

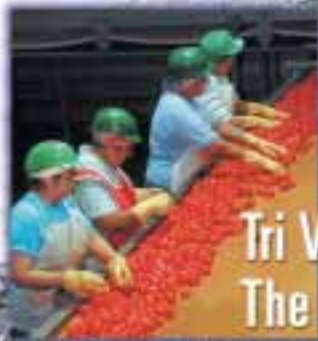
# Rural COOPERATIVES

USDA / Rural Development

September/October 2004

## Direct Access: Co-op port facilities forge links with world markets

page 14



## Tri Valley: The end of the line

page 20

## Committed to our communities

For the 74th time, the nation's 40,000 cooperatives will be celebrating National Cooperative Month in October. The celebration gives us a chance to share with the rest of the world what co-op members know: that user-owned and user-governed businesses are made to order for meeting a multitude of needs.

This year the theme is "Co-ops, Owned by Our Members, Committed to Our Communities." The Co-op Month Committee is urging co-ops to undertake some educational activity that helps publicize the impact their business has on the broader communities in which their members live and work and which are served by the co-op. You can cite jobs created, annual payroll, sales and property taxes paid, civic or charitable organizations supported, scholarship programs sponsored, something you've done to benefit the environment, etc. Brain storm for even an hour with some of your staff or directors and you'll be surprised at just how many ways your co-op benefits the communities in its service area.

Add in "big picture" numbers along with your "local" numbers to give the public an idea of the scope and impact of co-ops in your industry. For example, more than 3,000 farmer and rancher-owned businesses in the United States create more than 300,000 jobs with a payroll of \$8 billion. Sales of crops and livestock, value-added products and farm supplies and services provided by ag co-ops each year total almost \$100 billion. The utility, housing, credit and consumer co-op sectors all generate similarly impressive figures.

You can access a full toolkit of publicity-generating ideas — such as sample editorials, logos, etc. — that will help you with your activity at the National Co-op Month Web site: [www.coopmonth.coop](http://www.coopmonth.coop).

For activities, you can get handouts from USDA Rural Development by calling (202) 720-8381, or e-mail: [jon.hall@usda.gov](mailto:jon.hall@usda.gov). For an overview of co-ops (best for the general public) request the "Do Yourself a Favor, Join a Co-op" brochure. If you want something more in depth, ask for the "Co-ops 101" booklet. Both of these are good for all types of co-ops. For a complete list of co-op publications available



from USDA, visit: [www.rurdev.usda.gov/rbs/pub/newpub.htm](http://www.rurdev.usda.gov/rbs/pub/newpub.htm).

Co-op Month activities to consider:

- Hold an open house at your co-op, and have members and employees on hand to lead tours and talk about the business and why it operates as a co-op. Where appropriate, offer product samples. The latter can also be done in town, at a local grocery store, at a fair or carnival, or wherever appropriate.
- Have a member and/or employee visit a local classroom, FFA or

4-H chapter. Or sponsor a field trip to your co-op and (for ag co-ops) also have them visit a member's farm.

- Write a press release or an op-ed commentary for a local or regional newspaper (there are excellent examples on the [www.coopmonth.coop](http://www.coopmonth.coop) Web site).
- Work with the governor's or mayor's office to get a Co-op Month proclamation signed. If you want the governor to do it, work with other co-ops, possibly through your statewide cooperative association.
- Have employees and members undertake some public service volunteer activity, such as performing repairs on the home of an elderly person or needy family as a gesture of the "get-it-done-ourselves" mentality of cooperatives.

Some of you may be thinking, "we're just a small grain and farm

supply co-op, everybody already knows what we do." Remember, even in a rural town, many people may know what you do, but may be woefully ignorant of the fact that farmers actually own the business and why. And for most utility co-ops, Co-op Month is one more great opportunity to help your members realize they are not just patrons, but that they are the owners who ultimately govern it through the board of directors that they elect. ■

**Dan Campbell**, *Editor*

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## F E A T U R E S & N E W S



p. 4

**4 California ag tour gives U.S. trade rep crucial insight into state's export crops**



p. 8

**8 Great Escapes**  
*Agri-tourism co-op helping Georgia farmers diversify*

By Craig Scroggs



p. 14

**14 Direct Access!**  
*AGP has new Pacific port terminal*

By Jim Rodenburg



p. 20

**18 Backyard powerhouses**  
*"Green Tags" spur development of renewable power co-ops*

By Stephen Thompson

**20 The canning of Tri Valley**  
*What went wrong at Tri Valley Growers?*

By Richard Sexton

**26 Signs of Life**  
*Have you checked your co-op's education pulse lately?*

By Jim Wadsworth

**30 Three honored for communications excellence**

## D E P A R T M E N T S

- 2 COMMENTARY
- 11 LEGAL CORNER
- 25 FOCUS ON: ACCELERATED GENETICS
- 29 & 40 NEW CO-OP PUBLICATIONS
- 32 NEWSLINE
- 39 PAGE FROM THE PAST

### On the Cover:

AGP soybean meal is loaded at the Port of Grays Harbor, Wash., for transport to the Pacific Rim. Photo by Marc Sterling, courtesy Port of Grays Harbor. Inset photo: Peaches are processed for canning at Tri Valley Growers' plant in Modesto, Calif. Photo courtesy Modesto Bee.



