

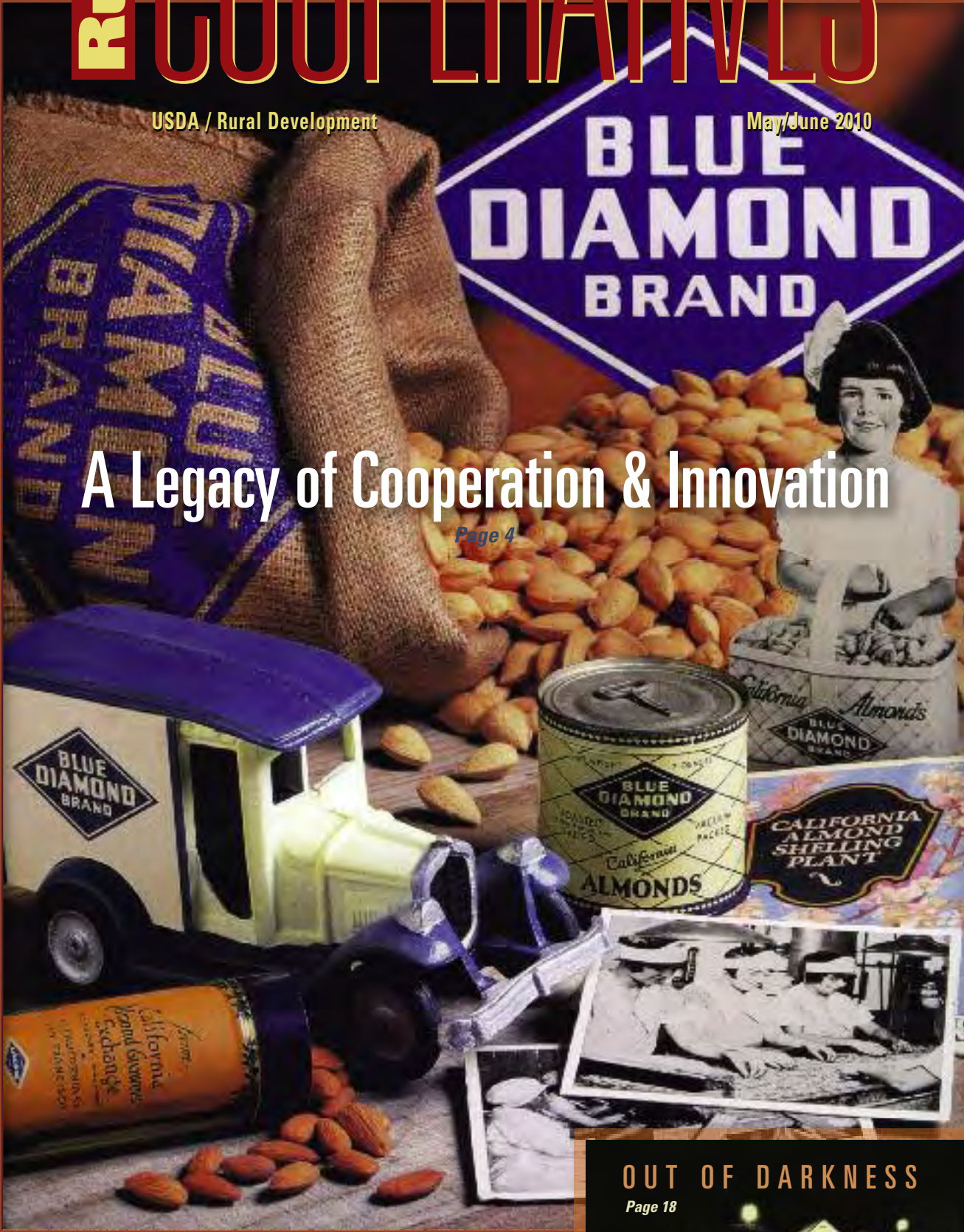
Rural COOPERATIVES

USDA / Rural Development

May/June 2010

A Legacy of Cooperation & Innovation

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OUT OF DARKNESS

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Commentary

USDA: Committed to Co-ops

By U.S. Agriculture Secretary Tom Vilsack

In May, USDA observed the 75th anniversary of the founding of the Rural Electrification Administration. Established by an Executive Order signed by President Franklin Roosevelt, REA has made an immeasurable impact on rural America, credited with transforming a life of challenge into one of productivity and prosperity.

As important as establishment of the REA was, it almost certainly would not have been a success without a vibrant partnership between USDA and America's electric cooperatives. Since 1940, over 900 rural cooperatives have partnered with USDA to bring services to rural communities. Our partnership is deep and lasting.

The REA case is just one of a series of examples of the cooperative model providing a way for producers or buyers to band together to provide essential member services. USDA—through programs that include the Intermediary Relending Program, Rural Business Enterprise Grants, and Rural Economic Development Loans and Grants—promotes collaboration and capital formation that encourages job creation through economic opportunity. Cooperative ownership of business not only creates wealth, but also makes it more likely that capital will remain and circulate repeatedly in local communities.

Cooperatives work. Because of the essential service that cooperatives provide to farmers and rural communities, USDA will continue to support cooperatives through research, education, technical assistance and promote the cooperative business model through efforts such as the publication of the magazine you hold in your hands today or are reading on the Internet. Our support for America's cooperatives is firm and unwavering.

The cooperative model has worked well since Congress enacted the Capper-Volstead Act in 1922 (see page 9). USDA supported then, and will continue to support, the ability of producers to join together to collectively market their products. Because of this, the Capper-Volstead Act and other cooperative statutes need to continue to serve America's rural citizens.

You may have heard that the series of agriculture competition workshops that USDA is jointly hosting with the U.S. Department of Justice are somehow focused on weakening the cooperative model. This characterization is

not only wrong, but it is 180 degrees from the goal of the workshops. These workshops are designed to consider the competitive environment of the agricultural and food sectors to ensure that farmers, ranchers and

consumers are getting a fair shake. As the audience for this publication well knows, one of the main purposes of the cooperatives statutes is to increase farmers' bargaining power to level the playing field in agricultural markets.

There is no doubt that cooperatives, including electric, farmer, rancher and fisheries, have an enormous impact on the American economy. In a USDA-funded study, the University of Wisconsin Center for Cooperatives in 2008 identified 29,000 cooperatives employing more than 850,000 people and controlling \$3 trillion in assets. The nation's cooperatives are strong, vibrant and engaged. Farmer, rancher and fisheries cooperatives alone employ 178,000 people.

But there are challenges. Over the past 40 years, rural America has lost over 1 million farmers and ranchers. Rural America is aging, and those living there earn less than their urban counterparts and are more likely to live in poverty. Today, more than ever before, we need the help of our cooperatives to turn things around.

The American Recovery and Reinvestment Act of 2009, signed by President Obama over a year ago, is a resounding success, improving water quality, supporting business growth and renewable energy development and bringing broadband to rural communities. However, as with the REA 75 years ago, its impact would be greatly diminished without the support of the thousands of men and women who belong to, or run, America's cooperatives.

Since President Obama took office, I have traveled across America, from remote communities in Alaska and New Mexico to Midwest farms and western ranches. Everywhere I go, I meet with cooperative members. They agree with me that while production agriculture remains at the heart of the rural economy, we have to build a thriving companion economy to complement production agriculture in rural



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Features

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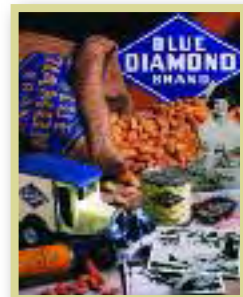
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ON THE COVER: One hundred years ago, California almond growers formed a cooperative that eventually made California the world leader for almond production (see page 4). Photo courtesy Blue Diamond Growers. Inset: In this issue we also celebrate another major co-op milestone: the 75th Anniversary of the Rural Electrification Administration (see page 17). Library of Congress photo





A Legacy

By Gray Allen

Editor's note: Allen is former editor of "Almond Facts," Blue Diamond's bimonthly magazine for co-op members and customers. This article is excerpted from a series of articles appearing in "Almond Facts" to mark the co-op's centennial year. For more information on the history of the almond industry and Blue Diamond, visit: www.almondhistory.com.



Blue Diamond marks 100th anniversary as co-op that made U.S. world leader for almonds





he goal in 1910 was straight forward and vital to growers: to bring order and prosperity to a chaotic and often unprofitable almond market.

Founded by almond growers as the California Almond Growers Exchange (now Blue Diamond Growers), the co-op put growers in the drivers' seat of their industry, propelling California from being a small player in the almond industry into the world's major almond producer.

Blue Diamond today is a processing and marketing cooperative of more than 3,000 California almond growers with annual sales approaching \$1 billion. From that seedling planted 100 years ago, Blue Diamond has grown into the world's leading supplier of high-quality almonds, with its products sold in 95 markets around the world. It achieved this status through constantly pushing the technology curve forward, and with product research and marketing efforts that expanded the ways, and

Facing page: A Blue Diamond TV commercial; an array of almond pasteries; an early co-op receiving station. This page: the need for hand-sorting almonds (seen here circa 1930) has been greatly reduced through the use of "electric-eye" sensors; the co-op's Sacramento almond processing plant, the largest in the world; co-op pioneer T.C. Tucker; Blue Diamond snack nuts. All photos courtesy Blue Diamond



of Cooperation & Innovation

places, in which almonds are consumed.

Along the way, Blue Diamond has adhered to the core co-op principles: member-owned, member-controlled and member-benefited. This has involved an equally strong commitment to keeping members informed and involved in their co-op (see sidebar).

Deep roots

The almond story began 6,000 years ago, when early travelers in the Mediterranean region discovered sweet almonds growing wild on rocky mountainsides. They collected handfuls of the nuts and carried them on their journeys for sustenance. By 4,000 B.C., almonds were a staple of people's



diets in the region; 2,000 years ago, farmers throughout the Mediterranean region were cultivating almonds.

California growers first experimented with commercial almond production in the 1840s. By the 1880s, an industry had been born, but too many growers with too many trees and not enough marketing clout yielded unprofitable results for growers.

In an effort to gain some marketing leverage, growers tried pooling their crops for sale through local dried fruit associations. But the small associations were no match for the handful of buyers and speculators who played one group of growers against another to drive down prices.

J. P. Dargitz, an almond grower from Acampo, southeast of Sacramento, believed the necessary marketing power could be achieved by forming a statewide growers' association. On May 6, 1910, in Sacramento, he organized nine local cooperatives representing 60 percent of the state's almond production into a single marketing cooperative: The California Almond Growers Exchange.

The following year, Dargitz — who had been hired to manage the fledgling cooperative — reported: “We have sold



600 tons of unshelled almonds and 177 tons of shelled almonds. Our members have been paid more than a quarter of a million dollars.”

It hadn't been easy. The first year proved difficult. Dargitz reported: “Growers who were outside [the co-op] came under cover by selling out at prices a little under our quotations...It

is regrettable when growers have their output placed so that it competes with other growers.”

Success breeds growth

While others attempted to sink the co-op, the Exchange hired T. C. Tucker to travel east to interview important players in the nut trade, select brokers to work with and to sell as much of the crop as he could. Dargitz, meanwhile, stood his ground with buyers who were attempting to beat down the Exchange's prices. The market research he had done the previous summer served him well.

In the end, the Exchange sold its first crop at fair and reasonable prices. As news of the cooperative's success spread, membership grew to 14 associations representing growers in southern, central and northern California.

In 1912, Tucker introduced what would become one of the world's most widely recognized food brands: Blue Diamond almonds. Four-pound cellophane packages of unshelled almonds were sold in department stores on both coasts “to increase demand for California almonds and standardize the price to growers and consumers year in

Blue Diamond: 100-Year Time Capsule

- 1840s** Following failed attempts to grow almonds in the eastern U.S., crop proves well adapted to California climate.
- 1897** Davisville Almond Growers Association formed to help local growers pool their crops and bargain for higher prices. Their success encourages growers in other districts to form similar associations.
- 1910** Nine grower associations — representing 1,200 tons of almonds and 60 percent of the California crop — form the California Almond Growers Exchange (CAGE) in Sacramento.
- 1911** Co-op offers packages of in-shell almonds for retail trade through department stores, launching the Blue Diamond brand.
- 1914** CAGE erects an almond hulling and shelling plant on C Street in Sacramento.
- 1917** Co-op lobbies U.S. government to improve railroad rates and service for almond shippers, establishing co-op's government relations function.
- 1918** CAGE invents an almond bleaching and drying system, salvaging rain-stained, in-shell almonds.
- 1922** “The Minute Book” introduced, a publication to keep members “informed of what their cooperative is doing, its decisions and the reasons for those decisions.”
- 1926-28** Co-op develops chocolate candy market for California almonds. Successfully blanches and salts California almonds to compete with imports.
- 1939-40** Creates an in-house advertising program; introduces seminars to help growers cope with rising insect damage in orchards.
- 1942** Adopts nutrition message for almonds, funds new research on almond benefits and distributes results nationwide.
- 1949** Smokehouse Cocktail Almonds introduced.
- 1950** Almond growers overwhelmingly approve almond marketing order.
- 1957** CAGE completes construction of 14-silo, bulk-storage complex to hold 9,000 tons of almonds for processing.
- 1962** Electric-eye sorting technology developed at CAGE.



and year out.”

In the early years, almonds were strictly a holiday treat, when the vast majority of sales were concentrated. In 1915, Blue Diamond introduced a novel marketing scheme in hopes of extending almond sales into the spring months.

Working with a major department store in San Francisco, Tucker created elaborate window displays, developed an ad campaign and distributed samples to attract consumers during March. A great success, the promotion was repeated in following years, with steady sales growth. It evolved into a Blue Diamond nationwide advertising and promotional program that focused on lengthening the traditional sales period and boosting consumption, helping to move mounting almond surpluses.

Co-op pioneers new products

From the beginning, the association worked to improve grower income and expand the market for California

almonds. It pioneered new almond processing and manufacturing technologies to produce products that expanded the market and maximized member returns. In 1914, the Exchange opened a shelling plant on C Street in Sacramento.



Told by many that California almonds could not be satisfactorily blanched and salted, Blue Diamond proved them wrong. By 1926 the co-op was offering blanched/salted almonds in



glass jars and in tins for retail sale. It also sold roasted almonds in barrels for ice cream manufacturers.

By 1928, the product line included Nonpareil almonds in jars, as well as roasted, ground-roasted, whole-blanched, split-blanched,

Almond sorting in the 1930s (left) and packaging in the 1950s (below).



- 1964** California almond growers out-produce both Spain and Italy. Exports to Europe continue to set records.
- 1965** Smokehouse almonds take to the skies; at its peak, this effort sees every major airline serving the snack almonds on flights.
- 1966** Introduces new hulling system that provides high-volume hulling at relatively low cost.
- 1968** Salida almond receiving station opens.
- 1975-77** Blue Diamond is the first California almond company to visit People's Republic of China; co-op also obtains lower tariff on almonds shipped into India, opening that market to California.
- 1986** The "A Can a Week, That's All We Ask" television campaign hits the airwaves.
- 1987** Official name of cooperative changed to Blue Diamond Growers.
- 2000** Purchases MacFarms of Hawaii, world's largest macadamia producer.
- 2001** Board and management begin annual strategic planning sessions, resulting in new goals to increase competitiveness and expand global demand. CEO Doug Youngdahl promotes "rational marketing" to reduce effect of speculation and let market prices reflect facts of supply and demand.
- 2003** After 2001 crop is declared the first 1-billion-pound crop, Youngdahl says: "We needed it to meet worldwide demand!" Growers enjoy higher prices. Almonds approved by U. S. Food and Drug Administration for first qualified health claim on packages.
- 2004** Blue Diamond brand is the No. 1 snack almond, with a 43-percent market share. Grocery sales are up nearly 50 percent for second year in a row.
- 2006** Blue Diamond's Natural Foods group (Almond Breeze and Nut*Thins) sees sales accelerate three years in a row. McDonald's introduces Asian Salad with Blue Diamond almonds. Construction begins on new Salida Distribution Center and state-of-the-art production line. Orchard plantings accelerate.
- 2010** Crops now averaging over 1.5 billion pounds, doubling in size since 2000. California is producing more than 80 percent of the world's almond supply, but barely keeping up with rising world demand. Blue Diamond's array of new products continues to expand, creating greater demand for almonds, adding value for members.

blanched-pieces and sliced-blanched almonds. It also sold almonds processed for ice cream topping. By the end of the 1920s, the co-op's own manufacturing department had become Blue Diamond's largest customer for shelled almonds.

High rail freight rates and unreliable scheduling plagued the almond industry from the start. With the outbreak of World War I, those problems became worse. Tucker, who had been appointed general manager in 1913, led successful efforts to remedy the situation. The effort included the launch of the co-op's government relations program, which to this day helps Blue Diamond Growers to achieve its legislative, regulatory and foreign trade goals.

