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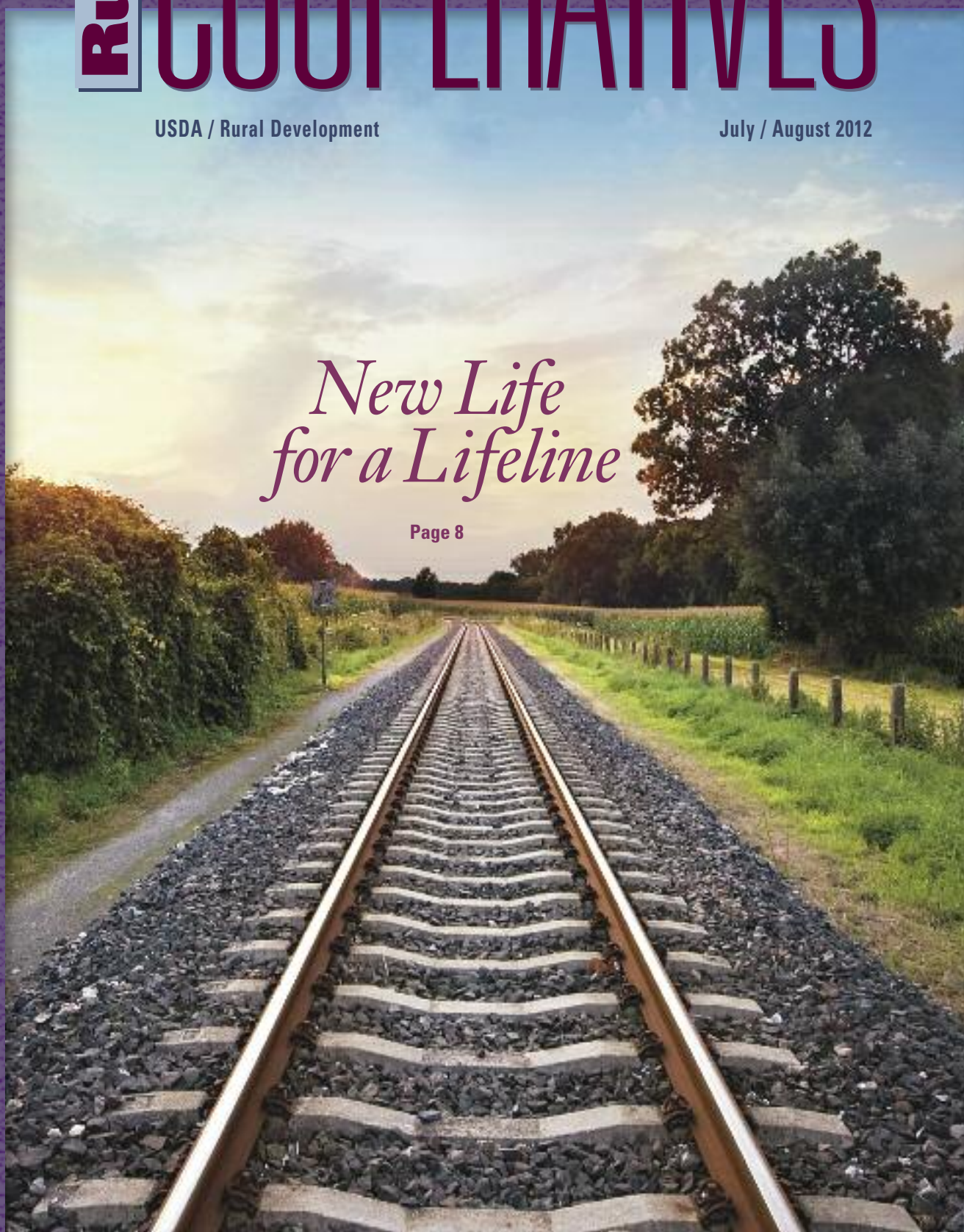
Rural COOPERATIVES

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July / August 2012

New Life for a Lifeline

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Commentary

What Main Streets have over Wall Street

By Lee Egerstrom, Minnesota 2020

Editor's note: Egerstrom is a long-time writer on agricultural and cooperative topics in the Upper Midwest. This guest commentary is reprinted courtesy Minnesota 2020, a rural issues think tank. It is slightly abridged from the original version, published last winter on the organization's website (where the full version can be read): www.mn2020.org



Far from America's money center, community-based, farmer-owned and consumer-owned cooperative businesses in Minnesota are helping create jobs and wealth, and investing in their communities.

That became apparent in an event advisory sent by Frank McDowell, general manager of New Vision Co-op, a southwestern Minnesota regional agricultural co-op now based at Brewster.

"There is a lot of strength coming from agriculture for the last three years or so, and it is good for the whole economy," McDowell said. The co-op is "retiring" (paying back) about \$4 million in equity to original members who formed New Vision in 1998, a merger of two large co-ops in the area.

About 3,000 farmers in southwest Minnesota and nearby border areas of Iowa and South Dakota will receive these checks. "Our local merchants will be glad to see this money show up on Main Street," McDowell said.

Such actions are expected as companies, of any ownership structure, prepare for the future and position themselves to cope with changing market conditions and business opportunities.

In contrast, critics of big stock corporations and high-finance note that corporations now have about \$3 trillion stashed away, not being reinvested in the economy. While this stunts job growth and further holds back economic progress, other critics warn that when corporations start "investing," much of it will likely be in merger and acquisition (M&A) activity that won't necessarily grow the economy or put people back to work.

More often than not, M&A activity creates "redundancies" and "synergies," said Gerardo Espinoza, executive director of the Local Enterprise Assistance Fund (LEAF) at Brookline, Mass., in a recent interview. They usually lead to layoffs and more unemployment and



Construction work progresses on New Vision Cooperative's Magnolia feed mill project, a \$16 million elevator/feed mill slated to begin operation in June 2013. It will create 12 jobs in its first year of operation. Photo courtesy New Vision Cooperative

further weakening of the economy.

That is a danger for America down the road. But that isn't the case with New Vision Co-op and a new merger partner, the Wilmont-Adrian ag co-op, which merged into New Vision on Sept. 1, or other co-ops based in Minnesota.

Back on Wall Street, another danger is the debt being acquired by U.S. companies, according to Associated Press business writer Bernard Condon. In gleanings from Federal Reserve data, Condon said companies have added about \$358 billion in cash to their holdings since the start of the 2007-2008 Great Recession while debt increased by \$428 billion in that time.

At this point, it's unclear how big a threat corporate debt might represent for the national economy and how it is being used by companies and industries. Some debt accumulation may be nothing more than companies responding to low interest rates from Fed policy that will position them for more aggressive business action in the future.

Regardless, the inactivity of Wall Street companies does make a striking contrast to what is visible from the Minnesota countryside. Let's look at some recent developments:

- Growers and food consumers in the Red Wing area announced before Thanksgiving that they've hired Sharon Becker to be general manager of the Riverbend Market Cooperative, soon to open in the river city.
- The Good Food Co-op at Rochester is merging into the

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ON THE COVER: When a major railway announced plans in 2009 to abandon 28 miles of a railroad line in northern Iowa, two local farmer co-ops and a telephone co-op joined forces with others (including USDA) to make the investments needed to maintain a vital link in the local economy. See story on page 8.





Tracy Gauff, a doctoral candidate at Louisiana State University, explains and demonstrates artificial insemination techniques used for goat breeding before a group of Louisiana Goat Cooperative (LGC) members and other goat producers. Former LGC President Bruce Langley is to the right of Gauff. Photos courtesy Louisiana Association of Cooperatives

Disasters spur co-op formations

Louisiana co-op association helps farmers, fishermen recover following hurricanes and oil spill

By Anne Todd, Contributing Editor
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Despite hurricanes, drought, floods and oil spills in recent years, agriculture and fishing remain among Louisiana's top-earning industries, netting about \$6.1 billion last year. More than half of the state's producers are small-scale farmers and fishermen, for whom these natural and man-made disasters have created an especially heavy burden, since even in the best of times, achieving

economic viability can be a challenge for them.

According to the Louisiana Department of Agriculture and Forestry, slightly more than 60 percent of the state's producers are classified as operating small farms, with less than \$20,000 in annual sales. Besides low earnings, small farmers and fishermen face other barriers to sustaining their businesses.

These barriers are especially prevalent for socially disadvantaged, often minority, producers. Challenges include having limited operating and investment capital and a lack of access to credit. They also struggle more to tap state, federal

and other support resources. Small, socially disadvantaged producers also often lack the technical expertise, business acumen and marketing skills needed to improve their income and overall chances of business success.

Harvey Reed III is a “man on a mission” to turn things around for socially disadvantaged small farmers and fishermen in his home state. As the founder of the Louisiana Association of Cooperatives (LAC), Reed knows all too well the day-in, day-out hurdles that small and minority producers face. He’s seen those difficulties first-hand through more than 20 years of direct experience with rural agricultural production in Louisiana.

Reed, a graduate of Southern University and Louisiana State University’s Ag Leadership Program, specializes in development of co-ops and also works in agribusiness and general economic development.

Rebounding from Hurricane Katrina

On Aug. 29, 2005, Hurricane Katrina — one of the five most deadly hurricanes in U.S. history and the costliest one to date — struck southeast Louisiana. It caused widespread destruction throughout the Gulf Coast region, but especially in Louisiana, where almost 1,600 people lost their lives.



These shrimp pontoon barges were floated up a ship channel by Gulf Coast Fisheries Cooperative members to save them from an approaching hurricane.

The impact in New Orleans was cataclysmic. The storm surge, coupled with scores of levee failures, put 80 percent of the city underwater and displaced hundreds of thousands of people. The devastation extended over about 90,000 square miles of the Gulf Coast, from Louisiana to the Florida Panhandle. The estimated damage from Hurricane Katrina was more than \$81 billion. Louisiana’s farm economy alone

suffered about \$1.6 billion in losses.

In the aftermath of Katrina, the situation was dire for small farmers and fishermen of the Louisiana Gulf Coast. They were in a desperate struggle to survive the ecological and economic effects of the disaster and to keep their businesses afloat.

Witnessing their plight led Reed to form the Louisiana Association of Cooperatives (LAC). His goals were to: engage in the Katrina recovery effort; reach out to disadvantaged small farmers and fishermen and provide them with technical assistance and resources; and to help them form new cooperatives to collectively strengthen their operations. His vision was for a grassroots, highly mobile and rapid-response organization.

Reed was already deeply involved in Katrina recovery work before the official incorporation of LAC. He initially worked with two groups of fishermen, located on opposite sides of the state, to assess their needs, help them secure resources and organize as co-ops.

“Recovery and relief — that was our main focus when we got started,” Reed says. “We realized that after the hurricane they couldn’t do any fishing because their boats were under water, damaged or just lost. We asked them about forming a co-op and they agreed to do it.”

The two groups Reed initially worked with organized as the Gulf Coast Fisheries Cooperative in Hackberry, La., (see sidebar) and the South Plaquemines United Fishing Cooperative in Pointe A La Hache, La. At the time that it organized, South Plaquemines United included about 50 commercial fishing families in Plaquemines Parish, south of New Orleans. However, the co-op is no longer active.

Reed also collaborated with the Louisiana Disaster Recovery Foundation — today known as the Foundation for Louisiana — to mobilize emergency assistance for his clients. The

foundation, a philanthropic organization, was established to facilitate the delivery of resources for rebuilding efforts across the state. Through Reed’s relationships with foundation members, he was able to provide immediate funding to help his clients.

LAC was formally incorporated on Dec. 21, 2007, with Reed at the helm as executive director; its office is in Gretna, La.

On the road to success

From the beginning, Reed was on the go, racking up miles on his car as he traversed the Gulf Coast and moved inland to meet with small fishermen and farmers. Early on, Reed made a commitment that employees of the Louisiana Association of Cooperatives would work face to face with clients, as much as possible.

He believes that personal contact is essential to building trust and solid relationships with clients and potential clients, especially in situations where cultural norms may differ between producer groups of different ethnic or racial backgrounds.

Today, LAC has a staff of nine working with co-ops all across the state, focusing much of its effort on African American, Latino and Asian producers. The association also



As part of its Recovery and Relief Initiatives, the Louisiana Association of Cooperatives has been involved in many efforts to aid rural communities following disasters. Here, Dillard University science graduate students and a professor test soil for contaminants after flood waters subsided.

recently began collaborating with two Native American producer groups.

For a small cooperative association, LAC has a large presence in the state: Reed and LAC have client relationships in 41 of Louisiana's 64 parishes (counties).

Oil spill impacts small fishermen

On April 20, 2010, just 41 miles from the Louisiana coast, there was an explosion on the Deepwater Horizon, an offshore oil rig. The explosion triggered a massive oil spill that wasn't completely contained until five months later, on Sept. 19. By that time, almost 5 million barrels of oil had been released into the Gulf of Mexico.

The spill caused widespread damage to the marine ecology of the region and to the fishing industry and workers that were dependent on it. A study commissioned for the state in

October 2010 estimated that short-term losses (defined as gross revenue losses from 2011 through 2013) to fisheries, the fishing industry and fishermen could be as high as \$172 million. The crisis also affected other parts of Louisiana's economy and workforce, including the tourism industry and food processors and retailers.

Although the spill adversely affected all Gulf Coast fishing operations, small fishermen were particularly hard hit. According to Reed, relief was initially directed to large operations; small fishermen had to wait longer for assistance. Another difficulty for small fishermen was that relief claims granted after the spill were partially calculated based on records of past years' catches and related data. In some cases, small fishermen did not have formal records of their business performance in prior years, which delayed processing their claims.

"Not only the environment was damaged, families were damaged," Reed says of the oil spill. LAC staff mobilized to help provide small Gulf Coast fishermen with relief. In the fall of 2010, Reed met several times with representatives from the oil industry and other officials involved in the relief effort to help expedite small fishermen's relief claims.

A small association with a big audience

LAC started a newsletter for members, the *Louisiana Association of Cooperatives Weekly Update*, which was distributed by e-mail. It covered a wide range of topics of interest to producers, such as reminders of sign-up dates for USDA programs, alerts about upcoming regional conferences and other ag events and cooperative extension activities. It also carried news about imports and exports, food recalls and international agricultural news.

The newsletter rapidly gained popularity. Members on the distribution list began forwarding it to other small farmers and fishermen, friends, family, coworkers — all sorts of people working in agricultural production in Louisiana. The newsletter even made its way to staff at the United Nations, where it gained faithful readers. Reed reports that the audience for the newsletter eventually grew to about 20,000 readers each week.

But producing a weekly publication began drawing away too many resources from other important tasks for the association. So the newsletter was put on hiatus at the end of 2011, to be retooled as a bimonthly publication. Reed says production of the new publication is expected to start later this year.

Support from USDA

The Louisiana Association of Cooperatives has been awarded several competitive grants from USDA Rural Development through its Small Socially Disadvantaged Producer Grant (SSDPG) program. The grants help the

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New processing facility should improve outlook for fishing co-op

The Gulf Coast Fisheries Cooperative is one of the original two co-ops that joined the Louisiana Association of Cooperatives. The co-op is located in Hackberry, La., a small town of 1,700 people in Cameron Parish, in southwestern Louisiana, about 20 miles from the Gulf of Mexico

Earning a living on the water is a struggle for the members, so Susan Meaux, her husband and other fishers in Hackberry formed the co-op in the hope that it would strengthen their businesses and increase their access to resources. Providing important help in the formation of the co-op was Harvey Reed, founder of the Louisiana Association of Cooperatives (LAC).

"Harvey Reed helped us from the very beginning," says Meaux, the co-op's president. "In a small community like ours, with such a small number of fishermen, it's hard to get resources. He helped us be heard and be seen."

The Gulf Coast Fisheries Cooperative has 39 members, primarily comprised of husband/wife teams who run small fishing operations. Many of them are teaching their children the family business in the hope that they can earn their living on the water. Meaux says she married into the business.

The life of a small fisherman can be difficult; it is hard to earn enough income to get by, Meaux says. "You can spend 19 hours a day on the water, spinning your wheels for nothing." Forming a cooperative — and through its membership in LAC — has helped Gulf Coast Fisheries Cooperative members improve their income, she says.

Beset by disasters

In 2008, the Hackberry area was devastated by Hurricane Ike, which completely flooded the town, gutting all homes and other buildings. Recovery from Ike has been extremely difficult, but family and community ties are strong in

Hackberry. Meaux says that the community always steps in to help those who are in need.