# California ag tour gives U.S. trade rep crucial insight into state's export crops

*Editor's note: Portions of this article are excerpted from one by Gray Allen in the September/October issue of Blue Diamond's Almond Facts member & customer magazine.*

**T**he trip from Geneva, Switzerland, to the irrigated desert valleys of Central California is a distance of some 5,700 miles, although some would say the two regions are light years apart. For Ambassador Allen F. Johnson, the chief agriculture negotiator for the Office of the U.S. Trade

Representative (USTR), the two regions are inexorably linked, because what happens at the trade table in Geneva impacts all American farmers and ranchers.

To help Johnson better understand one of the nation's leading export crops — almonds — Blue Diamond Growers hosted him during August on two days of a four-day tour of almond ranches and processing facilities and talks with growers. That's why you could see Johnson seated behind the wheel of an almond sweeper, gathering almonds into windrows, readying them for pick up by a harvester. Johnson also met



*"Almond crop increases of the magnitude the state has cultivated during the past 25 years represents one of the great agricultural success stories in the nation's history," says U.S. Trade Ambassador Allen F. Johnson. Photos by Gray Allen, courtesy Blue Diamond Growers*

with growers and co-op leaders to update them on the results of recent World Trade Organization (WTO) talks in Geneva and to listen to their hopes and concerns on trade issues.

Johnson says the first-hand knowledge he gains from visits with farmers and ranchers across America gives him invaluable insights that increase his effectiveness.

### **Billion-pound crops**

The first step in harvesting almonds is to drive a self-propelled tree shaker into place, attach its “jaws” to a tree trunk and vibrate the tree until the almonds drop to the orchard floor. In the old days, growers had to manually strike the trunks with rubber-headed mallets to drop the nuts, catching the falling almonds on ground tarps. In a few isolated hill locations, the old-fashioned methods persist.

Proper “shaking” technique is a must. Shake too lightly and you leave nuts (called “stick-tights”) on the branches, wasting crop and creating possible homes for over-wintering pests. Shake too vigorously, and you could inflict serious damage to the tree.

Undaunted, and after only a brief demonstration from grower and Blue Diamond board member Aldo Sansoni, Johnson hooked a shaker onto a tree and gunned the engine. He grinned broadly as fat, ripe Nonpareil almonds rained down.

The 2004 crop Johnson helped harvest is expected to be America’s third billion-pound almond crop.

California produces about 88 percent of the world’s almonds, and more than 70 percent of the crop is exported to 95 nations, making almonds the nation’s leading horticultural export. Blue Diamond is the nation’s largest processor and marketer of the crop, and about two-thirds of the state’s growers belong to the co-op.

Just 60 years ago, Spain and Italy produced 80 percent of the world’s almonds. Mechanization of the California almond industry has helped turn the tables. Spain is now the largest single importer of U.S. almonds and is expected to have purchased 130 million pounds of California almonds by the end of the 2003-04 marketing season. That’s 24 percent more than the previous year. Spain could import an additional 20 percent next season due to a second year of Spanish almond crop failures, the co-op says.

The value of California almond exports for the current marketing year surpassed \$1 billion in July. Almonds — increasingly popular as a garnish on salads, in breakfast cereals and combined with countless other foods — are California’s largest food export.

### **Expanding acreage**

Some 550,000 acres in California are planted in almonds, and advances in tree varieties, planting patterns and in the science of orchard agronomy have made each acre ever-more productive. Indeed, as recently as 1989 there were 411,000 bearing acres of almonds in the state producing about 488 million pounds of nuts.

Almond plantings in the Golden State could increase by another 250,000 acres by the end of the decade, according to some estimates. If so, almond export sales would likely surpass those of U.S. wheat.

“Almond crop increases of the magnitude the state has cultivated during the past 25 years represent one of the great agricultural success stories in the nation’s history,” Johnson said.

From a marketing stance, development of international markets is what has made that incredible industry growth possible, and Blue Diamond is the acknowledged leader in spreading consumption of American almonds around the globe. Consumption of California almonds has increased by an average of nearly 6 percent annually for the past 24 years. The co-op’s own test kitchen has also played a key role in the growth of the industry by pioneering new uses for almonds in a wide variety of foods, from ice creams to frozen dinners, cookies and pastries. The majority of almonds are used as a food ingredient, rather than consumed as snack nuts.

### **Co-op supports open markets**

Sansoni hosted Johnson, Congressman Denis Cardoza and about a hundred almond growers and guests at a luncheon in his 104-year-old Delta Farms “Party Barn,” near Los Banos. Johnson spoke about the work that the agriculture arm of the USTR does to increase trade opportunities for U.S. farmers. He expanded on those comments the following day at a roundtable discussion with Blue Diamond officials and guests at the co-op’s main plant in Sacramento.

“We applaud Ambassador Johnson for helping to negotiate the World Trade Organization’s break-through framework agreement for historic reforms in Geneva,” said Sansoni. He cited expanded market access for U.S. products, including almonds, through tariff cuts that are still to be negotiated. He also praised Johnson for achieving agreement on quota expansion and the elimination of agriculture export subsidies.