The co-op continued to experiment with new products and markets, establishing a research lab to develop new products and quality-control methods. It made the initial sales of shelled almonds to chocolate candy manufacturers and began to produce a variety of manufactured items for ice cream, baking and confectionery businesses. The co-op's technicians continued to design, build and patent the equipment and processes to produce these products.

All through the difficult years of the Great Depression, the Exchange's pioneering efforts, superior grower returns and stability attracted increasing numbers of new members.

Establishing a beachhead in Europe

Blue Diamond also led the way in establishing quality grading, setting up a formal system in the early 1930s. Later, it used its proprietary grading techniques and equipment — developed on the spot by the association's staff — to salvage salable almond meats from the 1938 crop, which had been badly damaged by peach twig borer. More than 70 percent of the damaged material was salvaged.

That same year, Blue Diamond ventured into the European market,

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Communications plays a major role in co-op's success

T.C. Tucker, Blue Diamond's general manager from 1912 to 1936, believed that a cooperative can succeed only if its members are well informed. Knowledgeable, engaged members make better decisions and are more loyal and committed to the co-op, he believed. He communicated prodigiously through his board of directors, in letters to members, detailed annual financial reports, member meetings and — beginning in 1922 — through a member publication, now titled *Almond Facts*. It has been in continuous publication ever since, except for a few years during the depths of the Depression.

Tucker's tireless communication about what the cooperative was doing, its methods of operating, its decisions and the reasons for those decisions held the membership together during some of the most turbulent times in the nation's and cooperative's history.

His example was followed by each of his successors, but perhaps with no greater effect than by Doug Youngdahl, president and CEO from 2000 to the present (he is retiring at the end of 2010). Youngdahl's use of accurate information and open discussion of global almond market fundamentals has benefitted not just co-op members, but all California almond growers.

Today, Blue Diamond communicates in both traditional and new ways. A revamped website uses the latest technology to communicate in real time with members, customers, news media, regulators, legislators and consumers. The cooperative's magazine has been judged in surveys as the "most read" publication dealing with the almond industry.

A monthly newsletter, annual report, news releases, a variety of grower meetings throughout the year and periodic management and field representative visits to the members' farms maintain a constant flow and exchange of information.

Market intelligence vital to co-op

Youngdahl's use of market intelligence to shape sound marketing strategies was a technique used by J. P. Dargitz to successfully market the cooperative's first crop in 1910. Subjected to relentless pressures from buyers, speculators and competing almond marketers to lower prices, he stood firm, confident in his position because he had done his homework as the crop was being harvested.

Dargitz knew that the rumors swirling in the marketplace were inaccurate and that prices would eventually rise to reasonable levels. His position proved correct and the membership enjoyed superior returns that year and most years thereafter.

Blue Diamond continues to adhere to the principle that sound information, intelligently applied, produces superior results. Youngdahl's annual address at the International Nut Congress — in which he analyzes the supply, demand and market outlook for all tree nuts — is eagerly anticipated by nut marketers around the world. Those speeches and periodic updates throughout the year help stabilize an otherwise unstable industry, made up of hundreds of sellers and few buyers, proof of the value of knowledge appropriately applied.



T. C. TUCKER

Legal Corner

Capper-Volstead Q&A

By Stephanie M. Smith,
Senior Legal Advisor for
USDA Cooperative Programs

The Department of Justice (DOJ) and the U.S. Department of Agriculture (USDA) are jointly hosting workshops for the public to discuss issues affecting competition in the agricultural marketplace. These issues include antitrust immunity laws and the Capper-Volstead Act (see page 2).

These are the first joint DOJ/USDA workshops ever held to discuss competition and regulatory issues in the agriculture industry. The first two workshops were held in March (in Iowa) and May (in Alabama), with three more still slated (see sidebar).

Each workshop features keynote speakers, general expert panels and/or break-out panels that address more narrowly focused issues. The attendance and participation of the public are encouraged throughout the series of workshops. Opportunity is provided for comments and questions.

The goals of these sessions are to generate further dialogue among interested parties and to improve understanding of the legal and economic aspects of antitrust issues. The workshops have generated interest in the Capper-Volstead Act, the law that provides certain cooperatives limited antitrust immunity.

Following are some of the most commonly asked questions about Capper-Volstead:

• **What is Capper-Volstead, and why was it enacted?** The law was enacted in 1922 to allow farmers to form for-profit associations, with or without capital stock, to collectively market their products. From a historical point of view, before Capper-Volstead became law, farmers who joined in stock-holding cooperatives were being prosecuted under the anti-trust laws for illegal combinations and price-fixing. Congress' goals for the Capper-Volstead Act included increasing producers' bargaining power, bringing consumers and producers closer together, eliminating unnecessary middlemen in the marketing of agricultural products, and providing the same benefits in capital acquisition that are available to corporations.

• **How does this law provide limited antitrust exemptions for**

farm co-ops? Capper-Volstead legally permits farmers to join together to process, prepare for market and market products of their own production. Also, a group of producers may act together not only through their own association, but also by joining with other associations of producers to create a common marketing agency.

• **Are cooperatives the only organizations protected under Capper-Volstead?** Capper-Volstead states, in part, that: "persons engaged in the production of agricultural products...may act together." It does not use the word "cooperative" or define "agricultural producers." Further, it is not an enabling statute under which cooperatives organize. It uses the language "association of producers."

• **What conditions do farmer co-ops have to meet to qualify**
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Ag Competition Workshop Schedule

The final three of five workshops are being held:

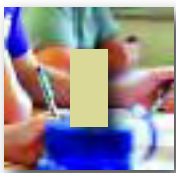
- June 25 — Madison, Wis. Focus: Dairy Industry. Specific areas of focus may include concentration, marketplace transparency and vertical integration in the dairy industry. At University of Wisconsin, Great Hall, Memorial Union, 800 Langdon St.
- Aug. 27 — Fort Collins, Colo. Focus: Livestock Industry. Specific areas of focus will address beef, hog and other animal sectors and may include enforcement of the Packers and Stockyards Act and concentration. At Colorado State University.
- Dec. 8 — Washington, D.C. Focus: Producer Margins. This workshop will look at the discrepancies between the prices received by farmers and the prices paid by consumers. As a concluding event, discussions from previous workshops will be incorporated into the analysis of agriculture markets nationally. At USDA headquarters, Jefferson Auditorium, 1400 Independence Ave., S.W., Washington, D.C.

Additional updates and information, including agendas and speakers, will be posted on the Antitrust Division's events website at: www.usdoj.gov/atr/events.htm. ■



By Seleise Barrett, Alicia Goheen and Gloria Holcombe

Editor's note: Barrett is educational program manager for the Arthur Capper Cooperative Center at Kansas State University; Goheen is an agricultural economics communications analyst, and Holcombe is an editor for the College of Agriculture at Kansas State University.



In Kansas and across the Midwest, when most people think of a cooperative, they picture grain elevators — those tall, white “castles of the plains.” Today, agricultural cooperatives are usually much more than the grain companies they began life as more than 100 years ago. Farmer co-ops have evolved, along with the farmer-members who own and govern them, and who accrue benefits based on their patronization of co-ops.

Farmer co-ops are now typically large, diversified agribusinesses. As such, most of them not only market their members' grain, but also provide them with fertilizer, fuel, feed and other farm inputs. Many farmer co-ops also provide agronomic services to members. It is not uncommon for these co-ops to have sales in the hundreds of millions of dollars and to employ more than 100 people.

Large or small, these co-ops are a vital part of the rural agricultural economy. Agricultural cooperatives, and co-ops in general, use a unique form of business that also has unique educational needs. For example, the principles of governance, finance and strategy must be adjusted and integrated to fit the principles underlying the cooperative business model.

The Arthur Capper Cooperative



Filling the Gap

At 25, Arthur Capper Cooperative Center is a major force for co-op education

Center (ACCC or “Center”) at Kansas State University (K-State) recently celebrated 25 years of providing education and research-based information to students and to the leaders, employees and farmer-members of agricultural cooperatives and to stakeholders in other types of cooperatives.

During the past 25 years, ACCC's education programs have also evolved to help meet the needs of these modern and successful cooperative agribusinesses.

Successful public-private partnership: Bridging the gap

“The Center was established in 1984, at the request of the cooperative

business community, as a public-private partnership between K-State and the Kansas Cooperative Council — the agent for all types of cooperatives in Kansas,” says Dr. David Barton, professor of agricultural economics and ACCC director.

In the early 1980s, cooperative leaders felt there was a strong need for more co-op education, and they wanted K-State to significantly enhance its co-op educational programs. The Council offered to raise a \$1 million endowment and to provide in-kind advice and support. The Center began operations in 1985 once the minimum start-up goal of \$250,000 had been raised.

Kansas cooperative leaders had the foresight to act before Kansas joined



Facing page: Michael Boland, associate director of ACCC, integrates case studies when teaching about cooperatives. Photo by Seleise Barrett, courtesy ACCC. Inset photo: Co-op pioneer Arthur Capper. Above: Ashley Guenther is an ag communications and economic major who received a scholarship through ACCC. Photo by David Lundquist, courtesy CHS Inc.

the ranks of other states that lost their cooperative education programs due to faculty retirements, budget cuts and changing priorities at universities. The public-private partnership agreement creating the ACCC was signed on June 11, 1984, and was witnessed by 14 founders, including cooperative leaders and university faculty.

ACCC marked its 25th anniversary in late 2009 at the annual Symposium and Leadership Roundtable for cooperative leaders. The silver anniversary was chosen to celebrate and honor the spirit of the Kansas cooperative community's effort to enhance co-op education by establishing the ACCC. Six of the original founders of the Center

attended the gathering, which included current co-op leaders, university faculty and students.

Name and work honor co-op giant

The Center bears the name of Arthur Capper, a prominent figure in the history of agricultural cooperatives and Kansas, says Barton, who helped found ACCC and has served as its director since 1984. Capper was a five-term U.S. senator and leader of the farm bloc in the Senate.

Capper co-sponsored the 1922 federal Capper-Volstead Act, which clarified the antitrust status of agricultural marketing cooperatives. The law provides a limited antitrust

exemption allowing farmers to join together to market their products without violating antitrust laws. Capper was also a two-term governor of Kansas, newspaper publisher ("Topeka Daily Capital," among others) and a philanthropist (Capper Foundation for Crippled Children).

"The Center's primary goal is to help people understand the nature and role of cooperatives in our society," Barton says. "We focus first on educating students at K-State and leaders of Kansas cooperatives, but we also work with students and cooperative leaders in many other states and in some other countries.

"We are proactive in learning about issues faced by a wide range of leaders

and organizations, searching for and constructing research-based educational programs to address those issues, and sharing that knowledge with a very wide audience,” Barton continues. “In doing so, we promote understanding of the unique cooperative business form, including its advantages and disadvantages, and then helping cooperatives be successful.

“It is clear to me that if we didn’t have co-ops, we would need to invent them.”

Positioned for the future

An advisory council — comprised of cooperative leaders and university faculty — meets annually to discuss past accomplishments and set future goals for the program. This is done with an eye on the Center’s mission and vision: to serve as a premier center of excellence in cooperative education and to be the first choice of those interested in cooperative education.

These expectations, in combination with the guidance and accountability built into the organizational culture, have helped the ACCC become recognized as a leading center of excellence in cooperative education. The Center’s programs are now in high demand in Kansas and in many other states.

“For the last 10 years, finance, strategy and governance have been the most significant issues [being focused on by the Center],” Barton says. “Now, risk management and human resource management have risen in importance for both cooperatives and their members. We share our knowledge on these critical issues with cooperative leaders in many states, at the request of educational and industry organizations in those states, through our curriculum-oriented educational programs and special assistance projects.”

Dr. Michael Boland, professor of agricultural economics and associate

director of the center, leads the student-related educational activities, conducts research and participates in many of the outreach programs.

“Kansas cooperative leaders had the foresight to act before Kansas joined the ranks of other states that lost their cooperative education programs...”

scholarships, internships, cooperative-study tours, development of case studies, development of a textbook on cooperatives, integration of cooperative knowledge into university courses, and supervision of graduate students writing theses on cooperative topics.

Programs for co-op leaders include a symposium, CEO roundtable and cooperative marketing



Art Driscoll II, president and CEO of Sunsweet Growers, speaks to K-State students in the Food and Agribusiness Management Strategy class. Left: The Kansas Cooperative Council Education Committee meets to plan the Annual Symposium on Cooperative Issues. Photos by Seleise Barrett, courtesy ACCC



“Cooperatives are a major employer in rural Kansas communities,” Boland says. “In my class, I integrate case studies to help educate students about cooperatives. I also prepare case studies, conduct research projects and participate as an organizer and instructor in the extension-oriented leadership education programs.”

Three-dimensional program

ACCC’s portfolio of educational programs span all three dimensions of land-grant universities — teaching, research and extension, or outreach — and focus primarily on two audiences: students and cooperative leaders.

Programs for students include

leader roundtable, all of which are held annually. It also facilitates board retreats, financial planning projects, one-day seminars on governance, finance and strategic thinking, and other special projects addressing current issues.

An on-going challenge will be the retention and recruitment of faculty to lead, develop and deliver cutting-edge programs. The current director, David Barton, is approaching normal retirement age and says he expects to hand over the leadership reins to a successor in the near future. Boland, professor in agricultural economics and

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Students and co-op leaders

reap lasting benefits from program

Jeff Bechard was the first ACCC co-op student intern in 1985. He completed his internship at Farmway Co-op in Beloit, Kan., and is now president of AgMark LLC, a grain marketing company in Beloit owned by several co-ops, including Farmway Co-op.

"While at K-State, I worked for Dr. Barton and took his class on ag cooperatives," Bechard says. "I learned a lot about cooperatives, thanks to him. I appreciate being able to attend the center's high-quality educational programs, such as the CEO Roundtable for Cooperative Managers. Also, the generous scholarships provided to college students are another terrific benefit." The ACCC has awarded \$314,700 in scholarships on behalf of the cooperative community since 1985.

Ashley Guenther, a senior majoring in ag communications and journalism and ag economics, is one of the students benefiting from ACCC scholarships and a co-op internship. She received a CHS Foundation University Scholarship in 2008 and the Otis and Mary Lee Molz Cooperative Scholarship in 2009.

"The Molzes are well-known, respected leaders in the state, national and international co-op community," Barton said. "Now, they're encouraging the next generation to plan a future with cooperatives. They established their annual scholarship in 2005 and actively participate in the scholarship interview and selection process."

"Having Mr. and Mrs. Molz involved in the interview process made receiving this scholarship more valuable to me," Guenther says. "I was able to openly share my career passions and lifetime goals and visit with two amazing stewards of the cooperative education community. My hope is to work with agriculturalists in third-world countries, as the Molzes have done. I was very impressed by their care and concern for me as a student and as a future leader in



Ashley Guenther hopes to someday work with farmer co-ops in developing nations. Photo by David Lundquist, courtesy CHS Inc.



Jeff Bechard president of AgMark LLC, a grain marketer, was the first ACCC co-op student intern in 1985.

agriculture."

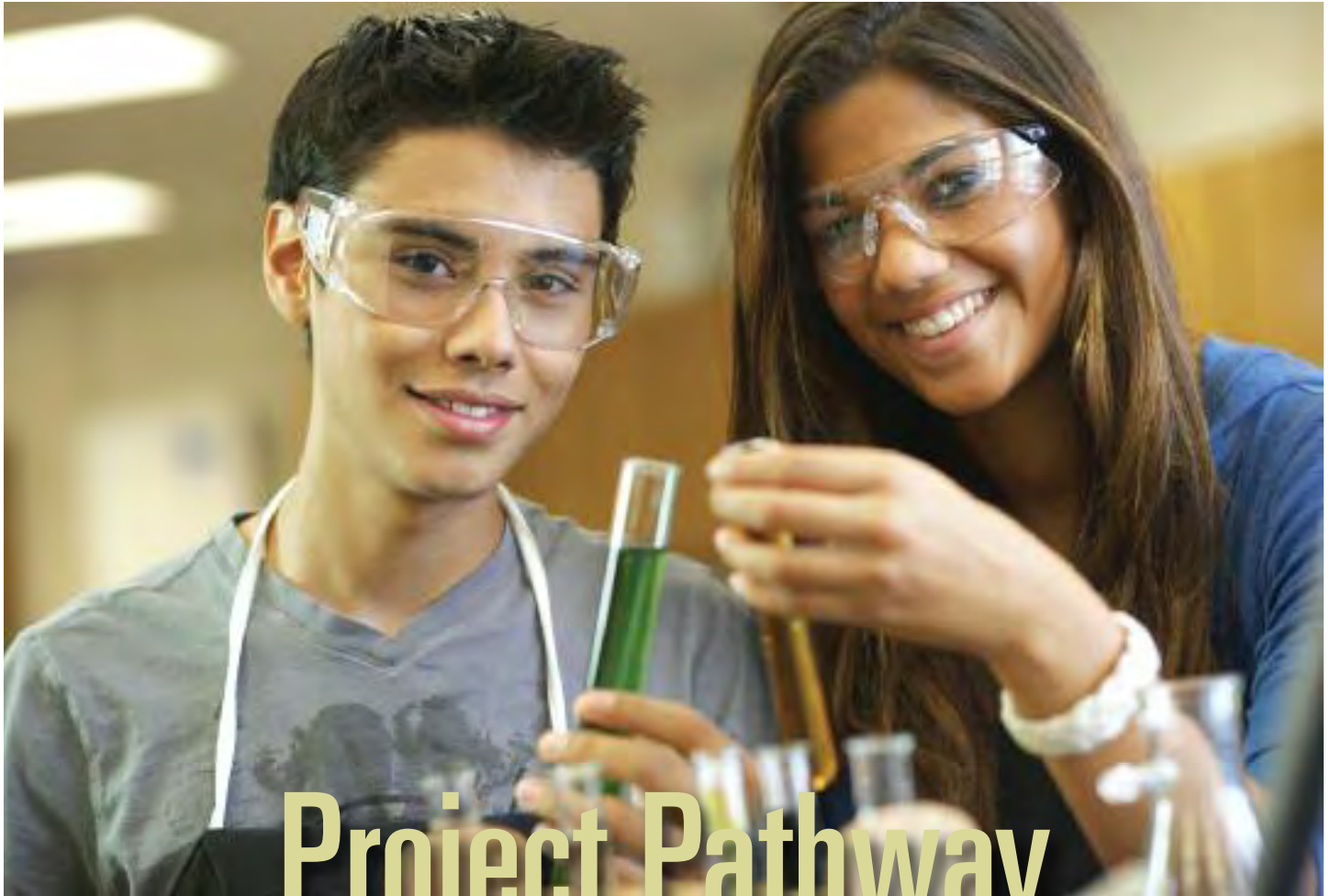
Last summer, Guenther interned at CHS Inc., a Fortune 500 company and the largest regional agricultural cooperative in the country, owned by U.S. local agricultural cooperatives and agricultural producers. "During my summer at CHS Inc. in Minnesota, I split my time between the marketing communications group and the CHS Foundation," Guenther says.

