

Rural COOPERATIVES

USDA / Rural Development

May/June 2006



CHS: 75 and Still Shining

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80th Anniversary of Cooperative Marketing Act

On July 2, 1926, President Calvin Coolidge signed the Cooperative Marketing Act into law, formally launching the federal government's role in assisting farmer-owned cooperatives. Although USDA first assembled data on farmer co-ops in 1901 and launched its first official cooperative project in 1912, it was the 1926 Act that really got the show on the road. The first of the program's subsequent "homes" was the Division of Cooperative Marketing within USDA's Bureau of Agricultural Economics. For six years in the 1930s, it was even housed in the Farm Credit Administration before returning to USDA.

Rather than a regulatory program, the framers of the law envisioned it as a program that would provide education, research and technical assistance to help farmers help themselves. Eighty years later, this mission continues, although Mr. Coolidge and Co. would certainly be amazed by the radical transformation of the nation's rural (and urban, for that matter) areas. The number of farmers is, of course, greatly reduced, and the size of the average farm has greatly expanded. But the marketing and other challenges facing farmers are more formidable and complex than ever, and hence the performance of their cooperatives is still vital.

To see how a co-op can evolve and grow along with the farm economy, just turn to the coverage on page 4 of this issue to read about CHS Inc. as it marks its 75th anniversary. The history of CHS and its predecessor co-ops is, in many respects, also the history of agriculture and co-ops in the Midwest and Northwest.

Examples of innovative medium and small size co-ops are, of course, also featured in every issue of this magazine and demonstrate how flexible the co-op model is. Strategic alliances and joint ventures among co-ops, new-generation co-ops, use of co-op subsidiaries, co-ops with international members and using outside equity to supplement farmers' equity are examples of this flexibility. Co-ops are industry leaders in identity preservation, niche marketing, development of new products and services and other ways of providing member support.

Despite the passage of 80 years, the scope of activities Congress directed USDA to help farmers pursue through co-ops still serves as a road map to the types of endeavors farmer co-ops are engaged in today. The Act directed service to be provided to associations, federations and subsidiaries of agri-

cultural producers "engaged in cooperative marketing of agricultural products, including processing, warehousing, manufacturing, storage, cooperative purchasing of farm supplies, credit, financing, insurance and other cooperative activities."

The Act has seven subsections, which direct the following activities to be undertaken:

- Promoting knowledge of cooperatives principles and practices and cooperating with educational and marketing agencies, cooperatives and others in promoting that knowledge;
- Making special studies in the United States and foreign countries and acquiring and disseminating information and findings useful in the development and practice of cooperatives;
- Gathering, analyzing and disseminating economic, statistical and historical information about cooperative business methods;
- Studying economic, legal, financial, social and other phases of cooperation and publishing the results;
- Surveying and analyzing accounts and business practices of cooperative associations...and publishing summaries of results to guide other cooperatives in developing methods of business and marketing analysis;
- Advising committees or producer groups seeking to organize a cooperative and making an economic analysis...
- Employing qualified commodity marketing specialists to summarize and analyze the information and disseminate it to cooperatives and others.

After 80 years, should the Act be updated? Some have suggested expanding the scope to include all types of cooperatives, not just agricultural cooperatives. Should the role of the program – now housed with USDA Rural Development – be expanded to include other types of producer-owned agribusinesses (such as the producer-owned LLCs gaining popularity in the biofuels industry)?

These and other questions and issues concerning the future of producer-owned and other types of cooperatives will need to be resolved as co-ops position themselves to provide the types of services their members need in order to prosper. ■

— Dan Campbell, Editor

Rural COOPERATIVES

May/June 2006

Volume 73 Number 3



Rural COOPERATIVES (1088-8845) is published bimonthly by Rural Business-Cooperative Service, U.S. Department of Agriculture, 1400 Independence Ave. SW, Stop 0705, Washington, DC. 20250-0705. The Secretary of Agriculture has determined that publication of this periodical is necessary in the transaction of public business required by law of the Department. Periodicals postage paid at Washington, DC, and additional mailing offices. Copies may be obtained from the Superintendent of Documents, Government Printing Office, Washington, DC, 20402, at \$23 per year. Postmaster: send address change to: Rural Cooperatives, USDA/RBS, Stop 3255, Wash., DC 20250-3255.

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This publication was printed with vegetable oil-based ink.

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On the Cover: Looking a little like flickering birthday cake candles, is CHS Inc.'s petroleum refinery at Laurel, Mont., one of its two refineries. CHS leaders look at the past and future of the co-op on its 75th birthday. Photo by David Lundquist, courtesy CHS



CHS at 75: Looking back, looking forward

By Dan Campbell, editor

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Staying power. That's what it takes for any business to survive and thrive for 75 years.

CHS Inc. is observing its 75th anniversary this year as much more than just a survivor. It is a diverse and growing Fortune 200 agribusiness with \$11.8 billion in annual sales. It serves 1,100 local cooperatives with 325,000 member-producers and is poised to pursue promising new industries.

The success of CHS is testament to the power of what a producer-owned agribusiness can accomplish with the right business strategies and the support of its members. From the fuels it refines and supplies to member cooperatives, to the grain it mills into flour and the oilseeds it processes into vegetable oil-based foods, CHS strives to make sure producers

get the supplies they need to produce a crop, then adds value to those crops to help return more farm dollars to producers and their communities.

CHS predecessor co-ops were founded during the Great Depression, when farming was literally a life-or-death struggle for local co-ops and their producers. Farmers — then as now — looked to their co-ops as crucial business partners whose success or failure was inexorably linked to their own. The nation's newly mechanized agriculture industry was increasingly looking for a dependable, fairly priced source of fuel. Farmers also needed strong cooperatives to get their grain to market and to return a good price for it.

Cenex (or Farmers Union Central Exchange) was established in St. Paul, Minn., in 1931 to supply farmers with fuel and other vital farm supplies. For grain handling, farmers formed North Pacific Grain Growers Inc. (NPGG) in 1929 in Lewiston, Idaho, and Farmers Union Grain Terminal



Association (GTA) in 1938, also in St. Paul. These are the three “rootstock” co-ops from which CHS sprouted.

NPGG and GTA merged to create Harvest States Cooperatives in 1983. Harvest States in turn merged with Cenex in 1998 to create CHS Inc. (The 1931 founding of Cenex is being used as the official birth date for the combined organization.) There have been many other mergers with smaller co-ops along the way (see the CHS Milestones, page 8) as the co-op has grown and evolved to meet the changing needs of its members and the marketplace.

In a wide-ranging discussion with *Rural Cooperatives* in early April, CHS Chief Executive Officer John Johnson and Board Chairman Mike Toelle, a producer from Browns Valley, Minn., talked candidly about the past and future of CHS, and what its continued success means to their members and rural America.

Q. What lesson should we derive from the fact that CHS has lasted for 75 years?

Mike Toelle: The basic business philosophy that has helped us through 75 years of success is the same one that is imperative as we move into the future. Really, it’s very simple: always focus on the organization as a whole and make the best decisions for the co-op and its members. This requires a disciplined approach in the decisions you make in the board room. You might not be able to solve all the problems of your members, so you need to focus on those issues that you can address, positioning the co-op to provide the most value

back to the members.

We operate on the co-op business model, which facilitates CHS in returning more value to our members. One measurement of that: in 2006 we returned \$151 million in cash including patronage and equity redemptions — a record. That is another type of added value that flows back to our members and their communities from this cooperative.

Q. CHS has grown through mergers, perhaps the biggest being the Cenex-Harvest States merger. What factors made that a good fit, and what were the biggest problems to be resolved to make it work?

John Johnson: “The process started in late 1997 and con-



cluded in June of 1998. There was about a 90-percent overlap in the membership of the two companies. When we looked at the future of agriculture, it became pretty clear to us that integration between the supply side of the business and the marketing and processing side would be in the best interest of producer-farmers. Leadership — boards and management — endorsed the vision for coming together.

Some mergers don’t work, but this had a lot of strategy behind it and alignment with leadership. All the stars lined up to create a very successful merger. From there, it was all about execution of the strategy. The two CEOs — Noel Estenson at Cenex and myself at Harvest States — were totally aligned regarding what we had to get done to organize the new company. We divided the duties — Noel took on more of the political and board work, while I took on more of the operational aspects. This gave us the focus we needed to execute the merger in a relatively short period of time, with very few hiccups.”

Q. Some of your local co-ops have grown substantially in recent years, some even attaining the designation of “super local” with \$300 million or more of sales annually. How does this change the role of CHS in meeting their needs?

Johnson: “Consolidation on the retail side has been ongoing and probably has accelerated in the last 5-6 years, resulting in some “mega” local co-ops. The unification of Cenex and Harvest States really helped us become a better provider of supplies and marketing to them. Size and scale



Transporting members’ grain to market by river barge, trucking farm supplies to local co-ops and providing on-farm fuel delivery are just three of the many services CHS performs for its members. All photos courtesy CHS



become very important when we serve co-ops of that size. The merger of Cenex and Harvest States was an enabler for a lot of other co-ops to consider mergers. A lot of co-ops that were purely supply or purely marketing have been able to unify their efforts to become an integrated supply and marketing co-op, just as we have done.”

Toelle: “On the supply and output side of the business, when we put Cenex and Harvest States together, we looked at them as complementary businesses that would be better poised for the future of agriculture as one co-op. I believe that is what also happened at the local co-op level.”

Q. CHS has taken over direct management of some local co-ops that were struggling. How has that been working out?

Toelle: We’ve not only taken over some challenged co-ops and retail locations, but in many cases local producers have simply decided to merge with CHS to gain added efficiencies from its administrative and support services. Their equity is now directly in CHS rather than in their local association. We call these CHS Country Operations, and it has worked very well.

They still operate just like a traditional local co-op, with a local board and governance and local management. That said, this model is not for everyone. Some people really like it — it has been particularly popular in Montana. But others want more independence.

There has been slow but steady growth in the program. More requests

“We’re doing what the market is demanding: producing more energy products... as well as reinvesting in renewable fuels.”

come in every month; some of them happen, some don’t. Many co-ops needing to make a change in their business still decide to merge with a larger neighboring co-op down the road and remain a part of CHS through their local. What CHS is offering is ownership options. Local producers have to do the research and make a decision based on what best serves the interests of their producers.

Q. The biggest co-op failure in history occurred a few years ago when Farmland Industries collapsed. What lessons did you draw from that tragedy?

Johnson: “Don’t ever let it happen! It was an absolute shame. It comes down to some very sound principles of running your business. Some people have the idea that it failed because it was a co-op. That is furthest from the truth. Really, it was due to business failures in a company that was driven very heavily

by size — dollar sales volume meant everything to Farmland. They leveraged their balance sheet to accomplish that objective, then got into some business cycles that were disastrous for them.

We want to grow, but to grow on a profitable basis. Our discipline is to make sure our balance sheet stays strong, which means the relationship with our bankers remains strong. This enables you to ride-out business down-cycles. Farmland got heavily leveraged over the previous 10 years. Then, when a bad cycle hit — in their case it was fertilizer and petroleum that were really in the tank — they didn’t have the wherewithal to get through it.

There is also a business culture issue. We have a philosophy to undersell and overdeliver. You should try to create realistic expectations, whether with your owners or bankers. Farmland had a culture that would lead members and bankers to believe that they were going to achieve all these fantastic results, and then never achieved them.

Again, I’m a firm believer that it wasn’t their co-op business model that created their failure, but it was some business decisions that they made in the 10-year window prior to their failure that caused it.”

Q. How aggressively has CHS been able to move into Farmland’s former trade territory, especially in places such as Kansas and southern plains states?

Johnson: “Big time! It is our highest

growth area, for both farm supply and grain, although farm supply is growing even faster. Farmland's failure created an absolute void — from a co-op presence perspective — in those markets. Some of those co-ops were finding other partners during that time, private companies that stepped in there and created alternatives for them. We had

been there for a long time, but we then really stepped-up efforts to provide a co-op solution for those local co-ops.”

Q. Have you encountered much anti co-op fallout, with producers saying: “We don’t want to deal with any more co-ops?”

Johnson: “I don’t think so. There is still a very strong co-op philosophy in those markets. But there is more of a “show me” attitude. Union Equity also failed in that area, and then Farmland came in and eventually failed. So there is a track record of regional co-ops there not being successful. But they were still looking for a co-op partner. We have demonstrated that

we can deliver what we say; and there’s a lot of security around our equity and equity-revolvement plan.”

Q. Petroleum has been the biggest income earner for CHS in recent years. What is the outlook for that part of the business, and are there any plans to expand refinery capacity or acquire oil reserves?

Johnson: “We hold no oil reserves — we are purely a refiner and marketer. We buy crude oil from outside, both domestically and globally.

Most of our business units have been doing quite well, many having had record years. But you’re right, our earnings the last few years on refining margins have been at points we’ve never seen before in our history. We’ve reinvested back in these plants. We’ve made sulfur-reduction upgrades at both of our refineries — at Laurel, Mont., and McPherson, Kan. We’ve spent about \$400 million doing that and, in the



CHS’ Ventura Foods subsidiary, one of the nation’s leading processors of oil-based foods, has returned more than a 30-percent return on equity since formation in 1996. Opposite page: CHS CEO John Johnson, left, and Board Chairman Mike Toelle.

CHS: a snapshot

CHS Inc. is a diversified, federated cooperative in the energy, grains and food products businesses. It had 2005 sales of \$11.8 billion and net income of \$250 million. It has 6,370 employees. CHS is owned by farmers, ranchers and local cooperatives from the Great Lakes to the Pacific Northwest, from the Canadian border to Texas.

Major business divisions include:

- Grains — CHS markets more than 1 billion bushels of grain annually in 60 countries, making it the nation’s largest cooperative grain handler. It operates many grain terminals and retail facilities.
- Foods — CHS is a leading processor of value-added foods. Its Ventura Foods, LLC (with partner Mitsui & Co.) is a leading manufacturer of margarines and butter blends, salad dressings, sauces and vegetable oils. Horizon Milling (a joint venture with Cargill) is the nation’s leading flour miller and supplier of durum wheat. CHS Oilseed Processing refines more than 1 billion pounds of soybean oil annually. CHS Sunflower serves more than one-third of the domestic kernel and in-shell market and export markets.
- Energy — CHS is the nation’s largest cooperative gasoline and diesel refiner and a significant whole-



saler and reseller of refined fuels. The Cenex convenience store chain is one of the nation’s 20 largest, and it is the fifth largest propane retailer and produces a wide range of lubricant products. It operates refineries

and pipelines, has its own truck fleet and is now one of the largest suppliers of ethanol-enhanced gasoline and markets of biodiesel.