Johnson’s message emphasized the opportunities for prosperity for all parties engaged in free trade. “Our mission is the global liberalization of trade,” he said, pointing out that with open markets, everyone grows and prospers.

Blue Diamond, he said, is “extremely effective in bringing important trade issues to our attention and supplying us with the facts and figures that we need to properly and effectively represent you.” He praised California agriculture for its “ingenuity, creativity and entrepreneurial spirit.” The almond industry in particular, Johnson said, “stays on top of the issues that affect its trade potential.

“History has not been kind to countries that put up walls,” he said.

“America has succeeded because we have an open society. We have shown that it is better to have a trade deficit and strong economy than a trade surplus and weak economy. Closed markets can’t grow. They stagnate. So we are working to open the closed markets of the world to help them

grow their economies. That will help them and us because strong and growing economies buy more American produce.”

### **Growers urged to produce high-value foods for world**

As world population and food consumption expands, so will the demand for high-value products, where the United States has a comparative advantage, Johnson continued.

Nationwide, exports of agricultural products grew more than three times as fast as the total of all U.S. exports in the past year. USDA has forecast record agricultural exports of \$61.5 billion through Sept. 30. The United States is the Number 1 world exporter of fresh fruits and nuts and second in fresh vegetables.

“We are also advancing U.S. interests in the World Trade Organization (WTO) by working to level the play-

ing field for America’s farmers, ranchers and growers, who often face high barriers to our world-class products,” Johnson said. “The WTO framework agreement reached July 31 in Geneva will benefit American agriculture, including fruits, nuts and vegetables. Eliminating export subsidies, reducing and further harmonizing trade-distorting domestic support and substantially increasing market access will benefit all of American agriculture. Clearly, the \$82 billion in subsidies provided by the European Union must be significantly reduced,” he declared.

“It is in the mutual interest of all of U.S. agriculture — specialty crops, livestock and program crops — to be mutually supportive and work towards these goals. By addressing these three pillars of agricultural trade together, all U.S. farmers and ranchers can win. Only in the WTO can all trading partners be brought to the table to secure a comprehensive deal that benefits U.S. agricultural interests by reducing all types of trade-distorting policies.”

Enforcing existing trade agreements is just as important as negotiating new agreements, he noted.

“In the case of fresh fruits and vegetables, many of our day-to-day activities involve foreign phytosanitary barriers — plant health issues,” he said. “Together with USDA scientists and technical staffs, we are constantly working with the industry to ensure that measures imposed by foreign countries on U.S. fruits and vegetables have a scientific basis and are not unnecessarily trade restrictive. As needed and appropriate, we initiate dispute settlement cases.

“California’s rich agricultural valleys have sustained farmers for more than 150 years,” Johnson said. “To extend this rich tradition of stewardship, we must continue to embrace the outward vision as the road to the future. By developing export markets and continuing our long-standing agricultural heritage, farmers and ranchers can look outward beyond California’s coastline to the rest of the world for their long-term prosperity.” ■



*Allen F. Johnson sweeps almonds into windrows, to be collected by a harvester.*

# Proposed sale of Farm Credit System lender to Dutch bank ignites controversy



proposal to sell one of the nation's leading Farm Credit System lenders to a Dutch co-op bank has sent a shockwave

throughout the nation's farm co-op and ag credit communities. "Can they really do that?" has been the frequent question asked ever since the proposed sale of Omaha-based Farm Credit Services of America (FCSA) to Rabobank Group of the Netherlands was announced at the end of July.

The charter of the Farm Credit System was revised in the late 1980s so that member associations can exit the system. The law was approved when there were about 1,200 farmer-owned lending associations in the Farm Credit System. Today, there are only 92 associations and the sale of one of the biggest such lenders has raised a number of policy questions.

Any sale would have to be approved by a vote of FCSA's 51,000 stockholder members (mostly farmers and ranchers), and would also need to be reviewed and approved by the Farm Credit Administration, the regulatory board that oversees the 100 or so banks and associations that comprise the nation's Farm Credit System.

Opposition to the deal, which appears to be considerable, seems to be based not so much on resentment toward Rabobank, but rather toward the very notion that a key component of the Farm Credit System could be sold to any foreign bank, and whether

that would ultimately lead to the diminishment, or even the dissolution, of the entire system.

FCSA provides credit to farmers and ranchers in Iowa, Nebraska, South Dakota and Wyoming. It has a loan portfolio of about \$8 billion, making it the second largest of the 92 associations that provide financing to farmers in the \$120-billion Farm Credit System. By comparison, Rabobank has more than \$500 billion in total assets. Rabobank has cooperative roots, but its members are 349 Dutch banks. It does not conduct business as a cooperative in the United States.

## Dutch bank bids \$600 million

Rabobank has offered \$600 million for FCSA, and an additional \$800 million exit fee would be paid to the Farm Credit System. It says it would be able to offer its patrons a much wider array of financial services than is possible through the Farm Credit System. It would also be able to provide services, such as home loans, in towns that exceed populations of 2,500 people (the cap faced by Farm Credit System associations).

Rabobank would select four FCSA directors to sit on the initial 11-person board of the new banking entity that would operate as part of Rabobank. FCSA members would stand to collect an average payment of about \$11,000, according to some reports. However, actual payments would vary widely



**Rabobank**

based on the size of individual loans.

