation was passed into law May 23, 1936, it continued the REA as an independent agency of the federal government. REA was placed under USDA in 1939 as a result of the Government Reorganization Act of 1939. With the advent of World War II, REA headquarters was moved to St. Louis in 1942.



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