As part of her duties, she helped with the filming of a tribute to the Arthur Capper Cooperative Center and the educational partnership with CHS, shown at CHS's annual meeting.

Terry Kohler, general manager of Farmers Cooperative Elevator in Cheney, Kan., became directly involved with the ACCC while serving on the Kansas Cooperative Council (KCC) board. When he became board chairman of KCC, he also became chairman of the 15-member ACCC Advisory Council. After leaving the KCC board, he continued as a member of the advisory council and also became chair of the KCC's Development Campaign to increase the financial resources in the endowment supporting the ACCC.

Kohler is a strong supporter of education for cooperative leaders, noting that the KCC, with assistance from the ACCC, offers the Director Development Program, a four-course leadership education program. The board of directors at his cooperative requires all new directors to complete the courses during their first three-year terms on the board.

"The Center has been very important in the education of cooperative leaders in dealing with timely issues and subjects," Kohler said. "I have especially appreciated the annual Symposium on Cooperative Issues targeted at Kansas co-op leaders, and the special assistance projects the center offers to individual co-ops to improve their financial planning, such as income distribution and equity management strategies." ■



Project Pathway

4-H sees science, technology as crucial to building competitive workforce



Top: Participants in 4-H National Youth Science Day gain skills that could put them on a course for a career in agricultural science. Above: The 4-H robotics program lets participants put their ideas on the road. Photos courtesy National 4-H Council

By Jim Erickson
ericksonjim@att.net

***Editor's note:** This article is reprinted from the January issue of "AFC Cooperative Farming News," the member publication of the Alabama Farmers Cooperative, one of the many farmer co-ops across the nation that support youth organizations such as 4-H and FFA. Erickson is a freelance writer based in Missouri who has worked for several of the nation's major farmer co-ops.*



More than a half-century ago, the launch of the Sputnik satellite by the former USSR sparked a dramatic increase in the number of U.S. students opting for studies and, ultimately, careers in science, math and engineering.

Today, nearly a decade into a new century, the importance of those fields has increased. But as challenges in biotechnology, alternative energy, genetics and other fields have come to the forefront, members of the Sputnik-inspired generation of scientists and engineers are retiring. And experts say replacements aren't coming fast enough to maintain the nation's technology leadership in the future.

Agricultural science is a notable case in point due to its diverse impact on so many aspects of people's lives, both here and throughout the world. Everything from the foods we eat and clothes we wear to the fuels we use have a link to agriculture.

With that reality in mind, and with its decades of experience with and commitment to America's young

people, the national 4-H Youth Development Program has embarked on Project Pathways, a research-based learning system for youth ages 9 to 19. To be available online and in CD sets, the new program is designed to take advantage of how young people learn and communicate today.

Early exposure is crucial

Inventive new 4-H out-of-school programming, such as Project Pathways, will allow youth to be exposed to, and engaged in, the sciences earlier in life. This approach has been shown to motivate youth to pursue a career in the sciences as adults, notes Donald T. Floyd, Jr., National 4-H Council president and CEO.

A look at some key education statistics underscores the need for the Pathways initiative:

- Only 18 percent of U.S. high school students are proficient in science, according to the National Assessment of Educational Progress.
- Just over 32 percent of U.S. undergraduates are enrolled in science-related degree programs, according to the National Science Foundation. That compares with 63.3 percent in Japan, 62.1 percent in China and 56.2 percent in Germany.
- Of all science-related degrees now awarded, only 3.7 percent are in agriculture.

The clear conclusion is that if America is unable to keep up with the increasing demand for professionals trained in science, engineering and other technological fields, it faces a daunting task of competing effectively in today's global marketplace.

4-H is positioned to play a key role in encouraging young people to develop an interest in science and engineering. The 4-H mission says that the organization "empowers youth to reach their full potential, working and learning in partnership with caring adults."

Achieving that goal involves a team effort that includes the U.S. Department of Agriculture, 106 land-grant universities and the National 4-H Council. The end result is what ranks today as America's largest youth organization, encompassing some 6 million young people, 4,500 4-H educators, 500,000 volunteers and 60 million alumni.

Going digital

With Pathways, 4-H has set aggressive targets of fostering 1 million new scientists and 1 million new ideas. It will assess progress toward those targets by measuring literacy in ag science, engineering and technology (SET), the number of ag SET majors and the number of college graduates pursuing ag SET careers.

In designing the Pathways effort, 4-H leaders recognized that the organization faced a number of challenges, including greater demand for 4-H project materials, the need to respond rapidly to changes in ag science, today's tech-savvy youth and the need to connect with a larger community of learners.

The obvious solution: Going digital and making materials available online. Work now under way aims to offer a curriculum with some 1,000 learning activities dealing with cutting-edge

plant and animal science content.

A "Project Builder" interface will enable prospective users to find the content-driven activity they want to pursue. Projects will be customizable according to a user's age, where he/she lives, the

searchable database of relevant project information from land-grant universities and industry sponsors.

Online goal: late 2011

Partnerships developed with

will be continuous after the Pathways debut.

Olson noted industry sponsors will be able to gain added visibility by providing branded online content such as "Ask the Expert," simulations and

AFC sees 4-H, FFA as key to future of ag

The Alabama Farmers Cooperative and its member Quality Co-op stores have had a long-standing relationship with the youth of 4-H and FFA. This manifests through sponsorships of events, trips, a youth scholarship program and financial support for students who participate in state and local livestock shows and other agricultural competitions.

Each month, an article written by representatives of 4-H and FFA is published in the co-op's newspaper, "AFC Cooperative Farming News," which salutes the accomplishments of each organization's young people.

"The youth of Alabama who venture a future in agriculture are our destiny, and we will continue to do what we can to bring their endeavors to fruition," says Jim Allen, editor-in-chief of "AFC Cooperative Farming News."

With Pathways, 4-H has set aggressive targets of fostering 1 million new scientists and 1 million new ideas.

identity of any sponsor(s) supporting a particular activity, etc.

According to Roger Olson, 4-H Council vice president of rural and agribusiness development, the number of possible combinations will be virtually unlimited.

Project activities will be entered and tracked in a "V-Book," an online virtual project book replacing printed project and record books.

Overall, the online content will provide a blueprint for self-guided learning, with additional information including online videos, accessible to enrich the learning experience. Questions a user will be asked to answer will reinforce important concepts in each project.

In addition, a protected online community at the 4-H website will provide opportunities for social networking, free online collaboration with subject matter experts and a

sponsors and other content providers will affect how the ultimate cost in dollars and man hours will be borne. But there's no doubt it will be a multi-million-dollar project involving many thousands of staff hours.

According to Dr. Bob Horton, professor of educational design at Ohio State University and chief architect of the Pathways initiative, the development plan timetable is for the initial content to be completed and online by late 2011, assuming all necessary funding is obtained. Updating

moderated chats, podcasts, news tickers and blog centers and tracking and reporting journals.

"Project Pathways will be designed to accommodate, inspire and empower a wide variety of learners," Horton said. "This is the first time the efforts of industry, academia and youth development are combining to create a robust curriculum blending the latest interactive online programming with offline, hands-on work alongside passionate, expert mentors." ■

Celebrating the greatest public-private partnership in American history



Rural students learn about the “wonders of electricity” from an REA employee. Archival photos courtesy Library of Congress

“President Kennedy, like Roosevelt, understood cooperatives and the cooperative model as a tool for building infrastructure and, just as important, for promoting democracy.”

By Glenn English, CEO
National Rural Electric Cooperative
Association (NRECA)

Editor’s note: This guest commentary is provided courtesy NRECA, which represents 865 electric co-ops that serve 37 million consumer-members. The views expressed are the author’s, and do not necessarily reflect those of USDA or its employees.



On May 11, 1935, President Franklin Roosevelt signed an Executive Order creating the Rural Electrification Administration, now the Rural Utilities Service (RUS). That was 75 years ago, when 90 percent of farms and rural communities had no electricity.

We should be celebrating. The phenomenal success of this partnership is self-evident in the poles and wires spanning the continent.

I believe cooperatives and RUS can best honor the legacy of this program by reminding the American public of what government and citizens accomplished together in the early part of the last century.

Many engineers point to rural electrification — the task of creating the electrical grid that now spans the continent — as the greatest engineering feat of the 20th century. This feat would not have been possible without the Rural Electrification Administration: one of the most successful public-private partnerships in the history of this country.

The government supplied loans and administrative support; private citizens banding together to form cooperatives made it happen. The not-for-profit, consumer-owned cooperative business model lies at the heart of this achievement.

President Roosevelt acknowledged as much in a Jan. 19, 1943, wartime letter celebrating the first annual meeting of the co-op’s nationwide service arm, the National Rural Electric Cooperative Association: “I think that

the forward march of the electric cooperatives has an even more profound significance in terms of our fight to preserve democracy. For it represents what is perhaps the most democratic form of business enterprise, one in which the individual finds his greatest gain through cooperation with his neighbor.”

The fruit of this partnership was not simply electrification, but a profound social transformation. Quite simply: the availability of affordable electric power changed every aspect of life in rural America.

President John F. Kennedy, like Roosevelt, understood cooperatives and the cooperative model as a tool for building infrastructure and, just as important, for promoting democracy.

In 1962, Kennedy signed an agreement stipulating that NRECA, at the request of the Agency for International Development, would provide managers, engineers and other specialists needed to start cooperatives in other countries. Kennedy believed that the United States could fight communism abroad by exporting the rural electric cooperative model and access to affordable electric power.

Fostering cooperatives abroad accomplished two goals: building an understanding of democratic governance and raising the standard of living, making these populations less open to communism.

Under the RUS model, government provides a hand up — not a hand-out. The RUS loan program provides financing necessary to sustain and build needed infrastructure to meet the rural America’s growing energy demands. The principal along with the interest payments go back into federal coffers.

After 75 years, the RUS mission to provide affordable electric power has not changed and the need for this program has not abated.

As the nation moves to repair its aging infrastructure, build a smarter grid and reduce carbon emissions from electricity generation, these loans are still vital to protecting affordable power

continued on page 43



Against industry opposition,
REA helped 'wire' farms,
rural areas at remarkable rate

Out of Darkness

By Anne Mayberry
Rural Utilities Service
USDA Rural Development

Editor's note: This is the second of two articles marking the 75th anniversary of the Rural Electrification Administration (forerunner of today's Rural Utilities Service). The first article appeared in the March-April issue and is available online at:

www.rurdev.usda.gov/rbs/pub/openmag.htm

“In 1936, we witnessed the most spectacular increase of rural electrification in the history of the United States.” That was how Morris Cooke, the first administrator of the Rural Electrification Administration, began his 1936 report to Congress.

May 2010 marks the 75th anniversary of the creation of the Rural Electrification Administration (REA), established in 1935 by executive order as an independent agency to deliver electric service to rural



areas. Cooke had headed the Committee on the Relation of Electricity to Agriculture, established by the electric industry to address rural power issues before being named administrator to the agency.

Despite Cooke’s experience, his was no easy task. The new agency was overwhelmed with requests to bring electricity to farms nationwide. And while Cooke tried to work with the electric industry, opposition by utility companies to building electric infrastructure in rural areas remained strong.

Cooke understood that the new agency needed permanent status and worked with Senator George Norris of Nebraska, often referred to as the champion of public power, on legislation to make REA a permanent agency. The bill passed Congress May 11, 1936. Cooke’s next task was to find a successor.

Bringing farm families out of the dark



That successor turned out to be John Carmody, who came to REA from the National Labor Relations Board. He also had experience in the coal and steel industries. Under Carmody's leadership, the number of farms with electric power tripled.

The REA's 1937 report noted: "The demand for rural electrification projects far exceeds our ability to supply it...We here at REA believe in the social soundness of the program set up by the Congress...We believe in the economic wisdom of bringing farm families out of the dark into the light...We are fully conscious that the Congress gave us an extremely difficult task...."

"We have reminded borrowers that they and REA are really in partnership...We are dealing with public funds, and we must keep our affairs in the open and on the highest possible plane of efficiency."

Despite challenges, the new agency achieved rapid success. The report noted that one farm in 10 had electricity when President Franklin D. Roosevelt established the REA in 1935. By 1937, the gap was beginning to close — electricity had been extended to one farm in six, or about 18 percent of all farms.

REA sets standards

Reducing the costs of bringing electric power to the countryside was crucial to the success of the effort. REA's research section looked for ways to reduce costs and implemented standards to make bulk purchases. These standards would also facilitate the ease of working on equipment so that linemen in rural areas nationwide would all use the same materials.

REA was established as an independent agency, but on July 1, 1939, it was transferred to the U.S. Department of Agriculture. The transition was not a smooth one, as the independent agency

was not accustomed to following government procedures.

Yet REA continued to loan funds for construction of electric power in rural areas. By the end of 1939, nearly all of the \$40 million appropriated to REA had been allotted, most of it to the new rural electric cooperatives which it worked closely with. At this point, 25 percent of the farms in the country had electric service.



With electric power in their barns and homes, electricity revolutionized life in rural America. Library of Congress photos

A family of farm workers prepares to travel from Florida to New Jersey for the potato harvest. The Great Depression turned many rural people into migrants, adding more urgency for rural electrification and the economic stimulus it sparked.



Electrification stimulates rural economy

“REA, its borrowers and the farmers themselves are turning more and more to the productive uses of electricity, tending to reduce farm costs and increase farm income,” the 1939 report to Congress noted.

Among the challenges the new agency faced was how to deliver power to poorer farmers. “As construction lines move forward, REA systems necessarily move from areas which are not densely populated but reasonably prosperous to thinner territory, where low income and limited resources offer a new challenge. REA aims to make that service a reality.”

One solution REA adopted was for farmers to work with REA crews for “payment in kind.”

By 1940, REA assisted rural electric cooperatives in the purchase of electric generating facilities. The 1940 report of the REA administrator noted: “The wholesale power bill is a rural electric system’s heaviest single item of expense. A difference of a few mills per kilowatt hour in the cost of wholesale energy may spell the difference between success and failure of a system.”

From July 1948 to July 1949, the greatest expansion of rural electrification in history was achieved. Nearly 80 percent of all farms in the country now had electricity. Power consumption climbed as rural residents increased their use of electric equipment, both on the farm and in their homes.

By 1950, the newly established rural telephone program was underway and nearly \$3.5 million in loans helped provide telephone service as rapidly as the procurement of trained personnel would permit.

In testimony to the House Agriculture Committee on May 3, 1951, REA Administrator Claude Wickard said: “In both the rural telephone program and the electric program, the government is helping

local people and small business enterprises help themselves.”

REA looks for capital

By 1969, REA’s focus shifted from expansion of service to finding sources of funding. The administrator’s report that year noted that: “Few projects of the federal government have created benefits to equal those which have flowed from these two programs.... Despite these accomplishments, the need for new investment capital in the two programs is greater now than at any previous time....

“Like the farmer, rural electrification and [telephone service] are never caught up on their work. There is always the next phase of growth to be planned for, financed and carried out.”