- Agronomy — Through Agrilience LLC, a joint venture with Land O’Lakes, CHS markets crop nutrients and protectants to producers through local cooperatives and independent dealers in the United States, Canada and Mexico.
- Country Operations — CHS operates 300 local farm supply and grain facilities, providing ag inputs, grain marketing and other supplies and services.
- Business solutions — CHS is a full-service brokerage and risk management provider through its subsidiary, Country Hedging Inc. and its 60-some branch offices. Through Ag States Group, it offers insurance and group benefit programs; it provides business consultation services to 1,400 local co-ops.
- Animal nutrition — CHS supplies livestock feed and services from the Central U.S. to Pacific Northwest with Payback brand feeds.

process, we also got rid of some bottle-necks to improve capacity.

Now we're spending \$325 million at Laurel, Mont., on a coker — a bottom refiner that converts asphalt into more refined fuel products. It will increase capacity of the plant by about 14 percent.

We're also taking a lot of the money that we've been earning and reinvesting it in renewable fuels. We've invested about \$70 million in a renewable fuels/ethanol production company. By the end of 2007, it will have an annual capacity of about 550 million gallons, making it the second largest ethanol producer in the United States. So, we're doing what the market is demanding: producing more energy products and doing it by tweaking current plants for extra capacity, as well as reinvesting in renewable fuels."

Q. Any plans to increase your 28 percent share in ethanol producer U.S. BioEnergy?

Johnson: "Our share floats around a bit. Since making our investment in November 2005, they have added a number of locally organized co-ops that had been building ethanol plants, and have now merged into U.S. Bioenergy. With the last round of mergers, our ownership dropped down to 24 percent, so we invested another \$35 million of capital into the business. Now we are a 24-percent owner of a much larger company than when we had 28 percent of it. I expect to stay stable there for the next year or so."

Q. Is biofuels hurting some of your local grain co-ops by taking away corn volume?

Johnson: "I wouldn't say that it's like a loaded gun to their heads, but it is hurting some. Ethanol is now eating up as much corn as the export market. And this is a phenomenon that has happened in just the last five years. So a lot of grain facilities that typically handled a high volume of grain for export are

finding corn instead going for ethanol. From our perspective, and that of a lot of our locals, there are two sides of the business: one is grain export, the other is domestic demand for grain, as well as farm supply. That diversification at the local level will give them tremendous staying power going forward. The market is telling us it wants more corn production. This year the numbers didn't come out like I thought. But there is a lot of new seed genetics technology that will expand corn production — maybe in geographic areas where we don't grow a lot of corn today."

Q. Does biofuel compete with CHS petroleum?

Johnson: "They tie together very well. There is some uniqueness there for CHS. We probably are one of the only ethanol producers that are involved in fossil fuels refinement. We are also the only fossil-fuel refiner that is directly involved in ethanol produc-

Milestones: How CHS became CHS

1929 North Pacific Grain Growers, Inc. (NPGG) is organized as a regional cooperative, based in Lewiston, Idaho, with 60 affiliated local cooperatives.

1931 Cenex — the Farmers Union Central Exchange — is founded in St. Paul, Minn.

1938 Farmers Union Grain Terminal Association (GTA) opens in St. Paul, with 121 local affiliated cooperatives.

1938 NPGG moves its office to Portland, Ore.

1942 GTA moves into wheat milling with the acquisition of Amber Milling Co. in Rush City, Minn.

1943 Cenex purchases an oil refinery at Laurel, Mont., and acquires a one-third interest in the National Cooperative Refinery Association at McPherson, Kan.

1945 Cenex enters the feed, plant food and seed business. Plant food operations are expanded the next year when it becomes a major stockholder of CF Industries.

1960 GTA purchases the Honeymead soybean processing plant and the Archer Daniels Midland elevator line in southern Minnesota.

1962 NPGG dedicates its new export terminal at Kalama, Wash., on the lower Columbia River.

1971 Cenex begins supplying 60 cooperatives in the Pacific Northwest formerly served by Grange Cooperative Wholesale.

1972 Cenex enters the transportation business by acquiring Northern Cooperative Services of Wadena, Minn.



1975 GTA adds a branch office in Portland, Ore., and opens a barge-loading terminal on the Mississippi River at Winona, Minn.

1977 GTA purchases Holsum Foods of Waukesha, Wis.

1977 Cenex begins serving Pacific Supply Cooperatives, adding 67 local cooperatives in Washington, Oregon and Idaho.

1981 Solar Gas is purchased, making Cenex one of the top 10 propane suppliers in the nation.

tion. So we are fairly unique. We look at it as an absolute complement.

If you look at ethanol producers, basically they are just that. They process corn, make alcohol and push it into the marketplace. What we can do at CHS — because of our involvement in both fuels — is link the demand-bases across a lot of refiners who are facing the mandate to produce more ethanol-blended fuel. Whether it is Cenex, Exxon-Mobil, Concoco or Phillips, all these folks need to buy ethanol. We do exchange programs with them on the refined-fuel side, so we are the natural supplier for their ethanol.

From a consumption viewpoint, ethanol may be viewed as a somewhat competitive energy source. But in reality, because of the makeup of our business, it creates an integrated platform that we can successfully operate from.

Q. What are the odds that oil prices could drop sharply and cut the legs out from

under the biofuels industry? Does growing interest in switchgrass and other non-grain fuel stocks worry corn producers and ethanol co-ops?

Johnson: “Long term, biomass technology is probably where it is going to go. I don’t know if that is 10 or 20 years

out. The technology is not yet very good. When you think of the efficiencies of converting switchgrass, corn stover and all the other biomass materials, the question is: how do you collect those feedstocks economically so that they can compete with corn? Today,



CHS recently invested more than \$725 million in upgrades at its refineries in Montana and Kansas, and has invested another \$70 million in a bio-energy business.

1982 Cenex acquires Western Farmers Association, based at Seattle, Wash., making it the largest cooperative supplier in the Pacific Northwest.

1983 North Pacific Grain Growers and GTA merge to form Harvest States Cooperatives.

1987 Cenex joins with Land O’Lakes to form the Cenex/Land O’Lakes Ag Services marketing joint venture.

1988 First Cenex convenience store opens.

1990 Harvest States’ Holsum Foods division acquires Albert’s Foods, Omaha, Neb., and Private Brands, Chicago, Ill. The next year it adds Great American Foods in Philadelphia, Pa.

1992 Cenex acquires majority ownership of National Cooperative Refinery Association at McPherson, Kan.

1992 Harvest States and Continental Grain enter a joint venture, the Tacoma Export Marketing Co. (TEMCO) at Tacoma, Washington, for feed grain shipments to Pacific Rim countries.



1993 Southwest Grain, Gladstone, N.D., regionalizes with Harvest States. Regionalization is a unique concept pioneered by Harvest States that combines local control with the services and marketing reach of a regional cooperative.

1994 Harvest States begins construction of a new mill in Kenosha, Wis., and assumes full ownership of the Rush City, Minn., and Huron, Ohio, mills.

1994 Harvest States acquires an export elevator at Myrtle Grove, La., and a river terminal at Davenport, Iowa, to strengthen its capabilities for originating and shipping grain for export.

1994 Harvest States’ Terminal Agency and Ag Agency at Cenex/Land O’Lakes combine to form Ag States Agency. The joint venture represents more than 1,200 cooperatives, making it one of the largest cooperative insurance agencies in the nation.

1995 Harvest States and Wilsey Foods, a subsidiary of leading international trading firm Mitsui & Co. Ltd., form a joint venture, Ventura Foods, purchasing a food processing plant at Chambersburg, Pa.

(Continued on page 10)

that really can't happen. So I don't view it as a near-term problem.

When we look at the spread between corn values and crude oil prices, I think that spread will stay there for some time. If I have a fear regarding ethanol production, it is around the corn crop. Corn is at something like \$2.25 per bushel, but if we had a significant drought across much of the United States, it could drive corn values to extremely high levels, like \$4 or \$5 a bushel. That could be devastating to ethanol production. Longer term, looking at averages — with the spread between corn and crude oil prices — it is a very good economic model.

Q. Grain marketing margins seem to get slimmer all the time. What can CHS and its members do to improve efficiencies to make grain marketing more profitable?

Johnson: "Our grain marketing has been pretty profitable — even stellar the last couple of years. But on a per bushel basis, you are exactly right.

Margins are very slim. There again, values we generate from grain marketing are not dependent on buying and selling grain. That is where you see the very low margins. Really, CHS is a logistics provider, which means, yes, we buy and then sell grain to domestic and global customers. But the value we bring is in logistics, risk management and transportation. We get paid for that. To me, the low margin you see in grain trade is a phenomenon of the business, but the companies that can provide the other kinds of attributes to customers can get paid very well for that."

Q. What prompted CHS to get involved in Brazilian soybeans?

Johnson: "As we deal with global customers, primarily China — which now demands about 40-plus percent of global soybeans — it is pretty evident that those customers need a supplier that has dependability 12 months per year. About half the global supply of

soybeans today is produced in South America, the other half in North America.

We established three origination offices in Brazil about three years ago. We walked before we ran, and it's been extremely successful. We supply beans from South America primarily to Chinese customers. But as soon as we know we can be competitive selling North American beans, we are in there selling them to customers.

If CHS is going to be a global supplier of grain and services, we have to be global in our origination — particularly for soybeans."

Q. Some producers are concerned about growing competition from Brazil, given low land costs and wages there. How can we improve our competitiveness?

Toelle: One key advantage for U.S. agriculture is our transportation and logistics systems, which is second to none. I've been in Brazil, and I can definitely tell you it is a competitive advan-

1998 Cenex and Harvest States unite on June 1 to become what today is CHS Inc., an integrated agricultural foods system linking producers to consumers.

2000 CHS, Farmland Industries and Land O'Lakes Inc. form Agrilience LLC, a joint venture involving the sales, marketing and distribution of agronomic inputs and service.

2001 CHS announces plans to form a joint venture, Horizon Milling LLC., in flour milling with Cargill Inc., with a total of 21 mills. CHS producers will be the primary supplier of wheat for the alliance.

2001 CHS announced plans to acquire Farmland Industries' share of Country Energy LLC, an energy joint venture.

2001 CHS announces the public sale of \$50 million in preferred stock in an effort to diversify capitalization of the co-op.



2002 CHS acquires Agway's Grandin, N.D.-based Sunflower business.

2003 CHS opens Harvest States do Brasil Ltda in Sao Paulo, Brazil, a wholly owned subsidiary originating and marketing soybeans from Brazil.

2003 CHS preferred stock is listed on NASDAQ exchange under "chscp." The next year CHS uses preferred stock to redeem \$13 million in member equity.

2004 CHS purchases remaining Farmland Industries share of Agrilience LLC. This creates a 50/50 joint ownership with Land O'Lakes Inc.

2005 CHS completes \$400 million ultra-low sulfur diesel project at its Montana and Kansas refineries, and announces a \$325 million coker project at its Laurel, Mont., refinery.

2005 Ventura Foods acquires Maries® and Dean's® dressings and dips.

2005 CHS reports record \$250 million in earnings.

2006 CHS system marks its 75th anniversary and issues a record \$151 million cash and stock disbursement to members.



tage for the U.S. But there is also a critical need to improve the nation's waterways, especially along the Upper Mississippi, where we have locks and dams that are antiquated. With the rise in energy costs, rivers are by far the most efficient method of transporting grain, farm inputs and other freight up and down the river. Devoting more resources to improving our waterways is a key legislative priority for CHS.

On the trade front, as we negotiate on the World Trade Organization, we need to be very careful not to disarm ourselves with legislation in a new Farm Bill that would weaken our negotiating position. We feel it may well be prudent to extend the current legislation pending the outcome of WTO talks.

Q. John, what have been your biggest successes and disappointments while serving as CEO?

Johnson: "I've been CEO, or the equivalent, for 11 years. That's a long time for a CEO. The average in corporate America is five years or less. I got the job at a young age — 44 or 45. So there have been some of both during that time.

I feel very proud of the formation of Ventura Foods in 1996. Here is a company that has generated a 30-plus percent return on equity ever since it started. It was originally a very small organization, but is now one of largest packagers of oil-based food products in the United States, with 16 plants. And we did it with an international partner, Mitsui & Co. of Tokyo. In 1996, business partnerships were relatively new. Going across the ocean and finding a partner was somewhat revolutionary at the time. The company continues to do well, and our relationship with Mitsui continues to be extremely strong. It has allowed us to do other things with partners. It took a lot of work from our staff to put together.

An equal, or even greater, accomplishment was the formation of CHS. Think of it: two of the largest co-ops in the U.S. were able to look at the future and had the ability to put together an organization like this, the 188th largest

company in the U.S. today. And it is owned by farmers and co-ops. We've been able to put together effective management teams through all the acquisitions and mergers. It's ultimately all about people and putting the best possible people on the job to create a winning team.

My biggest disappointment was certainly that our Mexican foods division didn't work out as expected. I had a vision of expanding our food business and felt very strongly that we could do it on our own. It turned out that we could not.

Mexican foods was a great strategy, but we failed at it. We bought some companies at substantial discounts, but probably got what we paid for. Another eye opener for us, as well as for a lot of other companies, is the need to make sure that you have the skill sets to be successful in companies that operate in challenging management environments. We ultimately came to the conclusion that we didn't, so we sold it. When you are not succeeding, recognize it early and do something about it.

I don't dwell on mistakes. Everyone in the management world is going to make mistakes. If you think not, you are fooling yourself. When you find yourself in a situation where you can't execute, you make an adjustment and move forward. We in management — as I tell the board all the time — have got to be careful about how hard you punish mistakes. They will happen, because that's where innovation comes from — it's where people go out and look for new ways to create value. The main thing is, you don't want to make the same mistake twice. But when you make a mistake, don't live with it forever. Take corrective action and move forward."

Q. What is on the CHS drawing board right now that you are most excited about?

Johnson: "Renewable fuels and how they fit with our company is by far the highlight right now. It is a very exciting area that is growing extremely fast. New plants are being considered each and every day here. It holds a lot of value for our member-owners."

Toelle: "Part of the vision of CHS is connecting producers with the consumer, and we've been doing that on the food side, especially in grains through Ventura Foods. When you think about the renewable fuels platform, it presents another aspect of the CHS vision: the producer-to-consumer connection."