The Farm Credit Administration (FCA), FCSA's federal regulator, has

received a resolution from the FCSA board that it plans to submit a formal request to terminate its status as a Farm Credit System lending institution, and to then merge into a subsidiary of Rabobank. Once the request is submitted, FCA has 60 days to act on the proposal. The agency could deny the request if it determines the exit would be harmful to the Farm Credit System as a whole.

"We are very excited about this opportunity with Rabobank," FCSA board chairman Paul Folkerts said. "Over the long term, we believe it will better position us to meet the changing needs of our customers and agricultural producers, and to provide better service and more choice in the financial products and services they need to succeed."

As of this writing (in late August), it appeared likely that there will be Congressional hearings on the proposed sale. Such hearings would try to determine the likely impact of the sale on farmers and ranchers in FCSA's service area, the expected effect on the rest of the Farm Credit System and whether FCSA management and directors have been offered any type of financial inducements to recommend the sale.

*continued on page 38*

# Great Escapes

*Agri-tourism co-op helping Georgia farmers diversify*

**By Craig Scroggs, Co-op Development Specialist**

*USDA Rural Development, Georgia*

**S**outhwest Georgia is best known for its pine trees, cotton fields and peanuts. The main roads in the area, U.S. 27 and Ga. 37, take you deep into farm country and into an area that offers a glimpse into the agricultural past of the state.

Tall pine trees line the roadways around towns like Ft. Gaines, Arlington and Blakely. In the fall and early winter months, cotton combines are part of the scenery. Trucks pulling loaded peanut wagons are also a common sight after harvest.

Agriculture has long been the economic engine that drives these rural counties, but that engine has been sputtering lately. In Georgia, farmers have seen their net farm income decrease from \$1.94 billion in 1998 to \$1.7 billion in 2002, a 12.37-percent decline in just five years.

As farmers have seen their profits continue to decline, some are looking for alternative enterprises to supplement their income. Landowners now say that it is time to look elsewhere for income and to use their natural resources for something more than growing crops.

“Southwest Georgia needs to be known for something other than poverty. We do have positive resources that we need to capitalize on,” says Tucker Price, coordinator for the Quitman County Extension office.

## Area rich in amenities

Bordered by the Chattahoochee River, this area of the state has Lake Walter F. George as a drawing card, and nearby Bagby State Park is rich with natural wildlife. The people here offer southern hospitality at its best.

Indications from a tourism survey showed that more people want to take different types of vacations, with a growing interest in agri-tourism. The natural resources in the region could offer families a different type of vacation experience and bring needed money into the region, but no coordinated effort had ever been made to bring this information to the general public.

A recent study by the University of Georgia Center for Agribusiness and Economic Development (UG Center) shows that agri-tourism has potential in southwest Georgia. In May 2003, a group of landowners was brought together by the local Cooperative Extension Service to discuss possible solutions to these challenges.

They all had a common concern: farm income was decreasing and their communities were slowly dying. Without something to stem this tide, none were sure that they would be able to stay in the business they loved

and in the communities where they lived. So they decided to act.

## Southwest Georgia Escapes is born

Ten farmers, plantation owners and wineries formed the Southwest Georgia Escapes cooperative with a goal of marketing southwest Georgia



*Charlie Cowart's family planted its first muscadine grape vineyard 20 years ago. The family is one of the farm members promoting agri-tourism through the Southwest Georgia Escapes cooperative. USDA Photos by Craig Scroggs*

as an agri-tourism destination.

With assistance from the UG Center, USDA Rural Development and the Southwest Georgia Cooperative Development Center, the co-op was incorporated, adopted bylaws and developed a marketing campaign. The Cooperative Development Center has been instrumental in the creation of promotional materials. Clay County Extension



Director Amy Winstead worked closely with the co-op and developed its Web site: <http://southwestgeorgiaescapes.com>.

Farmer Dan Giles turned 2,000 of his 3,000 acres into a hunting preserve for deer, turkey and quail. But advertising is very expensive, and exposure has been difficult to obtain. By working with other co-op members, he shares the cost of advertising and offers city dwellers a unique experience on his farm.

Giles has a four-bedroom lodge in which home-cooked meals are provided to all his guests. A local cook was hired to provide the authentic southern-style meals at the lodge.

"This cooperative has the potential to get the word out about our area," Giles says.

He was also able to use some of his farm hands as hunting guides during the time of year that they were not working on the row crops. The opportunity for continued employment without having to lay off some of his help has turned out to be another positive for his entrance into the agri-tourism sector.

"I expect to be able to increase the flow of customers into my hunting preserve," Giles says.

#### Winery joins tourism co-op

Still Pond Winery owners Charles and Susan Cowart also wanted to

become members of the co-op in order to make their winery more visible with tourists. Charlie Cowart began planting muscadine grapes more than 20 years ago, expanding his plantings until his death. His son, Charles, took over the vineyards and decided to further expand the offerings.

The Cowarts have supplied grapes to numerous other wineries within the state and been major suppliers of muscadines to area grocery stores for the fresh grape market. The Cowarts knew that there was additional income for them in the marketing of their own product, so they decided to open their own winery with a tasting room. In November 2003, that dream became a reality.