The demand for rural electric financing grew rapidly. The administrator’s 1972 report noted that for the first 30 years of REA history, borrowers enjoyed favorable conditions for increasing sales and declining costs.

By the 1970s, those conditions had changed radically. The investment per kilowatt of capacity had doubled, environmental standards required additional investment, transmission costs had increased and the price of fossil fuels had climbed.

On Dec. 29, 1972, REA announced that it would no longer make loans. Instead, funding would be made at higher interest rates under new Farm Bill provisions that created a Rural Development Act. That announcement triggered a strong reaction from rural electric cooperative members, who feared that the change would result in sharply higher rural electric costs. Electric co-op members traveled to Washington to discuss the decision with their members of Congress.

These efforts culminated in the passage of legislation that expanded financial resources available to both rural electric and telephone cooperatives, which was signed by President Richard Nixon in May 1973.

The result was that more than \$1.2 billion in financing was available to rural cooperative utilities in 1973, resulting in the highest amount of loans made in the program’s history. “Fiscal 1973 was a remarkable year in the history of the Rural Electrification Administration,” the administrator’s report noted.

By the close of 1980, more than 30 million rural residents were receiving electric power as a result of REA financing. By 1985, 99 percent of farms had electricity and 96 percent had telephone service. The agency’s focus had turned to financial and administrative improvements.

REA to RUS

Reorganization of USDA during the 1990s emphasized rural economic development, established new programs and revised funding and regulatory provisions. In October 1994, the REA merged with water and wastewater programs to become the Rural Utilities Service (RUS).

Today, RUS is part of USDA Rural Development, working in partnership with the Rural Housing Service and Rural Business-Cooperative Service to offer a variety of funding programs for rural areas.

The RUS portfolio has grown to more than \$50 billion and includes federal financing for electric and renewable energy, water and wastewater, telecommunications and broadband infrastructure projects.

Today, the RUS electric program funds an increasing number of renewable energy projects — such as wind turbines — and new technologies to reduce emissions, including carbon sequestration. “Rural electrification fueled the economy 75 years ago and greatly improved the quality of life in rural America. Actions that USDA Rural Development takes today will continue to drive progress in rural communities,” says RUS Administrator Jonathan Adelstein. ■

Co-op Education

It's Everybody's Business



Co-ops 101: An Introduction to Cooperatives (CIR 55)

Probably the most-read co-op primer in the nation, this report provides a bird's-eye view of the cooperative way of organizing and operating a business.



Do Yourself a Favor: JOIN a Co-op (CIR 54)

Perfect as a handout to the general public or for classroom visits, this 10-page brochure provides a succinct definition of what co-ops are and the benefits they offer to their owners. It discusses how benefits are proportional to the use of a co-op, and how co-ops differ from nonprofits.



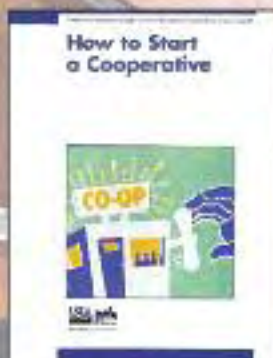
Understanding Capper-Volstead (CIR-35)

The Capper-Volstead Act is the legal foundation of the American farmer marketing cooperative movement. This brochure is required reading for many co-op boards and is beneficial for all co-op members who seek a better understanding of the legal underpinnings of farmer co-ops.



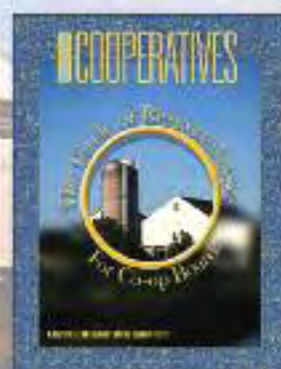
Co-op Directors: Asking Necessary Questions (CIR 62)

Cooperative directors, especially those with limited business experience, may find themselves in a quandary as to what to ask managers, staff, auditors, other directors and other outside resources about the status of their cooperative. This report guides directors in asking the necessary questions to invoke informative responses.



How to Start a Cooperative (CIR 7)

This guide outlines the process of organizing and financing a cooperative business. This publication represents the most important elements to consider when forming a cooperative. It lists what special expertise is necessary and where to look for help. Note: You may also request the condensed, 4-page version: CIR 45, Section 14.



The Circle of Responsibilities for Co-op Board Members (CIR 61)

All boards of directors are under increasing pressure to perform well and justify their decisions. Cooperative boards are no exception. This series of articles, originally printed in USDA's *Rural Cooperatives* magazine, lays out fundamental guidelines for cooperative directors to follow.

Whether for explaining basic co-op concepts to prospective members of a new or existing co-op, to help co-op board members better understand their responsibilities, as a hand-out at a co-op meeting or for classroom use, these publications can help. More than 100 other co-op publications are also available from the Cooperative Programs of USDA Rural Development the nation's No. 1 source of co-op education materials. Our mission is to help increase understanding and use of the cooperative, producer- and user-owned form of business.

All publications are free and can be ordered by sending an e-mail to: coopinfo@wdc.usda.gov, or by calling 202-720-7395. They are also available on the Internet at: www.rurdev.usda.gov/rbs/pub/newpub.htm.



Director Liability in Cooperatives (CIR 34)

This study surveys and discusses sources of liability faced by cooperative directors and suggests practices and behavior that may help avoid liability risks. The common law sources of liability are described.



Co-ops in Agribusiness (CIR 5)

This report provides a brief history of cooperatives and discusses their relationship with agribusiness. Different types of cooperatives and their structural and organizational characteristics are discussed, as well as how they are governed and financed.



Sample Policies for Cooperatives (CIR 39)

Policies help cooperatives attain established goals and objectives. This booklet provides directors and managers of farmer cooperatives with guidelines for writing, adopting and implementing policies.



Sample Legal Documents for Cooperatives (CIR 40)

A cooperative must have a set of organizational documents that is uniquely crafted to its particular situation. This report will assist persons organizing new cooperatives, managers and directors of existing cooperatives and their professional advisers to develop and update the important legal documents of cooperatives.



Co-ops: What They Are and the Roles of Members, Directors, Managers and Employees (CIR 11)

This educational guide explains what cooperatives are and examines the responsibilities and roles of cooperative members, directors, managers and employees. It is frequently used as a teaching tool, both in classrooms and co-op settings. PowerPoint slides are also available from USDA.



Shared Services Cooperatives (CIR 49)

This brochure explains that the goal of shared-services cooperatives is to buy or provide products and/or services for their members at a total cost less than the combined costs of individual members buying or providing for themselves.

\$122 billion in '08 sales sets record for Top 100

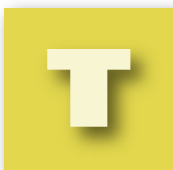
Table 1—Consolidated income statement for Top 100 cooperatives 2007-08.

Sales	2008	2007	Change
	<i>In thousands</i>		
Marketing Sales	\$82,445,535	\$61,615,555	\$20,829,980
Farm Supply Sales	39,463,809	27,222,348	12,241,461
Total Sales	121,909,344	88,837,903	33,071,441
Other Operating Revenue	838,222	1,023,066	(184,844)
Total Sales and Operating Income	122,747,566	89,860,969	32,886,597
COGS	112,324,901	81,171,195	31,153,706
Gross Margins	10,422,665	8,689,774	1,732,891
Expenses	7,027,904	5,802,267	1,225,637
Net Operating Margins	3,394,761	2,887,507	507,254
Interest Expense	662,815	555,221	107,594
Interest Income	53,173	62,053	(8,880)
Other Non-operating Income	854,295	544,486	309,809
Other Non-operating Expenses	38,782	146,603	(107,821)
Patronage Refunds Received	176,814	116,050	60,764
Net Margins From Operations	3,777,446	2,908,272	869,174
Other Margin Interests and Extra Ordinary Items	(74,339)	(194,984)	120,645
Taxes	315,601	175,691	139,910
Net Income After Taxes	3,387,506	2,537,597	849,909

By David Chesnick, Ag Economist

Cooperative Programs

USDA Rural Development



The nation's largest farmer-owned co-ops enjoyed a banner year in 2008, ringing up a record \$122 billion in sales, due primarily to sharply higher prices for many key commodity markets. The 2008 sales total was up \$33 billion from 2007.

While higher sales don't always translate into high profits, the 2008 sales picture did provide a solid boost to the bottom line for most co-ops. Table 1 shows the change in the consolidated income statement for the nation's 100 largest agriculture cooperatives (Top 100) between 2007 and 2008.

The diversified, farm supply and grain cooperative sub-groups of the Top 100 posted the largest gains. These three groups accounted for 89 percent of the overall sales increase. Only sugar cooperatives saw sales slip in 2008, primarily due to lower sales volumes.

With grain and other commodities selling at record-high prices in 2008, cost of goods also climbed sharply, up 38 percent, to \$112 billion.

Gross margins were up \$1.7 billion, to \$10.4 billion. Conversely, gross margins as a percent of total sales were down slightly, dropping from 10 percent in 2007 to 9 percent in 2008.

While most investor-owned businesses strive for higher gross-margin percentages, cooperatives are different. Paying members more for their commodities will mean higher costs of goods sold and thus lower gross-margin percentages.

Expenses, debt also up

Expenses were up 21 percent, to \$7 billion in 2008. Dairy cooperatives accounted for more than one-third of that increase. Part of higher costs for dairy cooperatives was higher labor expenses, which were up 17 percent.

Labor expense increased 11 percent for all Top 100 cooperatives. While labor expenses were up, they only

accounted for one-third of the total increase and represent about 42 percent of total operating expenses.

The largest cooperatives held more debt in 2008, which pushed interest expense up 19 percent, to \$663 million. Diversified and grain cooperatives accounted for nearly 73 percent of the total increase in interest expense.

Interest income was generally lower across the board for all commodity groups of the Top 100, declining to \$53 million for 2008, a drop of \$9 million.

Non-operating revenue — which includes revenue from rent, investment income and other items not related directly to a cooperative's main operations — jumped 57 percent, to \$854 million in 2008. However, much of this \$310 million increase can be attributed to a single farm supply cooperative.

Non-operating expenses declined 74 percent. These expenses are similar to non-operating revenue in that they are not directly related to operations. Much of this decline can be attributed to dairy cooperatives, which were able to control their non-operating expenses.

Higher patronage refunds

Patronage refunds received were up \$61 million in 2008. Cooperatives receive patronage refunds because of business done with other cooperatives, including federated farm supply co-ops and financial co-ops, such as CoBank. Grain cooperatives received more than half of the total patronage refunds received by the largest 100 agriculture cooperatives.

Net margins for the Top 100 were up 30 percent, to \$3.8 billion. All commodity groups had positive gains in net margins with the exception of sugar cooperatives, which saw their net margins slip 56 percent, to \$78 million.

Other marginal interests and "extraordinary" items include minority interest payments, gains/losses on discontinued operations, changes in accounting practices, and other revenue or expenses that are outside the normal cooperative operations. These items generally are costs to the cooperative. In 2008, these extraordinary item expenses were reduced by \$120 million, to \$74 million.

**Table 2—Consolidated balance sheet for
Top 100 cooperatives 2007-08.**

	2008	2007	Difference
	<i>In thousands</i>		
Cash	\$987,750	\$1,143,794	(\$156,044)
A/R	9,230,002	7,519,061	1,710,941
Inventory	12,877,427	9,355,259	3,522,167
Other Current Assets	4,200,635	2,481,796	1,718,838
Current Assets	27,295,814	20,499,911	6,795,903
Investments	3,596,335	3,621,583	(25,248)
PP&E	9,009,800	8,424,962	584,838
Other Assets	2,490,730	2,206,229	284,501
Total Assets	42,392,679	34,753,550	7,639,129
Short-term Debt	6,399,867	4,707,664	1,692,203
Accounts Payable	6,268,488	4,964,928	1,303,559
Amounts Due Members	1,360,529	1,404,443	(43,914)
Patron and Pool Liabilities	4,650,871	3,484,442	1,166,429
Other Current Liabilities	2,757,854	2,061,158	696,696
Total Current Liabilities	21,437,610	16,622,636	4,814,974
Long-term Debt	5,732,730	4,684,418	1,048,312
Other Liabilities	2,073,774	1,756,981	316,793
Total Liabilities	29,244,114	23,064,035	6,180,079
Minority Interest	497,594	473,168	24,426
Preferred Stock	1,012,522	925,990	86,532
Common Stock	200,301	198,258	2,043
Equity Certificates	8,125,104	7,408,382	716,722
Unallocated Equity	3,313,045	2,683,717	629,328
Total Equity	12,650,971	11,216,347	1,434,624
Total Liabilities and Equity	42,392,679	34,753,550	7,639,129

Margins and taxes up

Margins are generally passed through the cooperative to members, who are liable for paying income taxes on them. However, cooperatives do pay income taxes on retained income.

Cooperatives retained more of their income in 2008, generating an increase in their income tax liability. The largest cooperatives paid \$316 million in income taxes in 2008, up 80 percent from the year before.

Net margins after taxes were \$3.4 billion in 2008, up \$850 million from 2007. This is a new record for net income after taxes for the Top 100. Every sub-group (again, with the exception of sugar cooperatives) had solid increase in net

income for 2008. Sugar cooperatives net margins were down 53 percent, to \$60 million.

Consolidated balance sheets comparing 2007 and 2008 for the Top 100 agriculture cooperatives are presented in table 2. Total assets jumped 22 percent in 2008, to \$42 billion.

Leading this increase once again were current assets, which were up \$6.8 billion, to \$27.3 billion. Current assets account for 64 percent of total assets in 2008, up from 59 percent in 2007. Current assets are those assets considered most liquid. These include cash, accounts receivable, inventory and other assets that can be sold quickly.

The largest part of the increase in current assets was a

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By Stephen Thompson, Assistant Editor
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Heat by the Bushel

New co-ops supplying members with corn for home-heating fuel



When most people think of corn, they don't usually think of burning it as a fuel. But that's exactly what some urban energy pioneers are doing in and around

Maryland.

Farmers have known for years that dry feed corn makes a good heating fuel. Years ago, they began building and modifying stoves to burn it as a convenient source of heat, both for animal enclosures and in their own homes. After all, why pay someone to truck in heating gas when you can save money using something you already have on the farm?

Heating with corn in cities and suburbs is a much newer phenomenon. The incentive is two-fold: First, many people have been looking for ways to reduce their "carbon footprint" — the amount of carbon dioxide their activities produce and exhaust into the air. Second, they'd like to save money on their heating bills.

Corn, it turns out, can not only heat your house for less money than more conventional means — such as natural gas, oil or electricity — but can reduce carbon emissions as well. Pound for pound, corn generates more heat energy than wood, and like wood, it's renewable.

For Jodi Beth McCain, the lower cost was icing on the cake. McCain lives in suburban Maryland, just outside the Washington, D.C., line. When she and her husband bought their house, they were faced with the necessity of upgrading its creaky, old forced-air heating system.

Not only were they concerned with efficiency and environmental impact, but, based on experiences while living in Bolivia, they saw U.S. dependency on oil as a source of international

conflict. Thus, they were looking for a way to avoid using fossil fuel.

Buying a corn-burning stove wasn't difficult; the problem was how to obtain the fuel. But McCain knew about Save Our Skies, a cooperative based in Takoma Park, Md., that provides members with corn for home heating fuel.

Co-op starts with four families

Save Our Skies was founded in 2002 by four families in the Takoma Park area who were looking for a way to heat their homes while minimizing their carbon emissions. They began by picking up their corn from a friendly farmer an hour's drive away in Mt. Airy, Md.

The farmer is a Mennonite who uses no-till farming methods and fertilizes his crops with manure from his hogs and poultry houses, instead of synthetic fertilizers. It was the farmer who suggested that the urban corn burners erect a hopper bin near their homes to serve as a central storage and distribution point, which serves as the drop-off point for deliveries by truck.

Fortunately, the Takoma Park municipal government was sympathetic to the new co-op. It not only allowed the bin to be built on public land, but helped out with permits and insurance, saving the fledgling organization much time and money.

Cash grants from the county and a corn stove manufacturer helped pay for erecting the bin. "It's the world's first urban corn bin," says Sat Jiwan Khalsa, the co-op's current president.

Today, more than 70 members purchase corn from the Takoma Park bin and from a new bin located 4.5 miles away in Mt. Rainier, Md. At least half use their corn stoves as their primary heat source; at least one member has no other source of heat.

Baltimore Biomass

Meanwhile, an hour away in Baltimore, another new cooperative, Baltimore Biomass, is bringing corn heat to that city. George Peters,



president of a nonprofit called Sustainable Urban Infrastructures (SUI), says that the organization was looking for a project to encourage "green" practices. "The point of our organization is education," he says.

SUI became interested in corn heat after talking to members of the Takoma Park co-op. Founded in 2008, under SUI's aegis, Baltimore Biomass has 21 members, but "Our membership has been more than doubling every year," says Peters. At the current rate of growth, he thinks SUI will soon be the largest co-op of its sort in the area.