Q. Can CHS and other co-ops help keep more family farms in business, or is continued drift toward industrial-scale farming the only real future for U.S. farming?

Toelle: "Through our local co-ops and country operations, our mission is to provide value back to producers. We think we offer a platform of access to world markets, integration between supply and grain outputs and food processing. And we drive that value back to the local level.

You will continue to have a diverse makeup of farms in the U.S., depending somewhat on geography and crop mix. We certainly spread our value across all producers. It is up to them to run their businesses at the size and scale that they think works for their operation."

Q. There is much debate about states adopting new co-op incorporation laws that allow for a broader definition of what a co-op is. What factors are fueling this movement and what does it mean for the future of farmer-owned co-ops?

Johnson: "I'm not sure I even know what a traditional co-op is any more. There are a tremendous amount of different structures being used, including by ourselves. We are a traditional co-op, but — by the same token — we use many different capital structures to accomplish our objectives. An example is our preferred-stock program that trades on the NASDAQ. This is fairly unique in the co-op world. But it doesn't interfere with our core co-op values because this is non-voting stock.

Control and governance of the company stays in the traditional form, with producers. We use a lot of limited liability corporation (LLC) structures. We have LLCs with other co-ops, with pri-

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Montana forest fuel collection business wins USDA/RD grant

By Tyler Christensen
Montana Missoulian

Editor's note: this article is reprinted courtesy of the Montana Missoulian.

It's easy to find uses for small-diameter trees and woody biomass. It's not so easy to find a cost-effective way of getting that material from the forest to the people who can use it. But Craig Thomas and his Ravalli County business, All Woody Resources, are working on a method of collecting logging debris at the job site using special container trucks capable of going wherever logging trucks go — with the goal of making small-wood collection in Montana's forests economically feasible for the first time.

The company's effort got a significant boost in April in the form of a \$228,000 check presented in person by the U.S. Department of Agriculture's Undersecretary for Rural Development Thomas Dorr. The check was part of \$4.2 million in USDA Forest Service grants given to 18 small businesses whose work helps remove economic barriers to the use and marketing of woody material, Dorr told a wind-whipped crowd at the Johnson Brothers wood recycling yard in Missoula.

"Everybody is fully cognizant that small businesses are the economic drivers of

the U.S. economy," Dorr said after presenting the check. "I suspect this is going to be a very successful project, all because small business people are willing to step in and do their part."

All Woody will use most of the money to buy more container trucks and to launch a marketing program, said Rosalie Cates, executive director of the Montana Community Development Corp., which has been working with Thomas to test and develop the new collection method.

Basically, the company uses a system of trucks and containers to transport logging debris — also called slash — to a central collection yard near Stevensville, where the woody biomass is sorted for sale. This sort of material is usually inaccessible and often burned to reduce the amount of hazardous fuels in the forest.

By allowing businesses to collect that material, the forest will benefit from fewer wildfires and the government will save money by having less slash to burn. Also, fewer burns means better air quality — which everyone can appreciate.

"In my book, no matter how you cut it, that's a win-win situation," Dorr said.

However, the financial heart of the business is the central yard, where the wood material can be amassed on a sufficient scale to be conveniently and economically picked up, processed or delivered, Cates explained.

Thomas, who counts 30 years in the forestry business and currently contracts with Johnson Brothers, started working on the collection system three years ago with the help of MCDC and several partner-businesses. After extensive study and testing, they decided on

the current method as the most cost-effective way to access the greatest quantity of woody biomass.

"It is actually not the most economical method of collecting slash, but it will work where other methods won't," Thomas explained.

It's been used on restoration projects on Blue Mountain and Pattee Canyon, he said, and proved particularly useful on Pattee Canyon roads inaccessible to other machines.

In fact, logging debris is inaccessible in about 90 percent of all logged areas, said Chuck Seeley,



Forest thinning operations — conducted here by Horizon Tree Service and All Woody Resources — will lessen the threat of a devastating forest fire. The wood chips will provide fuel for generating electricity. Photo courtesy Montana Community Development Corp.

a forester with Smurfit-Stone Container Corp.'s Forest Resources Division.

"This makes it a lot more accessible," Seeley said of All Woody's new collection method.

Smurfit-Stone contracts for slash grinding and delivery — with Johnson Brothers, among five or six other companies — and uses the woody material to generate power and electricity for the mill, Seeley said. The company burns through about 30 van loads of such material a day.

"We generate enough power to run our whole mill," he said.

Thomas and his grant partners — Levi Cheff of Fire Solutions Inc., Rob Castellano of Horizon Tree Service, Kit Sutherland of Bitterroot Resource Conservation & Development and University of Montana assistant forestry professor Beth Coulter — as well as Montana's wood products industry in general, are part of the solution to having a healthy forest, said Craig Rawlings, smallwood enterprise agent for MCDC.

If not for their harvesting, transporting and processing of very small diameter wood, all that material would be burned or hauled to a landfill, Rawlings said.

Not only would that be a huge waste, Thomas added, but it would ultimately hurt the forest he and other life-long foresters have to rely on for their livelihoods.

"Although I'm a harvester of trees, I'm trying to enhance the lives of the trees that we leave," he said.

"What we're trying to do here is treat the forest with love and care." ■

USDA awards \$4.2 million for wood biomass projects

Agriculture Under Secretary Thomas Dorr in April announced nearly \$4.2 million in grants to 18 small enterprises to develop innovative uses for woody biomass in national forests as sources of renewable energy and new products. "This grant program helps to reduce the risk of wildfires by removing built-up fuel hazards and improves forest health," said Dorr, in Missoula, Mont., to announce several Earth Day initiatives by USDA. "In addition, these projects give an economic boost to our rural communities, increasing the nation's sources of renewable energy."

This year's recipients were selected based on a number of factors, including those that make it economical to remove woody biomass from forest lands and turning it into marketable products, while reducing the costs of recovery. In addition, grants were awarded for projects targeted at removing economic and market barriers in using small-diameter trees and woody biomass.

All 18 grant recipients must match the federal portion by at least 20 percent. Together with the non-federal matches, approximately \$13 million will be spent on this effort. For a list of grant recipients and more information on the program, visit: <http://www.fpl.fs.fed.us/tmu/grant/biomass-grant.html>.

USDA funds co-op impact research



Agriculture Secretary Mike Johanns in late April announced about \$495,000 in competitive funds are available to

institutions of higher learning to conduct research on the national economic impact of cooperatives.

"Cooperatives play an important role in the growth of our rural economy," said Johanns. "This research will help to measure the full impact cooperatives are making in rural communities across America and provide USDA with an overview of what is working and how cooperative businesses can play central roles in vibrant rural economies."

The competitive funds will be used

to establish cooperative research agreements with institutions to examine the impact of cooperatives, in cooperation with USDA Rural Development. Each agreement will include guidance on the development of a methodology for collecting and assembling basic impact data; applying the methodology to collect data and analyze the economic impact of cooperatives and other appropriate studies to examine the socio-economic impact of cooperatives on local communities. Projects must be completed by September 30, 2008.

Potential applicants are institutions of higher education; public or private colleges or universities, research foundations maintained by a college or uni-

versity or private nonprofit organizations funded by a group of colleges or universities.

Application forms, guides and materials for the cooperative agreement can be found at: <http://www.rurdev.usda.gov/rbs/coops/reic.htm> or by contacting USDA Rural Development at (202) 690-0368; TDD: (800) 877-8339.

Paper applications must be received in the USDA Rural Development National Office, postmarked no later than June 30, 2006; electronic applications are to be received by the same deadline date via: <http://www.grants.gov>.

For more information, go to: <http://www.rurdev.usda.gov/> and click on "Available Funds." ■

Bottling Hope in Africa

Land O'Lakes providing boost to Ugandan dairy industry

**By Todd Thompson,
Country Manager**

Land O'Lakes Inc. — Uganda

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Most people know Land O'Lakes, Inc. as the producer of America's top butter brand, one of the country's leading farmer-owned cooperatives and a major player in agricultural supplies. But few are aware that the dairy cooperative giant has an International Development Division that has been helping farmers and rural businesses increase productivity in developing countries around the world for 25 years.

In the east African country of Uganda, Land O'Lakes has been implementing a private sector-based dairy development project since 1994. The project provides technical assistance at all levels of the dairy value chain — from smallholder farmers to milk-bulking cooperatives and collection centers to processors of milk and value-added products like cheese and yogurt. Land O'Lakes' presence has helped Uganda's dairy industry expand and become more efficient, increased the popularity of dairy products among consumers and raised income and profits for smallholder dairy farmers and rural enterprises.

Project staff based in Uganda and short-term consultants — many of them U.S. farmers and agribusiness experts — offer

"Milk has earned me medals..."

Dorcus Inzikuru's
National athletic champion
2004.

It's easy to see why Dorcus Inzikuru's National athletic champion (2004) has an excellent physique. It's because he has a secret that is fit and healthy. It's the goodness of milk. — No other food has it. At his favorite, Land O'Lakes, Dorcus Inzikuru will see you smile. So will your body, too.

Experience the taste of pure goodness. SOPB - Riding Dancer Milk.

A Uganda Dairy Processors Association (UDPA) initiative with funding from the French Embassy through ACDI/VOCA project and Land O'Lakes Inc. with support from LNDI.

Dorcus Inzikuru, Uganda National Athletic Champion in 2004, reveals one of the secrets to his success: the vitamins and minerals his body gets from milk.



Milk is delivered to market by Masaka farmers, who are averaging an additional \$349 per household as a result of participating in a Land O'Lakes-directed project to improve production practices. Photos courtesy Land O'Lakes



"Milk is Fun!" is the message at this rally for Ugandan school students.

advice on a wide variety of topics. These include: cooperative development, marketing, milk bulking and handling, value-added processing, production, policy reform and industry organization. Funding for the Uganda project and other Land O'Lakes economic development initiatives overseas comes primarily from USDA and the U.S. Agency for International Development.

Much of the Uganda project's current funding came from the recent sale of 11,100 metric tons of donated American wheat on the local market under USDA's Food for Progress Program. Under this monetization process, USDA takes excess commodities raised by American farmers and converts them to cash in developing countries to provide grants to implement development projects. A study is done before the sale to assure it will not disrupt local production and markets.

Getting results

Stimulating sustainable economic growth to alleviate rural poverty is a major goal of the Uganda project. The country's economy is largely agricultural, and two-thirds of the country's poor are smallholder farmers. To date, the Uganda project has achieved results that include:

- \$349 average annual increase in household income for participating

farmers (average per capita income is \$270 a year);

- 28 percent increase per day in milk production in participating animals;
- 45 percent increase in processing-capacity utilization;
- 6.5 million-liter increase in domestic consumption of processed dairy products;
- 75,000-liter increase per day in milk entering the cold chain;
- 89 percent increase in membership in producer organizations.

A recent success story involves MADDO Dairies Ltd., a company that began operating a 1,200-liter micro-processing plant in the town of Masaka in 2003. MADDO buys milk from local farmer cooperatives and processes it into flavored milk and yogurt. Like many start-up enterprises, MADDO had good ideas but lacked the knowledge, systems and internal controls needed to effectively manage its operations.

With Land O'Lakes' help, MADDO's management turned the company around, instituting financial and other reforms that brought it from the brink of collapse to profitability by 2005. Within one year, the amount of milk purchased from area farmers increased from 74,800 to 208,580 liters, increasing their income from milk sales

by more than 200 percent.

Production efficiency at MADDO was improved with a cooling tower developed by Land O'Lakes' Sam Sebadduka, supervisor of milk quality and dairy processing in Uganda. Sebadduka developed a water-cooling tower that recycles water used in cooling the pasteurization unit. Adoption of this simple technology cut water usage from 90,000 liters a month to 40,000. It also reduced the share of water as a cost of production from 4.3 percent to 1 percent.

Uganda currently produces 1.2 billion liters of milk per year. Of that, 40 percent is consumed on the farm. Of the rest, about 20 percent enters the "formal" market in the form of processed and value-added products worth \$108 million. The remainder enters the "informal" market, where small-volume traders buy milk and sell it unprocessed to consumers, who then boil it at home. The value of the informal market is about \$160 million.

Central role for co-ops

Because rural cooperatives play a central role in Uganda's dairy industry, much of the project's emphasis is in the area of cooperative development. Land O'Lakes' advisors help all types of groups, from those still in the initial planning stages to large established businesses with turnovers approaching \$1 million a year. The project advises on issues such as governance, membership responsibilities, the role of the board and legal registration.

Because many smallholder farmers have no experience running commercial enterprises, Land O'Lakes also provides assistance in business management. Many groups, regardless of size, are weak in accounting and financial management, leaving them unable to track their funds and plan for the future. To address this problem, Land O'Lakes is introducing a common accounting software program to the cooperatives it advises.

"This will help tremendously in getting the cooperatives we work with to

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Husker Ag LLC

Plainview, Neb.

Type of Business:

Husker Ag LLC, Plainview, Neb., is a majority producer-controlled ethanol venture.

Business Objective:

The traditional operating procedure of ethanol plants for processing dried distillers grains (DDG) is to mechanically dry this byproduct (or co-product) from a 70-percent moisture content down to 10 percent, and then market it as livestock feed. This drying process consumes large amounts of natural gas. Husker Ag will market its DDG co-product as a “modified” product containing about 55 percent moisture, thereby reducing the amount of natural gas consumed and netting a substantial annual decrease in energy costs. Air emissions will also be reduced.

Annual Sales:

As a fuel-grade ethanol production plant, Husker Ag LLC processes 8.5 million bushels of corn annually into more than 20 million gallons of fuel-grade ethyl alcohol (ethanol). A secondary product produced is dried distillers grains, which are the corn components that remain after the starch is converted to ethanol.

Ethanol production is presently in excess of 25 million gallons per year, an output which exceeds the facility’s estimated projections. Co-product revenues have contributed more than \$6 million year to date.

Number of members & employees:

Husker Ag has more than 500 members, about 70 percent of whom are agricultural producers. Employment has increased from 30 to 32 employees, thanks to the development of the new co-product.

How USDA Helped:

Husker Ag received a \$226,850 Value-Added Producer Grant (VAPG) from USDA Rural Development, which was matched by Husker Ag. The money is being used for working capital to further the development of the value-added processes for area corn.