Tallahassee, Fla., to as far north as Columbus, Ohio — have already visited the farm. And all this even before the co-op's main marketing efforts have begun.

"I expect that we will be able to further market our operation in conjunction with the co-op," Susan Cowart says. "Helping each other succeed is of utmost importance. By working together, we can do for southwest Georgia what north Georgia did years ago."

#### Brochures target tourists

Membership in Southwest Georgia Escapes has closed at this time due to the need to launch the advertising program for the year. The Escapes co-op is printing 25,000 tri-fold brochures



Charles Cowart gives tourists a taste of some of his Still Pond Winery vintage.



Sportsmen in pursuit of game — including quail, deer and wild boar — can stay in the refurbished Pine Ridge Hunting Plantation house.

Marketing the winery was still difficult and expensive. By becoming members of the co-op, they were able to join forces with their neighbors and capitalize on the exposure that the whole group was beginning to receive. More than 2,500 visitors — from as far south as

that will be placed in welcome centers along I-75 and I-85, in local chamber of commerce buildings and in other area businesses. Advertising from other local businesses is being sought and will be used to offset the cost of producing the pamphlets. The co-op's Web site offers all of the members a link to their own pages.

The group has participated in several trade shows throughout Georgia,

*continued on page 34*

# USDA purchasing biobased products



**T**he U. S. Department of Agriculture (USDA) is a potential customer for cooperatives and others engaged in the production of biobased products. USDA is already actively purchasing and using a wide variety of biobased products and plans to expand such efforts.

The USDA Forest Service, for example, is buying biobased products for signs made from composite-materials and for watershed-restoration structures. USDA's Agricultural Research Service (ARS) has already identified and purchased biobased products for farming operations, grounds keeping and facilities maintenance at its Grazinglands Research Laboratory in El Reno, Texas, among other uses.

The Farm Security and Rural Investment Act of 2002 (FSRIA), Section 9002 of Public Law 107-17, mandates the development of a Federal Biobased Products Preferred Procurement Program (FB4P) that requires federal agencies to purchase biobased products. Products classified as biobased are those commercial and industrial non-food products that are composed — in whole or significant part — of biological and/or renewable domestic agricultural or forestry materials, including plant, animal and marine materials.

Agriculture Secretary Ann M. Veneman says the FB4P, "builds upon President Bush's commitment to pro-



*USDA is actively purchasing a wide variety of biobased products, including these National Forest signs. They are made in part from Juniper trees, which are considered a nuisance because they rob moisture needed by other plants from arid soils.*

mote energy independence while protecting the environment. This program will improve environmental health by using renewable resources from our farms and forests to produce products, that have been derived from fossil energy sources. This program will enhance the development of high performing and environmentally friendly products."

One example of a product being purchased by the Forest Service involves a patented, fortified-wood composite product called Altree™, which is being used to make road and interpretive signs. The product consists of small-diameter trees and woody biomass combined with recycled plastic containers. It was developed in collaboration with the Forest Service's own Forest Products Laboratory and other groups.

All parts of the tree are used, including the bark, branches, needles and berries, resulting in no residual slash upon harvest. Characteristics which make it desirable include a density higher than wood, longevity of 35-

50 years plus — depending on the application — stain resistance, water-proof, UV resistant, impervious to insects and no leaching of harmful chemicals into the soil.

Juniper trees have little other use, and are considered a nuisance, robbing the soil of moisture so that it cannot support other vegetation.

USDA/ARS' Grazinglands Research Laboratory is purchasing bio-trans hydraulic tractor fluid, bio-two-cycle engine oil, bio-bar and chain oil, bio-grease, bio-penetrating lubricant, biodiesel fuel conditioners and biofuels. ARS' level of commitment is so high that the Southern Plains Area has created an annual award: the "Southern Plains Area Greening Award," which recognizes locations that have demonstrated continued effort, progress and achievement in making environmentally friendly choices. The Conservation and Production Research Laboratory in Bushland, Texas, was this year's award winner.

For additional information on the Southern Plains Area Biobased Program, contact Mike Downing at (979) 260-9446 or e-mail at [mdowning@spa.ars.usda.gov](mailto:mdowning@spa.ars.usda.gov).

For additional information on FB4P contact Mike Green at (202) 720-7921, email at [Mike.GREEN@usda.gov](mailto:Mike.GREEN@usda.gov), or visit the Biobased Products Initiative Web site at: <http://www.biobased.ocs.usda.gov/public/index.cfm>. ■



# Capper-Volstead protects co-ops with foreign members

**By Donald A. Frederick**

*Program Leader for Law, Policy & Governance  
USDA Rural Development  
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**C**ooperatives have won an important victory in the battle to remain competitive in the globalized agricultural markets of the 21st Century. A federal district court in Massachusetts has held that foreign members do not jeopardize a cooperative's antitrust protection under the Capper-Volstead Act.

Capper-Volstead provides agricultural producers with a limited exemption from the antitrust laws that allows them to market their production on a cooperative basis. Private parties, as well as antitrust enforcement agencies, can sue cooperatives for relief from anti-competitive conduct they believe is outside the scope of protection provided by Capper-Volstead.