Reed and the LAC were also instrumental in directing resources and assistance to the Gulf Coast Fisheries Cooperative after Hurricane Ike to help members get their businesses going again.



Co-op member Eddie LeJuine heads back to port with his daily catch of black drum fish.

The Gulf oil spill dealt another blow to co-op members, as it did to other fishermen along the Louisiana Gulf Coast. "Even though it's peak season for seafood, fishers are barely breaking even this year," Meaux reports.

With technical assistance from LAC and the Foundation for Louisiana, the co-op applied in 2007 for a state grant to build a processing facility. The co-op was awarded a \$1.1 million grant in 2008 to replace value-added seafood storage and processing equipment. Construction and

equipment installation were delayed due to Hurricane Ike, but work on these improvements is currently underway.

An eye toward the future

Despite the hardships that the Meauxs and other co-op members have experienced, they are persevering and say they intend to keep their fishing businesses going. Being part of a co-op and members of LAC have been two avenues of support and resources.

Once work on the processing facility is complete, it will help increase members' earnings, since they will not have to pay for processing from outside sources. Co-op members have benefited from financial resources and training that they likely would not have received as individual operators.

"If we hadn't formed a co-op, experiences could have passed us by," Meaux says. "By being in a co-op, we can get more done." ■

New life for a lifeline



Cooperative effort in Iowa keeps trains on the tracks

By Stephen Thompson, Assistant Editor
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For many rural communities, railroad service is a lifeline. Commodity sellers and small manufacturers need access to efficient, economical transport to move their products to buyers. Trains, in most instances, are by far the most efficient carriers.

So in 2009, when Union Pacific Railroad (UP) gave notice of its intent to abandon 28 miles of track to the 4,100-population community of Forest City, Iowa, it set off a shockwave. Local government, business owners, farmers and co-op leaders got together to find a way to keep the line open. The result was the creation of a locally owned limited liability corporation (LLC) that purchased the property and

leased it to a local railway.

The rail line survived, and a vital building block of the prosperity of three Iowa counties was preserved.

Sparse rail traffic sparks crisis

From Union Pacific's perspective, the problem was clear: there just wasn't enough traffic on the line to justify keeping it in operation. As the largest railroad in the United States, with almost 32,000 miles of track, UP has traditionally used big, powerful locomotives and long trains to achieve economies of scale. Small trains and lightly-used rail lines don't fit its equipment or its business model, and the Forest City line was simply not economical for UP.

Many shippers along the route weren't able to take advantage of the line when it was open, explains David Kingland, president of Forest City Economic Development and

CEO of the local bank. "Major rail companies want to work with a minimum 100 cars at a time, and they don't service the small shippers or receivers," he says. "If you have a small company on the line, say an elevator that has five cars of fertilizer coming in, the big shippers don't want to deliver to that. Likewise, if a smaller co-op elevator wants to ship 20 cars of grain out, they don't want to service that either. So, we had this rail that for years had very little traffic on it, just almost nothing."

Even so, the news that the railroad had applied to the U.S. Department of Transportation (DOT) for permission to abandon the track caused consternation. "Forest City is at the end of the line," says Beth Bilyeu, the Forest City Economic Development's executive director. "We knew that if it closed down, nobody was going to build another one."



The Iowa Northern Railway operates 200 miles of track, including 28 miles of rail serving Forest City, Iowa, that otherwise would have been abandoned in 2009. USDA Rural Development contributed \$600,000 through its Rural Economic Development Loan and Grant (REDLG) program to help maintain service on the rail line. Photo courtesy Iowa Northern Railway

Kingland makes the same point. “Railroads were established in the mid-1800s in this part of the country,” he says. “You can’t establish a rail line now. For light use like ours in an agricultural area, you’d never get the right of way. If we had lost this line, it would have been lost forever. We’d never have rail service here again.”

Short-line railway seen as alternative

Bilyeu saw a possible savior in the Iowa Northern Railway, a short-line, Class III railroad founded in 1984 to take over part of the Rock Island Railroad. Iowa Northern now operates nearly 200 miles of track and connects with six major railroads, including the Union Pacific, and other smaller lines as well. It serves two ethanol producers, and its up-to-date terminal in Manly, Iowa, is designed to handle and store ethanol and the commodities used to make it. And its main line comes close

enough to the Forest City line that connecting to it seemed feasible.

Having it buy Union Pacific’s unwanted rail line seemed the ideal solution.

When Bilyeu ran into Iowa Northern’s president, Dan Sabin, at a DOT conference, “I did what any good little development person would do,” she chuckles. “I said to him, ‘why don’t you buy this rail line?’”

Sabin was interested, but he had a problem. Because traffic on the line was so light, he wanted some assurances that his company would get enough business to make taking it over worth the risk. So he offered an alternative. If a group of local investors could purchase the line, Iowa Northern would lease it from them and operate it.

Sabin figured that if a local group, especially shippers, bought the line, they would be committed to using it. The railroad even offered to sweeten the deal.

“What really made this work,” says Bilyeu, “is that Iowa Northern said if we could raise a portion of the money as investments, Iowa Northern would guarantee that the lease payments would cover the debt servicing. Well, now we have a ball game.”

Potential seen in ‘orphaned’ rail line

Joshua Sabin, Dan’s son and the administrative officer of the railroad, says that the company saw potential in the rail line. “They had good customers without good rail service. We had good service and connections.” Moreover, the railroad had completed a similar deal several years before when it acquired a branch line to Oelwein, Iowa — a town similar to Forest City, although, says Sabin, that project was not as large or as complicated as the Forest City partnership turned out to be.

Short-line railroads can offer better service to small customers than the

giant, main-line companies, says Sabin. “The big, Class I railroads typically focus on moving high volumes long distances. That’s what they’re good at doing. We can focus on a highly personalized plan — on moving the customer’s goods to where the market offers the best return. Our whole model is serving the customer, making sure they’re happy and giving them the options to make money and ship more. That’s how we’ve become successful.”

Sabin says that his railroad’s good working relationship with Union Pacific, which connects with Iowa Northern at Manly, is another plus for his customers. “We have synergies with



“There’s a saying in economic development that each project blows up a minimum of three times. This one blew up so many times I lost count,” says Beth Bilyeu, Forest City Economic Development’s executive director.

UP,” he says. “We have a partnership with them on transporting wind turbine components, with a distribution site at the terminal. That means it’s easy for us to put together transportation packages to benefit our clients.”

Complex deal takes time

While it seemed to be a match made in heaven, putting the deal together was anything but smooth. Finding the investors took several months.

“We did a private placement only to qualified investors,” says Bilyeu. To participate, an investor had to have an annual income of at least \$250,000, or a net worth of at least \$1 million. Participation was offered in \$25,000

units, and letters invited potential participants to presentations held jointly by Forest City Economic Development and Iowa Northern.

The project soon raised \$1 million in equity, against a total expected cost of \$2 million. Two local cooperatives, MaxYield of West Bend, Iowa, and Farmers Cooperative Association of Forest City, were major investors, along with Winnebago Industries, which manufactures recreational vehicles in Forest City. A nearby telephone cooperative, Communications One of Kanawha, Iowa, also invested, as did nine individuals, including farmers and business owners.

It was the rest of the deal that caused headaches. It required negotiating with two major railroads, shepherding two government loan applications to completion and untangling the complicated web of land deeds and easements that made up the right-of-way. That took two years. “I never thought it would take this long,” says Bilyeu. “Not in my wildest dreams.”

Pivotal to the project was making agreements with two giant railroads. Union Pacific owned the line, and Canadian Pacific Railway (CP) owned 20 miles of track the trains would have to use if they were to connect with Iowa Northern’s main line at Nora Springs.

“When you’re dealing with major railroads, they are so large and so bureaucratic that it’s difficult to negotiate a deal with them,” says Kingland. “This transaction was very small and didn’t mean anything to them. It was a very difficult thing to maneuver; it probably would have been a lot easier for Union Pacific just to shut down the line. And to make our railroad viable, we had to get trackage rights with Canadian Pacific. It took many months to get an agreement with CP. So we had those two issues to deal with.”

“Before the sale could be completed, title to the 28-mile-long right-of-way had to be established. “Title work is difficult,” Kingland says, “because some

of the land involved is railroad property, and some of it is easements. And often there are easements on the railroad right-of-way from utilities and telephone companies, and so on, and you have to really check those out.”

USDA, Iowa help with financing

Help with the massive documentation requirements was provided by a local business attorney and CPA, both of whom agreed to defer being paid until the deal was finalized. “Finding the right attorney who didn’t represent any of the entities we were dealing with was a problem,” admits Bilyeu. The local attorney also recommended a securities attorney based in Minneapolis, Minn.

“Bootstrapping a project like this can be difficult,” says Bilyeu. “It took a considerable amount of time and money. Forest City Economic Development fronted quite a bit of money to keep this going.”

The total estimated price of the deal was \$2 million. Of that amount, \$1.5 million would go to purchase the right-of-way from Union Pacific, and another \$500,000 was earmarked to construct a switch connecting the track to the Canadian Pacific line. The remaining \$1 million came from two, zero-percent interest government loans: \$400,000 from the Iowa Department of Transportation, and \$600,000 through a USDA Rural Development Rural Economic Development Loan and Grant (REDLG).

The USDA loan was sponsored by Forest City’s local telephone co-op, Winnebago Cooperative Telecom Association of Lake Mills, Iowa. The co-op took responsibility for making and servicing the loan (see sidebar). “That was a nice, brave step by the board,” Bilyeu says.

“As wonderful as those government loans are, we knew that they take time,” says Bilyeu. “So we got a \$1 million line of credit with a local bank as a bridge loan. We had to meet all the

How a REDLG works

USDA Rural Development's REDLG (Rural Economic Development Loan & Grant) program provides funding to rural projects through local utility cooperatives or other utility organizations.

Under the RED loan program, USDA provides zero-interest loans to local utilities which, in turn, pass the funds on to local businesses for projects that will create and retain employment in rural areas. The ultimate recipients repay the lending utility directly. The utility is responsible for repayment to the agency.

Under the RED grant program, USDA provides grant funds

to local utilities which use the funding to establish revolving loan funds. Loans are made from the revolving loan fund for projects that will create or retain rural jobs. When the revolving loan fund is terminated, the grant is repaid to the agency.

For the North Central Iowa Rail Corridor, USDA provided a \$600,000 RED loan package to Winnebago Cooperative Telecom Association of Lake Mills, Iowa, which made and services the loan to North Central Iowa Rail Corridor, LLC. REDLG lenders are prohibited from becoming investors in the projects they finance. ■

underwriting requirements.”

It helped that David Kingland was the president of that local bank (Manufacturers Bank and Trust) and that Iowa Northern also guaranteed the line of credit. “The bank did the bridge loan on the faith that we would get the financing,” says Kingland. “But we structured it so it could have served as permanent financing, with a 10-year amortization, if the loans didn't come through.”

Under the terms of the agreement, Iowa Northern will purchase the rail line at the end of 10 years, when the financing is paid off. The investors then will get their money back, plus 4 percent interest.

“There's a saying in economic development that each project blows up a minimum of three times,” says Bilyeu. “This one blew up so many times I lost count.”

But persistence paid off. The headaches and frustrations all came good on Nov. 21, 2011, when Iowa Governor Terry Branstad rode in an Iowa Northern locomotive that cut the ribbon inaugurating the new North Central Iowa Rail Corridor.

Railroad attracts new business

The new line has wasted no time bringing new opportunities to local businesses. “Now that we bought the

line and have a short-line operator that's willing to serve the customers along the track, we've had more cars shipped in eight months than we had shipped in the previous eight years,” says Kingland. “The freight rates are much better than what UP could offer. And, of course, the alternative is trucking — rail is so much more economical.”

Harry Bormann, MaxYield Cooperative's grain team leader, agrees. “We've been very impressed with the Iowa Northern's handling of that rail line and the service we've received,” he says. The line is already saving the co-op money, he adds, because it enables it to ship grain to the important Cedar Rapids market by rail, instead of truck.

The short line's flexibility and willingness to handle smaller trains is a big asset, Bormann says. “They're able to react much quicker; they're much more nimble than the major carriers. It's enabled us to take a location that had a good 25-car rail siding and use it without having to expand it to 100 cars, like the UP and some of the other major railroads require.”

Bormann says that he was “skeptical at first” about the co-op's investment, but now says: “We feel that the payback will be fairly rapid. Iowa Northern has provided us with good service and good rates. We've moved almost 100 cars a

month since March on that line.”

Kingland sees bigger possibilities for the future. “It really gives us an opportunity to do some development along the rail line,” he says. “It may be agriculture; it may not. Agribusiness is the biggest thing around here, of course, but there's also a lot of wind energy in the area and other kinds of industry as well. At this point, it doesn't look like a huge deal in terms of economic impact yet, but it sure has the potential for it. It has the potential to be a lot bigger.”

Iowa Northern's Joshua Sabin is happy with the outcome, too.

“We would have preferred it to move a little quicker,” he says. “But the businesses and communities up there are really excited to see trains serving the area, seeing the railroad back in town. And we're happy to be that partner. It's a really neat project, it just makes sense. It's fun to watch it grow and mature. We'd definitely look at duplicating it in the future.”

Asked if he thinks it's a model for other short-line railroads to pursue, he says: “Absolutely!”

Kingland has some advice for other communities contemplating a similar project: “Be very patient, and don't give up. We heard the word ‘no’ several times. But we kept working. And eventually, we got a deal.” ■

In The Spotlight

Brian Henehan

Senior Extension Associate, Cornell University

Brian Henehan recently retired from his position as senior extension associate and program leader of the Cooperative Enterprise Program at Cornell University. Henehan was responsible for developing and delivering an educational program for senior management, directors, members and staff of cooperative businesses. He conducted applied research on cooperative organizational behavior, marketing and decision making.

Henehan received national recognition in 1995 for his work in cooperative education from the National Committee for Cooperative Month. He has served as secretary of the Northeast Cooperative Council, a nonprofit organization serving rural cooperatives in New York and New England since 1990. During his tenure, the Council developed a newsletter, *Cooperative Notes*, and designed the “Cooperative Means Business” educational program for co-op employees. He also expanded programming for future leaders through Council members hosting a conference and by enhancing educational programming for managers and directors through collaboration with the Springfield Bank for Cooperatives and, later, with CoBank.

Henehan encouraged Cornell University to host boards of directors of cooperatives to meet on campus to learn about current research relevant to a variety of farm and agricultural businesses.

His involvement in national initiatives included serving as a member



Brian Henehan (left) discusses co-op issues with Ed Schoen, a director with Dairy Farmers of America, and Dan Wolf (center), board chairman of Upstate-Niagara Cooperative, during a recent Northeast Cooperative Council annual meeting.

of the National Rural Cooperative Development Task Force, which helped to secure funding for rural cooperative development centers authorized in the 1990 Farm Bill. As a founding member of the eXtension Community of Practice on cooperatives, he helped create on-line educational resources on a range of topics related to cooperatives at: www.extension.org/cooperatives.

Question: *What was most rewarding to you about devoting your career to working with cooperatives?*

Henehan: As an economist, I have been impressed with the variety of ways that cooperatives can generate economic value for members that result in improved conditions for them as well as their communities.

Q. *What was the most frustrating aspect of working with co-ops?*

Henehan: Although democratic control is one of the strengths of the cooperative model, group decision-making can be slow and tedious. Sometimes “hidden agendas” or personality conflicts can make the work a bit frustrating. However, I remain impressed with the high level of engagement, integrity and commitment that cooperative leaders exhibit.

Q. *What is lacking in cooperative education today, and how can the need be met? Are we losing or gaining ground at university level?*

Henehan: I fear that that as federal and state governments face tough economic times, the level of budget cuts for publically funded education and government agencies may cause us to lose some ground. Cooperatives and the agricultural-industry have relied heavily on the land grant university system and

USDA to produce talented students/employees, to conduct relevant applied research and to provide outreach to farmers and industry at a very low cost to end-users. However, the taxpayers have spoken, and all publicly funded activities are under the gun.

Most of the recent endowments being received by universities to replace some of the lost public funding are generated by gifts from wealthy individuals. Cooperatives can be at a disadvantage in this regard, in that by design, they are not created to generate a high level of individual wealth. Although a number of cooperatives through foundations or other strategies are helping to support cooperative education and research.

Q. You wrote a paper: “Questions co-op directors should be asking management.” Which of those questions do you think are most critical?