Leader’s comment:

“The USDA Rural Development grant will allow us to employ a co-products merchandiser and to supplement the salaries of the plant maintenance manager and plant lab manager to proceed with our distillers grain production,” says Seth Harder, general manager for Husker Ag. “This will benefit area feedlots and member-producers. Additionally, these funds will help to purchase corn inventory for production purposes.

“Feedlots will benefit from the co-product produced, as it is an excellent source of protein and energy for livestock,” he continues. “The plant will have the capacity to produce co-product to feed 80,000 head of livestock.”



Husker Ag used a Value-Added Producer Grant to help make its dried distillers grains more marketable. DDG and other co-products have contributed an additional \$6 million to the producer-owned business’ bottom line so far this year. Photo courtesy Husker Ag

The Results:

The ethanol plant has increased the local demand for corn, resulting in a higher local corn price. Farmers used to be paid only a wholesale commodity price for their corn which, in turn, was shipped out of the immediate area. Currently, Husker Ag pays an average of 5-to-10 cents per bushel over the prevailing corn market price. Since the plant is located closer to the producers’ operations than other traditional markets, local farmers haul their own corn vs. having it trucked for them, saving on trucking costs and increasing their income.

Major Challenge/ Opportunity Facing Co-op:

“The biggest challenge facing co-ops today is finding a niche to guarantee profitability and market share in a rapidly growing industry,” says Harder.

Contacts:

Seth Harder, general manager;
Shaun Waldow, plant manager;
Fred Knievel, board chairman.

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Co-op Conversions

*Extent of commitment to co-op values
key factor in decisions to convert*

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

Editor's note: the author welcomes feedback from readers on the topic of co-op conversions; their thoughts may be used as subject matter for forthcoming articles on this topic. E-mail her at: julie.hogeland@wdc.usda.gov.

Since the early decades of the 20th century, agricultural cooperatives have been associated with particular values that have influenced their marketing strategies. The traditional strength of cooperatives is that they help protect producers by creating a reliable and fair buyer for their products and enabling producers to control their destiny by providing a marketing channel that can extend from raw commodity to finished product.

Co-ops help establish orderly marketing channels and bring balance to markets where producers would have minimal bargaining power in highly concentrated industries. Likewise, they provide a reliable and fairly priced source of production supplies. Co-ops also help strengthen rural communities by keeping more dollars close to home.

What happens to these values when cooperatives convert to a publicly traded corporation? Will producers suffer from narrower marketing choices and/or lower returns? If so, could this create fertile ground for new cooperatives? Does the decreasing number of producers and changing market conditions lessen the need for cooperatives, or are they more vital than ever due to

increasing concentration in the food processing and retailing industries?

Professor Michael Cook of the University of Missouri says, "The recent wave of demutualizations raises the question of whether the cooperative model can survive in an increasingly concentrated, deregulated, privatized and global business environment." This article focuses on several recent co-op conversions (also called "demutualizations") and some of the issues they raise for their former members, as well as a proposed co-op conversion that was defeated.

For Diamond Walnut Growers, the touchstone for conversion was the cooperative brand and the desire to use it to attract large amounts of outside capital to "grow the brand" and penetrate new markets. For Ocean Spray Cooperative, owner of a major consumer beverage brand, near-acquisition of its brand by PepsiCo became an opportunity to reaffirm that the 76-year-old cooperative was to be held in trust for future generations of growers as a sustainable, value-added marketer of cranberries.

Within this increasingly concentrated, deregulated, privatized and global business environment, cooperatives have sometimes sought to become "just another business." This can become a self-fulfilling prophecy. Cooperative values, and the extent to which producers hold them, may make the difference between conversion, acquisition or remaining under producer control.

Protecting farmers vs. building the brand

Traditionally, marketing cooperatives are often seen as a "competitive yard-



Economist Edwin Nourse likened co-ops to "small business Davids" that enable farmers to do battle with industrial "Goliaths."

Photo of stained-glass window at First Presbyterian Church, Van Wert, Ohio, by Terry Dietsch

stick," providing competition to raise the prices received by producers. Formulated by economist Edwin Nourse, this role emphasized farmers' collective power or strength in the marketplace. Cooperatives were the "small business Davids" that challenged the "Goliath of big business." Competition provided through cooperatives kept other firms in the marketplace fair or honest. Even when cooperatives had improved market conditions, Nourse still felt farmer vigilance was required. Cooperatives should maintain on standby, ready to spring into action to protect farmers as needed.

At the core of traditional attitudes is a belief that cooperatives are fundamentally different from investor-owned or publicly-traded firms, hence the need for vigilance like that recently expressed by a manager of a large processing cooperative. Any entity that is not farmer owned and controlled is a competitor that makes it difficult for farmers to compete, he said. "If a corn grower's crop fails, the processing firm doesn't care as long as they can continue to get corn from

somewhere to make cornflakes.”

Contemporary economic or strategic management discourse is, in contrast, highly optimistic, such that farmer victimization would seem to be a thing of the past. “For most global businesses, the days of flat-out predatory competition are over,” say Morgan and Hunt (1994:20). The new rules of market competition call for networking, partnering and trust. In this setting, the farmer protection provided by cooperatives and even cooperatives themselves can seem like an anachronism.

This market-oriented school of thought tries to minimize the difference between cooperatives and investor-owned firms by examining how well cooperatives perform according to some of the commonly used standards of investor owned firms (IOFs). These include:

- Mission clarity — a singleness of purpose, such as a drive for profitability that motivates investor-owned firms;
- Global sourcing — buying raw materials wherever they are cheapest in order to lower manufacturing costs;
- Growth;
- Efficiency;
- Obtaining sufficient capital to survive and grow in an industrialized food system.

In contrast, the values encouraged by the competitive yardstick are:

- protecting growers;
- providing an assured market;
- strengthening rural communities;
- combating monopoly;
- providing support for local growers;
- ensuring competitive markets;
- providing grower control of destiny through ownership.

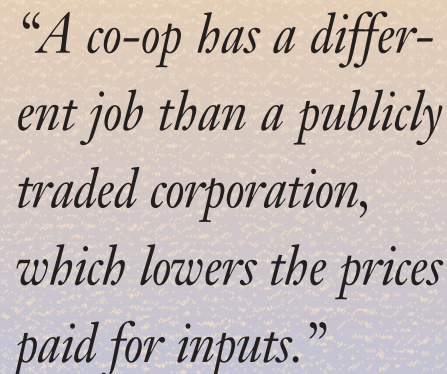
Capper-Volstead still vital?

Market-oriented values are in the ascendancy, shaping perceptions of the need for grower protection, or even collective marketing itself. To Mark Hansen, an attorney with Lindquist and Vennum and the architect of several cooperative conversions, the Capper-Volstead Act — which provides limited anti-trust exemption to farmer cooperatives engaged in marketing their prod-

ucts — reflects an era that no longer exists. For that reason, he questions the need for the Act itself.

“Why do farmers need Capper-Volstead?” Hansen asks. “When do they need to collectively price a product compared with selling it individually to Cargill?” In 1921, farmers were not looking for processing facilities, just product marketing. In that period, the supply of farmers was essentially “endless” compared with today’s very low farm population. And some of them are seeking an exit strategy from farming. Capper-Volstead did not address capitalizing a significant branded product into the marketplace, says Hansen.

How technological aspects of marketing and procurement will affect traditional cooperative issues of equity, equality of opportunity, disproportionate market power or market access is



“A co-op has a different job than a publicly traded corporation, which lowers the prices paid for inputs.”

—Chris Phillips

not clear. Agricultural industrialization brought new values, such as “size and scale” and “being a low-cost producer,” to agricultural cooperatives. Consumer-branded products offered growth opportunities that did not exist for the minimally-processed products traditionally handled by cooperatives.

Now, cooperative managers ask, “How can I take the value of the brand, unlock it and make it liquid?” Others ask, “How can I get additional low-cost supply to increase product demand?” As cooperatives became “market-driven” and “value-added” businesses, some

industry observers suggest a focus on profit has begun to diminish the other values provided by cooperatives. In documents filed with the Securities Exchange Commission (SEC), cooperatives pursuing conversion routinely state their commitment to market-oriented values such as growth, improving profitability and efficiency, and enhancing the return on the product brand.

The July 2005 conversion of Diamond Walnut Growers into Diamond Foods, a publicly traded firm, offers a commentary on changing cooperative values in some sectors. In 1912, the California Walnut Marketing Association, the precursor of Diamond Walnut Growers, initiated orderly marketing in the walnut industry through a federation of local walnut packing cooperatives. As the federated structure evolved into a centralized cooperative, Diamond Walnut’s strong marketing orientation emerged.

The cooperative became a leading domestic marketer and distributor of culinary nuts. In the late 1990s, Diamond Walnut focused on becoming a more competitive supplier to U.S. grocery chains and, in 2004, launched its Emerald brand of snack nuts. These objectives conflicted with the traditional cooperative values of “enhancing the raw-product price” and providing a home for growers’ product.

As a cooperative, Diamond Walnut’s pricing philosophy was, “A rising sea floats all boats.” Since 1965, Diamond Walnut’s average annual premium above the market has been 1.56 cents per pound (source, Diamond Foods). The Walnut Purchase Agreement accompanying conversion requires growers to deliver their entire crop to Diamond Foods for the duration of the contract: three, five or ten years. The contract offers no price protection or guarantees to pay market prices. Indeed, Diamond Foods has cautioned growers that payments could be reduced compared with the prior marketing agreement.

Producers more vulnerable?

University of California Economist Shermain Hardesty suggests these sin-

gle-buyer (monopsonistic) conditions could make the contracting growers vulnerable to price manipulation.

“A lot of growers had in their minds that they would still be protected even through the conversion,” commented one former member. “But the company will have to decrease expenses. Management will procure the cheapest product rather than maximize the price to a grower, as a co-op does. A cooperative would keep the industry from taking advantage of growers.”

At the time Capper-Volstead was enacted, the market power of each one of the “endless supply of farmers” was so limited that economics textbooks described the farmers as “atomistic” compared with the size of the businesses they were up against. Imbalance and disparity continue to describe agricultural markets. Consolidation of agricultural markets in recent decades means many farmers have only one buyer.

National Cooperative Business Association (NCBA) CEO Paul Hazen says the belief that predatory marketing no longer exists is shortsighted. “Cooperatives have made farmers into price setters, not price takers. By selling these businesses, we’ve lost this tool.” Hazen adds that if farmers’ only option is to sell to one huge agribusiness, “they are at the mercy” of that agribusiness.

The durability of the cooperative model — which has lasted for more than 150 years — is being threatened from the inside, many believe. An NCBA study found that most conversions are triggered by management. A small group of people motivated to change the business may present members with an ultimatum and only a very short period of time to vote. The absence of share ownership to compensate and motivate management can be an incentive within cooperatives, in particular for incumbent management to encourage conversion.

With conversion, select members, directors or management can cash-out

at one moment in time the long-term value of a cooperative, painstakingly built up through the ups and downs of commodity cycles by (in many cases) several generations of producers. Total stock benefits received by a four-member management team at Diamond Foods could top \$16 million, according to NCBA. To avoid short-circuiting members, Hazen recommends an open and transparent process, requiring high thresholds of member approval to approve conversion.



Caravaggio's painting shows David with the head of Goliath, a story frequently used to symbolize the struggle of small co-ops with much larger competitors.

When brand becomes paramount

Another inside threat occurs when many cooperatives’ chief asset, the product brand, comes to drive the cooperative more than the needs of members for whom it was founded. In the mid-20th century, the California-based avocado cooperative Calavo mainly identified with and promoted Haas avocados (Stanford and Hogeland). This restricted its ability to grow by attracting members with other varieties. Calavo resolved this by aggressively promoting members’ fruit and establishing its own brand.

Getting full benefit of brand development required more and cheaper avocados than California members could supply, so the cooperative turned to non-member supply from Mexico, Chile and New Zealand. Calavo converted in 2001. Outside investment — e.g., product, equity or foreign-direct investment — may be needed to derive

maximum benefit from the market development behind a cooperative’s brand name.

Cooperatives exist to provide a secure market for their members. A co-op manager facing heightened import competition brought by trade liberalization said this value represented a “huge incentive” for his processing cooperative not to convert. Perpetually on the lookout for cost advantage, any cooperative which converts could disenfranchise a portion of its former grower-members in rural areas where alternative income opportunities may be scarce.

Although the United States is the leading exporter of walnuts, Hardesty suggests that to fulfill its mission to maximize long-term shareholder value, Diamond Foods may import walnuts from China, the world’s largest producer. California-grown walnuts could then experience reduced demand and depressed prices as a result.

Trade liberalization allows vendors to source globally, to compare prices from many suppliers. This is a “low-cost supplier” model of competition. The economic norm of efficiency renders such competition impartial, even if the impact on raw product suppliers of such instability is in effect not much different from predatory (destructive) competition.

Welch’s, the grape products cooperative owned by National Grape Cooperative, is committed to using the domestic grapes of National Grape members as its “first supplier.” It buys all of the co-op members’ grapes — a reflection of the traditional cooperative value of finding a home for what is produced by members. This holds true whether grower-owners provide as few as five tons per acre or as much as nine tons per acre, as long as quality standards are met.

Supply variation has spurred cooperative growth. Welch’s, like many co-ops, markets globally. Through market segmentation, global sourcing may supplement domestic production to provide cost and profit advantages that

define sustainable competitive advantage. But Welch's commitment to receive all of the quality grapes produced by its grower-owners is the kind of approach that clearly protects domestic farmers.

Cooperatives ask more of themselves than competing business models and can risk over-extending themselves on behalf of their producers. Almost 20 years ago, economist V. James Rhodes declared, "one of the unique obligations of cooperatives is a commitment to the continuation of past and present member service that goes beyond that of the IOF" (1987:166). The consequences of how this line is drawn may have greater ramifications now than it did in the past. When cooperatives pay higher than the market price, they can tell farmers, "We took care of you; you got the money first, so the co-op didn't make any money." Farmers may like this, especially if they are not necessarily concerned about the future of the organization.

Before it can take care of farmers, the cooperative has to be a sound business. Overpaying market prices to members can lead to "capital starvation" within cooperatives. Members need a competitive return on both product marketed and investment. Making investment proportional to patronage is one way to achieve this objective.

Using relationships to build a brand

By seeing other firms as adversaries, the Nourse model of cooperation tended to segregate cooperatives from the rest of the business community. The expression "cooperatives as the Fourth Estate" captured this distinction. Exploiting the concept of the "cooperative difference," cooperatives established their own version of the marketing or supply channels used by private industry.