Peters sees big advantages from corn heat: "It's cheaper, it's cleaner, it's grown in Maryland and we know the farmer." The nonprofit currently manages the cooperative and shoulders the cost of administration. Peters hopes that future growth will make the cooperative self-sustaining.

While much of Save Our Skies' recruitment comes by word of mouth, Baltimore Biomass actively proselytizes for the cause, with volunteers dedicating three days a week to outreach. The co-op is putting together

a "mobile classroom" designed to be taken to gatherings such as festivals and church fairs.

"If you can ensure us a crowd, we're happy to come out," says Peters. "We'll tell you all about corn heating; we'll demonstrate how it works and how to get started. And we don't charge a fee."

Both Peters and Khalsa stress the economic advantages of corn heat. "Typically, the cost of the stove and installation will pay for itself in five to ten years," says Khalsa. "By contrast, solar panels might take 25 years or more."

They also note that a federal tax credit is available until the end of 2010 for the purchase of 75-percent efficient biomass stoves. Depending on the cost of the stove, buyers can get as much as \$1,500 back under this program

Financing new bins is a challenge

Unlike Save Our Skies, Baltimore Biomass has no distribution bin as yet. Instead, a truck makes deliveries to the co-op's headquarters, which is located in an old, "re-purposed" industrial



The Save Our Skies cooperative grain bin serves more than 70 members who use dried corn kernels as a home-heating fuel. Above, co-op president Sat Jiwan Khalsa loads up. USDA photos by Stephen Thompson

building that houses a number of small enterprises, including the Baltimore Biodiesel Cooperative (see “Baltimore Biodiesel” in the May/June 2008 issue of this magazine).

Members must meet the truck to pick up their fuel. The co-op has drawn up plans to install two 20-ton grain bins, but faces hurdles its Takoma Park counterpart did not.

While the Takoma Park bin cost only \$7,000 to install – in part because of a sympathetic attitude on the part of municipal authorities — the Baltimore co-op faces a steeper cost curve. Building code and permit requirements raise the estimated cost for two bins to about \$45,000.

“We’ve been looking for grant money,” says Peters. “We got an enthusiastic response from the Maryland Grain Producers. But their grants are more in the \$5,000 range.”

Until a source of funds can be located, the bins will remain on hold. “We keep hoping that if we keep asking, someone will say: ‘you’re adding income to rural areas,’ and give us a grant,” says Peters.

The Baltimore co-op’s members are enthusiastic, despite the relative inconvenience. “It’s terrific. I can’t say enough about it,” says one member who uses a corn stove to heat her small business.

However, even under the best of conditions, corn heat demands a level of involvement that most consumers aren’t used to.

“It’s definitely more complicated than just turning on a thermostat,” says McCain. Stoves, while fed by an electric-powered internal auger, still need to be filled and cleaned out periodically.

McCain has a single corn stove that keeps the entire house comfortable most of the time during cold weather, but keeps the old heating system as a backup. “If it gets really cold, we’ll turn on the old furnace,” she says.

The “gentle heat” of the stove, which is located on the lowest floor, circulates naturally through the house. “It’s a much more comfortable heat than forced-air.”

McCain says she loads the stove every two days and cleans out the ash

pot every three or four days. She vacuums out the stove every 10 to 14 days, which takes just minute or two. Her husband makes a trip to the bin every week in cold weather to pick up fuel.

Self-serve system

The Save Our Skies co-op operates on an honor system. The bins are self-serve: the corn is measured in five-gallon bucket loads, and members note on a clipboard register how much they have taken.

Members are required to pay \$100 to join and an additional \$25 to renew their memberships every two years. They deposit money into their co-op accounts, which are then debited as they take fuel. Current price is \$4 for each bucket of fuel.

Billing and other housekeeping are done by volunteers through an e-mail list: periodic e-mails contain a spreadsheet noting each member’s current balance. The cooperative went through 120 tons of corn in the winter of 2008-09, with members typically using from one to three tons.

The Takoma Park bin is located at the end of a peaceful, tree-lined residential street on municipal land used for storing mulch. The Mount Rainier bin has a place next to a municipal fire station.

On both sites, the bin and a small enclosure used to store measuring buckets and the clipboard are kept scrupulously clean. “We don’t want to be accused of fostering vermin,” says McCain.

Typically, members pick up their corn in bags or buckets carried in the trunks of their cars. Khalsa, however, is serious about reducing carbon emissions, and transports his corn home on a bicycle modified to carry two five-gallon buckets.

“I’ve talked to people who raise the question of using food for fuel,” he says, “But most corn is used to produce meat, which is a very inefficient use of resources. So I put the issue in the context of heat use vs. meat use.” ■



Uniquely Cooperative: Equity Redemption

*Survey tracks trends in how
co-ops redeem member equity*

E. Eldon Eversull, Agricultural Economist
Cooperative Programs
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Allocating net income and redeeming equity are unique practices of cooperatives. The bylaws of the cooperative govern its net income allocation and equity redemption. The board of directors is responsible for determining the allocation of net income, equity redemption and capital accumulation, subject to adherence to the cooperative's bylaws.

User-owners finance the cooperative through the accumulation of equity capital by direct investment, patronage refunds and per-unit retains. Without equity accumulation, the cooperative cannot grow. To maintain investment proportionality among current users, equity redemption is used by most cooperatives.

USDA Cooperative Programs last studied equity redemption practices of cooperatives in 1991. A new equity redemption study was undertaken with a survey of 2,473 farmer, rancher and fishery cooperatives for their fiscal year ending in 2008. One of the desired goals of the new study was a comparison of differences and similarities of equity redemption over time. The focus of this article will be on the cooperatives that responded to both surveys. (The entire report, "Cooperative Equity Redemption," Research Report 220, will be posted on the Internet: www.rurdev.usda.gov/rbs/pub/research.htm; for a hard copy, send an e-mail to: coopinfo@wdc.usda.gov.)

There were 439 local cooperatives and 21 regional cooperatives that responded to both the 2008 and 1991 surveys. Local cooperatives generally have sales and members

in one or two states. Regional cooperatives have sales in many states, and some have nationwide sales. Regional cooperatives usually have other cooperatives as members but can also have individual farmer, rancher and fishery members.

Co-ops getting larger

In 1991, the median co-op respondent had between \$2.5 million and \$4.99 million in assets. Almost 20 years later the median respondent to the 2008 survey was much larger, with \$5 million to \$9.99 million in assets.

Between 1991 and 2008, the most used method of equity redemption changed from redeeming equity based on patrons' estates to redeeming it based on a revolving fund. Both methods are used by many cooperatives, but in 2008, 50 percent of the cooperatives used the revolving fund method, with only 46 percent using the patrons' estates method. This is a major shift from 1991, when 69 percent of the same cooperatives used patrons' estates method and only 53 percent used revolving fund method.

The reduced use of redeeming patrons' estates may be due to a change in the ownership of family farms. More family farms are now held in corporate or partnership ownership, rather than owned by individual farmers or ranchers. A corporation does not cease to exist when one owner dies, so the lowered use of patrons' estates redemption in 2008 may be due to the change in ownership form of family farms.

Type differences found

Cotton and cotton gin cooperatives mainly use the revolving fund method of equity redemption.

Dairy cooperatives' use of the revolving fund fell about 20 points between 1991 and 2008, while redeeming patrons' estates fell 10 points. In 1991, only two local dairy cooperatives used a base-capital plan. This increased to seven cooperatives in 2008.

Fruit, vegetable and nut cooperatives mainly redeem equity with a revolving fund. In 2008, only one of these co-ops redeemed patron's estates, down from two co-ops in 1991.

About one-third of service cooperatives are regional

cooperatives. Virtually all of these cooperatives use revolving funds.

Most use combination of redemption methods

Most cooperatives use a combination of methods for equity redemption (table 2). In 2008, local cooperatives that used revolving funds also used patrons' estate redemptions 48 percent of the time. They based redemption on a patron's age 17 percent of the time; as a percent of all equities, 10 percent of the time; and on base-capital, 4 percent of the time. A revolving fund for redemption alone was used by 94 local cooperatives.

In 1991, 82 cooperatives only redeemed patrons' estates. This had fallen to 32 cooperatives in 2008.

For regional cooperatives, it appears there is a large increase in the use of percent-of-all-equities redemptions in 2008, but this information is missing for 1991. The 1991 survey did not list the "percent-of-all-equities" redemption method. Its use had to be hand written in by the respondent

as an "other redemption method." Thus, this 1991 information is no longer available, so an accurate comparison cannot be made.

Redemption differences between surveys

When comparing the 2008 and 1991 responses of the same cooperatives, there were a number of differences:

- A revolving fund is now used by 54 local cooperatives that did not do so in 1991, while 162 co-ops used a revolving fund in 1991, but did not do so in 2008 (or had a blank response). In 2008, 51 local cooperatives said they do not redeem estates, while they did in 1991; an additional 22 co-ops said that they redeemed estates in 2008 but did not do so in 1991.
- Using a patron's age as a method of redeeming equity is now used by 45 local cooperatives that did not do so in 1991. Seventeen cooperatives no longer use this method; an additional 17 co-ops that used a patron's age in 1991 left a

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Table 1—Equity redemption methods of local and regional cooperatives reporting in both 2008 and 1991

Year and cooperative asset size	N	Redeem Equity Yes	Redemption Methods						
			Revolving Fund	Patrons' Estates	Patrons' Age			Percent of All Equities	Base Capital Plan
					All	Oldest First	% to All		
2008	<i>Number</i>				<i>Percent</i>				
< \$1 million	30	53.33	26.67	16.67	6.67	0.00	0.00	16.67	0.00
\$1 mill. to \$2.49 mill.	46	60.87	34.78	36.96	19.57	13.04	2.17	4.35	2.17
\$2.5 mill. to \$4.99 mill.	54	75.93	44.44	37.04	31.48	14.81	5.56	18.52	1.85
\$5 mill. to \$9.99 mill.	71	76.06	52.11	32.39	26.76	14.08	1.41	11.27	4.23
\$10 mill. to \$19.99 mill.	85	83.53	50.59	50.59	32.94	20.00	2.35	12.94	2.35
\$20 mill. to \$49.99 mill.	77	92.21	53.25	59.74	31.17	20.78	3.90	16.88	3.90
≥\$50 million	97	87.63	61.86	58.76	31.96	19.59	7.22	16.49	12.37
All	460	79.57	49.78	45.87	28.26	16.52	3.70	14.13	4.78
1991									
< \$1 million	57	87.72	26.32	56.14	5.26	n.a.	n.a.	n.a.	0.00
\$1 mill. to \$2.49 mill.	123	99.19	54.47	71.54	32.52	n.a.	n.a.	n.a.	0.00
\$2.5 mill. to \$4.99 mill.	95	98.95	53.68	72.63	23.16	n.a.	n.a.	n.a.	0.00
\$5 mill. to \$9.99 mill.	96	98.96	53.13	78.13	32.29	n.a.	n.a.	n.a.	2.08
\$10 mill. to \$19.99 mill.	39	100.00	66.67	74.36	33.33	n.a.	n.a.	n.a.	5.13
\$20 mill. to \$49.99 mill.	18	100.00	61.11	61.11	33.33	n.a.	n.a.	n.a.	5.56
≥\$50 million	32	100.00	71.88	40.63	12.50	n.a.	n.a.	n.a.	15.63
All	460	97.83	53.04	68.91	25.87	n.a.	n.a.	n.a.	2.17

N=Number of respondents

¹ Oldest first and percent to all are a form of redemption by patron's age, these two responses should add to "all", except all respondents did not answer all questions. Patron's age, oldest first and percent to all, and percent of all equities were not collected in the 1991 so are listed as n.a., not available.

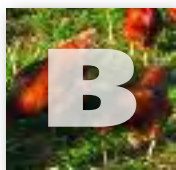
Co-op Development Action

High Plains Food helps consumers gain access to local/regional foods



Consumer-members of High Plains Food Cooperative (HPFC) enjoy seeing how their food is produced on the farm of a co-op producer-member. Facing page: HPFC member Chris Leibbrandt (far left) and son Kenny prepare a food distribution to fill pre-placed orders that are made online by consumer-members of the co-op. Photos Courtesy HPFC

By Susann Mikkelson
Co-op Development Specialist
Rocky Mountain Farmers Union



Business has never been stronger for the Rocky Mountain Farmers Union Cooperative Development Center, which has been serving Colorado, New Mexico and Wyoming for almost 15 years. The Center provides technical assistance, helps find funding and provides other general support to individuals and groups seeking to start cooperative businesses and similar enterprises in rural communities. Its efforts support everything from food production and consumption interests to renewable energy initiatives, and from rural health care to preschool development.

In the past two years, demand for the Center's services has grown exponentially. Though the Center has not formally tracked the reasons behind this trend, it is likely a result of a combination of factors, including the Center's continued outreach efforts and growing interest in cooperatives as co-op success stories surface around the country. The recession, which left many looking for new ways to generate income, is another likely factor.

This trend includes rising interest in new-generation and "blended" cooperatives. There is a great deal of ingenuity revolving around ways the cooperative model can be adapted to form successful businesses and other ventures. Times have changed, and no longer is the cooperative seen simply as the town grain elevator or the feed and seed supply store.

'Local' is a relative term

In the West, distances can be vast between agricultural production areas and population centers. Urban and suburban expansion during the past two decades has effectively converted almost all of the farmland located adjacent to these cities into residential or commercial development.

There is growing consumer demand in the Denver metro area and all along the Front Range (the region's main population center) for locally and sustainably produced foods. While this interest in returning to a food system that better sustains local economies opens exciting possibilities for producers, it also creates challenges. Consequently, even with the growth of farmers markets, it is difficult to find enough local farmers to meet the growing demand. Now more

restaurants, retail food stores, food distributors, schools and other institutions are also seeking local/regional foods.

For small farms and ranches on the high plains of eastern Colorado and western Kansas, the Denver metro area



is the primary direct market. Still, this represents a one- to four- hour drive for producers in the region, making it very hard for them to participate in multiple farmers markets, which most would need to do in order to generate enough profits to justify the travel.

Thanks in part to the Internet and the willingness of producers and consumers to work cooperatively, producers and consumers in the Rocky Mountain region have identified a viable alternative: a blended cooperative that serves as a “virtual” farmers market.

High Plains Food Co-op

The High Plains Food Cooperative (www.highplainsfood.org) is an excellent example of the creativity and innovation being used by the new generation of co-ops to meet this demand for local food.

It all began with a small, but mighty, group of producers that became acquainted with consumers along the Front Range who wanted more local/regional foods. Ogallala Commons, an organization incubated through the Rocky Mountain Farmers Union Cooperative Development Center five years ago with the support

of USDA Rural Development funding, introduced these producers to the Oklahoma Food Co-op, an online cooperative market.

These small-scale producers — including cattle ranchers, hog farmers, vegetable and herb growers, and even a natural foods processor — began to research the model that was being used successfully in Oklahoma. They made several visits to the Oklahoma Food Co-op’s distribution facility.

They enlisted the assistance of the Center and began to develop a plan for their own cooperative. Three years later, in May of 2008, the High Plains

Food Cooperative managed its first food distribution, filling about 15 orders from consumer-members in the Denver metro area; each order averaged about \$25.

At the end of 2009, the average monthly order with the High Plains Food Cooperative was just under \$75. In less than two years, the number of producer-members grew by almost 50 percent, while consumer-memberships soared 200 percent. Products available through the online marketplace also more than doubled.

Two levels of membership

The High Plains’ co-op model is fairly simple. There are two classes of membership: voting members (which includes all producer-members) and non-voting members. Although it is a “blended” cooperative of producers and consumers with the goal of meeting consumers’ needs, production is still the essential component at the core of the co-op. Thus, providing these small producers with access to an expanding market is a key goal.

Consumer-members have the option of joining as full, voting members and taking on an active role in the organization and management of the

co-op. Or they can be non-voting consumer-members if they prefer to simply gain a source of quality, local foods while supporting small farmers in their region.

The co-op board includes both producers and consumers representing a broad region of the service area.

The High Plains Food Cooperative shows how the cooperative model can successfully build a bridge between the needs and interests of producers and consumers. It is a cost-effective, alternative model to the traditional market.

School supply and service co-op

The Rocky Mountain Cooperative Development Center is currently working with a private fund of a community foundation in the Roaring Fork River Valley near Glenwood Springs, Colo., to help develop a service and supply cooperative for independent preschools in the area. These preschools are usually located in resort communities and primarily serve low-wage, often single-parent workers.

The cooperative will help the independent preschools share staffing resources, such as nurses, dieticians and substitute teachers. It will also provide bulk order services and, possibly, offer insurance pools, among other options. If the effort is successful, the co-op will help some of these much-needed preschools remain in business.

The Center regularly receives calls regarding concerns or interests for which the cooperative business model is a viable solution. In addition to the examples discussed above, these interests may be from budding entrepreneurs or civic-minded investors looking for alternative ways to invest their money to support local economies and people.