Henehan: I was co-author of the paper with Professor Bruce Anderson, my mentor at Cornell, who came up with the idea for the paper. In our work with boards of directors, we often encouraged directors to ask the “right” questions in a productive manner. Finally, we decided to write a list of questions and suggest how to best ask them.

It is difficult to single out one or two questions, but two areas come to mind. One is creating value for members, which can be addressed by asking: “Are we the market of first choice for members? If not, why not?” We also emphasized the importance of effectively communicating a well-defined vision, mission and measurable objectives, as tested by this question: “Do employees and members understand the cooperative’s vision, mission and objectives?”

Q. What lessons can co-op leaders learn from the failure of Agway (or other large co-op failures)?

Henehan: Professor Anderson and I wrote a paper, “What Went Wrong at Agway.” Although it was never

published, it was circulated extensively online. Some of the lessons I would suggest are:

- Make sure your cooperative’s delivery system for serving the members of today (and tomorrow) is current and relevant. To achieve this relevance, ongoing investment is needed and you must understand how your members’ operations are changing.
- Avoid having to spread out management talent across a wide range of enterprises that may exceed your “core competencies.”
- Don’t try to be the “safety net” for all producers in your territory. The primary focus should be on your current members and members of tomorrow.
- Continue to ask these questions: “What business areas of your cooperative will be obsolete in three to five years? Is the cooperative being aggressive enough in closing or divesting from losing operations?”

Q. Are co-ops as relevant in today’s economy as they were 50 years ago?

Henehan: I believe the cooperative model is more relevant in today’s economy. In tough economic times, with less public resources, the mutual self-help strategy of cooperatives becomes very valuable and relevant.

Q. Are there consistent areas where you feel co-ops are “missing the boat”?

Henehan: Today’s cooperatives need to do a better job of explaining the value of being a co-op member, as well as investing in a cooperative. The returns can be more difficult to measure than in an investor-oriented firm.

Given the high rate of farmers and cooperative employees retiring over the next 10 years, cooperatives will be challenged (as will many ag-related businesses) to attract the needed talent at all levels of the organization: boards, management and staff. Farmer cooperatives have traditionally been primarily led by white males; moving diversity ahead at all levels can create a

wider pool of talent to draw from.

Q. What areas do you see as having the greatest growth potential for cooperatives in the Northeast? What role can the Northeast Co-op Council or extension play in promoting new or expanded co-ops?

Henehan: Many changes are occurring in today’s food system. New products, innovative distribution channels, changing consumer demand can all present a number of opportunities for groups of producers, manufactures and consumers to cooperate for their mutual benefit. The Council helped start the regional rural cooperative development center — the Cooperative Development Institute — which works with start-up cooperatives.

The Council can help stimulate discussion and analysis about growth potential for established cooperatives and encourage Cornell University and other universities to remain engaged in the world of cooperative education and research. Cornell has a rich legacy of working with cooperatives dating back more than 100 years to Professor Liberty Hyde Bailey’s work with the Country Life Commission and rural cooperative development.

It is important to continue to build a knowledgeable group of Extension educators familiar with how cooperatives succeed, as well as understanding the limits and the power of the cooperative model.

Q. What are the most pressing issues facing cooperatives for the next five years?

Henehan: Generating adequate capital to fund assets and resources remains a pressing issue. Understanding and practicing sustainability as climate change becomes more critical is a pressing issue for all of us, as is acquiring and retaining talented people at all levels — as cooperative directors, managers, staff and members. Cooperatives have the capacity to successfully address all of these issues. ■

Co-op oil mills play vital role in sustaining cottonseed value



Cottonseed now contributes about 15 percent of annual farm income for cotton growers, thanks in large part to the increased share of the crop that is processed by cooperatives. Opposite page: tanks of cotton oil outside Lubbock, Texas.

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Cottonseed has long been a valuable byproduct for cotton producers and their cooperatives.

From 2000-2009, cottonseed contributed 15 percent to annual farm income derived from cotton production. That was up from a 12 percent average during the 20 years from 1980 to 1999 (Ash).

Cooperative cottonseed processors handle about 30 to 35 percent of the crop of upland cottonseed. Their involvement has a market-wide impact

in sustaining the value of cottonseed, generating benefits that accrue to members as well as to all cotton farmers. This article discusses the mechanisms of the cooperative impact and how it has changed in the cottonseed industry.

Gaining market share

Farmers and cooperative cotton gins began establishing oil mills for crushing (processing) cottonseed after the formation of the Federal Farm Credit system in 1933. By the 1950s, cooperative oil mills started to gradually establish a significant market share, as measured in 10-year intervals in Figure 1. Reports of cooperative returns to members were disseminated to other

farmers and cotton gins (Burgess) (Perdue). This information-disseminating role of cooperatives was conceived by E. G. Nourse as a “competitive yardstick,” that pressures non-cooperative agribusinesses to pay competitive prices to farmers. These firms would pay higher prices lest a new cooperative oil mill would be formed.

By the 1980s, the role of cooperative oil mills began to change from the competitive yardstick to that of sustaining the value of cottonseed. This change occurred because many of the farmers and cotton gins that in the past had exclusively sold to oil mills began to increasingly sell to the emerging market for unprocessed cottonseed as a dairy feed.

Cottonseed basics

Cottonseed is a byproduct from ginning harvested cotton to produce marketable bales of cotton fiber. About 800 pounds of cottonseed are produced from a bale of cotton. Prior to the late 19th century, about 2 percent of the cottonseed crop was needed for use as planting seed; the remainder was regarded as waste. Technological breakthroughs in the 1890s enabled cottonseed to be processed into edible oil and protein feed; other marketable cotton byproducts include seed hulls (also used for feed) and linters fiber (very short, fine fibers that are used in making stationary and other products). After 1890, hundreds of local oil mills operated to make cottonseed the largest source of edible oil in the United States, until losing that distinction to soybean oil in the 1940s (Perdue).

The members of cooperative oil mills are cotton gins, many of which are also cooperatives. The cotton gins distribute returns from cottonseed to their farmer-patrons. Earnings of cooperative oil mills may vary greatly from one year to the next, not only due to changes in demand for products and for whole seed as a dairy feed, but also because the annual production of cottonseed is determined by the size of the cotton harvest. The annual cottonseed supply in recent years has ranged from about 5 million to 8 million tons. As a byproduct, cottonseed lacks a supply response to market demand, so adjustments fall entirely on changes in prices.

Formation of cooperative oil mills

Efforts were made in the early 20th century to establish cooperative oil mills, but the amount of borrowing necessary to finance such projects was a

barrier. The machinery and equipment is capital intensive and substantial seasonal loans are required for purchasing cottonseed during the harvest period. By contrast, soybeans can be procured throughout the year from grain elevators.

The formation of the Federal Farm Credit System in 1933 was a turning point. Federal Farm Credit included a network of Banks for Cooperatives that were active lenders for oil mill start-ups and worked closely with these cooperatives in on-going financial planning for maintaining efficient operations (see sidebar).

Steady expansion occurred, and by 1940 seven cooperative oil mills were operating (Burgess), growing in number to 13 by 1950 (Perdue). After that the



pace of start-ups slowed. By 1960, there were 14 cooperative oil mills. From 1970 to 1980, the number of co-op oil mills had stabilized at 17, as indicated in figure 1. This pattern of entry by cooperatives into a market, which eventually slows and then levels off, conforms to the model predicted by Nourse. As the “yardstick” increases competitive pressure to raise farm product prices, Nourse believed that the incentive for establishing more cooperatives diminishes.

By 1990, the competitive yardstick from cooperative processing was no longer an operative market mechanism. Oil mills, including cooperatives, were exiting the industry as the demand for cottonseed as a dairy feed expanded.

Industry downsizing

In the 1980s, dairy nutritionists identified the benefits of using whole, unprocessed cottonseed as a cattle feed. Prior to the 1980s, about 95 percent of cottonseed production was processed by oil mills. In Figure 2 (showing the years 1980 to 2011) cottonseed supply is the annual crop plus beginning inventory, less ending inventory. For the 1970-1979 time period, the inventory adjustments were not recorded; instead, “sales of cotton-seed

to oil mills” was the reported annual supply.

Figure 2 shows that the first significant increase in whole cottonseed as a cattle feed occurred in 1979. Prior to that year, the residual amount that was not crushed was

used as planting seed. By 1999, less than half of the cottonseed crop was crushed and during the past decade it has averaged about 40 percent.

The first oil mills to exit the industry were those that had not stayed current with processing equipment and, therefore, had comparatively high operating costs. Based on performance surveys of cooperative oil mills, the least efficient processors had about \$15 to \$20 per ton higher manufacturing costs than the most efficient mills

during the late 1980s (USDA). By 1990, the number of cooperative oil mills had dropped to 10, down from 17 in 1980.

Figure 1, however, shows that with the exception of 2000, non-cooperatives were exiting the cottonseed crushing industry at a faster rate than were cooperative mills, as indicated by their share of the crush at each 10-year interval.

Cooperatives sustaining cottonseed value

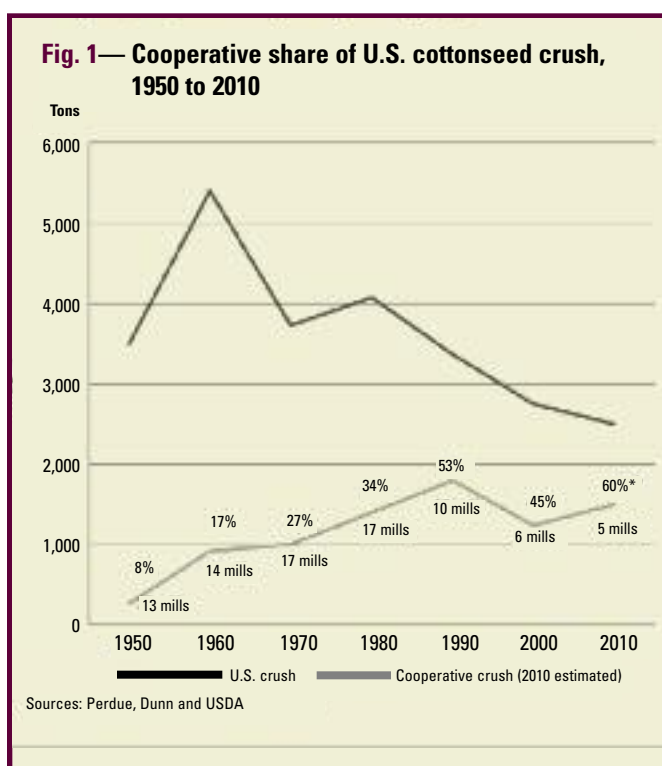
The value of cottonseed is now determined by both the dairy feed and cottonseed product markets. The prices per ton of cottonseed sold in these two markets tend to converge, but will typically vary due to changing market conditions. Payment for cottonseed works differently in a cooperative system. Instead of offering a spot-market price, co-op members receive an advance on delivery and a final payment

processing of pima cottonseed in California by a non-cooperative oil mill. This type of cottonseed lacks linter fibers and cannot be fed to dairy cows without special processing. As a result, most of it is crushed.

Oil mills that crush upland cottonseed, by contrast, have a price impact on the dairy feed market. If the volume of the pima crush were removed from the data, the cooperatives' share as indicated in Figure 1 for 2010 would be larger, possibly 65 percent or higher.

Impact of cooperatives

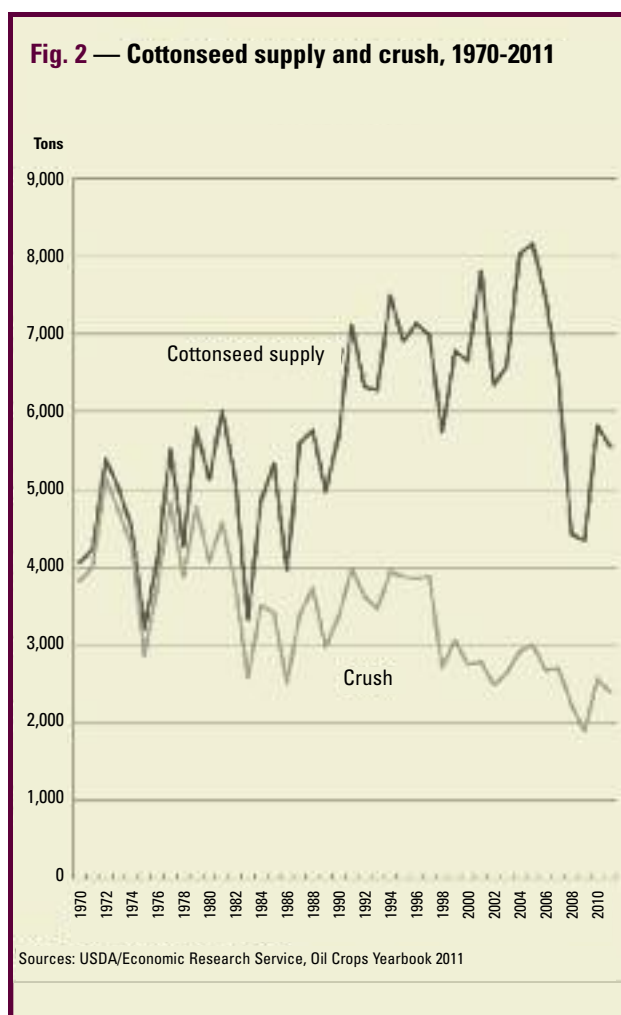
The involvement of cooperatives in the cottonseed processing industry was an important milestone in improving returns to U.S. cotton farmers. Successful entry of a few cooperatives during the 1930s encouraged more start-ups until the early 1980s. Their history is an example of the



at the end of the fiscal year.

Depending on market conditions, oil mills often sell some cottonseed to dairy feed buyers. But, if none of the cottonseed crop were processed, prices would plummet. Only a major expansion in the U.S. dairy herd could offset the large price decline that would occur without the market demand for processing cottonseed. Crushing provides a critical market balancing function that sustains the value of cottonseed. While all active oil mills contribute to sustaining the value of cottonseed, cooperatives have taken a larger role in processing the annual crops.

The share of the crush performed by five cooperatives in 2010 was about 60 percent (figure 1). However, this is an underestimate. The total cottonseed crush data includes the



Nourse model of how cooperatives provide additional competition to the benefit of farmers.

The development of the dairy feed market for cottonseed became another avenue to boost earnings for farmers. Prices for cottonseed in the dairy feed market gain support from a successful, though smaller, oilseed milling industry.

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Comparative performance reports help co-ops learn from peers

An independent business can gain perspective on its own economic performance by participating in comparative performance studies with similar businesses. Conglomerate firms with multiple food-processing locations and retail chain stores have their own internal comparative studies of all similar operating units.

In contrast to conglomerates and chain-stores, cooperatives often operate at a single or possibly a few locations and have no means of comparing operating results. Lacking multiple operating locations is not necessarily a competitive disadvantage, but these co-ops often lack data for comparative performance analysis with other independent cooperatives.

Cooperative oil mills are an example of a group of businesses that benefited by having access to comparative performance reports. During the early years of Farm Credit and the Banks for Cooperatives, both cottonseed and soybean processing cooperatives participated in annual performance studies. The Farmer Cooperative Service (FCS), as a part of Farm Credit until 1953, maintained these annual reports, including comparative performance studies for cooperatives in other industries, such as dairy.

Starting in 1948, the performance reports were presented at annual meetings for cooperative cottonseed and soybean processors; a joint annual meeting of oilseed processors was begun in 1955 (Perdue). These meetings involved participants sharing ideas on why some had, for example, higher or lower costs than others.

In addition, the Banks for Cooperatives held periodic meetings that focused on comparisons of financial data for oil mills. Discussions about specific areas of performance evolved into a broader strategic dialogue as the managers of the cooperative oil mills developed familiarity and trust in one another.

The strategic dialogue resulted in some successful joint projects. In 1962, several of the soybean and cottonseed oil mill cooperatives formed a common marketing agency for vegetable oil: Soy Cot Sales Inc.

They worked with Soy Cot to lease port facilities for exporting soybean and cottonseed oil.

Merger creates AGP Inc.

By 1983, the structure of the soybean processing industry had become sufficiently concentrated that several cooperatives decided to merge, forming AGP Inc. The comparative performance reports were a useful source of information in planning this large-scale merger. USDA's Cooperative Programs worked with a consulting firm on the study to establish AGP.