An ongoing case in this area was initiated by Northland Cranberries, a non-cooperative competitor of Ocean Spray, a cranberry marketing cooperative, claiming the cooperative engaged in conduct illegal under the antitrust laws. The cooperative answered that its actions were protected by Capper-Volstead. The competitor then asserted that the cooperative is not entitled to Capper-Volstead protection because a number of its producer-members are foreign producers.

Both parties agreed on the facts relevant to this issue: Northland admitted that the members in question were "producers," Ocean Spray that they were Canadian and therefore "foreign." So the trial court judge used a special procedure (cross-motions for summary judgment) to let the parties argue the issue and have it determined before trial.

The judge referred the issue to another court official, called a Special Master, to sift through the arguments of the parties and prepare a recommended decision. The Special Master recommended the court reject all of the competitor's arguments and decide that the inclusion of foreign members in an agricultural cooperative does not deprive that cooperative of its Capper-Volstead protections. The court agreed and adopted the Special Master's recommended opinion as presented (*Northland Cranberries v. Ocean Spray Cranberries*,

Civil No. 03-CV-10734-JLT (D. Mass. June 10, 2004) (order adopting Special Master's Recommendation)).

## Background facts

This case has an interesting origin. Northland Cranberries was formed in 1987 through the merger of five partnerships growing cranberries in Wisconsin. Northland purchased several more cranberry farms and quickly became the largest grower member of Ocean Spray. In the early 1990s, cranberry growers and marketers enjoyed several successful years. Northland's owners apparently determined that they could earn higher returns as an independent firm, so, in 1993, Northland resigned from Ocean Spray. It constructed duplicate processing facilities and became a competitor of Ocean Spray.

As frequently happens in agriculture, the good years attracted new production, from both established cranberry growers and new producers. Beginning with the 1997 crop, cranberry supply began to exceed demand on an annual basis and the market price of cranberries fell precipitously. Northland began to suffer significant losses. In late 2001, faced with impending bankruptcy, Northland's owners sold most of the company to Sun Capital Partners, a leveraged buyout firm headquartered in Boca Raton, Fla.

Shortly after acquiring Northland, Sun Capital made two moves. First, it filed this lawsuit alleging a variety of antitrust violations by Ocean Spray. Shortly thereafter, it made an unsolicited takeover bid for Ocean Spray's juice business and brand name.

Ocean Spray promptly rejected the takeover bid. So this case involves a leveraged buyout firm that owns a competitor of a cooperative, pursuing a lawsuit against that cooperative that, if successful, would likely cripple the cooperative. At the same time, the firm is trying to buy the cooperative's assets, including a highly respected brand name, for the lowest possible price.

## The court's reasoning

The Capper-Volstead Act never mentions the word "cooperative." Rather, it extends limited antitrust protection to "persons engaged in the production of agricultural products..." (emphasis added). The term "persons" is not defined

in the act. So the issue before the court was whether the word “persons,” as used in this statute, means only United States producers, or if it also includes producers in other countries.

First, the court made general observations about the term “persons” in the context of the Capper-Volstead Act:

- When interpreting a statute, the plain and unambiguous meaning of a word prevails in the absence of clearly expressed legislative intent to the contrary. No limitation on the ordinary meaning of “persons” is stated or implied in the Capper-Volstead Act. As people in other countries are considered “persons,” the term should be read to refer to foreign farmers as well as American farmers.
- The conclusion that “persons” includes foreign producers is confirmed by Congress’ purpose in passing the Capper-Volstead Act. In 1922, Congress adopted Capper-Volstead to provide agricultural cooperatives having capital stock the same status under antitrust laws that Congress granted to non-stock cooperatives in 1914, under Section 6 of the Clayton Act. The Clayton Act defines “persons” as including “corporations and associations existing under or authorized by the laws of either the United States, the laws of any of its territories, the laws of any state, or *the laws of any foreign country.*” 15 U.S.C. Sec. 12 (emphasis added). Our primary antitrust law, the Sherman Act, defines “persons” the same way. 15 U.S.C. Sec. 7.

The court continued that a basic rule of interpreting statutes is that where Congress uses the same term in the same way in two statutes with closely related goals, the presumption is that it intended the term to have the same meaning in both contexts. A review of the Clayton Act as a whole demonstrates that the exemption in Sec. 6 applies to cooperatives with foreign members. So likewise, the Capper-Volstead Act applies to coop-

eratives with foreign members.

The court then addressed and rejected Northland’s key contentions:

- Northland argued that segments in the legislative debate over Capper-Volstead demonstrate that Congress intended to exclude foreign farmers from the definition of “persons.” The court found these statements did not support Northland’s position. At most, they show that certain legislators argued that foreign competition was likely to prevent protected cooperatives from achieving a monopoly position.
- Northland asserted that exemptions from antitrust laws must be narrowly construed. The court responded that this rule neither requires nor permits a court to disregard the plain language of the statute when interpreting an exemption.
- Northland said the court should conclude “persons” under Capper-Volstead does not include foreign persons, because in another similar statute, the Fisherman’s Collective Marketing Act, Congress included a territorial limitation in the definition of “aquatic products.” 15 U.S.C. Sec. 521. The court turned that argument around, finding that if Congress intended to impose a similar limitation on agricultural producers in Capper-Volstead, it would have done so.
- Northland claimed the court should adopt a presumption against extraterritorial application of United States law. The court held that United States antitrust laws apply to conduct outside our borders that affects competition within the United States, and Northland itself alleges that the conduct at issue has had a substantial effect within the United States. Furthermore, the presumption applies where a United States law imposes standards of conduct on persons in other countries, not where the

statute at issue is an exemption from U.S. law.