There continues to be much to learn and explore in the world of cooperatives — and many more bridges to build! ■

Organic farmers increasingly turn to cooperative business model



Organic Valley is one of four producer-owned, organic food co-ops that have surpassed their 20th birthdays, providing dramatic evidence that the organic food market is much more than the passing fad some predicted it would be. Photo courtesy Organic Valley

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The organic food market has expanded and matured into a \$10 billion industry, with sales growing about 15 to 20 percent each year. Many of the early co-ops that sprang up to serve the market have also matured, while new co-ops continue to be formed to meet the growing demand for organic foods.” — Excerpt from “Organic Co-ops Taking Root,” *Rural Cooperatives*, May-June 2005.

Since 2005, the U.S. organic products industry has continued to experience remarkable growth, and organic farmers have continued to increase their use of marketing cooperatives. In 2009, U.S. organic food and beverage sales grew 5.1 percent, to \$24.8 billion, according to the Organic Trade Association’s (OTA) *2010 Organic Industry Survey*.

OTA estimates the total U.S. organics product market — including food and beverages and non-food products, such as supplements, personal care products and clothing — grew 5.3 percent, to \$26.6 billion. In 2008, OTA found that organic food sales had grown 15.8 percent from the previous year.

In 1991, the USDA Agricultural Cooperative Service (now the Cooperative Programs office of USDA Rural Development) conducted a survey of U.S. organic producer marketing cooperatives (OPMCs) and found that: there were 10 operating in 1987, with gross sales of \$3.3 million; 15 of these co-ops were operating in 1991, with gross sales of \$6.38 million and 384 producer-members.

In 1989 there were an estimated 5,328 U.S. organic growers, of which 2,264 were certified. No OPMC data was collected after 1991.

When USDA Cooperative Programs put together an informal OPMC directory in 2010, it found that there

are about 45 OPMCs operating. While there has been no actual survey, a few numbers indicate the magnitude of growth. The largest OPMC — Organic Valley — had sales of \$520 million in 2009 and a membership of 1,652 farmers in 33 states and three Canadian provinces. In 2008, there were 12,941 certified organic producers in the United States, according to the USDA Economic Research Service. There are certified organic farmers in all 50 states.

Although some skeptics predicted that organic food was a passing fancy, four OPMCs have now each been operating for longer than 20 years:

- Organic Valley of LaFarge, Wis., was originally organized as the Coulee Region Organic Produce Pool in 1988. Organic Valley produces milk, soy, cheese, butter, spreads, creams, eggs, produce and juice, which are sold in supermarkets, natural foods stores and food cooperatives nationwide.
- Deep Root Organic Cooperative, headquartered in Johnson, Vt., was founded in 1986. It consists of 19 member vegetable farms from throughout Vermont and the eastern townships of Quebec.
- Tuscarora Organic Growers was established in 1988. Today, it has 28 fruit and vegetable farm members from South-Central Pennsylvania.
- Finger Lakes Organic Growers Cooperative of Rose, N.Y., was organized in 1986 as a wholesaler of fruits, vegetables, herbs and nuts. It has 17 member farms.

These four OPMCs stand out as successful examples of organic farmers effectively marketing through cooperative associations. Their longevity is remarkable in the relatively young and turbulent organic sector.

OFARM fills bargaining role

Some OPMCs have been organized to increase member market power through bargaining and information-sharing. The Organic Farmers Agency for Relationship Marketing (OFARM)

is an association with eight OPMC members. It is an information-sharing cooperative that does not directly negotiate prices or contract terms for its member co-ops. But it allows individual cooperatives to act in concert as they price and market products.

Thus the market power of each individual cooperative is enhanced because buyers are prevented from playing the marketer for one cooperative against that for another. OFARM collects information on inventories, production, marketing and pricing, then shares this information with its members.

OFARM members have recently confronted a very challenging market situation with escalating input costs, the global economic crisis, a softening of organic sales, unfavorable weather and some quality and storage issues.

At its March 2010 annual meeting, OFARM leaders said they would focus on increasing communication with organic farmers, enlisting more membership and improving target prices. Their strategy is to educate the organic sector on the importance of a marketing plan.

Its 10-year track record shows that the financial performance of OFARM members has been in the upper third of the marketplace.

One of OFARM's members — the Kansas Organic Producers Association — is a bargaining cooperative for about 60 organic grain and livestock farmers located primarily in Kansas, with some members also in bordering states. KOP's purpose is to help build markets for organic grain and livestock and to represent its members in negotiating sales and coordinating deliveries of organic products. These two kinds of cooperatives complement each other in promoting grower market power.

Co-op model used in many ways

Since the 1991 survey, organic farmers have used the cooperative business model in a variety of

innovative ways. With the rapid growth of community supported agriculture (CSA) operations, some CSAs have joined with others in OPMCs to lower their production risk, diversify their offerings to consumers and extend their seasons.

Cooperative CSA operations have been established in Washington, Ohio, New York and Pennsylvania.

Some OPMCs specialize in a specific product — such as almonds or cotton — while others have a broader commodity focus in grains, dairy and livestock products or produce. A few OPMCs are distinguished by the nature of their membership, such as the Amish or a specific minority group.

Some OPMCs were organized with significant outside assistance. Among the organizations that have provided such help are the National Farmers Organization, Rocky Mountain Farmers Union Cooperative Development Center, New Mexico Department of Agriculture and New Mexico State University Cooperative Extension.

Over the past few decades, USDA Rural Development, through its Business and Cooperative Programs, has also provided several OPMCs with both financial and technical assistance.

Some of these co-ops are in the very beginning stages of organizing, while others are over 20 years old. Some have membership from all over the country, and even Canada, while others have only local members.

Organic farmers are marketing through cooperative associations more than ever. Beyond this, many more agricultural cooperatives have both conventional and organic farmer members. In the 20 years since the Organic Foods Production Act of 1990 was passed and USDA organic certification was authorized, OPMCs have grown along with the organic market by almost all measures.

OPMCs have performed all of the same functions as their conventional counterparts. It will be interesting to see what the next 20 years holds. ■



Dilland built stronger MMPA, able to adapt to market trends

Editor's note: This article is reprinted from the annual report issue of "Michigan Milk Messenger," the membership magazine of the Michigan Milk Producers Association.

For three-and-a-half decades, Michigan Milk Producers Association (MMPA) has benefited from the steadfast and dedicated leadership of John Dilland. He has successfully led MMPA through a continuously changing path. MMPA's journey through volatile markets, changing leaders and evolving industry issues was guided by a man with the integrity and intelligence needed to be successful for generations.

As the controller, director of finance and then the general manager of MMPA, Dilland's leadership ability helped direct the cooperative through some challenging times. As the largest milk marketing cooperative based in Michigan, MMPA has a great deal of influence on the milk marketing climate within the Great Lakes region. As the "numbers man" behind the cooperative, Dilland helped shape MMPA into one of the most financially stable cooperatives in the country.

Dilland's initial challenge when he began his career at MMPA was to restructure the balance sheet of the cooperative. He then helped lead the transition from the fluid market into a high-quality line of value-added dairy products. This move, coupled with streamlining plant production, strengthened the overall economy for Michigan dairy farmers. The overall effect generated additional earnings, which gave the cooperative the ability to pay higher premiums to members.

While he was serving as the director of finance, Dilland helped craft one of the first dairy cooperative partnerships with Leprino Foods Inc. This initial agreement helped both parties become successful in Michigan. The MMPA-Leprino partnership helped assist MMPA in becoming more diversified and, ultimately, financially stronger.

In 2003, Dilland was appointed MMPA's general manager. Since taking over the leadership reins of the cooperative, he has again worked to fine-tune the cooperative's marketing structure. In 2005, another landmark arrangement between Leprino Foods, Dairy Farmers of America and MMPA was

John Dilland, left, on a recent visit to a member's farm. Photos courtesy Michigan Milk Producers Assoc.



Galarneau new MMPA leader

Clay Galarneau has been selected as the new general manager of Michigan Milk Producers Association (MMPA), succeeding John Dilland. Co-op President Ken Nobis announced the selection at MMPA's annual meeting. Galarneau is a 25-year employee of the cooperative, having served in the accounting and sales departments, and most recently serving as director for manufactured product sales and plant operations.

"Clay has a strong financial background and has led a successful manufactured products sales team that has expanded sales and increased returns to the dairy farmer members of MMPA," said Nobis. "He has supervised the co-op's manufacturing plants and most recently has led the MMPA team responsible for planning and implementing the successful expansion of our plant at Ovid. We are confident that Clay will manage our cooperative in a manner that will continue to build on the successes we have enjoyed in the past."

Galarneau was chosen from a slate of six candidates following an executive search led by a Washington, D.C.-based executive search firm that specializes in cooperative, agricultural and food industry businesses.

Founded in 1916, MMPA is owned and controlled by more than 2,100 dairy producers in Michigan, Indiana, Ohio and Wisconsin. ■

signed, further solidifying the milk-supply agreement. As he gets ready to leave MMPA, a new chapter of milk processing at the MMPA Ovid plant will begin.

Dilland's ability to project long-range goals in a turbulent business environment has allowed the cooperative to take advantage of changing market trends without sacrificing the cooperative's mission to market members' milk to the greatest possible advantage.

His leadership abilities have also been tapped by national organizations. He has served in leadership capacities on several national organizations, including the National Council of Farmer Cooperatives, National Society of Accountants for Cooperatives and the National Milk Producers Federation. On the state level, he served on the board of directors for the Michigan FFA Foundation and Michigan Dairy Memorial and Scholarship Foundation.

The members and employees of MMPA will miss the leadership, experience and friendship Dilland has provided this past 35 years. We wish him and his wife, Barb, well in retirement. ■

Newsline

Co-op developments, coast to coast

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

SDWG launches \$66 million project

South Dakota Wheat Growers (SDWG) has begun work on a \$66-million project to add grain drying, storage and receiving capacity at 11 of its facilities in South Dakota and North Dakota. The project will double the cooperative's system-wide drying capacity, increase its storage capacity by 12 million bushels (or 21 percent) and increase its grain-receiving capacity by 2 million bushels per day (or 30 percent).

The project will also create two new shuttle-loading facilities in Roscoe and Andover, S.D. The new shuttle loaders will relieve pressure on SDWG's existing shuttle loaders, reduce producer costs and provide better access to grain markets, says Roger Hansen, vice-president of business development for the cooperative.

All construction is expected to be completed in time for row crop harvest this year.

South Dakota Wheat Growers has plans to add capacity at Highmore and Melette, build a new shuttle loader at Tulare and add more bin storage at Wolsey in 2011 or 2012. South Dakota Wheat Growers is the nation's 12th largest grain handler and has more than 5,000 active members.

Southern States reports sales of \$1.8 billion

"Not many companies will look back on 2009 as a year they care to remember. But for Southern States, it is a year we will reflect on with pride," Southern States CEO Thomas Scribner and Chairman John East said in the co-



2010 Hall of Fame Inductees

The latest Cooperative Hall of Fame inductees, seen here May 5 during the induction ceremony at the National Press Club in Washington, D.C., are (from left): Glenn English, CEO of the National Rural Electric Cooperative Association, for championing sweeping changes to the electric co-op financing program and improving life in rural America; Yemi Demmelash, accepting on behalf of her late husband, Werqu Mekasha, who helped to revitalize ag co-ops in Ethiopia; Larry Blanchard, who helped to shape today's credit union landscape; David Thompson of Twin Pines Cooperative Foundation, for advancing the causes of co-ops in many sectors. Photo courtesy Cooperative Development Foundation

op's 2009 annual report. While Southern States sales dropped from \$2.1 billion in 2008 to \$1.8 billion in 2009, they lauded the co-op's employees for making the best of what was a very stressful year for agriculture as the economic recession played havoc with many markets.

The drop in sales for the regional farm supply and services cooperative was primarily the result of decreased sales of fertilizer and dramatic increases in petroleum prices. But the co-op's other major divisions — retail, feed, farm and home, and Agway — generally maintained sales at near 2008 levels.

Earnings before taxes, depreciation and amortization dropped from \$82.5 million in 2008 to \$44.3 million for

2009. Devaluation of fertilizer was the major reasons for the decline. Fertilizer sales volume dropped from 1.2 billion tons in 2008 to 846 million tons. Feed sales dropped from 979 million tons in 2008 to 838 million tons, and petroleum sales slipped from 290,000 gallons to 282,000 gallons.

Some of the highlights of the year cited in the report include:

- Fourteen stand-alone retail petroleum stations were transferred to the Retail Operating Division, helping to create staff efficiencies and to consolidate facilities and equipment;
- Pet food sales climbed 9.3 percent. Southern States' new branded dog and cat food line was expanded to offer a wider assortment of products. New

formulas and packaging were also adopted.

- A new customer service program called “Will Your Customer Recommend You?” was launched to help gain market share through member recommendations.
- Customers using Global Positioning Satellite (GPS) technology for nutrient applications expanded by 128,000 acres, to more than 250,000 acres. Plans are to expand retail locations offering GPS services from 15 to 25 this year. Farmers save money with environment-friendly GPS technology because applications are more precise, based on actual crop needs.

Ag co-ops have billion-dollar impact in Texas, study finds

A Texas AgriLife Extension Service study that sampled 96 agricultural cooperatives across the state found that the co-ops generate \$1.7 billion in annual sales and create 20,000 jobs. Agricultural cooperatives, which provide everything from livestock feed to apparel, are vital to rural economies,

says Dr. John Park, AgriLife Extension Service economist, and Roy B. Davis, professor of agricultural cooperation. The economic values co-ops generate would be higher “if you considered more than the operational activities” that support the selling of goods and services, Park notes.

“People don’t realize how valuable that little [co-op] is out there on the highway, selling feed and other supplies to a local, rural economy,” Park says. “I really believe the cooperative structure will be the last thing in rural Texas to go away.”

“They [co-ops] are the backbone of rural Texas,” adds Jonathan Baros, Extension program specialist, who co-authored the study with Park and Dr. Rebekka Dudensing, AgriLife Extension economist.

The Texas Agricultural Cooperative Council commissioned AgriLife Extension to conduct the study. “We initiated this study so that we could do a better job of telling our story,” said Tommy Engelke, president of the Texas Agricultural Cooperative Council. “Many don’t realize the multiplier effect an agricultural cooperative has. Not only do agricultural cooperatives

provide goods and services to produce food and fiber, but they also have tremendous spinoff effects in term of job creation.”

Of the 20,000 Texas jobs supported by ag cooperatives, every two of those jobs in turn support five more jobs in the economy, according to the study. When considering only retail sales, warehousing and store-front activities, the cooperatives in the study accounted for more than \$631 million in additional sales across the economy for 2007.

“These sales increased the region’s value-added or gross domestic product component by \$233 million, income by \$117 million and employment by 2,001 jobs for 2007,” Park says. The study also found that 30 cooperatives were among the top three property tax-paying entities in their counties.

Park says the study found that cooperatives provide an additional 9.2 percent to total output when compared to non-cooperative businesses. “Also, we found an additional 11.6 percent in value added to the economy and an additional 82.8 percent to personal income when compared to a traditional corporate structure that is less likely to

AGP’s extraction capacity at its soy-processing plant in Hastings, Neb., was expanded with an upgrade project last year. Photo courtesy AGP

Despite market challenges, AGP enjoys strong earnings

Amid one of the most challenging operating environments in its 26-year history, Ag Processing Inc. (AGP) generated excellent cash flow in 2009, which turned out to be one of its top years for earnings, CEO Marty Reagan reported at the Omaha, Neb.-based co-op’s annual meeting in January.

AGP had \$3.38 billion in sales in 2009, generating cash flow in excess of \$127 million. Earnings from operations (before income taxes) were \$66.8 million in fiscal 2009, with cash patronage of \$21.8 million returned to members. Over the past five

years, AGP has returned more than \$221 million to its members. Due to a new interpretation of a ruling on Section 199 of the tax code, AGP was also able to pass through \$32.4 million in tax deductions to members.

AGP is the world’s largest farmer-owned soybean-processing cooperative and is a leading supplier of refined vegetable oil. Its members include 184 local and five regional cooperatives representing more than 250,000 farmers throughout the United States and Canada.

Board Chairman Brad Davis said that



retain its income at a local level.”

The 96 cooperatives studied provide services to members in an area of 130,435 square miles — nearly the size of Montana, Park says. “They have the potential to impact the lives of 8.2 million people or about every one of three Texans.” For more information, visit: <http://cooperatives.tamu.edu>.

Farm Credit net income tops \$2.8 billion in 2009

The Farm Credit System (System) reported combined net income of \$2.85 billion for 2009, down from \$2.9 billion in 2008. The 2.3 percent decrease (\$66 million) resulted from an increase in the provision for loan losses of \$517 million, an increase in non-interest expense of \$142 million and an increase in the provision for income taxes of \$42 million, which was largely offset by an increase in net interest income.

Net interest income was \$5.39 billion in 2009, an increase of \$690 million (or 14.7 percent) compared to \$4.70 billion in 2008. Average earning assets grew \$8.62 billion (or 4.4 percent), to \$203.45 billion for 2009.