Soy Cot continued to provide marketing services for the cottonseed processing cooperatives until the late 1990s. The largest cooperative cottonseed processor, PYCO Industries Inc. in Lubbock, Texas, extended its operations to make a fully refined product that can be sold directly to customers for cooking oil. With only a few other cooperative oil mills in operation, Soy Cot closed and USDA's comparative performance reports ended in 1999.

Oilseed processing was one of the earliest sectors where cooperatives participated in comparative performance studies. Many other industry sectors can benefit from such studies. For example, food retailing cooperatives and farmer-owned bio-energy businesses are participating in comparative performance studies managed by CoopMetrics, a cooperative that specializes in this service.

USDA Rural Development's Cooperative Programs maintains a series of benchmark financial ratios for cooperatives that are included in its annual co-op statistical survey. Cooperative accounting firms are also a source for starting or participating in a comparative study of similar cooperatives.

Comparative studies are not just an exercise in fact-finding and analysis; when presented and discussed at meetings, they provide a forum for strategic dialogue. On-going dialogue is the most effective way to utilize comparative data and for cooperatives to develop a sense of how to modify this or that "best-practice" to fit their conditions and member priorities. ■



Food hubs and growing demand for local foods are making it possible for more new farmers to get started and more co-ops to launch. Photo courtesy Agriculture and Land-Based Training Association.

Creating a roadmap for food hub development

By James Matson, Martha Sullins and Chris Cook

***Editor's note:** James Matson and Martha Sullins are consultants with Matson Consulting, Aiken, S.C. Chris Cook is executive director of the Virginia Foundation for Agriculture, Innovation and Rural Sustainability, Richmond, Va. This article is excerpted from a forthcoming USDA cooperative research report: "The Role of Food Hubs In Local Food Marketing," available from USDA's Cooperative Programs office by mid-August. To order a hard copy, send an e-mail to: coopinfo@wdc.usda.gov, or call (202) 720-8381. It can also be downloaded from the Internet at www.rurdev.usda.gov. Financial support for this research was provided via a Cooperative Development Research Grant from USDA Rural Development.*



Around the country, food hubs are building bridges to help connect producers of local foods with a growing base of consumers seeking home-grown foods. Food hubs are developing scale efficiency and improving distribution to geographically dispersed consumers, including households, retailers and wholesalers.

USDA's working definition of a food hub is: "A business or organization that actively manages the aggregation, distribution and marketing of source-identified food products, primarily from local and regional producers, to strengthen their ability to satisfy wholesale, retail, and institutional demand."

A recent Good Food Network webinar defined a food hub as "small or large warehouses that aggregate food and facilitate sales to wholesale customers or directly to consumers."

Although these definitions focus on the physical movement of goods, USDA does note that a food hub can also be defined by market efficiency functions, in addition to more abstract goals of building a diversified food culture.

It is worthwhile to consider a broader definition of food hubs, in terms of function rather than form, for two reasons:

1. Many hubs have evolved from an educational or social mission to bring consumers and producers together in the marketplace. While selling local foods to consumers is one function, these hubs may also seek to educate their buyers about the importance of retaining food dollars in the local economy or keeping working agricultural lands in production.

2. Second, some very functional hubs exist that do not consist of brick and mortar facilities; rather, they "live" primarily in a virtual context and are thus able to transmit information

quickly among buyers and sellers of local and regional food products; this is particularly pertinent in situations where lack of information is the key barrier to greater market efficiency.

USDA's Regional Food Hub Resource Guide (available online at: www.ams.usda.gov/foodhubs) provides a clear, practical example of this by saying: "Food hubs are examples of innovative, value chain-based business models that strive to achieve triple bottom-line (economic, social, and environmental) impacts within their communities. They do this by offering a suite of services to producers, buyers and the wider community."

Cooperative-structured food hubs

Many different ownership structures are used to operate food hubs, including those formed as cooperatives, which can

be controlled by its members. The membership fees provide working and investment capital for the food hub, with any surplus revenue returned to members.

A co-op is managed by a board of directors elected by the members, which — in the case of a food hub — may be made up entirely of producers who will manage the organization to meet their members' needs (providing a fair return on products sold, arranging transportation of goods to end consumers, promoting a certain production practice, or serving a certain geographic area).

Many cooperatives — such as the Oklahoma Food Cooperative (featured in the May-June 2012 issue), the High Plains Food Cooperative in Colorado and the Weaver Street Market in Carrboro, N.C. — have evolved and currently operate as multi-stakeholder



be led by producers, retailers, consumers or a combination thereof. There are several advantages to the cooperative business structure that make it a good fit for an emerging food hub. The cooperative structure is a well-known, established community entity with strong roots in agriculture that is owned and democratically

operatives. This business structure includes consumers, workers and producers in the same business entity. An example of a more standard produce ownership structure is La Montanita, based in Albuquerque, N.M. Each of these examples has achieved different scales of impact on their respective local and regional food systems.

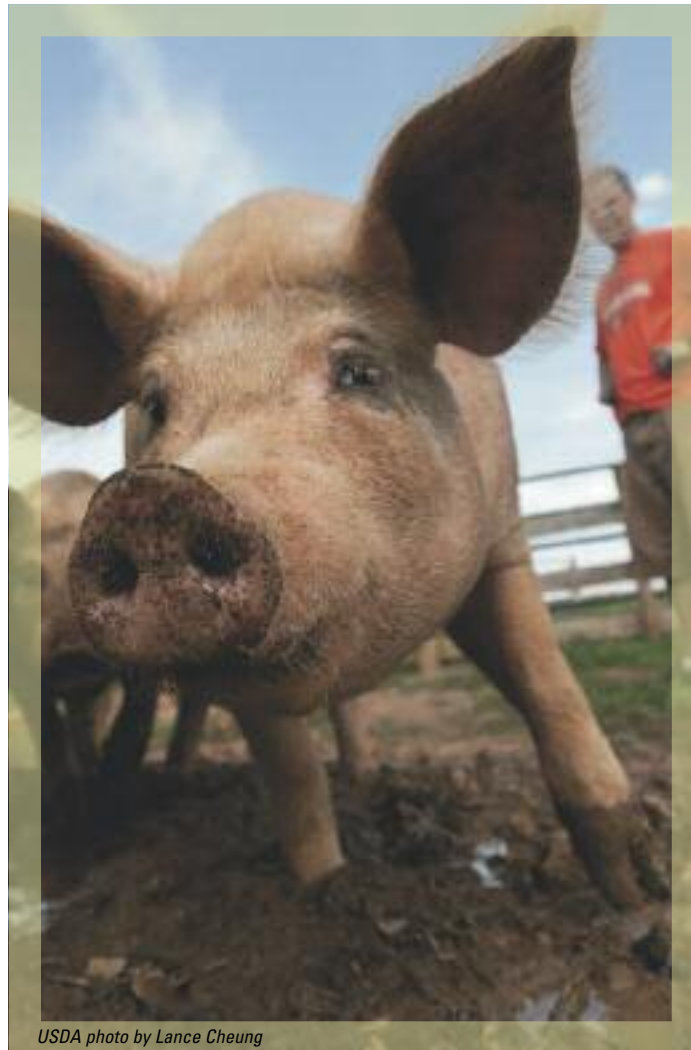
Other cooperatives with similar operations to the Oklahoma Food Cooperative and High Plains Food Cooperative model include the Iowa Food Cooperative (Iowa), Crosstimbers Food Cooperative (Texas), Idaho's Bounty Cooperative, Massachusetts Local Food Co-op, Nebraska Food Cooperative, Ottawa Valley Food Co-op (Ontario, Canada), West Michigan Cooperative and the Wichita Food Co-op (Kansas).

Weaver Street Market began operations in 1988. In addition to its own bakery and fresh food kitchen, Weaver Street Market offers a wide variety of natural and locally grown products. Milk comes from Maple View Farms, two miles up the road. Eggs are delivered fresh daily from Latta's Egg Ranch in Hillsborough, N.C. Flour comes from Lindley Mills in Graham, N.C. About a dozen local area farmers, who sell their produce at the Carrboro Farmer's Market, also sell to Weaver Street Market. Keeping the market community owned and operated has proven to be a very popular idea. The 2011 annual report indicates that the cooperative made a profit of about \$250,000 and nearly half of its \$26 million in sales was sourced from local products with nearly 16,000 households as member/ owners.

Founded in 1976, La Montanita currently stocks and sells more than 1,100 products from nearly 700 local growers in New Mexico and Colorado. Its 2008 sales were \$2.8 million. La Montanita is a cooperative that supplies four retail stores in New Mexico, distributing both local and national brands through a co-op distribution center (the CDC).

The CDC, in turn, also sells to other

specialty retailers and restaurants. La Montanita started a distribution arm through the CDC in 2007 to extend the operation and create greater market access for the region's producers.



USDA photo by Lance Cheung

Products are now sourced from within 300 miles of Albuquerque (including southern Colorado) and distributed across New Mexico.

Roadmap to hub development

The development and evolution of food hubs is usually highly localized and depends on several factors. Even so, there are some lessons that can be applied from reviewing examples from across the country. Some factors appear to contribute to success more than others, including:

1. Having a strategic plan with clear goals and a vision for developing the food system helps ensure that the hub's

original intents are maintained (for example: fair prices for farmers or promoting sustainable agricultural production methods).

2. Getting all stakeholders engaged early on in the process and defining their interests and areas of expertise. This involves:

- a. Making sure there is a management or oversight team that is inclusive and that hears farmers' concerns, as well as those of other businesses and investors.

- b. Ensuring that the team has individuals with skills and proven experience in financial management, the regulatory environment, marketing and packaging, inventory management and quality control, and that can engage meaningfully with farmer/business owners.

- c. Making sure that all parties are well-matched in size and scale, and operate with similar goals and values.

- d. Producer and members with previous experience growing and supplying food for local markets.

This limits some risk that may arise in fulfilling contracts with vendors and buyers. This process will also dramatically increase the potential for success.

3. Understanding the location of different direct markets and how to access them.

- a. If the market outlet is geographically distant from the production unit, how will transportation occur and how can products be priced to cover those costs?

- b. Is backhauling feasible to generate revenue on an otherwise empty return load?

- c. If the market is one with a customer base that is less familiar with purchasing and preparing fresh foods

(some urban or at-risk populations, schools without “scratch-cooking” experience), education may be vital to the hub’s success.

4. An educational program may have to be an integral part of the hub development. This may include partnering with an outreach entity, such as a university extension service or non-profit, that can deliver information about what the hub provides and when the product can be delivered to the consumer. Producers may need training on post-farm business practices, such as quality control, packaging and delivery. Likewise, there may be a need for training in coordinated practices, such as common production practices or season-extension techniques.

5. The hub may have to reduce risk on the buyers’ side to access markets. Many end users require that GAP (good agricultural practices) or HACCP (hazard analysis and critical control points) plans be implemented by producers or processors in order to receive product. This may necessitate additional costs in producer/business owner training and the development of specific protocols and quality assurance to meet the end user’s requirements. Another type of producer support that may be necessary is securing affordable product liability insurance for individual vendors, or umbrella insurance coverage for vendors that can be purchased through the hub, since this is critical for hubs accessing institutional markets, such as schools or hotels. Such requirements for accessing a direct market may also cause some business owners to withdraw from the supply pool.

6. Capital is required for supply chain infrastructure, such as vehicles, storage facilities, and retail locations. Capital availability can be a significant barrier to starting local aggregation and distribution businesses. A certain level and type of infrastructure is necessary to operate a food hub, including:

a. Technical infrastructure, such as billing protocols, Internet management

systems and payment processes.

b. Physical infrastructure may also be essential (such as product warehousing or processing capability) in order to ensure increased product quality and packaging control across suppliers.

c. Hard work and enterprise can assist with hub development, but a lack of critical infrastructures can greatly increase the chance of failure.

7. Given the many uses for food hubs, no one type of business structure is clearly the best fit for a food hub. Rather, the business structure must be one that helps the stakeholders meet their goals for financial, marketing and production planning and growth. It appears that a certain initial flexibility is key, and the management team should identify the point at which a particular business structure constrains further investment. An alternative structure (such as incorporating one business function or outsourcing distribution) may sometimes be the only way the hub can maintain its market share or expand into new markets.

8. Identify all sources of technical and financial support, including those considered less conventional.

a. There are emerging areas of public and private financial support for food hubs, including micro-lenders, private investors, economic development entities and nonprofit community-based organizations.

b. There are also businesses with technical expertise in processing, distribution or transportation with which a hub could contract to more efficiently execute some of the more complex or cost-prohibitive functions of direct marketing through a hub. At issue here is how comfortable the stakeholders are with alternative lenders or certain subcontractors. This sort of “comfort level” assessment is an important component in developing a strategic business plan for a food hub.

c. Donated or shared equipment and facilities can substantially reduce the capital required to start and operate the food hub.

d. It is essential that members have “skin in the game.” That is to say, that all owners need to have a capital stake in the success of the venture.

9. Managing information efficiently is critical to the success of a food hub.

a. Timely and accurate information flow between producers and consumers, or between producers and wholesalers, helps to minimize or avoid risks, such as price or marketing risk, production risk and some legal risks.

b. Information management — supported by dedicated staff and technology — impacts the hub’s ability to manage orders accurately, to monitor product quality and to convey product attributes to consumers and other vendors.

c. Information is needed to remain in compliance with certain federal, state and local food safety regulations, and to maintain transparent working relationships across multiple partners in a value chain.

Value derives from broader benefits

The success or failure of a food hub should not be measured solely in terms of its aggregating function or in terms of total volume of product moved. It should also be valued in terms of the places its products go and the people who benefit from it.

With growing demand for local or regional food products, many conventional marketing channels are ill-equipped to supply local food where and how people wish to purchase it. Food hubs can address this in a manner that is economically viable and still serve its social and other community functions.

Food hubs help producers and consumers connect in a manner that retains the valuable information as to where a food item was produced and how it was grown or processed. This serves the members and has the possibility of creating a successful alternative supply chain for local agricultural products. ■



Co-op leaders confer with White House officials

Editor's note: This article combines excerpts from an article by David J. Thompson that appeared in the May/June Cooperative Business Journal, and an article by Dana Kelroy that appeared in the May 11 issue of Cooperative Network's Contact newsletter.



Leaders of 150 U.S. cooperatives gathered at the White House on May 4 for a national dialogue about the role of cooperatives in community development, job creation and economic opportunity. Also discussed were the kind of policy and legal initiatives needed to help cooperatives play an even greater role in benefitting

their members and strengthening the American economy.

The National Cooperative Business Association (NCBA) assembled the co-op delegation to “include the widest possible swath of cooperators, as well as advocates for cooperatives,” says Liz Bailey, interim president of NCBA. “Our goal was to have the event foster new conversations and collaborations among the cooperative community,” says Bailey. “I think we succeeded in meeting both of those goals.”

The event began with a briefing by senior Obama administration officials, followed by breakout sessions where cooperative leaders met with members of the Administration to discuss small

business development, job creation, innovative agriculture programs and financial cooperatives.

Among a number of White House officials who addressed the meeting were Kyle Lierman of the Office of Public Engagement, and Jack Lew, President Obama's White House chief of staff. Lew credited co-ops for “building our American economy and creating jobs,” and praised credit unions for being a fundamental source of banking services to many Americans. Judith Canales, acting deputy under secretary for USDA Rural Development, also stressed the vital role co-ops play and how USDA works with them.

Participants informed White House



Opposite page: some of the 150 co-op leaders invited to meet with White House officials file up the steps of the Eisenhower Executive Office Building, home to the majority of White House staff offices. Clockwise from left: Judith Canales, acting deputy under secretary for USDA Rural Development, addresses the gathering; breakout sessions were held to discuss specific co-op issues; National Association of Housing Cooperatives President Vernon Oakes asks a question. Photos courtesy National Cooperative Business Association

officials about the importance of several policy initiatives, including: the new Farm Bill; legislation that would allow credit unions to lend to small businesses; and the need to fund programs that support broadband deployment in rural areas. They also discussed some of the regulatory barriers that prevent cooperative businesses from making an even larger contribution to the nation's economic health and vitality.