Cooperatives tried to "do it all" by providing an integrated food system that took the raw product from "farm gate to plate." Likewise, Ocean Spray tried to "do it all" by going from "bog to bottle," managing and controlling

every aspect of the supply chain.

In June 2004, Ocean Spray members rejected an offer from PepsiCo that would have given the corporation control of the Ocean Spray brand and juice business. The Nourse "mythology" — which prized cooperatives as "small Davids among Goliaths" — held no sway for those cranberry producers who



Protecting the market share of producer-members starts with the selection of a CEO who is willing to make this commitment.

favored the PepsiCo joint venture. They argued that Ocean Spray could not survive on its own in a world of giants. Too small to go it alone, the cooperative needed a partner, they felt.

The debate over the joint venture was a healthy experience for Ocean Spray. A much deeper dynamic than dollars was involved: at stake was the growers' right to control their destiny and maintain a multi-generational way of life. Reflecting on the pre- and post-debate period, Ocean Spray spokesman Chris Phillips said, "You can have it both ways—maintain cooperative status and have a major worldwide brand. A lot of people have looked at cooperatives as outdated, but it's a very bold business model. Cooperatives have to be different in how they partner with others, in distribution, in manufacturing, in how they go to market. A cooperative needs to maintain majority control over its brand so at the end of the day it's still a cooperative.

"But staying a cooperative doesn't mean going it alone. By partnering with others, you can still go global and set grower returns on a healthy growth curve. Our returns have more than tripled in the last four years. A cooperative has a different job than a publicly traded corporation, which lowers the price paid for inputs. Ocean Spray's job is to deliver to members a competitive commodity price and a dividend for owning a major brand." For approved, contracted acreage, Ocean Spray takes all the fruit grower-members produce.

Less ownership, more control

Within Nourse's "yardstick" philosophy, farmer control was expressed — or objectified — through investments in tangible assets such as processing plants, grain elevators or marketing facilities. The mark of ownership was often exclusivity, for example, the ability to "drop in" on the manager at will or to conduct site tours that now may be precluded by health and safety restrictions (for example, among artificial insemination or pork cooperatives).

Exclusivity influenced the operating philosophy established for CF Industries, a fertilizer cooperative. It was started in 1946 as a fertilizer brokerage operation by a group of regional cooperatives seeking to pool their purchasing power. CF grew to be one of North America's largest manufacturers and distributors of nitrogen and phosphate fertilizer products. It was owned by eight farmer cooperatives: CHS Inc., MFA Inc., Growmark Inc., Southern States Cooperative, Land O'Lakes, Tennessee Farmers Cooperative, Intermountain Farmers Association and Cooperative Federee de Quebec.

Through the end of 2002, CF operated as a traditional supply cooperative, focused on providing its cooperative owners an assured supply of fertilizer. SEC documents note that more than 80 percent of CF's annual sales volume was to its cooperative owners. CF diversified into fertilizer manufacturing and expanded its distribution network, starting in the 1960s, by acquiring several

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Government purchasing co-ops operate tax free

By Donald A. Frederick

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State and local governments that see opportunities to hold down costs by procuring goods and services through a cooperative should gain assurance from a recent Internal Revenue Service (IRS) administrative determination. While no Subchapter T tax issues are involved, the decision highlights another Internal Revenue Code (Code) section helpful to public institutions which organize a separate entity to engage in joint purchasing activities.

Code Sec. 115 provides that gross income for federal income tax purposes does not include income accruing to a state or territory, or any political subdivision thereof, which is derived from a "...public utility or the exercise of any essential governmental function." This provision gives state and local governments the flexibility to create separate entities to perform essential services without incurring federal income tax liability on earnings that are (1) generated by those entities and (2) retained within the public sector.

In Private Letter Ruling 200610001 (released March 10, 2006), the IRS determined that income earned by a nonprofit corporation, formed by public school districts for the purpose of cooperatively purchasing supplies, is not taxable income under Code section 115.

Case facts

Two school districts formed a nonprofit corporation for the sole purpose of purchasing goods and services for public school districts and other members. The ruling points out that "Through cooperative purchasing power, Taxpayer enables its members to purchase a range of goods and services at reduced prices."

The ruling doesn't discuss who became members of the association, its governance structure or its previous tax history. But as the basis for submitting its request for a ruling that it is entitled to tax-free status, the purchasing association amended its articles of incorporation to provide that its members must be public school districts or other government entities that meet the requirements of Code Sec. 115. In its request, the entity identified current members that did not meet this test and promised to terminate those memberships by a specified date.

The article amendments also provide that the entity may not issue shares of stock nor declare or pay dividends. Also, while reasonable compensation can be paid to individuals for services rendered, no part of net earnings may inure to the benefit of any director, officer or other individual. In the event of dissolution, any remaining assets after liabilities are paid will go only to member governmental units on the basis of the prior three years' patronage.

IRS decision

In granting favorable tax treatment, IRS held that the entity meets both requirements to qualify for Sec. 115 tax status. First, IRS notes that its only

IRS held that the entity meets both requirements to qualify for Sec. 115 tax status.

function is to procure goods and services at more competitive prices for its members. IRS found this to meet the test of performing an essential governmental function within the meaning of Code Sec. 115(1).

Second, IRS notes Code Sec. 115 also requires that any income must accrue to a state or political subdivision thereof. IRS finds that "...income accrues to its members through the procurement of goods and services for its members." It also points out that upon dissolution, assets remaining after liabilities are satisfied can be distributed only to qualified members on a pro rata basis and earnings cannot be distributed to private persons. Under these conditions, the entity's income also meets the test of accruing only to states and political subdivisions thereof.

IRS concludes that so long as the entity operates as represented and cleans up its membership rolls by the date promised, it will be eligible for Code Sec. 115 tax treatment on that date. ■

A Movable Feast

North Dakota farmers aim to add value and educate consumers with D.C. eatery

By Sheri Aldape,
USDA Farm Service Agency

North Dakota farmers help feed the nation and the world with the crops and livestock they produce. Now, under the umbrella of the North Dakota Farmers Union (NDFU), they are taking it another step forward: they are going to cook up the food and dish it out at their own restaurant in Washington, D.C. The new establishment, called Agraria, is slated to open this summer in Georgetown, a primary nightlife and upscale shopping area.

Agraria was originally going to open in Baltimore's Inner Harbor, but that plan was eventually shelved in favor of the Washington locale. If successful, it is hoped that this will be the first of a number of such farmer-owned restaurants around the nation.

The project was first conceived in 2002 as part of the work on an NDFU project called the Ultimate Value-Added Cooperative. Planners saw benefits for NDFU members in owning a restaurant that could gain a marketing edge by promoting the fact that its meals are derived from family farmers. The restaurant will also provide an opportunity to educate consumers about how their food is grown.

The restaurant is wholly owned by Agraria LLC, a North Dakota-based limited liability company. NDFU, organized as a farmer-owned cooperative, currently owns about 60 percent of Agraria, but that share will be reduced as more family farmers purchase shares and become direct owners, as many have already done.

The company has a seven-member board of governors, of which NDFU President Robert Carlson is serving as interim president. Carlson, a grain and oilseed farmer near Glenburn, N.D., was also an organizing member of the Dakota Growers Pasta Co., in which he remains an active member. He is also a former member of the USDA-Agricultural Trade Advisory Committee for Grains & Oilseeds, and recently traveled to China and Japan to develop niche markets for North Dakota commodities.

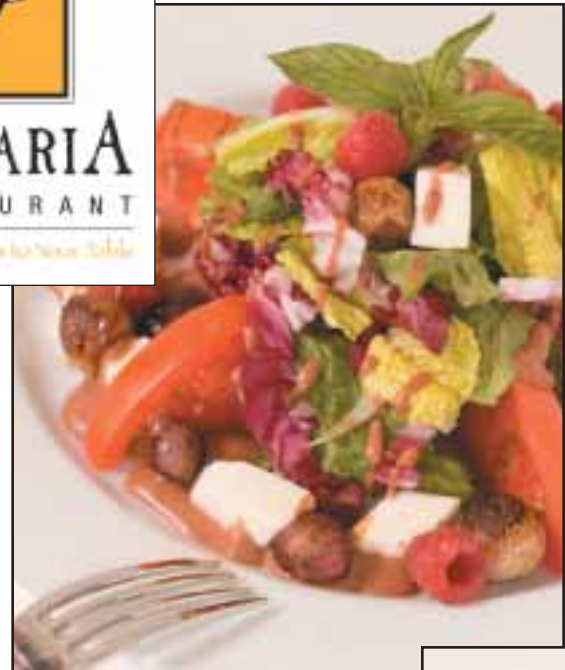
Direct marketing

Farmers are eager to capture more profits from direct marketing, says Tom Prescott, the project manager and president of the Magnate Group LLC, the development firm for Agraria. Running parallel to that is the desire of many restaurants to source more of their food directly from the farmers who grow or raise it. "So this takes it to the next level — allowing farmers to participate in the ownership structure of the business."

Information on various farmers and the foods they provide will be available at the restaurant.

"Farmers are important, not just in the overall industry that provides the food on our tables, but also as a vital fabric of the American way of life," Prescott says. "So it's very important for this business to serve an educational purpose by promoting farmers, in terms of their work and daily life, and the security they bring to the food system."

Having the first restaurant open in Washington is a great opportunity to showcase the family farmer to important decision makers in the nation's cap-



ital since "every state in the union is represented by their congressional members here," Prescott notes. Washington is also a hub for business and industry leaders from around the globe.

The District was also attractive because it is a major tourist destination and is home to a relatively transient population that dines out more frequently than average. The D.C.-area population also has higher-than-average disposable income. All of this adds up to making it one of the nation's fastest growing restaurant markets.

If Agraria restaurants open in other cities, Prescott says the cooperative, farmer-owned character of the business will stay intact.

Room with a view

The 14,000-square-foot restaurant, located in the Washington Harbor complex in lower Georgetown, will have a beautiful view overlooking the Potomac River. The décor, being designed by the award-winning Adamstein & Demetriou architecture

firm, will be modern, while still grounded in the roots of the family farmers who own and supply it. The restaurant will seat 355 people, but that number can change depending on table configuration and private events.

The cuisine will be contemporary American, with some Italian and French influences. Since the food will be sourced from farmers from across the country, the menu will have the ability to change daily to ensure that the freshest products are used.

From 30 to 60 percent of the food initially served at Agraria will be sourced from family farms. In time, Prescott says the percent of food sourced directly from family farms will increase. He also hopes to secure food from co-ops in the Washington, D.C., area.

“The seasonal aspect is always an issue you have to contend with here. When the weather warms, right at the time that we are opening, it will be a prime opportunity for us to source from local farmers. We also encourage farmers to contact us regarding products that they are offering so we can discuss sourcing from them,” Prescott says.

The restaurant will also look to source seafood from the Chesapeake Bay to attain the highest quality products possible.



Chef linking with farmers

When trying to pick a name of the restaurant, “Agraria” was the natural fit. It is Latin for “one of the fields, or lands,” which was felt to be applicable to farmers’ way of life and to best reflect the restaurant’s slogan: “From our fields to your tables.”

Paul Morello, the head chef, was recommended for the job based in part on his background of working with farmers and

obtaining products from farmers markets. Morello, who has been featured in several publications for his cuisine, was previously an executive chef at Les Halles, a French restaurant in D.C.

Morello has been talking to Pennsylvanian farmers who will supply food for some “exotic” dishes, and has met with North Dakota farmers who will supply flour for his homemade gnocchi and lasagna. Morella is also using American cheese from Wisconsin and Idaho, and he plans on using North Dakota beef, lamb, pork, potatoes, honey and sugar.

Agraria, he says, is “a chef’s dream.” ■



Agraria’s Executive Chef Paul A. Morello was selected not only for his culinary art, but because of his experience procuring food from farmers markets and co-ops. Dishes seen above are his Mozzarella and Tomato Salad and Tuna au Poivre. Photos courtesy Agraria/North Dakota Farmers Union

Agri-Mark, Allied Federation dairy co-ops join forces

The Agri-Mark dairy cooperative, Methuen, Mass., and the Allied Federation of Cooperatives — a federation of 26 small co-ops in New York — have voted to join forces.

About half of Allied's 800 members are expected to join Agri-Mark over the next several months. Three Allied members have been named to Agri-Mark's 17-member board, and a fourth may be appointed. Rather than calling it a merger, the two co-ops say they are "joining forces" as one cooperative, under the Agri-Mark name, to wield greater marketing and political muscle.

"The farmers of both the Allied Federated Cooperatives and Agri-Mark have voted to come together to protect the region's dairy industry and work for higher farm milk prices," the two co-ops said in a joint statement. "As dairy farmers, we need to work together to preserve what we have left of our regional industry," says Mike Barnes, a dairy farmer from Mount Upton, N.Y., who serves as Allied's board chairman.

"This joining of our organizations makes us a stronger cooperative than ever before," says Carl Peterson, a Delanson, N.Y., dairy farmer who serves as Agri-Mark's chairman. "From northern Maine to Vermont, and from Southern Connecticut to Western New York, we are going to continue to be the voice of the Northeast dairy farmers and represent them in the marketplace as well as in state legislatures and Washington, D.C.

"While other companies are closing dairy plants in the region and investing in mega-plants in California and New

Mexico, Allied/Agri-Mark has more than \$75 million invested in four dairy processing plants in New York, Vermont and Massachusetts to provide a milk market, maintain stable prices and generate value-added products under the award-winning Cabot and McCadam brands of cheddar cheese, butter and other dairy products," Peterson noted.

"We're making a real financial commitment to the Northeast," he continued. "Our goal is better dairy markets and better long-term farm milk prices. Farm prices have been up and down the past several years and when you couple that with plants closing, you can see why farmers have to work together like never before."

The small co-ops that operated under the Allied umbrella are dissolving, with most members choosing to join Agri-Mark, although there is no obligation to do so, says Bob Wellington, Agri-Mark's senior vice president. Most of the new member-farms are in the northern tier of New York, stretching from Syracuse to Plattsburgh.

By late April, more than 300 former Allied members had already joined Agri-Mark directly, including 95 percent of those in the Northern Tier close to its Chateaugay facility. Another 50 to 100 more in the central part of the state are expected to join in the next several months as their cooperatives



Adding salt to McCadam's New York Cheddar cheese boosts flavor and helps control the aging process. Agri-Mark bought the plant in 2003 when its foreign owners announced plans to close it. Photo by Doug DiMento, courtesy Agri-Mark

dissolve, according to Agri-Mark spokesman Douglas DiMento.