- Northland charged that interpreting “persons” to include foreign farmers would permit producers around the world to join together to cartelize any agricultural product to the detriment of U.S. consumers. The court determined this argument was also specious. It noted that in spite of urging from USDA to cooperatives to consider including foreign members, few have done so and none approaches a monopoly position. The court also cited the authority in Sec. 2 of Capper-Volstead for the Secretary of Agriculture to bring proceedings against any farmer cooperative that “monopolizes or restrains trade in interstate *or foreign commerce* to such an extent that the price of any agricultural product is unduly enhanced...” 7 U.S.C. Sec. 292 (emphasis added).

## Conclusion

While this lawsuit continues over other issues, the court has clearly stated that foreign memberships in farmer cooperatives are permissible under the Capper-Volstead Act. In the economic environment of the 21st Century, it appears that globalization and concentration among processors, distributors and retailers is the norm rather than the exception.

To bolster their market strength today, producers must have the ability to do more than negotiate with the local canner or grocery store. They must deal effectively with international conglomerates that can purchase agricultural products from any country where a product can be grown.

This gives buyers the power to play producers in one country against those of another, in effect creating a reverse auction wherein the price received by producers is driven steadily downward. U.S. producers may well need the option to develop international memberships to deal with buyers with this degree of market power. ■

# USDA study boosts fuel conversion efficiency rating for ethanol

By Stephen Thompson  
Assistant Editor

**T**he viability of ethanol as an alternative fuel continues to improve. New research by USDA economist Hosein Shapouri shows a marked improvement in the energy efficiency of ethanol from five years ago.

In the July-August 2004 issue of *Rural Cooperatives*, we reported that Shapouri's research had refuted claims by ethanol opponents that it costs more energy to produce ethanol than it yields. His study showed the net energy balance of ethanol at 36 percent in 1996, an improvement on the 24 percent figure reported in 1991. That means that 1.36 BTUs worth of ethanol requires only one BTU of energy to produce.

The results of Shapouri's latest research, using data from 2001, were released in June. They show an even greater improvement than that of the previous five-year period, with ethanol's net energy balance growing to an impressive 67 percent. The continuing improvement, he says, is due to technological advances both in farming and manufacturing.

"Crop yields per acre have increased, fertilizer is more energy efficient and ethanol plants are more efficient," he says. "So the net energy value of ethanol improves."

Shapouri's calculations included the amount of energy used to grow and harvest the crop; to transport feedstock, byproducts and the finished product; energy used in the production of seed, pesticides and fertilizer; and energy consumed in the manufacturing process.

He is critical of studies that have disputed the USDA findings, including one by Dr. David Pimentel, an entomologist, in 2003. Shapouri says the Pimentel report is deeply flawed, using

questionable and unsupported information, especially on energy expenditures in the production of secondary inputs, such as farm equipment and the construction of ethanol plants. "I don't know how they come up with these figures," he says.

Shapouri's research does not include such calculations because, he says, the latest figures on energy costs in those areas are 25 years old. In any case, he says available information indicates that energy used in production of secondary inputs is much lower. "This study," says Shapouri, "unlike the Pimentel report, is based on straightforward methodology and highly regarded quality data."

Shapouri believes that the energy efficiency of ethanol will continue to improve, due to continuing increases in crop yields and improvements in ethanol production technology. "Inputs of pesticides and fertilizers in crop production are continuing to fall," he says.

"And in India, a new molecular filtering technology is removing the last bit of water from ethanol for a much lower cost than the process we currently use."



*The ribbon-cutting ceremony in August 2002 at Glacial Lakes Energy in Watertown, S.D., drew a crowd of co-op directors, community leaders and building contractor representatives. Improved operating efficiencies of such plants have prompted USDA to boost its estimate of the ethanol energy conversion yield. Photo courtesy Glacial Lakes Energy and the Watertown Public Opinion*

# Direct Access!

*AGP's new Pacific port an investment in Midwest soybean farms & facilities*

**By Jim Rodenburg**  
*AGP Communications Director*

**M**idwest soybean producers and their cooperatives now have their best-ever access to Pacific Rim customers, thanks to AGP's new export terminal facility at the Port of Grays Harbor in Aberdeen, Wash. Last December, Omaha-based AGP, a federated soybean processing and marketing cooperative, loaded its first vessel at Grays Harbor with 23,000 tons of soybean meal bound for Australia. Since then, numerous other shipments of soybean meal, non-GMO (genetically modified organism) soybean meal and other specialty grain products have been exported to international customers through the new terminal.

The Grays Harbor facility will help keep AGP competitive in export markets, with reduced costs and shipping time to the

Pacific Rim, as compared to transportation through the Gulf of Mexico and other Pacific Northwest ports. The terminal also has the ability to handle identity-preserved products, which are becoming increasingly important in international markets concerned about food safety and traceability.