In the auditorium for the briefing was Chuck Snyder, CEO of NCB (National Cooperative Bank), who noted that the nation's 29,000 cooperatives serve one in three Americans, do \$652 billion in annual

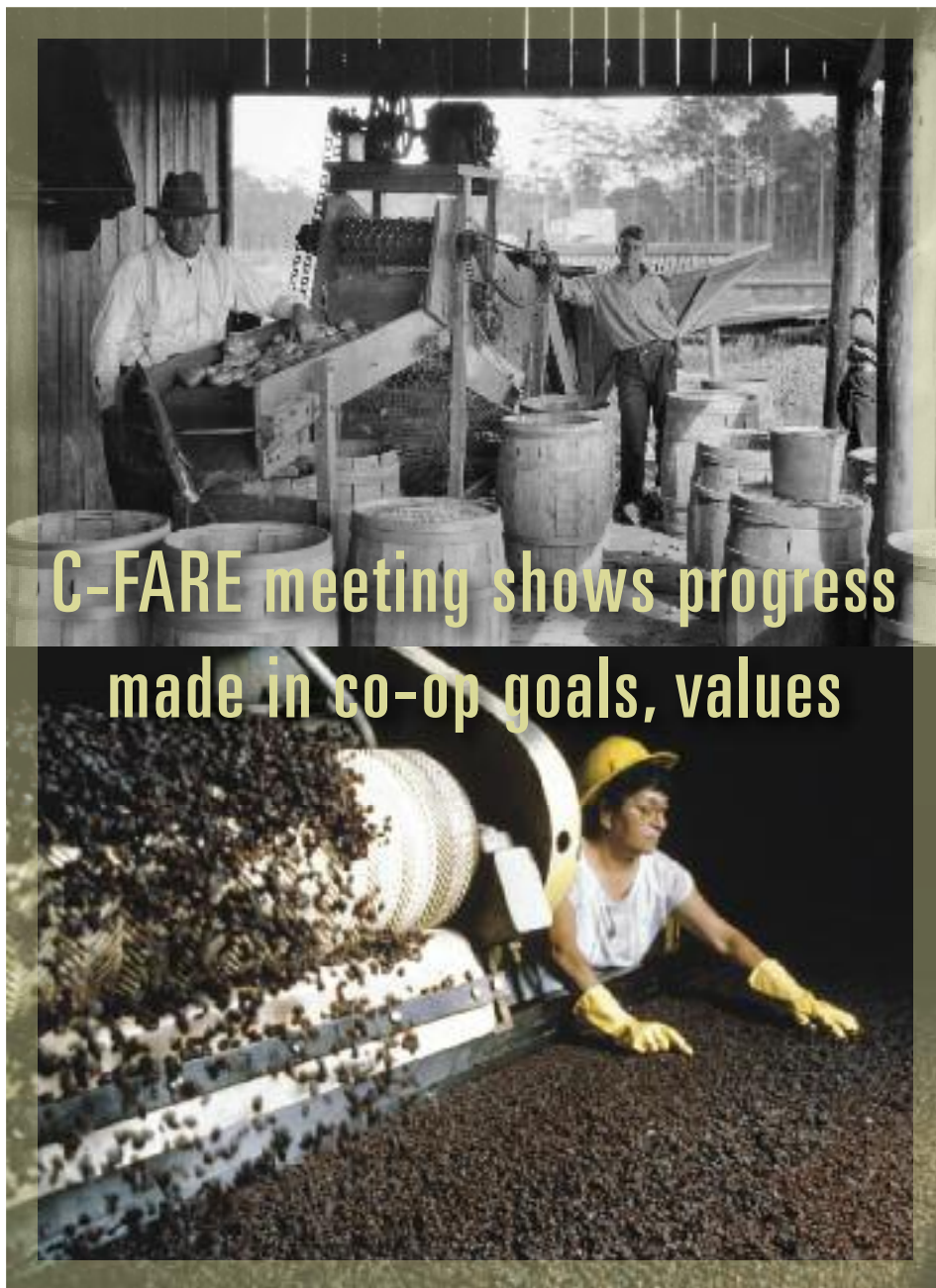
sales and support over 2 million jobs. "Cooperatives grow local economies, promote community development, and offer services and solutions because of their group buying power," added Bill Oemichen, Cooperative Network president and CEO.

Ralph Paige, executive director of the Southern Federation of Cooperatives, called attention to the impact of cuts in social program budgets that affect cooperatives serving the poor, especially in the South.

When cooperative leaders broke into small groups, they met with officials from USDA, the Small Business Administration, the U.S. Department of the Treasury and the President's

Domestic Policy Council to further discuss federal regulations affecting cooperatives. The back and forth between the White House presenters and the co-op participants was rapid-fire. The three-hour dialogue covered every co-op segment, with discussion of issues about agricultural cooperatives, consumer cooperatives, credit unions, health and housing cooperatives, mutual insurance, rural electric cooperatives and worker cooperatives.

International Co-operative Alliance President Dame Pauline Green from Great Britain said she was impressed by how enthusiastically American cooperators rose to the occasion to tell their story at the White House meeting. ■



C-FARE meeting shows progress made in co-op goals, values

Farmer cooperatives have long played a key role in helping their members process, market and transport their crops, whether Florida potatoes in the 1930s (top and facing page) or California raisins in the 1990s (bottom). Managerial choices are more crucial than ever for firms navigating today's volatile markets.

Julie A. Hogeland, Ag Economist
Cooperative Programs
USDA Rural Development



How far cooperatives have come in recent decades was evident during a meeting organized by the Council on Food, Agricultural and

Resource Economics (C-FARE) last August in Washington D.C. C-FARE's mission includes helping food, agricultural and resource economists identify underdeveloped research topics. To that end, Phil Kenkel, Bill Fitzwater Cooperative Chair at Oklahoma State University, served as project manager for a multi-dimensional C-FARE project: "Agricultural Cooperatives:

Economics, Opportunities and Structure in a New Era of Food, Fiber and Fuel."

A panel of 15 cooperative experts convened by Kenkel kicked off the C-FARE project by identifying current challenges. The meeting was sponsored primarily by the CHS Foundation. Similar panels have been organized every decade since the 1970s.

Momentum continued through six articles in the on-line magazine *Choices* which addressed key aspects of the cooperative business model, including: external challenges; strategy; finance; governance and the cooperative life cycle; new cooperative development; and communicating the value package (the articles are online at: www.choicesmagazine.org). Next, eXtension hosted a national webinar on Communicating the Cooperative Value Package. In November, the 2011 Farmers Cooperative Conference and the NCERA-210 Cooperative Research Committee provided a venue for re-visiting the issues and themes first raised by cooperative experts in August.

This article draws on expert panel discussion from the initial C-FARE meeting, plus *Choices* articles, to contrast the goals and aspirations of contemporary co-ops with their 20th century counterparts.

Where we've been

It is difficult to realize how far cooperatives have come without knowing where they have been. For most of the 20th century, many cooperatives were preoccupied with alleviating the impact of agricultural industrialization on producer-members. During this turbulent and painful era, producers lost competition and market access as corporate-led integration and industrialization transformed the marketing and production of key agricultural commodities: beef, processing vegetables, broilers, pork, dairy and grains. These external changes prompted cooperatives to buffer and strengthen producers against structural transformation by increasing competition or modernizing production

practices.

Toward the end of the century, integrated production and marketing — leading to the development of the modern supply chain — directed cooperative attention inward. To compete within highly capitalized and industrialized food chains, cooperatives needed more capital. This realization prompted cooperatives to clarify and

beyond their control.

Outcomes will be at least partially in the control of other firms, industries, interest groups or nations. Managers skilled in managing such interdependencies and constraints heighten the likelihood of outcomes favorable to cooperatives.

Cooperatives in the 20th century tended to look within themselves to

tendency is to measure “cooperative vs. cooperatives,” an approach which does not capture cooperatives’ performance within their own industry.

A more accurate reading of cooperative strength would result from comparing how well cooperatives have performed relative to non-cooperatives within the same industry. A related issue is how companies manage resources to uphold their value proposition. “Do cooperatives approach strategy differently than non-cooperatives?” McKee asked.

In the 20th century, cooperatives were often ambivalent about profits attained by more than a favorable turn of a commodity price cycle. Challenges to cooperative integrity and survival occurred when members perceived that cooperatives were retaining too much profit.

Further, although members are quick to seek out the benefits of the cooperative business model, they can be reluctant to assume the responsibilities of ownership and control. The failure of prominent cooperatives within the past two decades has reinforced the message that debt can no longer substitute for a sound financial plan. Cooperatives in volatile industries need robust balance sheets because commodity price increases demand a rapid increase in cooperative equity.

Operating with thin margins is more the rule than the exception in the co-op community. Perhaps for that reason, C-FARE participants indicated cooperatives should maximize the profit distributed, with residual cash, to patron owners. This is a fine line. Kriebel noted that paying “excess” profits to members could cause cooperatives to lose ground if, at the same time, they fail to match competitors’ capital improvements in plant and equipment.

Alternatively, cooperatives may be so well-positioned in the marketplace that commodity-hungry competitors may use outside equity in an attempt to demutualize them. Greater openness toward non-cooperatives does not eliminate the need for cooperatives to



strengthen their property rights to be more competitive with other investment choices available to producers.

Today’s cooperative environment is increasingly complex compared with the past. Critical issues — such as market instability, managerial succession and cooperative profitability — are intertwined. Surveyed cooperatives identified abrupt and extreme global market fluctuations as the most critical issue facing them.

“When the pace of change has really accelerated, strategy becomes an on-going process,” said Greg McKee, director of the Quentin Burdick Center for Cooperatives at North Dakota State University.

Managerial choice can be crucial for firms navigating volatile markets. Studies suggest that leaders experienced with dynamic and uncertain environments can prepare a firm for future economic instability better than candidates from more stable, predictable settings. Turbulent and uncertain economic environments confront cooperatives with much that is

define and resolve problems. By the end of the century, cooperatives began challenging themselves to “think out of the box.” Indeed, the C-FARE conference revealed that cooperatives have become more receptive to outside influences and information exchange.

“Best practices are outside cooperatives as much as inside them,” observed Barry Kriebel, president of the Sun-Maid raisin growers’ co-op. Evidence that thinking “out of the box” has become an integral part of cooperative culture is demonstrated by the entrepreneurial nature of many cooperatives, said Dave Barton of Kansas State University.

Measuring competitive performance

A long-established aspect of cooperative culture has been the stress on cooperative performance relative to competitors. Cooperatives frequently self-identify as “competitive yardsticks,” committed to matching or exceeding the competition. Kriebel noted that the

protect their marketing networks and infrastructures.

How will cooperatives earn more profits? Nearly a third of the C-FARE panel ranked consumer preferences as extremely important. The 20th century view that consumers or retailers were adversaries intent on driving down food prices or producer incomes was no longer evident. Contemporary cooperatives are clearly market driven.

Responding to change

Another priority identified by C-FARE participants was keeping pace with the potentially profound changes at the member level predicted by the cooperative life cycle. During the initial stage of the business life cycle, producers have a common interest in resolving a marketing problem, which provides economic justification for forming a cooperative.

In the second stage, the problem is confronted through a unique organizational design. As growth occurs, the beginning of differences, or heterogeneity, among producer-members appears (stage 3). Heterogeneity is revealed by marked discrepancies in member equity contributions relative to cooperative use, or differences in member production costs fostering different expectations for prices. That is, some producer-members get more benefit out of the cooperative than others.

To Carl Casale, CEO of CHS Inc., an effective response to heterogeneity begins with the local solutions provided by employees — from CHS member cooperatives or company-owned retail facilities — who personally know the needs and goals of producer-owners. Barton concurred: “The number one success factor for cooperatives is to compete on human resources.”

Heterogeneity is often associated with the question raised by Rod Kelsay, executive director, Mid-America Cooperative Council: “Does the value that the founding fathers saw in the cooperative still exist?”

Select Sires, a livestock genetics/

breeding cooperative, starts by asking: “What is the market the co-op is trying to fit?” Heterogeneity often suggests a need to redesign the cooperative, even to the extent of cooperative conversion. A similar identity crisis may occur when boards have been led by the same leader for a long time.

Yet, there are many underlying reasons for collective marketing. Contemporary values — such as a commitment to sustainable practices or being a low-cost provider — could provide a new rationale for cooperation and an antidote to member heterogeneity.

Both Kriebel and Jeff Stroburg, president and CEO of Iowa’s West Central Cooperative, noted that cooperatives (other than new-generation co-ops) do not buy and sell their equity. Consequently, producers lack an exit strategy, such as a pool that markets co-op stock without necessarily involving the co-op; this observation warrants further institutional design.

The 20th century cooperative legacy of designing and ordering markets by creating rules of exchange has given co-ops a unique ability to intervene in situations of uncertainty where the “rules of the game” aren’t clear. Social and economic justice finds new expression in cooperatives responding to natural disasters, or the recent dissolution of some federal or state marketing orders.

In his position as program director of the Federation of Southern Cooperatives, C-FARE panelist (and long-time cooperative developer) John Zippert finds that disasters push people to want something different than they had. His team provides technical expertise and helps bring potential members together by challenging the status quo.

New cooperatives, such as the South Plaquemines United Fisheries Co-op (also see page 4) grew out of the response to Hurricane Katrina. Several local fishery cooperatives are considering a regional marketing system that will facilitate direct shipment of seafood to distant consumers.

Managerial succession issues

Managerial succession was another critical issue broached by C-FARE participants. Seemingly overnight, co-ops large and small can lose a significant number of managers or work-teams through retirements or attrition. Fortunately, evidence suggests progress is being made to develop the next generation of producers, cooperative leaders, board members and long-term committed employees.

Ensuring that young farmers and ranchers understand the value of being a cooperative customer and owner is the foundation for a smooth transition to new generations of leaders, including management, said Casale of CHS. Robust young producer programs, supplemented by scholarships and internships, will encourage young people to pursue careers with cooperatives. “Most aggressive co-ops go after intern programs and do it well,” Barton observed.

Indeed, West Central’s Stroburg noted that the cooperative has a 20-person internship program that includes exposure to the new field of biogenetics.


C-FARE panelists concurred that cooperative communications have to underscore the value membership brings to the individual. Yet, only about half of the C-FARE survey respondents indicate that their cooperative tailors the communication mix to accommodate member heterogeneity. For example, young farmer/young cooperator programs often provide organizational background information less likely to be useful to long-term members.

Methods used to educate external stakeholders on the value of the cooperative business model and member concerns have fallen short of what is needed, even to the point of being “pretty inadequate at present.” Panelist Chuck Conner, CEO of the National Council of Farmer Cooperatives, said: “Anticipating member and constituent needs and responding appropriately is one of the biggest challenges facing leaders.” ■

Co-ops & Community

CoBank program will help co-ops build stronger communities

Editor's note: This article was provided by CoBank. The "Co-ops & Community" page spotlights co-op efforts that fulfill the mission of "commitment to community." Regardless of whether these efforts make a co-op's home town a better place to live and work, or are helping people on the other side of the world, co-ops are reaching out to make a difference. If you know of a co-op, a co-op member or co-op employee whose efforts deserve to be recognized on this page, please contact: dan.campbell@wdc.usda.gov. Reprint articles from co-op publications are welcome.

 CoBank in June announced the creation of a \$3 million charitable fund designed to benefit cooperatives and charitable groups they support throughout rural America.

Under the bank's new "Sharing Success" program, CoBank will match contributions by its cooperative customers to nonprofit organizations of their choice. Contributions made during the remainder of 2012 will be matched on a dollar-for-dollar basis, from a minimum of \$1,000 up to a maximum of \$5,000.

"Shared success is a hallmark of the cooperative business model, so we're absolutely delighted to be announcing this new program," says Robert B. Engel, president and chief executive officer of CoBank, a cooperative bank serving agribusinesses, rural infrastructure providers and Farm Credit associations throughout the United States.

"Throughout rural America, cooperatives of all sizes are working not only to provide value to their members,



but to improve the quality of life in their local communities," he continues. "We hope all our cooperative customers will take advantage of this new fund, and use it to leverage the support they provide to worthy causes in the areas they serve."

Effort in spirit of 2012 Year of Cooperatives

The launch of CoBank's Sharing Success program coincides with the United Nations' "International Year of Cooperatives" in 2012. Throughout the year, the United Nations and cooperative organizations are using programs and special events to celebrate the many contributions of co-ops and the strength of the cooperative model.

"I commend CoBank for its generous decision to establish this fund," says Wilson Beebe, chairman of the National Cooperative Business Association. "I can think of no better way for a cooperative to take part in the International Year of Cooperatives than by participating in the Sharing Success initiative."

The "Sharing Success" grant program is designed to highlight the role that cooperatives play in the U.S., notes Arthur Hodges, senior vice president of corporate communications

at CoBank. Agribusiness cooperatives are a critical part of the nation's overall agricultural value chain, and electric cooperatives deliver affordable, reliable power to millions of homes and businesses around the country.