Though the Allied Federated Cooperatives will cease to exist, Barnes will continue to serve as chairman until the transition is completed over the next several months. Agri-Mark had roughly 1,250 farmer-members throughout New England and New York, with more than 500 of its farmers in the Empire State. As of May 1, the cooperative had 1,530 member farms, with more than 775 in New York.

Agri-Mark bought the McCadam Cheese processing plant in Chateaugay, N.Y., in 2003 when its foreign owner announced plans to close the facility. The 150 members of the former Chateaugay Cooperative also joined Agri-Mark at that time. Agri-Mark has since been marketing additional New York milk and investing in the McCadam brand on behalf of its dairy farmer-owners. ■



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Aurora Co-op pursuing new ethanol, ag-bio multiplex projects

The Aurora Cooperative, Aurora, Neb., and Aventine Renewable Energy Holdings Inc. have signed a letter of intent to develop a new ethanol plant one mile west of Aurora. In its first phase, the plant will produce 100 million gallons per year, but plans call for later expansion to 220 million gallons annually. The ethanol plant is to be constructed on a 135-acre site, called Aurora West, adjacent to the Nebraska Energy LLC ethanol plant, of which Aventine is the majority partner/owner. The plant will be owned by Aventine, while Aurora Cooperative will be the exclusive grain supplier to the new facility, as well as the exclusive marketer of syrup and wet distiller's grain with solubles (WDGS). A starting date is still to be determined.

In addition to the ethanol plant, the project will include what co-op President and CEO George Hohwieler calls "the first ag-bio multiplex in North America." The site will include a state-of-the-art grain-handling facility, a fertilizer complex and a double-loop railroad system to accommodate grain, fertilizer, ethanol and DDG shipments accessing the Burlington Northern-Santa Fe (BNSF) mainline railroad. The multi-million bushel grain facility will receive and deliver area producers' grain to end users in the ethanol, feed and food industries. The fertilizer complex will have the ability to expand, based on the continued market growth Aurora Cooperative is experiencing.

Aurora West will also be home to a

75,000-square-foot warehouse leased by Syngenta Seeds Inc. which will occupy six acres and have capacity for 500,000 units of seed corn. "The Aurora West project, with its contemporary, multi-dimensional uses, has the possibility of becoming the cornerstone for a vision-



A computer-generated conceptual rendering of what the new ethanol plant and ag-bio multiplex near Aurora, Neb., may look like.

ary, ag-bio research and development campus that Congressman Tom Osborne has supported for years," Hohwieler added. Total value of the multiplex could exceed \$250 million.

Wisconsin governor vetoes new state cooperative law

Wisconsin Governor Jim Doyle vetoed Assembly Bill 327, which would have created a new form of corporate organization, the unincorporated cooperative association. "I agree with the intent of the legislation — to help cooperatives raise needed capital through non-patron investment partners," Doyle said. "However, the bill creates a tax consequence that was unintended by the authors and supporters of the bill. Although unintentional, I cannot sign a bill with consequences such as these." Doyle said he will be working with the state legislature and supporters of the bill to pass a version in the current session that achieves the

goals of the proposal, without the creation of this tax consequence.

The Wisconsin Federation of Cooperatives (WFC) says it is disappointed by the governor's veto, which it said would create a second Wisconsin cooperative law modeled after laws

recently enacted in Minnesota and Iowa, among other states. The bill was intended to provide an opportunity for new business development in Wisconsin. "While we do not agree with the position taken by the Department of Revenue, WFC appreciates Governor Doyle's commitment to pass a new version of the bill in the remaining days of the 2006 Legislative Session," WFC said

in a statement issued by President Bill Oemichen and Chairman Ed Brooks, of Foremost Farms USA.

The Wisconsin Farmers Union has been leading the opposition to the bill. WFU President Sue Beitlich, a dairy farmer in Vernon County, says the bill "would allow cooperatives to form with as little as one patron and as much as 70 percent financing from corporate investors...The proposed change in co-op law cuts the heart out of the member-controlled cooperative," she wrote in an editorial posted on the WFU website, adding that it "contains no protection for existing cooperatives and could open the door for foreign investors to sink cash into patron-owned cooperatives."

CWT fee raised to 10 cents to counter surging milk supply

To generate more funds to address a surge in U.S. milk production that is beginning to depress farm-level prices,

members of Cooperatives Working Together (CWT) have voted to double the program's five-cent per hundred-weight assessment. The higher assessment will begin on July 1, 2006, and run through 2007.

"We've demonstrated in the past three years that CWT can help dairy farmers address a supply-and-demand imbalance, but we need more leverage as we look ahead into 2006 and 2007," said Jerry Kozak, president and CEO of the National Milk Producers Federation (NMPF), which manages CWT. Milk production was up 3.5 percent last year and continues to grow rapidly in 2006. Kozak said that the farmer-funded self-help program "risks being irrelevant in the marketplace if we don't have sufficient resources to do what farmers expect of us."

CWT's current budget does not contain sufficient revenue to fund additional herd retirement rounds, Kozak said. The higher assessment, to be collected starting in July, will bring in the additional money needed over 18 months to continue both the herd retirement program and the ongoing export assistance program. Even with the higher assessment, Kozak expects the level of overall participation in CWT will remain at 74 percent of the nation's milk supply.

"Every one of CWT's 49 member cooperatives, along with the hundreds of individual farmers paying into the program, recognizes that the stakes have gotten higher as the extent of the supply/demand imbalance has grown," he said.

In addition to voting for a higher assessment, CWT's members also modified several other of the program's features, including:

- The regional safeguard levels in the Northeast, Southeast and Midwest were raised to 0.75 percent of each region's annual milk production, up from 0.5 percent.
- Whole milk powder (WMP) was added to the list of dairy products eligible for export using CWT bonuses. Additionally, Mexico, a major market

for WMP, was added to the list of eligible destinations for that specific product.

- The target price for cheese under the export assistance program was moved from \$1.40 per pound, to \$1.30. The target butter price remains at \$1.30 per pound.

Sun-Maid girl turns 90 with digital TV ads

The Sun-Maid Girl, famous for her red bonnet and for holding a tray of freshly picked grapes, is receiving a digital make-over on her 90th anniversary. This American icon is taking on an animated form in nationwide television

commercials, print advertising and on a newly designed website: www.sunmaid.com. It was 90 years ago that a young



The Sun-Maid girl (above) has gone digital in the co-op's new TV commercials.

girl named Lorraine Collett posed for the raisin and dried fruit co-op's trademark in Fresno, Calif. Her likeness would become one of the world's best known trademarks and the cornerstone of Sun-Maid's packaging and advertising.

"Set to turn 90, the Sun-Maid Girl deserves a new look for the new century and our continued mission of sharing the benefits of naturally delicious raisins and other dried fruits with consumers," says Barry Kriebel, president of Sun-Maid, in Kingsburg, Calif. "We're excited with the resulting television commercials, which put a modern spin

on our message that raisins are "just grapes and sunshine."

The animated Sun-Maid Girl and the new television commercials are the work of Synthespian Studios, North Adams, Mass. Founded in 1912, Sun-Maid Growers is the world's largest producer and processor of raisins and other premium quality dried fruits. Sun-Maid's raisin sales of over \$200 million and 200 million pounds annually are approximately half "Sun-Maid" retail consumer products and half ingredient products for such items as cereals, breads, and a variety of other food products.

USDA announces \$43.7 million in rural broadband system loans

USDA Rural Development has issued three loans totaling \$43.7 million to provide broadband service to an estimated 41,000 rural households and businesses in four states. "Broadband service provides an economic engine for rural communities, which opens the door for business development, improved health care and additional educational opportunities," said Thomas Dorr, agriculture under secretary for Rural Development. "The infrastructure built with these funds is an investment in the future of these rural communities."

The loans were made to Broadband South, which will serve 64 communities in southeastern Georgia and Florida; to Jaguar Communications Inc., to serve eight counties in Minnesota; and to Mid-Hudson Cablevision in New York State to bring improved and advanced service to seven rural communities.

The Rural Development Broadband Access loan program authorizes USDA Rural Development to make loans to deploy broadband service to communities with a population of 20,000 or less, with first priority going to communities without broadband service. The loans are low interest and allow for the technology to be market driven.

The Rural Development Broadband Access Program has made 56 loans for more than \$868 million since the program was created in 2002.

DFA re-opens Michigan dairy processing plant

Dairy Farmers of America Inc. (DFA) has re-opened a dairy processing plant in Adrian, Mich., previously owned by Diehl Inc. City officials and DFA employees celebrated the plant's opening March 13 during a special ribbon-cutting ceremony. The plant, which has been idle since October 2005, received its first delivery of milk on March 14. The plant will create 25 new jobs.

"Adrian is a great processing location because it is located in an area where milk production is increasing," says Glenn Wallace, chief operating officer of DFA's Mideast area. "DFA member milk production in Michigan has grown 9 percent a year for the past two years, and we expect that trend to continue." DFA plans to process more than 16.5 million pounds of milk into condensed milk, cream and non-fat dry milk powder each month at the plant. A processing capacity of over 60,000 gallons per day will help to balance the growing supply of milk being produced by DFA dairy farms in Michigan.

The plant will allow DFA to process the excess milk that is produced during the spring and summer months. Previously, the milk had to be hauled out of Michigan to customers as far away as Kentucky or Wisconsin. Wallace says that the cooperative and its members should realize significant savings in transportation costs.



DFA workers celebrate the re-opening of a milk plant in Adrian, Mich. Previous owners idled the plant last October.

Kansas co-op director on Today Show

Larry Hoobler, a board member for Farmers Union Cooperative Business Association in St. Mary's, Kan., and his wife Diane, were featured on NBC's Today Show on April 27. They participated in a "City-Country Life-Swap" segment, which contrasted life in the



Green Acres in reverse: Manhattan, Kan., farmers Larry and Diane Hoobler got a taste of life in the other Manhattan on NBC's The Today Show.

Big Apple (Manhattan, N.Y.) with the Little Apple (Manhattan, Kan.)

Trying out country life was Sarah DiMuro, a New York City-born and raised woman in her twenties, who had never spent time out of the city. While on the farm, she milked a cow, sheered sheep, rode in the tractor and planted sweet corn. Meanwhile, the Hooblers navigated the subway system and went to a New York City nightclub. They also took over some of their counterpart's work duties as a personal assistant.

How did they get so lucky? The Kansas Cooperative Council reports that four years ago the Hooblers were included in an MSNBC show on the 9/11 terrorism attacks on America, and how they affected agriculture. The producer, who spent time at their farm to prepare for the show, is now a producer for the Today Show. When this story

came up as an idea, he said he knew just who he wanted to cast!

California's Central Valley losing best farmland fastest

Most counties and major cities in California's Central Valley are failing to make significant progress at preserving farmland in one of the nation's most important agricultural regions, according to a new American Farmland Trust (AFT) study. Many of the high-value fruit, nut and vegetable crops grown here cannot be grown anywhere else in the United States. "Though local land use plans are well-intentioned," said Edward Thompson, Jr., AFT's California director, "the best farmland is being paved over the fastest, and the land is being developed very inefficiently in terms of the amount of land used for each new resident. It's a waste of a precious resource."

The AFT study, covering 11 counties from Sutter to Kern, found that during the 1990s, 53 percent of the 97,000 acres that were urbanized was high-quality farmland, and that for every eight new residents, an entire acre of land was developed. Urban development in the Bay Area is about twice as efficient, and in Southern California it is almost three times as efficient. AFT also found that "ranchettes," rural residences on large lots, are a particular threat to agriculture. This fragmentation poses a serious risk to agriculture, not only because of the potential for conflict with intensive farming operations, but also because it helps to drive the price of farmland above what farmers can afford, the AFT report notes.

Current building trends will lead to the loss of another 900,000 acres of farmland, more than doubling today's developed area. By 2040, the loss of agricultural output due to land conversion could top \$860 million per year. Though there is still an opportunity to save a significant amount of farmland, AFT warns that, unless counties and cities encourage more efficient development, the Central Valley will reach a "tipping point"

beyond which it will become too difficult to reach that goal. "The political will to change," said Thompson, "becomes harder every day that the status quo prevails."

The AFT study titled "The Future Is Now: Central Valley Farmland at The Tipping Point?" is available only on the Internet at: www.farmland.org.

Overseas investors purchase control of farmer-owned ethanol plant

Members of Lakota, Iowa, ethanol producer Midwest Grain Processors

Cooperative, the majority owner of MGP LLC, voted in late March to sell 60 percent of the business to Global Ethanol Holdings of Brisbane, Australia. The vote was 717 to 348 in favor of the sale, a vote which represented 83 percent of the co-op's nearly 1,300 members in 10 Midwestern states.

This \$100 million sale will provide shareholders with \$3.23 per share now and another 20 cents a share within two years, and marks the first time an Iowa farmer-owned ethanol plant has been sold to a foreign investor, according to a

report in the *Des Moines Register*. The offer sparked concerns about the state losing control of a home-grown industry. *The Register* quotes David Nelson, a Belmond farmer and MGP chairman, as saying the sale will clear the way for more outside money to come into Iowa's ethanol industry.

The company plans to double or triple the 100-million-gallon ethanol plant at Lakota and a 57-million-gallon plant under construction in Riga, Mich., according to a statement issued by MGP on March 30. The company is

CHS at 75: Looking back, looking forward *continued from page 11*

vate companies and even with international companies.

The changes in state laws are mostly being undertaken to accommodate flexibility on capital formation. When farmers come together to form a business, whether it is for soy processing or ethanol production, they want to access farmer capital and outside capital. In order to do that, these laws are providing more flexibility to attract outside capital.

I don't see anything bad about that as long as the best interest of the farmers and producers on a co-op basis is being served. I would guess that you will have a lot of co-ops that will look at these different structures to see if they will help accomplish their goals. It is really being driven more by the need for capital formation than anything else."

Q. With such a large, complex business, what steps does CHS take to ensure you get board members with the kind of skills needed to direct it successfully.

Toelle: "Our Member Services Dept. provides extensive training in the country for local co-op directors. Through our communications, we also provide education for local directors. That becomes the platform where they become experienced on the local level, and creates opportunity to seek nomination to the CHS board.

When we become CHS board members, there is extensive, on-going education. Every year, our board participates in education at both the local co-op and

corporate-governance levels. We use training programs of the National Association of Corporate Directors and the National Council of Farmer Cooperatives."