“The System’s ability to deliver a solid performance and maintain a

strong financial position in this challenging environment reflects the System’s efforts to actively manage the credit quality of its loan portfolio and to follow conservative asset/liability management practices while continuing to strengthen its capital position,” says Jamie B. Stewart Jr., president and CEO of the Federal Farm Credit Banks Funding Corporation.

Capital as a percent of assets grew from 12.7 percent in 2008 to 13.9 percent in 2009. The net interest margin increased 24 basis points, to 2.65 percent for 2009, compared with 2.41 percent for 2008.

The Farm Credit System recognized provisions for loan losses of \$925 million for 2009 and \$408 million for 2008, reflecting the adverse impact of stress in the general economy on ag borrowers.

Robert Beasley remembered

Robert L. Beasley, 81, the first American to head the International Cooperative Alliance (ICA), the world’s second-oldest and largest non-governmental organization (behind the International Red Cross and Crescent), died March 11 in Ohio, the *Columbia*

Daily Tribune reported. Beasley was a graduate of the University of Missouri School of Journalism and worked for the *Columbia Daily Tribune* in the 1950s. He was a longtime executive at Farmland Industries in Kansas City, from which he took early retirement in 1984 to take the helm at ICA, which he continued to lead until 1988.

Because the ICA included cooperatives from both sides of the then-crumbling Iron Curtain, it was a stormy and difficult time for the organization, which began in the 19th century, according to the *Tribune*. By the time Beasley stepped down as director in 1988, the organization’s deficit had been reversed and the staff had become professional and skilled.

He was ICA’s director emeritus 1988-1989. Much of the year was spent at The World Bank in Washington where he worked to improve the bank’s cooperative policies and procedures.

While working for Farmland, he became a board member of the National Cooperative Business Association, twice serving as its chairman. He helped the association establish the National Cooperative Bank, which has become a vital force in

this year’s earnings, patronage refunds, equity redemptions, cash flow and tax deductions represent a “great cooperative success story.” In his address at the annual meeting, Davis stressed sustainability and the importance of communication with members.

“Communication is not only informing you about the business of your cooperative, but — more importantly — listening to your expectations and what we can do to bring value back to your cooperative,” he said.

While the year started out strong, with excellent market conditions carried over from the summer of 2008, market fundamentals then began to shift for the worse as high prices hurt demand. The

two sectors representing the majority of domestic soybean meal demand — the poultry and swine industries — were hit extremely hard, and dairy also suffered from falling milk prices and higher input costs.

Refined soy oil demand was down 15 to 20 percent due to lower biodiesel demand and a drop in the consumer “casual dining” sector, he reported. “AGP met the protein and soy oil demand challenges by adjusting crush and refining schedules to operate at a level that matched market demand,” said Meyer.

AGP is involved in ethanol and soy biodiesel production, and — along with the rest of the renewable fuels industry — it encountered extremely difficult market

conditions in 2009. John Campbell, senior vice president for industrial products and government relations, noted that ethanol demand has grown, but plant capacity has grown faster, leading to poor margins, although they improved in the first quarter of fiscal 2010.

AGP completed a waste-water treatment facility, a corn oil-recovery system and a methane-recovery system at its corn-processing plant in Hastings, Neb. AGP’s biodiesel operation was well positioned early in the year to remain profitable and generate solid flow, Campbell said, noting that this was a major accomplishment, given the difficult market in 2009. ■

modern cooperative development in the United States.

He was also vice chairman of the Kansas City Philharmonic Orchestra, served on the board of the Kansas City public television station and was on the boards of the Kansas City United Way and Kansas City's first cable television company. Beasley was an adjunct professor in the University of Missouri Peace Studies program and retired in 2009. Tributes can be left online at: www.memorialfuneralhomeandcemetery.com.

USDA grants promote rural development

Agriculture Under Secretary for Rural Development Dallas Tonsager in April announced that USDA is accepting applications for business and community development grants to help rural communities create wealth, attract more residents and become economically self-sustaining. The funding is being provided through USDA Rural Development's Rural Business Opportunity Grant (RBOG) program, which provides grants for technical assistance and planning activities to improve economic conditions in rural cities or towns of 50,000 people or fewer. Cooperatives are among the eligible applicants.

"These grants can be the foundation for implementing the President's vision of developing initiatives that emphasize expanding exports, linking farm production to local consumption, producing biofuels and renewable energy, capitalizing on broadband and innovatively using natural resources as wealth-building tools for rural places," Tonsager said.

Funding under the RBOG program can be used to pay for economic planning, technical assistance and training for rural communities, entrepreneurs or economic-development officials. The amount of funding available is \$2.48 million. Applications are due June 28, 2010. More information on how to apply for an RBOG, visit: www.rurdev.usda.gov/rbs/coops/rbog.htm

To be eligible for funding, an applicant must be a public body, nonprofit corporation, Indian Tribe or cooperative with members that are primarily rural residents. Applicants must also have significant expertise in the activities proposed and the financial strength to ensure the objectives of the proposed grant can be accomplished.

Local co-ops approve mergers

Patrons of Farmers Co-op Grain of Britton, S.D., have approved a merger with Wheaton Dumont Cooperative Elevator, in Wheaton, Minn., according to a report in the Marshal County Journal. The merger, which became effective May 1, was approved on a vote of 117 to 3.

Approval of the merger opens the door for the possible construction of a 110-car rail-loading facility in Britton, with a loop track just southwest of Britton, assuming agreements can be reached with a railroad, the newspaper reported.

In Nebraska, Farmers Cooperative Association stockholders have approved a merger with Cooperative Producers Inc. in Hastings, according to the Associated Press. Farmers Cooperative has locations in Red Cloud, Franklin, Lawrence, Clay Center, Nelson, Superior and Blue Hill.

Mooney new chairman at DFA

Randy Mooney has been elected board chairman by the Dairy Farmers



Randy Mooney

of America Inc. (DFA), filling the position formerly held by Tom Camerlo, who died in December. Mooney, of Rogersville, Mo., most recently served as first vice chairman of the DFA board.

Mooney is also a member of DFA's Executive Committee and chairs the Southeast Area Council. In addition, Mooney is chair of National Milk Producers Federation and serves on the boards of the Missouri Dairy Association, Missouri State Milk, Southern Marketing Agency, Dairy Cooperative Marketing Association Inc., Milk Processor Education program and Dairy Promotion Inc.

"Randy has a strong history of leadership in the dairy industry, and I know that he will continue that tradition as he takes on this new role for the DFA board," says Rick Smith, DFA president and chief executive officer.

The board has also named Wayne Palla, of Clovis, N.M., as first vice chairman. He previously served as vice chairman of DFA's board.

UVEC celebrates wind-power project

Unalakleet Valley Electric Cooperative (UVEC) celebrated the completion of its six-turbine wind power installation in Alaska through the launch of a Web portal that provides opportunities for the public to monitor the project's energy production. UVEC's 600 kilowatt wind-power installation was completed in November 2009 and is one of the first implemented through the financial support of Alaska's Renewable Energy Fund, a \$250 million grant program designed to support renewable energy projects.

UVEC's wind farm, developed and constructed by Anchorage-based STG Inc., was built over a four-month period last summer. The project is expected to deliver 1.5 million kilowatt hours of wind-generated electricity to UVEC annually, which is about 35 percent of the community's electricity needs.

The six-turbine array is connected

into UVEC's existing distribution system and the utility's diesel-powered generation facilities. The project has been online since November and has produced enough electricity to save 21,000 gallons of diesel fuel for the Unalakleet member-owned cooperative.

"Like most all rural Alaska utilities, we have seen a dramatic increase in the delivered price of our primary fuel source — diesel — over the past five years," says Ike Towarak, general manager of UVEC. "The wind installation will help us be better prepared to manage ongoing operational costs at the utility."

The wind project is fully operational but will be running at a reduced capacity until UVEC's new power plant is completed later this year. The project used Northwind 100 wind turbines from Vermont-based Northern Power Systems.

The Web portal was launched primarily to support educational opportunities by illustrating how the wind-generated electricity from UVEC's wind system is being used in the community. The portal will also support the implementation of hands-on and interactive curriculum designed to teach Unalakleet students about wind energy systems. The curriculum is under development but is being modeled after the National Renewable Energy Laboratory's Wind for Schools program.

Strong sales for Agri-Mark boost member returns

Agri-Mark, a major Northeast dairy farmer cooperative, has announced a profit after taxes of \$14.9 million for 2009. The co-op rang up \$655 million for the sales of its milk and cheese last year, which include the Cabot and McCadam cheese brands.

The importance of Agri-Mark having its second best operating results ever — as well as \$17.5 million in market premiums paid to members throughout the year — was crucial for members in a year that saw farmgate milk prices plunge, the co-op says.

"It was a terrible year on the farm,



Co-op employee Reed O'Daniel helps load bags of alpaca fiber donated by the Alpaca Fiber Cooperative of North America to help clean up the oil spill off the Louisiana Coast. This compost-grade fiber can't be used for the clothing products made from higher grade alpaca fiber, but it is still extremely absorbant. The fiber was placed in mesh-tube booms to help absorb the oil spills. Photo by Jason Reynolds, courtesy *Daily Post-Athenian*

but fortunately 2009 was a very good year for Agri-Mark; we generated \$14.9 million in year-end profits, from which we returned \$5.6 million in cash back to our members," says Agri-Mark CEO Paul P. Johnston. Because the business was profitable throughout the year, the co-op was able to make two cash payments to farmers even before year-end, during a time when farm families badly needed income.

Agri-Mark's year-end profit allocation to its 1,250 dairy farmers from New England and New York is 45 cents per hundredweight, or roughly 3 cents per gallon for all of the milk each farm family marketed through the cooperative during the 2009 calendar year. This represents earnings of roughly \$9,000 for the average Agri-Mark member milking 100 cows.

Agri-Mark's CEO says the financial results are particularly satisfying

because during the past three years the business has generated \$45 million in year-end profits in periods of both high and low milk prices and in up and down economies. "The strength and diversity of our farmer-owned business is evident," says Johnston.

USDA expands support for broadband

Agriculture Secretary Tom Vilsack in March announced the selection of broadband infrastructure projects to give rural residents in eight states access to improved economic and educational opportunities. Funding for the projects is being provided through the American Recovery and Reinvestment Act of 2009 (ARRA). In all, \$150 million will be invested in 12 projects through funding made available by Congress in the ARRA.

An additional \$68.2 million in private investment will be provided in matching funds, bringing the total funds invested to \$218.2 million. As of late March, \$1.05 billion has been provided to construct 67 broadband projects in 30 states and one territory.

For example, in the Sonoran Desert of Arizona, the Tohono O'odham Utility Authority (TOUA) has been selected to receive a \$3.6 million loan and a \$3.6 million grant to design, engineer and construct a digital network to replace dial-up service. This project will provide services throughout the Tohono O'odham Reservation using fiber-to-the-premises (FTTP) and fixed wireless broadband.

In the rural towns of Madison and Lamont, Kan., Madison Telephone LLC (MTC) was selected to receive a \$3.5 million loan and a \$3.5 million grant to design, engineer and construct an FTTP network. This project will improve the existing copper-based network that currently limits average customer service speeds. MTC will upgrade this network to FTTP facilities and technologies, thereby eliminating this last mile limitation. More information about USDA's Recovery Act efforts is available at: www.usda.gov/recovery. ■

A Legacy of Cooperation & Innovation

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which would eventually grow into the No. 1 export market for California almonds. A short crop in Europe had opened the door to California's surplus almonds. The cooperative tested the market with a small shipment, found a good reception and discovered that some buyers preferred the California nuts because of the soft shell and high quality. This sale set the stage for rapid expansion of export markets following World War II.

One of Blue Diamond's most successful innovations — and one that prepared the way for tremendous growth in consumption worldwide in the decades to follow — occurred beginning in 1940. Needing a way to win back customers who had been lost to high prices following two short crops, D. R. Bailey, the co-op's general manager, took advantage of the U. S. government's New Deal program to improve nutrition in America.

Bailey believed that "tremendous benefit can be obtained from the widespread dissemination of an almond nutritional story." Blue Diamond had used the nutritional story in a modest way in years past to promote almonds, but the science of nutrition had evolved and new studies were needed to update the nutritional story on almonds.

Blue Diamond engaged the California Foods Research Institute to make a complete analysis of the nutritive values of almonds, which determined that almonds are rich in vitamins, minerals, protein and energy-producing fats. The co-op took the story to the media, cooking schools and nutrition classes all across America, as well as to the U.S. military and scientific publications.

Soon afterward, the U.S. government granted almonds an "essential food" status, which gave Blue Diamond and almond growers special access to materials and supplies during World War II. The public image of almonds was forever enhanced and the

foundation was laid for future campaigns based on nutrition.

Post-war almond boom

The post-war era saw almond production boom as growers mechanized their production with mechanical tree shakers and almond sweeping and pick-up machines. They planted orchards in fertile bottomlands and added improved irrigation systems. To cope with the surge in supply, Blue Diamond created new products and more appealing packaging to build retail sales.

One of the most popular and enduring products introduced was the 6-ounce tin of Smokehouse Almonds. To increase sales of its popular line of consumer products, Blue Diamond started a gift-pack business and opened retail stores in several California cities.

In the plant, Blue Diamond engineers and technicians continually developed more efficient equipment and processes that increased output, lowered costs, produced a steady flow of new products and raised quality levels. Electric-eye sorters, faster packaging machines, new roasting and drying equipment and bulk delivery and storage revolutionized almond processing and handling.

Co-op seeks marketing order

Pursuing all avenues to deal with rapidly growing crops, Blue Diamond lobbied hard for an amendment to the Agricultural Adjustment Act to include almonds. In June of 1949, President Harry Truman signed the bill to make almonds and filberts eligible for federal marketing programs. California almond growers overwhelmingly approved the marketing order.

Blue Diamond hoped an almond marketing order would enable the industry to bring supply into balance with demand through set asides and to set import quotas on the flood of cheap almonds arriving each year from Europe.

Quotas were finally approved in 1951, and set asides as high as 25 percent of the crop helped balance supply from year to year. Production continued to soar, however, rocketing up 375 percent in just over a decade.

Encouraged by the new machinery that improved yields and took much of the drudgery out of producing and harvesting, growers continued to plant new orchards. Throughout the 1940s and 1950s, almonds were the fastest growing deciduous tree crop in California.

In the 1960s, Blue Diamond pioneered almond paste and almond flour, two important ingredients for food manufacturers. The association also offered buyers more than 40 blanched, sliced, diced and roasted almond products — all produced with equipment and processes developed by Blue Diamond staff.

A revolutionary new shelling system, developed and perfected by Blue Diamond, was shared with grower-owned hulling and shelling cooperatives, helping to lower their costs and increase the quality of nuts and meats delivered to the co-op.

On the marketing front, Blue Diamond stepped up its export sales development, opening markets around the world to provide an outlet for ever-increasing crops. A sales coup put Blue Diamond Smokehouse Cocktail almonds on every major airline.

In the 1970s, American consumers discovered health foods. Blue Diamond jumped on the bandwagon, marketing its almonds as a health food to cereal makers, trail mix and energy bar producers and directly to consumers. In 1982, Blue Diamond almonds were launched into outer space aboard the Columbia space shuttle. In 1984, the co-op introduced the first almond cookbook to be published in the United States.

Throughout the 1980s and 1990s, Blue Diamond's research department pumped out a string of new snack almonds and products for the food service and manufacturing trades. All of these efforts expanded the market for

almonds as bigger and bigger crops poured in.

Expanding its market horizons to special needs populations, Blue Diamond developed Nut*Thins, a gluten-free snack cracker, and Almond Breeze, a lactose-free beverage based on almonds and rice. Both product lines were hits with the retail trade.

As the 2000s arrived, new emphasis was placed on the co-op's growing retail business, giving rise to numerous new products in the snack and natural foods categories. Snack almonds for different age and ethnic groups were developed with great success; unsweetened Almond Breeze appealed to those who avoid sugar and new flavors of Nut*Thins broadened the line's appeal.

With nutrition again top of mind for consumers in the 2000s, Blue Diamond advertising and product promotions built around the qualified health claim labeling granted by the U.S. government to California's almond industry. Consumers worldwide responded as retail sales doubled and

doubled again.

Meanwhile, innovative products for domestic and export markets, along with more sophisticated processing techniques that sorted out the best meats for premium sales, elevated product values in the industrial side of the business.

The future

Blue Diamond's founders back in 1910 would undoubtedly be amazed to see how the California almond industry has blossomed, and their crop has grown from under 5 million pounds in those early years to a crop that now tips the scales at over 1.5 billion pounds and accounts for over 80 percent of the world's almond supply. They would also be gratified to know that the co-op they founded still leads the industry in the 21st century.

No longer just a holiday treat, almonds are today an important part of the American diet, and of consumers around the globe. Those co-op pioneers would be amazed that sales of branded

products in the last decade alone increased an amazing 600 percent, due in large part to Blue Diamond's work with the natural foods market.