Member-owned water and communications service providers are also vital to the quality of life in rural communities. "These businesses, all of which are served by CoBank, together form the backbone of America's rural economy," Hodges says.

Application window opens Aug. 1

All of CoBank's cooperative customers are eligible to participate in the program, and each customer is eligible for a single grant. The organizations that receive the funds must have a 501(C)(3) designation. This means that the types of charities or groups that can receive funding vary from a local food bank to an important university program. It will be up to each customer to decide who they want to partner with in their community.

CoBank will begin formally accepting applications for funding from cooperatives on Aug. 1, 2012. The program will run through Dec. 31, 2012, or when the \$3 million matching fund is exhausted, whichever comes first. Cooperative customers interested in participating should contact their CoBank relationship manager for an application and detailed program requirements.

Additional information about the Sharing Success program is available at: www.cobank.com/sharingsuccess. ■

Utility Co-op Connection

Carolina water co-op plays key role in driving economic development

By Anne Mayberry

Rural Utilities Programs
USDA Rural Development



About 50 million people live in rural communities. Reliable access to water is necessary for these communities to grow and prosper.

Most rural consumers get their water from one of the thousands of community water systems nationwide, the majority of which provide service for communities with populations of less than 10,000.

Challenges facing these small systems include finding sufficient revenue to ensure that they have the capacity to meet community needs and respond to growth while still keeping rates affordable. Other challenges include complying with environmental requirements and finding and retaining technical staff to operate and maintain the systems.

The absence of clean water is not just an obstacle to growth and economic development, but a threat to the very survival of rural communities. Despite — or possibly because of — these challenges, rural water systems can play a key role in economic growth of their communities.

Co-op capitalizes on opportunities

The Breezy Hill Water and Sewer Co. in Graniteville, S.C., is among those small rural water systems that have succeeded in delivering clean, affordable water to their customers, while simultaneously looking ahead to future needs. Charles Hilton, the general manager, came to Breezy Hill

in 1988. Breezy Hill, organized as a cooperative, at that time served 2,500 residential customers, only 300 of whom had sewer service. This low-income area of the system had many septic tank issues, so with a grant from the U. S. Department of Housing and Urban Development (HUD), a sewer

expanding the co-op's commercial base, would be needed to make the utility financially healthy once again.

Two years later, when a car dealership requested water service, Hilton saw an investment opportunity. Breezy Hill and the car dealership split the cost of a new water main that would

Construction work progresses on the Breezy Hill Water plant and transmission line, which will have the capacity to handle 5 million gallons of water per day. The project has received more than \$7 million in loans and nearly \$2 million in grants in Recovery Act funding from the Rural Utilities Programs of USDA Rural Development. The project will help the community continue to attract new business and create jobs.



system was installed, thereby eliminating the health concerns of the area.

The town has several small commercial establishments and a technical college. Hilton noted that the system needed to increase revenue and was under a Health Department Consent Order to improve water quality. Hilton soon realized that improved cash flow, as well as

be large enough to meet future development needs. The return on that investment was commercial growth that continues today. "They just built 150 new apartments on that road, on a line that was installed with a joint venture; it continues to pay off 20 years later," says Hilton. That set a pattern in which the co-op continued to look at innovative ways to that ensure infrastructure was

in place to meet the needs of the community.

Planning for the future was one of Hilton's priorities. During the early 1990s, he told the cooperative board the co-op needed to construct a system that would use more surface water as a source. Breezy Hill's groundwater system had limited potential. Aiken

term prospects of a permanent water source had to be found if we were to maintain our rate of growth in the future," Hilton says.

Textile industry decline triggers need

Up until the 1990s, the community's economic development had been tied to

tion of a system to move water to industrial clients," Hilton says.

Times changed, and the textile industry closed plants. Because the textile manufacturers no longer needed the land, they sold it to developers. In 1993, they sold property to Aiken County, which wanted land to construct an industrial park. Breezy Hill had to



County, where Breezy Hill is located, is an area with "a thin water table," meaning that the aquifer could not supply the necessary amount of water to make the area viable for future investment from developers and industrial clients.

"Drilling wells here and there for water for existing growth patterns of individual homes within the system wasn't a problem at the time, but long-

the growth of the textile industry. In the 1800s, the textile companies had bought huge tracts of land to protect their water shed, which powered plant generation and was a key part of their manufacturing process.

"In the early '90s, a textile company came to us wanting to buy potable water. So we borrowed money from the U.S. Department of Agriculture (USDA) and began long-term construc-

quickly decide whether to provide water and wastewater facilities to the new park, or relinquish that portion of its service territory. The co-op agreed to provide the facilities and then learned that the first company to relocate would need to have water and waste services in place within one year.

"We didn't have a water line within two miles of that park," Hilton recalls. "The line we did have was far too small

to handle the required capacity — 2,000 gallons per minute fire flow. There was no sewer service in the area. We managed to install two wells, tie them into our system and build tanks to meet flow requirements.” Breezy Hill again looked to USDA for financing to meet future infrastructure needs.

Co-op’s investment pays off

Breezy Hill’s investment paid off. In 1995, a tire manufacturer built a large facility on 500 acres, bringing 600 jobs to the area. “At this point, we had created about 900 new jobs in total. We continued to plan for the future,” Hilton says.

By 2000, Breezy Hill was serving 4,500 taps and was anticipating continued commercial growth. “We had discussed the need to look at additional water sources in the early ‘90s. During the next several years we considered all possibilities to increase our water supply. We even looked at using the old textile water plants to meet growing water and wastewater needs. We developed plans to build that surface water plant, but we were simply short of funds to ‘cash flow’ the size of project that needed to be built.”

It was about this time that the American Recovery and Reinvestment Act of 2009 (Recovery Act) became law. Breezy Hill applied for, and was awarded, a \$2 million grant and \$7 million loan to construct a new water plant and build a major high-service distribution line to serve as the backbone of the water distribution system.

The project also provides backup contingencies for any part of the service area. “One of the first things that any potential industrial client would look at is the number of options we had to feed a site with water if a section of the system failed for any reason,” Hilton explains. “Most of these industries require dual feed; through careful design of the system, we have been able to supply as many as four feeds to ensure the industry’s ability to stay up and running should a portion of the

water system fail.”

This project would also provide capacity to meet future community growth. The system is almost complete. “As soon as the new plant comes on line — as early as January 2013 — we will be totally self sufficient in long-term water supply needs,” Hilton says.

Because most industries use less water than they did 20 years ago, Hilton notes that the new Breezy Hill plant should meet the community’s needs for at least 25 years. “Had it not been for USDA and other federal agencies, we could not have added the capacity to support the economic growth we’ve seen in Aiken County.” The county has benefitted from the expanding industrial base, which has provided new jobs and offset rising property taxes needed to fund community needs.

Hilton credits a progressive cooperative board for looking to long-term needs and qualified staff to build and maintain the utility. “Our board is from the community and interested in the community. Their motivation to serve on our board is to improve the quality of life for Aiken County residents; they do not have political motivations or self-interests. I am blessed to work for a board that puts the community first — period”

The county had requested assistance from urban areas in 1968 in supplying water, but were turned down, Hilton notes. The cooperative was formed as a result, and USDA funding helped build the system.

Co-op opposes consolidation

“Breezy Hill is financially sound,” Hilton says. “It meets EPA (U.S. Environmental Protection Agency) requirements. We do a good job. Many municipal systems now want to consolidate or take over these rural districts because they are healthy. But a lot of citizens — who remember that we had to build our own water and wastewater facilities 40 and 50 years ago because these same municipal systems would not bring services to these rural

areas — are opposed to consolidation.

“There is also still a lot of community pride in these systems. When no one would aid these rural areas with water and sewer services years ago, the folks stepped up to the plate and — with the help of the old FmHA (Farmers Home Administration, now part of USDA Rural Development) — thousands of these systems were built nationwide. Obviously, the investment has paid off — the default rate on these loans has been historically less than 0.5 percent. Plus, the federal government has received the income from the interest off these loans, bringing much needed cash back into the federal coffers. This doesn’t include the benefits at the local level of increased job opportunities and increased tax base for both the local and state governments.”

Experienced staff makes huge difference

Breezy Hill has also avoided some of the major challenges small systems face, in large part because it trains its own staff of 11. “We have good people and little turnover. If you have a two-man system and they’re both close to retirement, you have a problem.”

Breezy Hill’s industrial park is attractive to commercial and industrial firms, Hilton says. “When we are asked to make a commitment to an interested client for relocation to the area, our standard answer is ‘bring it on.’ We can generally make that comment on the spot and these clients know from past history that we can deliver. The key is to invest in capital improvements, but spend what you need on a level that makes sense and is affordable.

“We have been fortunate in our relationship with USDA’s Rural Utilities Programs. Funding a system with 75 percent grants is a thing of the past. We look for cash flow. We watch our rates. We’re owned by our customers and we’re here to serve them. That’s part of what we are in rural America, and that’s part of being a cooperative.” ■

Can co-ops help drive global recovery?

Quebec City to host international co-op conferences

By Jane Livingston,

Cooperative communications consultant
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In 2008, cooperative financial institutions in the United States were hurt, but did not require the massive

bailouts that many private sector lenders needed. Unlike some financial institutions that received bailouts but then sharply cut back on lending, most cooperative financial institutions around the world kept right on lending.

Indeed, credit union and cooperative bank deposits grew — increasing their ability to lend — as people sought trusted places for their savings.

Cooperative share values did not collapse because, in part, they are not traded in marketplaces where the desire is for quick profits; rather, co-ops are focused on long-term member and community needs.

The fact that the cooperative sector of the global economy has performed better than the investor-owned sector during the past four years should not be surprising. If the output of the world's cooperatives were represented by one country, that country would be among the G8 nations. The output of the world's 300 largest co-ops alone would create the ninth largest national economy.

This is a business model that works all over the planet.

Waking the sleeping giant

Yet, the cooperative model is too often a sleeping giant. How can we wake the giant? How can we gear up the cooperative economy so that it can help more of the world's people,

sooner? The need to spread knowledge about how cooperatives work is urgent, global and growing.

What do cooperative leaders need to know about economics? What will reduce the likelihood of new or existing cooperatives from failing? What will spur cooperative economic growth?

These are the kinds of questions that



Quebec City will host two major international cooperative conferences in October. Photo courtesy Roy Tennant

cooperative leaders from around the world will face at the Imagine 2012 International Conference on Co-operative Economics, this Oct. 6-7. It will be immediately followed by the International Summit on Cooperatives, Oct. 8-11; its theme is “The Amazing Power of Cooperatives.” Both events take place in Quebec City, Canada. Co-hosts are the International Co-operative Alliance, the Desjardins Group (Canada's largest financial co-operative group) and the international Master of Management, Co-operatives and Credit Unions (MMCCU)

program, based at Saint Mary's University in Halifax, Nova Scotia.

Imagine 2012 will host a global convergence of cooperative and credit union directors, senior managers, officers, young leaders and other participants. They will be exposed to the work of 15 specialists on the cutting edge of economics.

Many assumptions and beliefs about cooperative economics will be challenged at the conference. New ideas will surface; new questions will emerge. Participants from around the world will take away concepts, analyses and observations that can be developed into a universally accepted discipline of Cooperative Economics.

Thomas Homer-Dixon, chair of Global Systems for the Centre for International Governance Innovation at Balsillie School of International Affairs in Ontario, is one of the presenters at Imagine 2012.

“In a world that now seems perpetually on the edge of an economic abyss, nothing could be more important than this. Imagine 2012 will explore practical and sorely needed alternatives to current conventional economic models, theories and practices that threaten our children's future,” Homer-Dixon says.

Tools can help global recovery

Such a set of broadly accepted tools could put cooperatives in the driver's seat of a new global economy. For this to happen, cooperative leaders must step back and question many of their most deeply rooted assumptions and beliefs about economics.

“Imagine 2012 could not have come at a better time,” says Nelson Kuria,


continued on page 43

CCA salutes those who excel at telling the co-op story



This photo of Dairy Farmers of America member Marlane Williams represented “a quantum leap” forward from run-of-the-mill cow photos, said one of the judges who selected it as photo of the year. “It’s celebratory,” said another judge. Facing page: Associated Milk Producers Inc. won Publication of the Year honors for its annual report titled “You.”

Editor’s note: This article is excerpted and adapted from several longer articles that appeared in the CCA Communicator e-newsletter. Authors are: Marian Douglas of Flint Energies, Claire Smith of Sunkist and Jason Jenkins of Rural Missouri.

 Few cooperatives thrive over the long-term without effective communications programs that keep their members informed about their cooperative. For 59 years, the Cooperative Communicators Association (CCA) has been helping to strengthen the nation’s cooperatives by improving the skills of their communications staff members.

In June, CCA held its annual communications institute in Tucson, Ariz., where several days of seminars were held covering a full gamut of communications topics. CCA also

saluted the best in co-op communications efforts of the past year and presented career awards to outstanding practitioners of the art of co-op communications.

CEO winner “runs toward the fire”

The Outstanding CEO Communicator award was presented to Bob Frazee, CEO of MidAtlantic Farm Credit in Westminster, Md. He was recognized, in part, due to his ability and willingness to face even bad news situations “with a gung-ho attitude” and “stay and fight” determination. Frazee believes in the strength of a solid communications plan in times of crisis, which paid off when one of the co-op’s clients declared bankruptcy, pulling Farm Credit into a firestorm of controversy.

False reports began circulating about MidAtlantic —

including that it was the client's only lender and that the cooperative held millions of dollars in loans that would not be repaid.

In the earliest moments (over a weekend) of the crisis, Frazee assembled a team of co-op employees — led by the communications director and including the client's loan officer, the chief credit officer and legislative affairs officer — to combat the inaccurate and negative press coverage.

Not only did Frazee run toward the fire, he also fully embraced the social media arm of the co-op's communications plan. A public website dedicated to the coverage of the bankruptcy was launched with a personal message board where Frazee posted frequent updates. He made phone calls to community leaders to "gauge the temperature" of the situation and to direct them to the co-op's website as a resource.

The firestorm was quickly extinguished by the clear, up-to-date information provided on the co-op website, which helped stop the rumor mill in its tracks. The media began to use this website as a resource and often quoted Frazee's updates in their press coverage. MidAtlantic Farm Credit has since received numerous requests to share the communications plan.

Frazee says he has seen a lot of change in the banking

industry in 30 years. But those changes are small compared to the evolution in technology he's witnessed. He admits he may not completely understand social media, but he sees the benefit of being able to communicate directly with people, and says the benefit far outweighs the risk.

Klinefelter winner helps drive AGP's success

The H.E. Klinefelter Award was presented to James Rodenburg of Ag Processing Inc. (AGP) in Omaha, Neb. The award, CCA's highest honor for a career co-op communicator, is presented to a member whose work is considered by their peers to be outstanding.

One nominator called Rodenburg "a respected colleague whose contribution to our company's success is driven by his lifelong understanding and knowledge of the importance of

cooperatives to U.S. agriculture." Another said he is: "The ultimate communicator, who exemplifies the highest standard of professionalism and outstanding leadership in communications."

Rodenburg joined AGP's Corporate and Member Relations Department in 1996 as publications editor. Prior to that, he had spent 20 years in the livestock industry, including serving as executive secretary of the Omaha Livestock Exchange and as communications manager for the Sioux City Stockyards. He is also a member of the National Farm Broadcasters Association.

Rodenburg not only has the cooperative spirit, but was born into it. He grew up in a cooperative farm family in southwest Iowa. He earned his degree in journalism and mass communications from Iowa State University.

"Jim is recognized by his peers and superiors as a professional in communications and public relations," says Mike Maranell, AGP's senior vice president of member and corporate relations. "His broad understanding of our business and the marketplace truly makes him one-of-a-kind. We appreciate his talent and his value on our team."

Straight Talk helps earn Graznak Award

The 2012 Michael Graznak Award, which honors one of the nation's brightest young (under the age of 35) co-op communicators, was presented to Megan McKoy-Noe of the National Rural Electric Cooperative Association (NRECA). She was praised for her "passion for co-ops and the ideals they were founded on," and as someone who "promotes the co-op philosophy in all her work."

McKoy-Noe is the associate editor of NRECA's *Straight Talk Alert*, an electronic news resource. Each month, it contains editorial, graphic, audiovisual and other materials that support more than 900 electric distribution cooperatives and statewide co-op publications. McKoy-Noe serves as a writer and designer for consumer-focused content and maintains social media outlets, including a YouTube channel.