Johnson: "Election to our board is a totally democratic process; we don't control who runs for board. It really takes the best of the best to get on this board. We make sure directors have a good understanding of the environment within the industries we operate in. Four or five times per year, we bring in industry experts to provide an outside perspective and share their views of these industries. Because we are global in outlook, each year we take about a third of the board on an international educational trip."

Q. Mike, any tips on being a good board member and maintaining good relations on the board and with management?

Toelle: When you are a producer who also serves as a director, you cannot come to a meeting with your own personal business interest in mind. You need to make decisions that are best for the organization. Many times you will be faced with making a decision that might not be best for your area or your farm, but you need to make a decision because it's best for CHS.

Foster a teamwork approach to making decisions — teamwork among board members and between the board and management. Treat people with respect, even when you disagree.

Another key to the success of CHS is that we — the board and management — work very hard to be open and transparent. We've had that culture for many years, and it creates a high level of trust with our members, our business partners and customers.

Q. How do you keep the pulse of what members want from CHS, and has this changed significantly during your tenure?

Johnson: "Communications and listening to members is a core value for this company, and plays a key part in building our business plan. We do that in a number of different ways. We have a Members Services group that is linked to local boards and management on a monthly basis, and deals with business strategies and developing management skills. We have boards that are heavily involved in director associations.

"I spend a fair amount of time in the country at manager association meetings. We do 13 mid-year-report meetings, the idea being to go out to our members midway through the year and provide them an update on how the company is doing, rather than surprise them at the end of the year with good or bad news. This usually involves an operations report, as well as an extensive workshop and question-and-answer period. So there are a number of different touch points at the local board or manager level to make sure we have a sense of what their needs are and what challenges are facing them." ■

also pursuing construction of a 100-million-gallon plant in Illinois. Nelson said farmer owners have an opportunity to continue to grow their investment in the business alongside Global Ethanol. Those who voted against the sale note that the crucial difference will be that farmers will no longer be in the drivers' seat, and much of the profit from operations will go overseas, rather than back into the rural Iowa economy. The opponents of the sale said they didn't have enough time to convince other investors that the deal wasn't good enough to give up local control.

Foremost Farms USA earns \$4.8 million in '05

Foremost Farms USA had net income of \$4.8 million in 2005, down

from \$28.3 million in 2004, on total sales of \$1.4 billion — the same total as in 2004. "The dairy industry is confronted with some severe economic challenges," said Duaine Kamenick, the cooperative's vice president-finance. "Commodity prices continue to fall as milk production is increasing. This combination will likely result in lower prices for manufactured products in 2006, which will drive lower prices paid to milk producers."

Foremost President Dave Fuhrmann said, "2005 was certainly a very different year than 2004. However, Foremost Farms' balance sheet is strong and we are in a position to meet challenges facing the dairy industry."

The cooperative's current ratio was \$1.45 in current assets to \$1 in current liabilities. Member-owners who marketed their milk through Foremost Farms USA during 2005 will receive a patronage allocation of \$5.2 million.

Foremost, based in Baraboo, Wis., manufactures many varieties of cheese, whey and whey ingredients, packaged fluid milk, sour cream, butter and chilled, ready-to-serve fruit juices. In addition, the cooperative sold milk to fluid milk handlers in four federal milk marketing orders.

Lansdale new CEO for Oregon Hazelnut Growers

Hazelnut Growers of Oregon (HGO) has named Compton Chase-Lansdale as its new president and

Bottling Hope in Africa *continued from page 15*

the next level of financial management," said Abbey Ariong, the project's supervisor of cooperative and business development services. "Once our role of training in how to use the software on a day-to-day basis is done, we will then begin training them on analysis of the data."

The common system not only will enable the client cooperatives to do a more professional job accounting for their funds, Ariong said, but will also allow for comparisons among groups and the development of industry norms on profitability per liter and other measures.

Proper handling and milk safety are other major issues for cooperatives, many of which operate milk collection centers where members take their milk for bulking and chilling prior to pick up by processors. The major centers have capacity in the range of 15,000 to 25,000 liters. The system is essentially a spoke-and-hub system, with smaller collection centers in the countryside feeding into the larger centers. The milk is transported in 50-liter stainless steel cans delivered on everything from trucks to bicycles.

Land O'Lakes provides assistance to

the centers on the proper hygienic handling of the milk. Training in standard milk testing procedures has been conducted to improve the milk quality and ensure the product is safe for consumers.

Improving products, production

Assistance to dairy processors generally focuses on improving existing products and production methods, as well as new product development. As with U.S. cooperatives, many Ugandan processors are looking for ways to increase their profitability through value-added products. The technology for making products like yogurt and ghee (a semi-liquid form of butter) is relatively simple and offers a realistic means of utilizing excess milk and boosting profits.

The project also has played a major role in generic marketing for the dairy industry, which is not large enough to handle that function on its own. Generic marketing is one of the project's biggest components. A few years ago, the slogan: "So have you had milk today?" was adopted for the industry. Similar to the milk campaign in the United States, a series of posters were produced featuring prominent

Ugandans promoting the consumption of milk.

Other marketing activities include radio and newspaper advertisements, sponsorship of local Dairy Days and the nationwide June Dairy Month, and various market research activities. Based on market research, emphasis is now being placed on targeting activities to specifically reach young people in Uganda.

These include advertisements in the weekly educational supplement of the two daily newspapers, implementing a wall-painting competition at 100 schools in and around the capital city of Kampala, and providing assistance to processors who have targeted schools as one of their primary market areas.

Uganda's dairy industry has made great strides over the past 10 years, but there is much more that can be done. The Land O'Lakes project will continue to work to increase the income of farmers in the program, increase the size of the formal market in relation to the informal sector, improve the range and quality of products, and explore the potential for Uganda to become a major regional exporter of milk and other dairy products. ■

CEO, who replaced retiring president and CEO Len Spesert in March. "Compton brings to HGO a deep general management and marketing background, having worked with both domestic and international agribusinesses and food manufacturers," said Jeff Koenig, HGO chairman. "He has held executive positions with corporations such as the NutraSweet division of Monsanto, the Pantaleon S.A. sugar refining group of Guatemala, and most recently AVEBE of Holland, a large farmers' cooperative and the dominant potato starch manufacturer globally." Koenig noted that the new CEO possesses the mix of management skills, cooperative knowledge and international expertise HGO

needs "to continue our strong financial performance and global market growth."

LO'L Finance Co. turns 25 with 11th year of loan growth

Land O'Lakes Finance Co. recently marked a quarter century of providing financing to agricultural producers. The wholly-owned subsidiary of Arden Hills, Minn.-based Land O'Lakes opened its doors Dec. 17, 1980, to help finance agronomy receivables for local cooperatives, as well as offer financing for LO'L dairy and poultry producers. Serving a growing base of customers has been the goal of the business ever since.

Dennis Bottjen, president and CEO,

says the company had loan volume of \$177 million in 2005, and that loan volume has increased in each of the past 11 years. The company has been profitable in all 25 years of its existence. The company's customers reside in 28 states, stretching from New York to California. Swine makes up the largest segment of the company's loan portfolio. Cattle and dairy comprise the next largest industries, respectively. The company's portfolio also includes customers involved in aquaculture and poultry.

CHS director Keppy named to FSA post

CHS Inc. board member Glen Keppy — who represents the co-op's

Conversion Debate *continued from page 20*

existing plants and facilities. Further expansion occurred during the 1970s and 1990s.

Agricultural cooperatives differentiate themselves from other suppliers by their service orientation. The Middle East oil embargo of the 1970s led cooperative suppliers such as CF and Farmland Industries to make customer needs paramount.

They would not only provide a reliable source of fertilizer in time for spring planting, but would also have sufficient inventory to fill orders should a severe shortage arise.

Protecting members was a strong dimension of CF's organizational culture and member-owners responded with loyalty. "We stayed in that alliance no matter what," one co-op official commented.

Loss of flexibility is a drawback of the "ownership equals control" strategy. The commitment to protect members by providing assured domestic supplies reduced CF's profitability.

High inventory carryovers resulted from the commitment to guarantee that members would not run out of fertilizer, raising CF's cost of production over time.

Reluctance to source offshore

Regional cooperative ownership of domestic fertilizer assets minimized opportunities for CF to sell outside of the cooperative network. Farmer-members were also sometimes hesitant to see their cooperatives invest in offshore fertilizer assets. CF had an operating loss of \$311.3 million in 2004 (*Rural Cooperatives*).

The geographic advantage of different regions for fertilizer production changes over time, depending on the price of natural gas, a primary feedstock for fertilizer. During the late 1990s through 2003, high U.S. natural gas prices triggered fertilizer import prices to fall below the U.S. cost of production. The energy crisis of the 1970s led to a cooperative norm of assuring supply "no matter what." Yet, some 30 years had passed without another supply crisis.

Meanwhile, the fertilizer industry had globalized. U.S. or other North American companies were increasingly engaged in offshore production, bringing a degree of control and security to the U.S. industry through these investments. The growth of China and Brazil contributed to making the fertilizer trade international, further lowering the probability of supply restrictions.

Farmers once had resisted imported product because of texture or color. Over time, however, the quality of imports had improved to be commensurate with domestic product. Questioning supply reliability had become less necessary for cooperatives as their size and marketplace clout grew. As major customers, their needs would be met. Loyal making purchases from CF when a competitor was closer or cheaper ultimately created losses for CF's owners.

These developments changed cooperative norms. In 2002, CF reassessed its corporate mission and chose to emphasize its financial performance over guaranteeing an assured supply to its owners. "Taking care of customers no matter what means you lose money," one co-op manager said. Others commented: "Why am I competing for this business; if the other supplier has a \$10 transportation rate, he should get the business." "I can't afford to service that last truckload," is more important than, "I will never run out of product."

The conversion of CF was an acknowledgement by its owners that ownership of fertilizer assets was not a prerequisite to securing fertilizer supplies. CF has begun to resemble the

members in Iowa, Missouri and Arkansas — has been appointed by President Bush as associate administrator for the USDA Farm Service Agency (FSA). In his new position, Keppy will oversee management of FSA farm and farm loan programs and commodity operations.

“Glen’s expertise in agriculture will make him a valuable member of the USDA team,” said Johanns. “I look forward to welcoming Glen, a fellow Iowa native, and I’m confident he will advance USDA’s commitment of service to our farmers and ranchers.”

Keppy and his family have owned and operated a diversified crop and livestock family farm in eastern Iowa for 34 years. He brings both local co-op as well as international perspective to FSA,

having traveled extensively to promote U.S. agricultural exports in various foreign markets.

Keppy, who has been a CHS director since 1999, will submit his resignation from the CHS board, at which time a decision will be made on how to address the vacancy. Keppy has also served as chairman of National Pork Board’s Foreign Trade Commission; president of the National Pork Producers Association and vice chairman of the Iowa Ag Value Committee, among others.

Book examines life of Wisconsin co-op leader

“Truman Torgerson, Leadership Straight from the Shoulder” is the title of a new book about the co-op leader

whose efforts played a key role in the formation of the Lake to Lake Dairy Cooperative. It also focuses on “an intense period of dynamic organizational change in American agriculture” and documents Torgerson’s efforts to “constantly seek institutional improvements in governance and representation of farm interests.”

In addition to his work with Lake to Lake, Torgerson was also a board member of Land O’Lakes, the Wisconsin Council of Agriculture and the National Milk Producers Federation, where he exercised his leadership in defining successful principles, practices and policies for continuing operations and the betterment of the industry. Written by his son, Randall Torgerson, the former leader of USDA’s cooperative program, the book

“hunter” cooperative described by Rhodes, seeking new customers and activities whenever a profit seems likely because retaining the organization’s original purposes and members will result in lack of growth, or even decline (Rhodes:161).

CEO’s key role

Cooperative conversion offers a commentary on a growing split between members and cooperatives that would have been unthinkable in the era when cooperatives were routinely regarded as an extension of the farm. Conversion represents an “arm’s length” relationship with former members that may begin in stages as the needs of the product brand — or the brand’s customers, such as retail chains — begin to relegate the farmer-owners of the cooperative to a secondary role. The farmer-owners of the cooperative can become non-competitive within their own organization because they don’t produce enough product (in the case of Calavo) or enough equity (Diamond Walnut) to support the growth of the product brand.

Just as conversion represents an internal threat to cooperative stability and coherence, the solution to creeping privatization is also internal. Protecting the market share of producer-members

starts with the selection of a CEO who is willing to make this commitment.

Maintaining producer loyalty was a critical issue for cooperatives in the Nourse era of multiple cooperatives competing for the producers’ business. In the contemporary era, some cooperatives have tried to “think outside the box” of cooperative values and recruit CEOs from outside the cooperative sector. Maintaining the loyalty of the CEO to cooperative values in an era of globalization and supply-chain economics may be a new challenge for cooperative members, but it is one within their control.

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includes remembrances from more than 95 contributors. For more information, visit: www.AuthorHouse.com.

Farm labor co-op signs agreement with UFW

The Agricultural Labor Cooperative of America (ALCA), a cooperative recently formed to provide laborers to its members, signed an agreement in Seattle on April 11 with the United Farm Workers of America (UFW) and Global Horizons Inc. (a Los Angeles-based farm labor contractor), under which the three organizations will cooperate to provide laborers to farmers. The agreement “creates a franchise that will allow our member farmers to have access to productive, accountable and reliable agricultural labor,” ALCA

President Pat Grant said in a statement issued following the event. “We believe that this new franchise, PAR Labor, formed from H2A workers who will be UFW members, is a giant step forward in helping mitigate the shortage of farm labor in the United States.”

Grant said ALCA believes that the United States faces a shortage of as much as 500,000 farm workers for the current growing season. The goal of the agreement, he said, is to simplify the process of securing laborers who are “highly trained, process-focused and compliant with all current immigration regulations.” Workers will “know that their wage and benefits condition meets and exceeds all the requirements set forth in the current H2A visa temporary worker program.”

National Beef to acquire Brawley Beef LLC

National Beef Packing Co. LLC, Kansas City, Mo., and its majority owner, U.S. Premium Beef LLC (“USPB”), have entered into a non-binding letter of intent to acquire Brawley Beef LLC. Brawley Beef is an alliance of cattle producers in Arizona and California who supply its meat packing operations with more than 400,000 animals per year. The company produces upscale custom cuts to retail customers. Brawley Beef was formed by its suppliers in 2001 and operates in Brawley, Calif., with a new state-of-the-art beef processing facility.