"In the years ahead, Blue Diamond will continue to develop new products and technologies and use the expertise gained in its century in the business to open new markets at home and abroad for almonds. It will do this while ensuring that growers are the major beneficiaries of the value their co-op adds to the crop," says Doug Youngdahl, the co-op's current president and CEO.

On its 100th birthday, Blue Diamond remains a prime example of what farmers can accomplish if they stand united and invest their resources and time to build a strong value-added business with top-notch management, governed by a board of growers with strong business skills and who never lose sight of their ultimate responsibility to the membership. ■

Celebrating the greatest public-private partnership

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for rural America. Co-ops use these funds to build and maintain distribution lines, make upgrades to substations and transformers, improve environmental performance at generation plants, install natural gas-fired and renewable generation and foster energy-efficiency efforts.

One cooperative in Colorado, for example, is using funds to finance the underground loops for residential geothermal heat pumps. A cooperative in South Dakota is lending RUS funds to consumer members to pay for energy audits and efficiency improvements. The 5-percent interest loans are paid back to the cooperative within five years.

The recession has hit rural America hard. Cooperatives will continue to work hard to keep rural communities viable. The Rural Economic Development

Loan and Grant Program (REDLG) can assist co-ops in this goal.

Too often, critics have made attacks on these programs that are not based on facts. We have, perhaps, made their job easier by neglecting to tell this story as it should be told. As our leaders struggle for answers in an uncertain economic environment, perhaps they should take a second look at the partnership between people and the government. ■

Commentary

continued from page 2

America.

To build this companion economy, we need rural communities that:

- Create wealth
- Are self-sustaining
- Retain their citizens

- Thrive economically.

Cooperatives, and their members, can — and must — play a crucial role in all four of these goals.

In early June, I hosted a National Summit of Rural America: A Dialogue for Renewing Promise on the campus of Jefferson College, near St. Louis, Mo. It was an opportunity for rural residents, including cooperative

members, to share their vision for creating a more prosperous and promising future for rural America. The meeting was a step in the continuing discussion of how USDA and cooperatives can continue their decades-long partnership and create a new, vibrant rural America. I look forward to continuing this mutually beneficial dialogue. ■

Uniquely Cooperative: Equity Redemption

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blank response in 2008. In 2008, the most common age used by local cooperatives for redemption was 65 (23 cooperatives), with age 70 ranking second (20 cooperatives). Forty-three cooperatives used the same age in both studies, while 21 now have a lower age; 15 co-ops use a higher age for redemption.

- In 2008, 22 local cooperatives said they use a base-capital plan for equity redemption, compared to 6 in 1991.
- Only four local cooperatives in both 2008 and 1991 said that they did not redeem equity in the current year because only small amounts, or no allocated equities, were held by patrons. Little or no allocated equity was given as the reason for not redeeming equity by 112 cooperatives in 1991, while only 16 gave that reason in 2008.
- Eleven cooperatives were financially unable to redeem equity in the current year in both 2008 and 1991. About an equal number of cooperatives (though not the same ones) were financially unable to redeem equity: 57 in 2008, and 65 in 1991.

With the economic recession of 2009, most experts are recommending that businesses maintain a stronger balance sheet, which means more equity financing. Cooperatives most often accumulate equity capital through net income allocated to members as patronage refunds. To strengthen their balance sheets with more equity financing in uncertain economic times, cooperatives may need to lengthen their equity redemption plans. ■

Table 2—Combinations of equity redemption methods for cooperatives reporting in both 2008 and 1991

Cooperatives and combination of redemption methods	Revolving Fund	Patrons' Estates	Patron's Age	Percent of All Equities	Base Capital Plan	Used Alone
		Percent				
Local cooperatives, 2008						
Revolving fund	100.00	47.69	16.67	9.72	4.17	94
Patrons' estates		100.00	40.87	17.31	4.81	32
Patron's age			100.00	15.63	3.13	29
% of all equities				100.00	5.36	9
Base capital plan					100.00	3
Total (Number)	216	208	128	56	18	
Local cooperatives, 1991						
Revolving fund	100.00	63.76	13.97	n.a.	0.87	81
Patrons' estates		100.00	35.90	n.a.	1.28	82
Patron's age			100.00	n.a.	0.00	4
% of all equities				n.a.	n.a.	n.a.
Base capital plan					100.00	3
Total (Number)	229	312	117	n.a.	8	
Regional cooperatives, 2008						
Revolving fund	100.00	15.38	7.69	46.15	15.38	5
Patrons' estates		100.00	33.33	100.00	33.33	0
Patron's age			100.00	100.00	50.00	0
% of all equities				100.00	11.11	2
Base capital plan					100.00	1
Total (Number)	13	3	2	9	4	
Regional cooperatives, 1991						
Revolving fund	100.00	33.33	13.33	n.a.	13.33	8
Patrons' estates		100.00	40.00	n.a.	0.00	0
Patron's age			100.00	n.a.	0.00	0
% of all equities				n.a.	n.a.	n.a.
Base capital plan					100.00	0
Total (Number)	15	5	2	n.a.	2	

n.a. = Not available for 1991

Capper-Volstead Q&A

continued from page 9

for the antitrust exemptions? An association of producers must meet the following two conditions: 1) It must be operated for the mutual benefit of its members insofar as they are producers of agricultural products; and 2) It must not deal in the products of non-members in an amount greater in value than such products that it handles for its members.

• **Are there any other requirements?**

Yes. Farmer cooperatives have a choice of conforming to one or both of the following requirements: 1) No member of an association is allowed more than one vote because of the amount of stock or membership capital owned, or 2) The association does not pay dividends on stock or membership capital in excess of 8 percent per year.

• **What are the limitations of Capper-Volstead?** Capper-Volstead provides *limited* anti-trust exemption. Thus,

Capper-Volstead will not protect farmer cooperatives if they: engage in predatory practices or unfair or coercive conduct; combine or conspire with non-cooperatives or persons other than producers to monopolize or restrain trade; allow non-producer members in the cooperative; or monopolize or restrain trade to the extent that the price of the agricultural product is unduly enhanced.

• **How is the general public protected?**

Capper-Volstead protects the general public against potential monopolization and restraint of trade. It states that if an association should monopolize or restrain trade to the extent that it unduly enhances prices of agricultural products, an administrative hearing can be held before the Secretary of Agriculture, and the Secretary can order the association to "...cease and desist from monopolization or restraint of trade."

• **Is Capper-Volstead still relevant?**

Capper-Volstead permits farmers to get together to collectively market their

products, which otherwise — in the absence of the Capper-Volstead Act — could result in antitrust action against them. Second, it protects the general public against undue price enhancement as a result of any monopoly position that a group of producers could otherwise legally achieve under the Act.

It is not hard to see why so many farmer cooperatives and their trade organizations are making their presence known at the competition workshops, where they are discussing the role of Capper-Volstead in the agricultural marketplace. It is an opportunity to educate the public about this law, and the importance of co-ops to the nation's farmers.

To view submitted comments and other presentations made at the sessions, visit: www.justice.gov/atr/public/workshops/ag2010/index.htm. If you have further questions about Capper-Volstead, contact Stephanie Smith at: stephaniem.smith@wdc.usda.gov. ■

Filling the Gap

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the associate director, is expected to be his successor.

The hope is that additional faculty can be hired to participate in the educational programs of the center as current faculty retire or leave, even though budget pressures will make this a challenge. A development campaign is currently underway to enhance the endowment fund and to create distinguished faculty positions to recruit and retain faculty.

Sources of success

The ACCC's 25th anniversary celebration event provided information about why, and how, the Center was organized, who was involved and what it has accomplished.

At the event, Barton said there are five key sources of the Center's past and future success:

- "First, people make the difference. Money was, and is, important, but much more important is the advice and involvement of leaders in the cooperative community.
- Second, the vision of the founders and their passion to see it achieved are critical.
- Third, partnerships and trusting relationships are essential. The written memorandum of understanding laid the foundation by promising service from the Center to the cooperative community, assuring autonomy to be creative and independent, and establishing a

system of accountability.

- Fourth, to achieve a challenging vision and mission requires more than people and partnerships. It also requires resources. The original endowment goal of \$1 million was achieved in 2002 and the current endowment stands at \$1.7 million. An ambitious development campaign is currently under way. In addition, monetary and non-monetary resources have been, and will need to be, provided by numerous partners.
- Fifth, all parties have expressed gratitude for what has been accomplished and agree the Center has been, and continues to be, good for K-State and for the cooperative community."

For more information about the Arthur Capper Cooperative Center, go to www.accc.ksu.edu. ■

Page from the Past

From the archives of *Rural Cooperatives*

50
YEARS AGO

From the June 1960 issue of *News for Farmer Cooperatives*

Farmers Exchange grows steadily over 30 years

Thirty years ago, in March 1930, 400 farmers organized the Farmers Mutual Exchange, Durham, N.C., with \$1,400 in operating capital and a \$10,000 line of credit. Since renamed Central Carolina Farmers Exchange Inc., this cooperative in 1959 did over \$21 million worth of business for its members and patrons. Marketing services accounted for \$10 million and purchasing for \$11 million of its business.

Over the years, the Exchange has added services to meet its members' needs. Through its eight service stores, farmers market hundreds of thousands of dollars worth of grain every year. These farmers own a total of 200,000 bushels of grain storage at Durham, Oxford, Roxboro and Siler City. They own and operate three feed mills: one at Durham, one at Siler City and a new custom-grinding and grain-storage mill at Oxford with push button operation.

In 1959 the co-op sold more than \$2.2 million worth of livestock for its members. At its well-equipped livestock market, it also operates an approved slaughter house and refrigerated chilling services.

Its hatchery, with a capacity of 200,000 chicks a week, furnishes over \$1 million worth of hatching eggs a year and supplies over 8 million chicks to broiler and market egg producers. Net investment of the 12,000 farmer members of the Exchange amounts to nearly \$3.6 million.

10
YEARS AGO

From the May/June 2000 issue of *Rural Cooperatives*

Saving an industry: plant closure leads Michigan growers to form turkey co-op

When the 25 turkey growers supplying the Sara Lee plant in Zeeland, Mich., received notice that they no longer had a market for their birds, tough decisions had to be made. With

no local market, these growers had to act quickly or suffer great losses due to transportation costs.

Like most farmers, these growers had weathered tight times in recent years. For some, the closure notice was the final hurdle and they left the business. But for 15 of them, this was just another challenge — another chance — to gain control of their business.

“It was really a blessing in disguise,” says Dan Lennon, chief executive officer and plant manager. “Many of the growers knew they would be better off and have more security if they owned their own processing facility. But until they actually lost their market, the option wasn’t seriously considered.

“Transportation is tough on the birds,” he explains. “They needed a plant close to their farms. We saw a significant mortality loss when the birds were hauled to facilities in other states.”

Forming a cooperative was the first step in creating a producer-owned processing business. In October 1998, just four months after receiving their cancellation notices, the growers formed the Michigan Turkey Producers Cooperative. The 15 members operate 40 farms in west Michigan and farm more than 15,000 acres.

Michigan State University (MSU) poultry economist Allan Rahn supplied necessary market analysis and feasibility studies. The Michigan Farm Bureau, MSU Extension, the Michigan Department of Agriculture and USDA Rural Development also stepped forward to help the cooperative.

Rahn reported that in 1998, western Michigan turkey growers had \$30 million invested in farm-related assets and were growing nearly 8 million birds a year. It is estimated that the turkey industry in western Michigan has an economic impact of \$60 million. Ernie Birchmeier, Michigan Farm Bureau commodity specialist, says feed consumption for 4 million turkeys each year equates to 50,000 tons of soybeans, estimated at \$6.5 million annually, and more than 4 million bushels of corn, valued at \$8.6 million annually. Additionally, more than 200 people are employed on the farms and 300 at the plant with a combined payroll of \$10 million. Over \$6 million a year is spent on purchasing poults.

The group received a \$95,000 grant from USDA Rural Development to conduct feasibility studies. The grant was part of USDA’s Rural Business Enterprise Grant Program.

This program is designed to help public bodies, non-profit corporations and federally recognized Indian Tribal groups finance and facilitate development of small and emerging private business enterprises located in rural areas.

Taking processing into their own hands was a good thing for the producers, says Harley Sietsema, the co-op's board chairman. "It forced us to look at where we were in the food

chain. I think it was just a matter of time, and we needed to do this anyway."

Currently the facility is equipped for strictly raw processing. The products from the Michigan plant will be marketed under the name "Legacy," or Golden Legacy for top products such as breast meat; Silver Legacy for second-tier products, such as thighs and drumsticks; and Legacy for the ground products.

Accompanying the brand and logo is

a history of the cooperative and the name. This story captures the long history of turkey production in Michigan and lists the members of the cooperative.

"I don't think people realize how close this industry was to being extinct in Michigan," Lennon said. "Without the diligence and the commitment of the turkey growers to raise additional capital, this dream never would have become a reality. ■

\$122 billion in '08 sales sets record for Top 100

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buildup of inventory value, which jumped \$3.5 billion, to \$12.9 billion in 2008. Farm supply, grain and diversified cooperatives had the largest increase, accounting for 86 percent of the increase. On the other hand, cash balances were down \$156 million, to \$988 million in 2008.

Asset values climb

Fixed assets increased \$585 million, or 7 percent, in 2008. Rice and sugar cooperatives were the only commodity groups that didn't increase their investment in fixed assets. Diversified and grain cooperatives accounted for the majority of the increase.

Current liabilities shot up 29 percent, ending 2008 at \$21.3 billion. With the exception of amounts due

members, all other accounts had substantial increases.

Amounts due members include cash patronage refunds, equity redeemed and other cash payment to members that have been declared but not yet paid out. All other current liabilities were up between 25 and 35 percent.

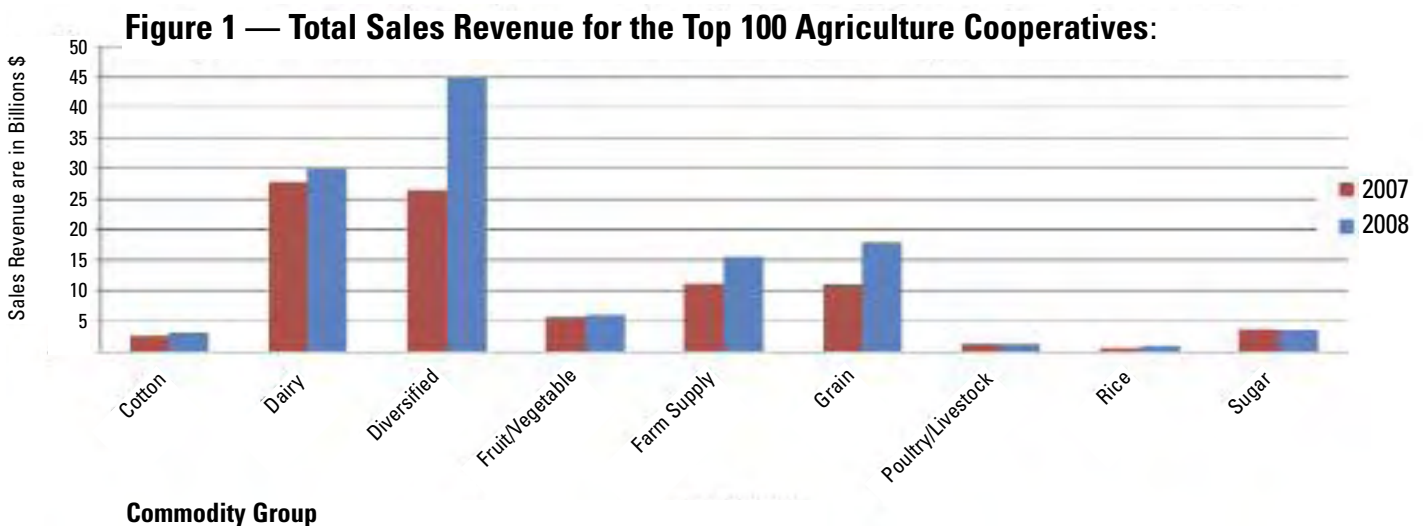
Long-term debt rose by \$1 billion, to \$5.7 billion at the end of 2008. This increase, along with an additional \$1.7 billion short-term debt, increased interest expense for most cooperatives.

Minority interest (the portion of a cooperative's subsidiary that is not owned by the cooperative itself) increased 5 percent in 2008, to \$498 million. Diversified and sugar cooperatives account for 85 percent of the Top 100's minority interest. The

outside interest has a claim to a subsidiary's assets and income generated by that entity.

Total member equity in the largest agriculture cooperatives increased 9 percent, to \$9.3 billion in 2008. Member equity includes preferred stock and common stock as well as equity certificates. Unallocated equity jumped 23 percent, to \$3.3 billion.

Buoyed by high commodity prices in 2008, the financial performance of the Top 100 agriculture cooperatives was, on balance, very strong, despite a downturn in the overall economy. The plunge back to earth in commodity markets in 2009 will show starkly different results for many of these same co-ops when we compile this article next year. ■



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