"*Straight Talk* has come in like an angel of mercy with a suitcase full of relevant, well-organized and easily accessible communications tools in a variety of media," wrote Carol Moczygemba, executive editor of *Texas Co-op Power*, citing how invaluable the

materials are for co-op communicators who wear many hats.

Before joining NRECA, McKoy-Noe was the assistant director of communications for GreyStone Power in Douglasville, Ga. "Megan sets as high an example for co-op communicators as I have witnessed in my 23-year career with



electric cooperatives,” says Perry Stambaugh, her supervisor at NRECA. She has become NRECA’s expert on how electric co-ops should incorporate social media into their everyday practices.

McKoy-Noe is a champion of the “cooperative difference” and has worked to strengthen relationships among all co-ops. She has received numerous awards of excellence in NRECA communications contests and was CCA’s Writer of the Year in both 2011 and 2012. She and her husband, Paul, live in Decatur, Ga.

Top Awards in Communication Contest

■ **Publication of the Year: 2010 Annual Report, Associated Milk Producers Inc. (AMPI)** — Calling it “an excellent example of design, writing and overall execution against objectives,” judges tapped AMPI’s 2010 annual report as the Publication of the Year. The entry was also the first place winner in the annual reports (small shop) class. The report was designed and written in-house, and compared



Bob Frazee

very favorably with many other publications with greater resources.

■ **Programs & Projects “Best of Show”: “I’m Co-op” Tennessee Farmers Cooperative** — The judge described this as a “clever and creative” campaign which resonated with its target audience. The judge noted that

the use of real people and real stories in all elements of the campaign as reasons it stood apart from others.

■ **Writer of the Year: Megan McKoy-Noe, National Rural Electric Cooperative Association (NRECA)** — “Beautiful writing!” gushed the judge who tapped McKoy-Noe for Writer of the Year. The judge gave high marks to McKoy-Noe’s portfolio of articles for effectively incorporating facts and figures and quantifiable benefits and costs into her work. “She focuses on sharing the three core messages for electric cooperatives: “we exist to provide safe, reliable and affordable power.” Whether she was writing a speech or a feature story, she exhibited that focus in every piece submitted, the judge noted.

■ **Photographer of the Year: Jason Jenkins, Association of Missouri Electric Cooperatives (AMEC)** — A three-

judge panel selected *Rural Missouri* staffer Jason Jenkins’ photo portfolio as the year’s best. He also won the award in 2010. The judges said the photos in Jenkins’ portfolio were consistently well exposed and well executed. They were especially drawn to several shots from the photographer’s “Aircraft from

Another Era” photo essay and story.

■ **Outstanding Leader Award** — This special (non-contest) award was presented to Nancy Jorgensen, a freelance writer and editor who contributes to a number of cooperative publications. She was recognized as “one of CCA’s brightest stars.” The

award is given annually to a member who demonstrates exceptional leadership through his or her volunteer activities within the organization. The CCA board selected Jorgensen for her



Megan McKoy-Noe and James Rodenburg

work as the sponsorship chair for the 2012 Communications Institute. She raised \$30,000 in sponsorships, believed to be the most money ever donated in support of the Institute.

USDA writers honored

USDA’s *Rural Cooperatives* magazine won three awards in the writing contest. Assistant Editor Stephen Thompson won second place in the Technical Writing class for “Banking on Butanol,” about a Missouri cooperative’s butanol fuel project. Contributing Editor Anne Todd won second place in the Serious/Investigative Features class for “Forging Links,” about a local food co-op’s efforts to find new markets for its members’ produce. Editor Dan Campbell won the honorable mention in that same category for “All the Right Moves,” about a successful Texas farm supply co-op.

For a complete list of all award winners, visit: www.communicators.coop. ■

Midwest co-op centers share strategies at regional roundtable



Cooperative Development Center leaders from four states – members of the Mid America Cooperative Council – met in Elizabethtown, Ky., for roundtable discussions that helped identify new resources and forge stronger working partnerships.

**By Alice Pickler, Administrative Assistant
Mid America Cooperative Council**



Cooperatives can help each other tremendously by sharing experiences, including “what works” success stories and “what doesn’t work” experiences. So, too, can the nation’s cooperative development centers, which assist in starting cooperatives and in helping existing cooperatives develop new products or services. While these centers have much in common, each is also engaged in unique endeavors.

The Mid America Cooperative Council — an association of 110 cooperatives and supporters in Indiana, Illinois, Kentucky, Michigan and Ohio — is one of 32 state and regional cooperative councils. The council’s mission is to: “Promote, Foster and Enhance the Values of Cooperatives.” It is engaged in an outreach effort to connect other entities that work with cooperatives.

In April, six cooperative development centers in four states (Indiana,

Kentucky, Michigan and Ohio) met in Elizabethtown, Ky., to learn from each other. By networking on a regional basis, the roundtable provided an opportunity for cooperative professionals to explore new partnerships, resources and opportunities to collaborate.

The event was coordinated by the Mid America Cooperative Council (MACC). MACC’s educational programs are designed for emerging co-op leaders, including co-op employees, directors and students. This was the seventh meeting of its kind, since 2007. The meetings have proven to be very productive in sharing what development practices work and how to improve them.

“Each cooperative development center is involved in unique activities; therefore, we can share experiences and assist each other in our areas of strength,” says Roy Messing of the Ohio Employee Ownership Center. The meeting objective is to raise the exposure level of each cooperative development center and provide an opportunity to network.

USDA Rural Development’s Rural

Cooperative Development Grant (RCDG) program is an important source of funds for the centers. The goal of the program is to improve the economic condition of rural areas through cooperative development. Grants are provided for the establishment and operation of centers that have the expertise, or can contract for expertise, to help rural businesses launch, expand or make operational improvements, with the primary targets being cooperatives or other mutually-owned businesses.

The following are brief overviews of the six co-op development centers that participated in the roundtable.

■ **The Indiana Cooperative Development Center** is focused on assisting food cooperatives, farmers markets and networking with the broader cooperative community at the annual Co-op Summit. Recent efforts include assisting with the start-up of an organic dairy farm and working with a beer brewing cooperative and an artists’ co-op. It partners with Bloomingfoods to hold a well-attended food

cooperative conference where participants share experiences and learn how to solve challenges. Food co-op experts from around the country address the conference, recognized as a model for food co-op education.

■ **The Michigan Cooperative Development Program** provides comprehensive cooperative business development services in rural Michigan. It is administered by the Michigan State University (MSU) Product Center for Food, Ag, and Bio, which has worked with cooperatives since its inception in 2004. Cooperative Development Program clients include: 1) *Legends of the Lakes Cooperative* — several fisheries, including Native American-owned, that banded together to brand their wild-caught Whitefish fillets and create other value-added products for the whitefish industry; 2) *Farmers On the Move* — comprised of Hispanic farmers with small operations who have joined forces to jointly pack and market products; this organization also provides educational services and food safety training for cooperative members; 3) *Four Seasons Produce Cooperative* — a group of small producers growing in hoop houses who jointly pack and market vegetables from March to January. Customers are primarily institutional buyers in mid-Michigan; 4) *Mother's Milk Cooperative* — a newly formed co-op that aggregates human milk for high-value processed products, and to provide other services and benefits to young mothers.

■ **Ohio State University's Ohio Cooperative Development Center** (OCDC) provides technical service for new and emerging cooperatives in rural and Appalachia communities in Ohio, West Virginia and adjacent states, as well as national groups based in Ohio or West Virginia. Operating since 1997, OCDC assists about 40 groups annually, of which six or seven usually incorporate each year. The center has formed a formal partnership with local Ohio and West Virginia Extension

educators to assist in providing increased technical services capacity and a regional presence for improved networking. Thirty extension educators have committed to work with local food and/or small farms related cooperatives in their area. The OCDC also works closely with the statewide Non-Profit Local Foods Network (NPLFN), the mission of which is to improve the economic conditions and personal health of communities through “growing new growers.” It promotes development of co-op training programs, sustainable incubator farms, business cooperative networks, community-support systems and apprenticeship/mentor training programs. These regional efforts are located in rural areas near distressed communities to serve the unemployed and underemployed, part-time growers, local consumers and to increase the availability of fresh food.

■ **Center for Cooperative Forest Enterprises** (CCFE) works with forest products businesses interested in using the cooperative business model. Prices for forest products have fallen as the construction industry has declined in the past few years. As a result, forest product-related businesses are looking for other products they can offer. Current opportunities appear strong in bundled firewood, typically sold through food stores. The CCFE is a program of The National Network of Forest Practitioners, which is based in Athens, Ohio, but it works on a national scale.

■ **The Ohio Employee Ownership Center**, a nonprofit outreach center of Kent State University, supports the development of employee-owned businesses across Ohio and around the world through efforts that have proven to save jobs, create wealth and grow the economy. OEOC's work rests on a simple philosophy: broader ownership of productive assets is a good thing for employees, communities and our country. Since being founded in 1987,

OEOC has assisted 91 companies become employee owned. These companies represent some 15,000 worker/owners, with well over \$300 million of equity in the businesses, in which they have shared ownership. The Cooperative Development Center at Kent State University joined OEOC in 2009 after receiving a USDA Rural Cooperative Development Grant. Work under this grant focuses in three primary areas: 1) Outreach and promotion of employee/worker-owned cooperatives; OEOC was involved in the development and launch of the Evergreen Cooperative Laundry in Cleveland as well as the conversion of Select Machine Co. from a private business to a worker cooperative. 2) Linking rural agricultural producers to urban users; OEOC worked with the development of the “Lake to River Cooperative,” a multi-stakeholder cooperative in Ohio's Mahoning Valley, which includes both producers and consumers as members. 3) General outreach and research on cooperative topics; the center recently completed its third Ohio Cooperative Symposium, which provided cooperative training for a wide variety of attendees, and funded development of a well-regarded manual for multi-stakeholder co-ops, titled: “Solidarity as a Business Model.”

■ **The Kentucky Center for Agriculture and Rural Development** (KCARD) is a nonprofit organization established to facilitate agricultural and rural business development in Kentucky. KCARD provides education, technical assistance and business support services to new and existing agribusinesses across the commonwealth. KCARD staff consults with groups on critical questions related to incorporating, financing, management, marketing, accounting and legal concerns. The organization networks with state and national resources to assist with all aspects of business development. ■

Newsline

Co-op developments, coast to coast

Send co-op news items to: dan.campbell@wdc.USDA.gov

FAO opens co-op office

In an effort to further its collaboration with cooperatives worldwide, the Food and Agriculture Organization of the United Nations (FAO) has opened a new liaison office in Rome that will focus on promoting cooperatives and other producer-owned organizations. The office opened just a few days after the International Day of Cooperatives, celebrated on July 7.

"We are confident that this liaison office will allow cooperatives and producer organizations to have a stronger voice as FAO's key partners in ending hunger and poverty," FAO Director-General José Graziano da Silva said at the opening ceremony. The event was attended by representatives of the International Cooperative Alliance and the World Farmers Organization.

"Cooperatives and producer organizations have a key role to play in bringing about a future without hunger," he continued. "Standing alone, a smallholder has fewer opportunities." But by joining with other farmers in cooperatives, he noted, they are better able to negotiate better prices and to gain access to more markets and services.

FAO says it will continue to encourage governments to establish favorable policies, legal frameworks, economic incentives and participatory processes that will help strengthen cooperatives and other producer organizations. In 2011 alone, more than 180 FAO programs and projects in more than 100 countries helped cooperatives and producer groups reach their goals.

FAO has revamped its website to

further this effort, which can be viewed at: www.fao.org/partnerships/partners-home/en/.

The United Nations is leading efforts to observe 2012 International Year of Cooperatives. It also is promoting World Food Day, held each year on Oct. 16, which has adopted the theme: Agricultural Cooperatives: Key to Feeding the World.

DFA building Nevada dairy plant

Dairy Farmers of America Inc. (DFA) in April broke ground on a new dairy ingredient plant in Fallon, Nev. The 110,000-square-foot plant is being

domestic and global customers.

"As a milk marketing cooperative focused on our dairy farmer owners, we have a responsibility and an obligation to explore new options to bring our members greater returns," says Mark Korsmeyer, DFA executive vice president and president of DFA's Global Dairy Products Group. He says the project provides DFA the opportunity to enter a new market segment and to continue to leverage dairy farmer equity into profitable investments.

In addition to the creation of at least 40 full-time jobs at the facility, increased employment opportunities are expected to occur in the community, on



An artist's rendering of a 110,000-square-foot dairy ingredients plant being built in Fallon, Nev.

built on a 31-acre parcel in the New River Business Park. The \$85 million facility will produce dried dairy ingredients, including whole-milk powder, on an on-demand basis. The plant can process 2 million pounds of raw milk and produce about 250,000 pounds of dried dairy ingredients daily, or 90 million pounds annually, for

member farms and in agriculture support industries. Construction is scheduled for completion during the summer of 2013.

Land O'Lakes, Egglund's Best announce egg joint venture

Land O'Lakes Inc. and Egglund's Best Inc. recently announced the

creation of a branded, specialty egg joint venture, in which each organization will hold a 50 percent stake. Land O'Lakes, a federated cooperative, is the national licensor of Land O' Lakes brand eggs. Egglard's Best is a cooperative that manages the advertising and marketing of Egglard's Best brand eggs — the No. 1 branded egg in the United States.

The new joint venture will license both co-op brands. Former Egglard's Best President and CEO Charles T. Lanktree is serving as president and CEO of the new company, called Egglard's Best LLC. Land O'Lakes says the joint venture will expand its participation in the growing branded specialty egg category.

Beef co-op leader Doc Hatfield dies

Patrick "Doc" Hatfield, who along with his wife, Connie, was the guiding force behind the Country Natural Beef



Doc Hatfield puts on a natural beef cooking demonstration, which is one way his co-op promotes its products.

Cooperative in Oregon, died in March at age 74. He has been credited with helping to create the natural-beef market.

According to a report in the *Great*

Bend Bulletin: "Despite the awards and academic interest he and his wife earned for the Country Natural Beef cooperative they developed, Doc Hatfield never set aside his cowboy hat and boots or lost his love for ice cream bars." For their efforts, the Hatfields earned the Oregon Governor's Gold Award in 2007 and the Kerr Award from the High Desert Museum in 2001.

"As charismatic leaders, the Hatfields' presence strongly affected the culture of the co-op and played a critical role in establishing close relationships with the key customers of the co-op over the years," according to a 2009 case study of the co-op by Zhaohui Wu, an associate professor of business at Oregon State University. Wu said Country Natural Beef stands out for its style of decision-making, which gives a voice to all ranch family members, according to the *Bulletin* article. The co-op pioneered industry efforts to produce a consistent supply of antibiotic- and hormone-free beef and bridged the culture gap between ranchers and urban consumers, he added.

Hatfield graduated from Colorado State University with a degree in veterinary medicine, hence the lifelong nickname "Doc." He worked as a veterinarian until 1976, when he moved to Brothers, Ore., and went into cattle ranching, a career in which his veterinarian skills often proved helpful.

Hatfield's legacy is ongoing, as the natural beef produced by the co-op's 70 family ranches is for sale in 92 Whole Foods Markets in 10 states, in 53 other grocery stores and in 136 restaurants.

NFU releases free co-op curriculum

National Farmers Union (NFU) is introducing a special co-op education curriculum as part of its observation of 2012 International Year of Cooperatives. "Cooperation is at the heart of America, from its largest cities to its smallest towns," says NFU President Roger Johnson. "Schools, organizations and community leaders are invited to use these lessons. The co-

op curriculum is available to everyone for free."

The curriculum provides six separate lessons each for collegiate and adult students. The lessons are written to introduce how cooperation works to help individuals accomplish as a group what they could not on their own.

To download the curriculum, visit: www.nfu.org/education/education-materials. To learn more about ways to use the curriculum, contact NFU Director of Education Maria Miller at mmiller@nfudc.org. The curriculum was developed with support from CHS Foundation, in cooperation with the NFU Foundation.

Farmers Union members have helped organize hundreds of successful cooperative businesses, some of which are among the Fortune 500 companies.

Ocean Spray building new plant in Pennsylvania

Ocean Spray Cranberries Inc. and the Pennsylvania Department of Community and Economic Development held a groundbreaking ceremony in April to celebrate the start of construction on the co-op's new juice bottling plant in the Upper Macungie Township, Pa. The \$110 million investment by Ocean Spray will bring 165 good-paying, high-skilled jobs and training opportunities to the community. The Lehigh Valley Beverage Facility will be the co-op's first manufacturing facility in Pennsylvania.