National Beef is the fourth largest beef processing company in the United States. ■

Four named to Co-op Hall of Fame

Four cooperative business leaders were inducted into the Cooperative Hall of Fame in May during a ceremony at the National Press Club in Washington, D.C. The Hall of Fame recognizes those who have made “heroic” contributions to cooperative enterprise. The newest inductees are:

- Frank Morton Hunt II, a lifelong leader of the Florida citrus industry and an advocate for strengthening service to co-op customer-owners. He is the retired president of Hunt Brothers Cooperative, Lake Wales, Fla., and a past chairman and president of Citrus World Inc., which owns the Florida’s Natural orange juice brand. He also played a major role in shaping the Farm Credit System when the Banks for Cooperatives were consolidated into CoBank in the 1980s.
- Thomas L. Lyon, retired CEO of Cooperative Resources International in Shawano, Wis., a member-owned holding cooperative of three subsidiaries that provides artificial insemination services for livestock. He is a leader in the state, national and international cooperative communities and has a passion for co-op development and education. He is a former chair of the University of Wisconsin Board of Regents and a trustee of the Ralph Morris Foundation, The Cooperative Foundation and the Cooperative Development Foundation.
- David O. Miller, a farmer, businessman and director for Nationwide Insurance, a mutual insurance company in the Fortune 100. He is a cooperative advocate in



Cooperative Hall of Fame inductees, from left: Tom Lyon, Rebecca Allen (represented by her daughter, Lucy Allen), Dave Miller and Frank Hunt.

the local, regional, national and international arenas. As a board member of the International Cooperative Alliance, he has also been the leading American in the international cooperative community.

- Rebecca Allen (deceased) was co-founder of Parent Cooperative Preschools International (PCPI), Kensington, Md. A teacher, editor and adviser in early childhood education, Allen believed in the co-op business model and in parent participation and control of education. She organized PCPI, an association of cooperative preschools, in 1960. She helped launch the Head Start program in the 1960s.

The Cooperative Hall of Fame was established in 1974 by the National Cooperative Business Association and is housed at its offices in Washington. It can also be visited on the web at: www.heroes.coop. ■



From the archives of Rural Cooperatives and its predecessor magazines

50 Years Ago...

From the May and June 1956 issues of *News for Farmer Cooperatives*

Bulk milk handling challenge

Dairy cooperatives face a challenge in converting to bulk milk handling. "A cooperative's success is measured largely in terms of the degree to which it provides services demanded and needed by producers. Producers need and (in many cases) are asking their cooperatives for assistance in solving problems associated with bulk handling methods. In converting to bulk milk handling, cooperatives have many tasks facing them. By setting up a successful system, these co-ops can make savings for their members in four principal ways: through the improved quality of the milk, reduced transportation costs, reduced receiving costs and reductions in the loss of milk and butterfat."

Small rabbit co-op does good business

Demand for rabbit meat in the United States has been soaring, from 6 million pounds in 1935 to about 50 million pounds in 1950. Helping to meet that demand is the Virginia Rabbit Market Cooperative in Roanoke. The co-op began business in 1934 with seven rabbit breeder members, with sales that year of less than 1,000 pounds live weight. These members were breeding rabbits chiefly for show purposes. But they found themselves with extras and they started looking for a market for these healthy young, edible rabbits. In 1934 it wasn't easy to sell rabbits for food because of the danger of contracting tularemia (rabbit fever). But as the years passed, consumer demand for rabbit increased tremendously. By 1955, co-op membership had climbed to more than 450 members in West Virginia, North Carolina and Virginia.

CCA moves supplies to 500,000 farmers

Maximum transportation services at minimum costs are an aim of Consumers Cooperative Association (CCA), Kansas City, Mo., a large regional supply cooperative serving close to half a million farmers in nine Midwestern states. Its farm supplies move by rail, steamship, waterways, trucks and pipelines. Farmers have a right to expect their cooperative wholesalers to keep transportation costs to a minimum and, at the same time, provide maximum services. CCA's members are concerned with the movement of supplies from the purchase of raw materials through processing and manufacturing, storage and intra-plant handling, packing and shipping and on to delivery to local member associations for distribution to farmers.



May and June 1956 issues

30 Years Ago...

From the May and June 1976 issues of *Farmer Cooperatives*

Energy to determine status as world power

"At least 10 issues must be resolved if the nation is to solve its energy problems," Robert D. Partridge, executive vice president and general manager of National Rural Electric Cooperative Association, told a group of cooperative association editors. If the nation cannot solve its energy shortages, it runs the risk of perhaps eventually becoming a "fourth- or fifth-rate world power." The 10 issues include: (1) dependency on oil from abroad; (2) failure to conserve energy; (3) necessity of shifting more to electricity; (4) commitments to rapid cleanup of air and water; (5) accelerated research and development of alternative sources of energy; (6) reliance on price as the regulator of the energy field; (7) lack of governmental commitment and determination to develop a national energy policy; (8) factor of public fear and doubt; (9) monopoly in the basic fuels industry; and (10) need for education.

MFC to produce, market Mississippi's 'Super Food Bar'

A "super food bar" developed by Mississippi State food specialists has created a new role for MFC Services, a regional farmer cooperative based at Jackson, Miss. MFC has been selected by Mississippi State College Board as sole international production and marketing agent for the super food bar. The board selected MFC because the cooperative already had the marketing machinery and expertise to make the product available worldwide. Iran is planning a school food program and the Shah is interested in a high-protein food supplement to be included. The Shah's specifications call for: individually wrapped snack bars that provide 200-300 calories of protein, that no refrigeration be required and that cost per serving be 18 to 20 cents. The team came up with four types of food bars: brownie, toffee, oatmeal and sweet potato, with oatmeal being the flavor most favored in Iran.



May and June 1976 issues

Indiana co-op's 50th year gilded by records

"Indiana's largest agricultural gathering — drawing about 15,000 people — observed the golden anniversary of Indiana Farm Bureau Cooperative Association Inc. The 50th annual meeting was the setting for special observances and reports of the cooperative's record year in sales and net savings during 1975." In commenting on the annual meeting's theme of "50 Years in Progress," Harold P. Jordan, special assistant to the general manager and recently retired as the cooperative's general manager, noted that agriculture's advance "did not come by accident or good fortune. It came about because a lot of people on the farm, at Purdue University, in USDA and in this and other cooperatives worked together to make agriculture more efficient, to produce more wholesome, nutritious food for consumers and to provide more adequate and equitable income for farmers."

10 Years Ago...

From the May/June 1996 issue of *Rural Cooperatives*

Sound co-op business ethics

"Cooperatives were generally organized on a community basis where social relations, such as kinship and friendship, provided a basis of trust," explains Paul Lasley and C. Phillip Baumel in an article on ethical standards for co-ops. "Early cooperative leaders recognized that they needed to sharply differentiate themselves from traditional private sector businesses. A key ingredient to achieving cooperation was establishing rapport and building trust with and among producers. The early organizing efforts stressed the importance of farmer control, honesty, integrity and high ethical standards. This attention to honest business practices and treating all patrons fairly attracted many new members. Trust and commitment to ethical business practices provide the basis for cooperation and are essential for people to join together and work for mutual goals. Without trust, people do not communicate and cooperation is unlikely."

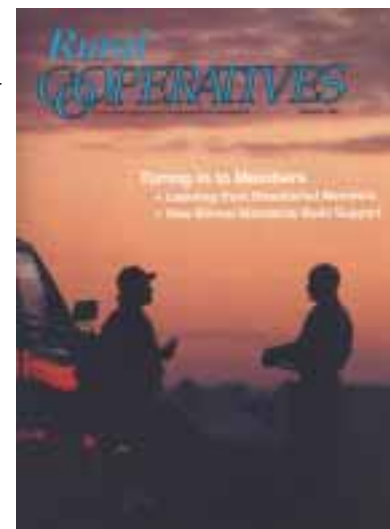
Harvest States' Texas mill ahead of schedule

"Construction of a new, 10,000-hundredweight flour mill in Houston, Texas, to serve cooperatives is ahead of

schedule thanks to dry weather during the early stages of construction, according to Harvest States Cooperatives of St. Paul, Minn. The mill is being built for Amber Milling Co., a division of Harvest States. It will process hard-red winter and spring wheat to produce bread flour. The Houston mill is the second of three new, hard-red winter wheat mills to be built by Harvest States and Amber Milling to bring more of the food dollar back to member-producers. Unlike the cooperative's mill at Kenosha, Wis., which has adjoining grain storage tanks, a nearby grain elevator operated by the Houston Port Authority is available for unloading and storing incoming grain. The site is served by two rail lines."

Health network enhances services in mountain

"A combination of rising health care costs and cutbacks in health and social programs at both the state and federal level has left many rural communities struggling to maintain or establish needed health care facilities and related social services. When the health of our rural population is negatively affected, it increases the odds of a general economic downturn. A healthy community may be able to withstand an economic crisis, but when health services are eroding, economic stress is compounded and the viability of rural communities is threatened. The reduction or elimination of many costly health and human services programs could have a severe impact on rural America. To plan for even the best-case scenario in this setting, rural communities need to be innovative and collaborate. They need to begin planning now, if they haven't already done so. Eagle County, Colo., is developing an innovative, shared-services agency that operates on cooperative principles and is surmounting these negative trends and improving the delivery of health and human services to its residents." ■



May/June 1996 issue

Wind, biofuel projects funded

**By Jack Gleason,
Acting Administrator**
USDA Rural Development
Business and Cooperative
Programs

Energy is a key part of President Bush's domestic agenda, and one of the newer loan guarantee programs available through USDA Rural Development is the Renewable Energy and Efficiency loan program. These loans are designed to encourage agricultural producers and small rural businesses to create renewable and energy-efficient systems.

Two generations of the Neppel family operate Neppel Farms Inc., in Armstrong, Iowa, a 2,000-acre, grain and livestock farm, which includes a 3,400-head sow confinement operation and 16,000 hogs. It also markets 200 cattle annually.

Faced with an annual electric bill from their livestock operation that exceeded \$200,000 per year, the Neppels decided to pursue their own windmill after taking a closer look at two wind turbines of the nearby Spirit Lake School district.

The farm received a \$402,500 Renewable Energy Systems grant from USDA Rural Development to install a 1.5 MW wind turbine. It also received a \$250,000 interest-free loan from the Iowa Energy Center and a loan for the balance from their local lender. Total project cost was \$1.6 million.

In addition to help from USDA Rural Development staff in Iowa, the Neppel family also worked with a pro-



Paul Neppel and his family used a Renewable Energy Grant from USDA/RD to erect this windmill on their Iowa farm. USDA photo by Kate Evans

fessional grant writer. The 1.5 MW turbine went on-line in August, 2004, and is now producing close to 5 million kilowatt-hours of electricity annually, enough to light up 400 Iowa homes for a year. The electricity is being purchased by Alliant Energy under a long-term contract. The family calculates that it should achieve return on investment in 15 years.

The Neppels say the best way to avoid or limit start-up problems is to make sure you "work with a first-class contractor" with a solid track record. They also advise securing power-purchase and interconnection agreements early in the process, and to secure a warranty and maintenance contract. Their success with wind power is also prompting interest from others in the area to put up their own turbines.

Another example of a successful

energy start up is in the town of Luverne, Minn., where Agri-Energy LLC is located. This company is located in the southwestern corner of Minnesota, surrounded by corn and soybean farms.

This project began producing ethanol in 1998 as a 12-million-gallon-per-year dry-mill plant using 10 million bushels of corn annually from its members. In 1998, USDA Rural Development provided a Business and Industry loan guarantee on a \$5 million loan to construct the plant. This project was the first of its kind in Minnesota.

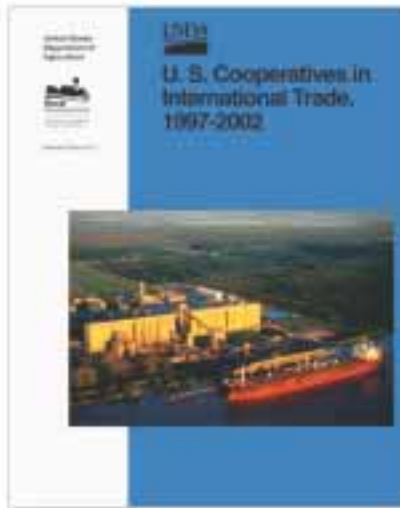
Three years later, Rural Development was approached by another lender, Heartland Business Bank of Wisconsin, to guarantee another \$5 million loan to refinance debts at a lower rate and to expand the ethanol plant. The company has continued to perform in an exceptional manner. Agri-Energy currently has about \$24 million in annual sales.

This plant employs local residents, buys approximately 10 million bushels of corn per year from local farmer-members and increases their income by selling a value-added product derived from corn.

USDA Rural Development is a venture capital source for rural America and has \$17 billion to invest in the rural economy this year. For more information on the Renewable Energy and Efficiency program or our other guaranteed loan programs, contact a Rural Development office in your state, which you can find listed on our website: www.rurdev.usda.gov. We look forward to working with you. ■

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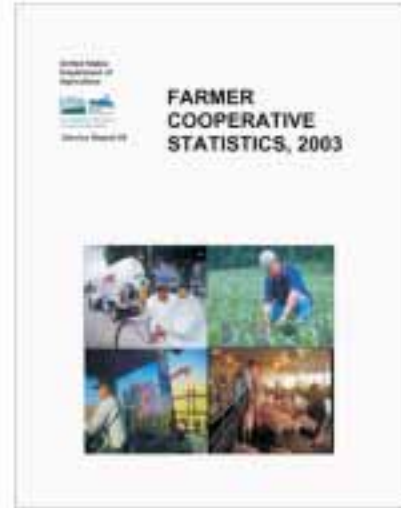


RR 211: U.S. Cooperatives in International Trade, 1997-2002 – Some cooperatives are redefining their presence in international markets through partnerships, alliances, and marketing agreements with other firms. Read about this and other important trends. **Only on the Web!**



RR-208: Keys to success for Food Co-op Start Ups in Rural Areas – What makes a local food cooperative successful? Find out with this study of four rural food co-ops in Minnesota and Wisconsin. **Download from the Web, or order from:**

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SR -64: Farmer Cooperative Statistics 2003 – There were 3,086 farmer-owned cooperatives in the United States in 2003, with a total business volume of \$116.9 billion. Get the details with this invaluable publication. Required reading for board members and managers. **Only on the Web!**

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