The 315,000-square-foot-plant is being built on a 44-acre site and will produce more than 32 million cases of beverages each year. The state-of-the-art facility will bottle both Ocean Spray juices and Nestle's Juicy Juice products. The facility is slated for completion during the fall of 2013.

"The positive impact of this project on the community will be enormous, and one the commonwealth is proud to support," Pennsylvania Department of Community and Economic Development Secretary C. Alan Walker said. "Our agricultural roots run deep at Ocean Spray, and we are excited to

Hispanic, women farmers may seek compensation

Hispanic and women farmers and ranchers who believe that the U. S. Department of Agriculture (USDA) improperly denied them farm loan benefits between 1981 and 2000 because they are Hispanic or female, may be eligible to apply for compensation if:

- 1) You sought a farm loan or farm-loan servicing during that period;
- 2) The loan was denied, provided late, approved for a lesser amount than requested, approved with restrictive conditions or USDA failed to provide appropriate loan service; and
- 3) You believe these actions were based on your being Hispanic or female.

To receive a claims package, visit: www.farmerclaims.gov, or call 1-888-508-4429. For further guidance, you may contact a lawyer or other legal services provider in your community. USDA cannot provide legal advice. If you are



USDA photos by Bob Nichols



currently represented by counsel regarding allegations of discrimination or in a lawsuit claiming discrimination, you should contact your counsel regarding this claims process.



bring good jobs and a commitment to corporate citizenship to the Lehigh Valley community,” said Randy Papadellis, Ocean Spray president and CEO.

In keeping with the co-op’s commitment to minimizing its environmental impact, Ocean Spray plans to pursue a Gold LEED certification for the building. Ocean Spray will ensure that it is using environmentally friendly methods and materials to build the facility and manage construction waste. Ocean Spray will conserve energy through greater efficiencies and smart building designs, such as a high-tech HVAC system.

When the new facility goes into production, it will replace a manufacturing plant in Bordentown, N.J. During the transition, Ocean Spray says it has offered its employees at the Bordentown facility the most generous incentive, relocation and transition packages in the cooperative’s history.

Ocean spray is owned by 700 mostly small family farms — many of them fifth-generation growers who have been harvesting cranberries for as long as 138 years.

Accelerate Genetics saluted for export success

Accelerated Genetics, a Baraboo, Wis.-based livestock breeding cooperative, has been awarded the 2011 Governor’s Export Achievement Award. Wisconsin Governor Scott Walker presented the annual Export Achievement Awards in May to recognize firms and organizations that have achieved extraordinary results in international sales or have contributed to Wisconsin’s increased ability to compete in a global market.

Accelerated Genetics, recognized for being a top agricultural exporter, does about half of its business outside the country. It made its first international sale in 1957. In 2008, Accelerated Genetics constructed a 24-stall

European Union Qualified Sire Isolation facility. During the past few years, it has also initiated cutting-edge marketing techniques to promote its sires and has added team members who are native to various countries it does business in, helping to “cross the bridge into the global community.”

Accelerated Genetics is celebrating its 70th Anniversary with the theme: “Celebrating 70 Years of Innovation.”

Oregon grain co-ops purchase Cargill terminal

Pendleton Grain Growers, Morrow County Grain Growers and the Port of Morrow in Oregon signed an agreement in May to purchase a grain terminal on the Columbia River previously owned by Cargill Inc. The three purchasers will own the grain terminal as tenants in common. They have entered into a lease agreement with East Oregon Grain Growers LLC, a joint venture owned by Pendleton Grain Growers and Morrow County

Grain Growers. East Oregon Grain Growers will lease and operate the facility.

The co-ops say this strategic partnership provides Morrow County Grain Growers and Pendleton Grain Growers part ownership and facility management of one of the most efficient, high-capacity grain elevators on the Columbia/Snake River System. This joint venture facilitates the logistical needs of both cooperatives to better serve their members' grain handling and marketing needs, they say.

Both cooperatives reported strong financial results this past year and see their East Oregon Grain Growers venture as a strategic alliance to strengthen their respective grain operations and logistics. Pendleton

Grain Growers, headquartered in Pendleton, Ore., and Morrow County Grain Growers, headquartered in Lexington, Ore., are both farmer-owned cooperatives that have served their members and communities for over 80 years.

Located in the heart of the Northwest, the Port of Morrow is strategically connected to the world through Columbia River barges, railroads and Interstate freeways.

Feit to lead United Cranberry Co-op

Tim Feit has been named executive director of United Cranberry Growers Cooperative. He will be responsible for running the day-to-day operations of the Wausau, Wis.-based group, an

agricultural cooperative of independent cranberry growers formed in 2010, according to an article in *Wisconsin Ag Connection*.

Feit was promotions director for the past six years for the Wisconsin Potato and Vegetable Growers Association; he has over 20 years of experience in marketing. He is a graduate of the University of Wisconsin-Stevens Point with a degree in Business Administration and an MBA from the University of Wisconsin-Oshkosh

Montana food co-op being organized

Montana farmers and food producers have launched an effort to start a Montana food cooperative. The focus will be on bringing together

Vilsack: Farm exports creating jobs

Agriculture Secretary Tom Vilsack met in Des Moines, Iowa, in June with business and community leaders to discuss how continuing demand for American food and agricultural products abroad has led to the three best consecutive years for U.S. farm exports in our nation's history. Vilsack said the success of American agriculture is a positive economic story that is creating jobs in rural America and benefitting people around the world.



The last three years have been the best on record for U.S. agricultural exports. Farmer cooperatives are among the nation's major exporters. Photo courtesy Ag Processing Inc.

"In 2010, President Obama committed to doubling U.S. exports in five years, and just two years later we are on pace to meet that goal," Vilsack said. "Meanwhile, people around the world continue to demand U.S. food and agricultural products, boosting American businesses and supporting our rural communities. To ensure these successes continue, USDA has aggressively worked to expand export opportunities and reduce barriers to trade.

"Fewer restrictions abroad, stronger trade deals for U.S. agriculture and greater export assistance for U.S. businesses supports more than 1 million Americans jobs in industries from packing and shipping, to food processing, to transportation," Vilsack continued. "This is an American-made success story worth sharing with our friends, family and neighbors."

Vilsack pointed to Iowa's low unemployment rate of 5.1 percent as proof of agriculture's success. Last year, Iowa exported a record \$7 billion in agricultural products, which supported nearly 60,000 jobs on and off the farm. Thus far in 2012, the state's farm exports show a 15-percent gain over last year's record total.

Vilsack also highlighted a joint report released by the White House Rural Council and USDA, which notes how the President's National Export Initiative has opened new markets for U.S. agricultural products and services and contributed to a historic level of agricultural exports. ■

USDA funds renewable energy efforts

Agriculture Secretary Tom Vilsack in June announced that USDA has selected 450 renewable energy projects nationwide for funding under the Rural Energy for America Program (REAP), authorized by the 2008 Farm Bill. The announcement was made in North Carolina, which is home to 31 of the projects receiving USDA funding, including projects that: help agricultural producers and rural small businesses reduce energy consumption and costs; use renewable energy technologies in their operation; and/or conduct feasibility studies for renewable energy projects.

“The Obama administration and USDA are helping agricultural producers and rural small business owners reduce their energy costs and consumption — and by doing so are helping to create jobs, preserve our natural resources, protect the environment and strengthen the bottom line for businesses,” said Vilsack. “This is part of the administration’s “all of the above” energy strategy. Stable energy costs create an environment for sustainable job growth in rural America.”

REAP offers funds for farmers, ranchers and rural small businesses to purchase and install renewable energy systems and make energy-efficiency improvements. These federal funds leverage other funding sources for businesses. In all, USDA announced nearly \$7.4 million in energy grants.

Vilsack made the announcement while touring Metrolina Greenhouses, a family-owned plant and services company in Huntersville, N.C., that has received a REAP guaranteed loan and three grants totaling over \$1 million since 2007. Among the work Metrolina has undertaken with the funds is construction of a wood boiler heating system to supplement and replace the natural gas and fuel it uses at its 120-acre facility. In addition to heating greenhouses, using wood chips in the boiler provides an additional market for local lumber mills and logging operations.

Examples of some other funded projects include:

- Tennessee small business owner Rick Alexander is using a REAP grant and investing another \$325,000 to create the first solar-powered business in Maury County, Tenn. Electricity is the largest expense for the climate-controlled storage facility he built as a creative re-use of a former



Solar-powered poultry houses are just one type of energy-saving project USDA is backing through its Renewable Energy for America Program (REAP). This Pennsylvania farm received REAP funds in 2011. USDA photos by Lance Cheung

furniture making plant.

- Maurice Nichols received a grant to purchase an energy-efficient grain dryer for his farm in Mount Hope, Wis., saving more than 42 percent in annual energy use.
- Whispering Pines Poultry farm in Centre, Ala., will use a REAP grant to replace four propane heaters with renewable biomass wood pellet heaters to improve heating efficiency of its poultry houses, resulting in expected energy savings of more than \$3,000 per barn annually.

For a complete listing of Rural Energy for America Program grant recipients announced, visit the Newsroom at: www.usda.gov. ■

consumers and producers to create easy access to local, nutritious and affordable food while promoting sustainable agriculture. A steering committee was formed last spring during a meeting facilitated by Karl Sutton, program

manager at the Mission Mountain Food Enterprise and Co-op Development Center in Ronan. The committee researched other co-ops in Idaho, Oklahoma and Madison, Wis.

The projected service area is western

Montana, from Eureka to Hamilton. By working with other producers, co-ops, businesses and farm-to-table organizations, the plan is to extend service to the majority of the state in the near future. People interested in

joining the co-op, as producers or consumers, may contact Jason Moore at (406) 285-1149, or Lake County Community Development Corporation, 407 Main St. S.W., Ronan, Mont. 59864, or call (406) 676-5901. For more information, visit: www.montanacoop.com.

Dairy: a \$14.7 billion Michigan industry

Michigan's dairy industry contributes \$14.68 billion to the state's economy each year, according to a recently released Michigan State University (MSU) study. Ken Nobis, president of the Michigan Milk Producers Association, says he wasn't surprised by the new statistics.

"Dairy has always been a substantial part of Michigan's economy, currently generating almost 40,000 direct and indirect jobs," Nobis says. "It is truly a bright spot in our state's economy, showcasing the innovation, commitment and tenacity of our state's dairy farmers, processors, wholesalers and retailers."

The study found that \$2.33 billion is produced by dairy farming, \$7.97 billion from milk processing and \$4.37 billion from wholesaling and retailing.

These numbers represent historic highs, caused by a rising number of cows and milk production in the state.

Dairy farm cash recipients swelled nearly 50 percent from 2006 to 2010, with 8.3 billion pounds of milk produced in 2010, compared to 7.1 billion pounds in 2006. Estimates are based predominately on 2010 data, the



The Michigan dairy industry creates 40,000 direct or indirect jobs, says Ken Nobis, president of Michigan Milk Producers Association, seen here on his farm near St. Johns, Mich.

latest available. Processing data was obtained from the 2007 economic census, which some industry experts think understates the current level of dairy processing.

Michigan ranks eighth among the states in milk production, with the number of dairy cows and the amount of milk produced in the state increasing steadily.

Snokist assets go to PCP, Del Monte

The sale of the assets of bankrupt Snokist Growers, Yakima, Wash., to Del Monte Foods, San Francisco, Calif., and Pacific Coast Producers, Lodi, Calif., was approved in May for \$27.7 million by the bankruptcy court. Del Monte bid on the fixed assets and Pacific Coast Producers, another fruit grower cooperative, bid on the inventory, according to a report in the *Capital Press*.

The cooperative's 150 grower-members are not part of the deal and may sell their fruit to Del Monte or other processors. Snokist, a processor of apples and pears, filed for Chapter 11 bankruptcy reorganization Dec. 7. It listed assets of \$69.5 million and debts of \$49.5 million. ■

Commentary

continued from page 2

La Crosse-based People's Food Co-op. Rather than create redundancies and job losses from synergies, this merger will lead to a doubling of store space in Rochester and more jobs.

- Two recent announcements from the farmers and their local co-ops that own CHS Inc. has the Inver Grove Heights co-op expanding its soybean processing businesses. It acquired Creston Bean Processing LLC, at Creston, Iowa, and will transport soybean oil from Creston to Mankato, where CHS will process it into food ingredients for

human consumption. More recently, the *Minneapolis Star Tribune* reported CHS is purchasing Solbar Industries Ltd., an Israeli soy protein processor, for \$133 million that will add two processing plants in Israel, one in China and one in Nebraska to CHS operations. Its last fiscal year was the most profitable ever for the co-op.

- First half results [2011] for Arden Hills-based Land O'Lakes, another major farm co-op, found sales up 15 percent, to \$6.93 billion, and profits up 75 percent, to \$168 million.
- Across the metro area, Bloomington-based HealthPartners Inc., proudly announced it was the top-ranked health plan in Minnesota for the seventh consecutive year and

a national leader, based on National Committee for Quality Assurance rankings for 2011-2012.

Espinoza, whose LEAF organization participates with Minneapolis-based Northcountry Cooperative Development Fund and other groups to finance cooperatives and employee ownership programs, said similar "ground up" development efforts are visible in several parts of the country.

Unlike corporate profits that concentrate into a few hands at the top, co-ops' successes funnel back to workers, farmers and customers. People are realizing the importance of community development, he said. The answers to our economic problems "aren't going to be found on Wall Street." ■

Disaster spurs co-op formations

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association carry out its mission to provide technical assistance and resources to small farmers and fishermen. In 2009, LAC received a \$175,000 SSDPG. It was awarded \$200,000 grants — the maximum available under the program — in 2010 and 2011.

Cooperative staff in USDA Rural Development's Louisiana state office have worked closely with Reed and LAC over the years to support the work of the association, assist it with the

grant application and documentation processes, to inform LAC members about the availability of government assistance and offer other help.

The road ahead

Since its "trial by fire" launch six years ago, prompted by Hurricane Katrina, the Louisiana Association of Cooperatives has grown substantially. Today, more than 20 cooperatives are LAC members and the association is an advocate not just for fishermen, but also for a wide variety of agricultural co-ops, including crop and livestock producers.

Even though the formation of cooperatives is challenging in Louisiana, in part because there is no

state co-op law to guide their creation, Reed and LAC have to date helped create 10 new cooperatives, primarily comprised of small, socially disadvantaged Louisiana producers. Additional co-ops are in the early stages of planning and development with LAC's support and guidance.

Reed's goals for LAC in the future include helping more small and minority producers and fishermen in Louisiana develop co-ops and other alliances, and to help them with research activities.

To learn more, contact the Louisiana Association of Cooperatives at: lcooperatives@gmail.com or (504) 319-1085. ■

Can co-ops help drive global recovery?

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CEO of the 40-year-old CIC Insurance Group of Kenya. "For 50 years, the African continent has been the guinea pig for various types of economic models that have failed dismally. The world's poor people don't need sympathy and pity. Rather, they need the type of empowerment that true cooperatives facilitate through bringing the majority of the marginalized population into the mainstream of economic activity."

Coordinating the Imagine 2012

conference is Tom Webb, who retired this year from his post as program manager of the MMCCU program (for



Tom Webb, coordinator of the upcoming Imagine 2012 conference, confers with Dame Pauline Green, president of the International Cooperative Alliance.

more information on it, visit: www.mmccu.coop). "Imagine the global influence of a widespread understanding of economics focused on meeting human needs sustainably, not just on wealth creation," Webb says. "Imagine world-class economists mingling with leaders of the world's ninth largest economy to shape better approaches to understanding and analyzing local, national and global economics. Imagine this group of leaders coming together to identify ways to use the cooperative business model to build a better world."

For more information visit: www.imagine2012.coop.

Editor's note: Tom Webb contributed to this article. ■

Co-op oil mills play vital role in sustaining cottonseed value

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Nourse had not considered this type of supportive role for cooperatives. He believed they need only gain a market share that is sufficient to affect competitive prices for farmers. Nourse did not extend his economic model to other sources of benefits that derive from farmer ownership and control of vertically integrated businesses.

Cooperatives proved to be relatively more adept at operating in a down-sizing cottonseed processing industry than most other processors. Today, they maintain the major share of the U.S. crush.

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