"We're very pleased with the facility and proud of the partnership we have at the Port of Grays Harbor," says Pete Mishek, AGP's international trade manager. "The feedback from customers has been very positive."

Recently, Mishek and Greg Twist, AGP's vice president for marketing, soy and corn processing, led a trade mission to the port, which was attended by buyers and brokers from

Indonesia and directors from

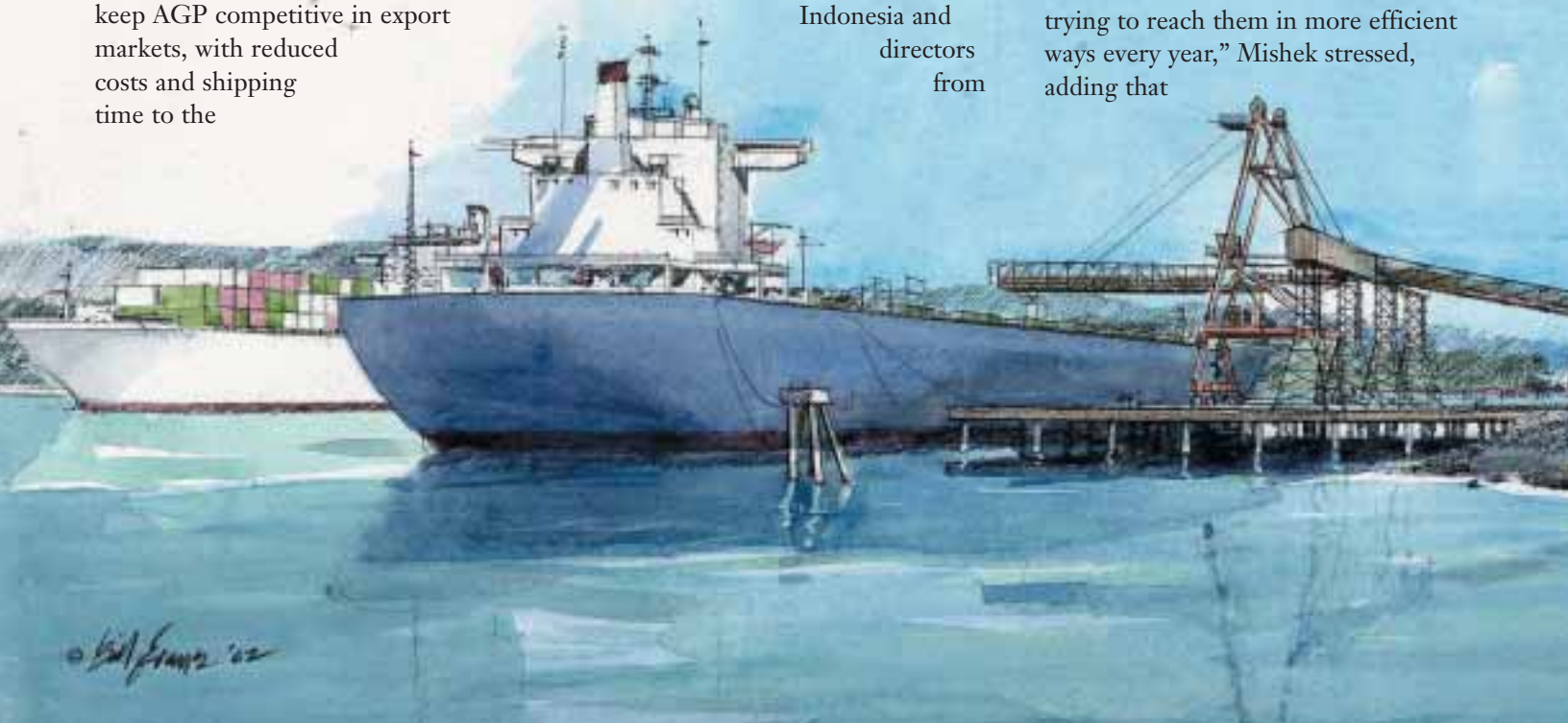


*AGP's new international port terminal in Washington has the ability to handle identity-preserved grain shipments. Photos by Marc Sterling, courtesy Port of Grays Harbor*

the Iowa Soybean Promotion Board (ISPB). Dick Vegors, marketing manager of grain and grain co-products, International Office, Iowa Department of Economic Development, also joined the group.

## **First meeting at port**

This was the first time a soybean association and customers had met at Grays Harbor, during which Mishek told the ISPB farmer-directors that the facility is an investment in their markets. "We want our customers to know that AGP and Midwestern farmers are trying to reach them in more efficient ways every year," Mishek stressed, adding that



AGP has been shipping soybean meal through the Pacific Northwest for about 15 years.

The importance of Pacific Northwest exports has been heightened by two developments, according to Mike Zahn, a commodity analyst

South Dakota over the past several years.

“These factors set up a real opportunity for West Coast shipments,” Zahn says.

AGP’s custom-built facility on Terminal 2 at the port is the closest,

included berth expansion, a heavier fender system and upgraded mooring dolphins to secure larger vessels than the logging ships the port has traditionally handled.

### Rail system key to operation

The rail system is an integral part of the operation. The Puget Sound and Pacific Railroad, a short-line railroad serving the port, connects with both the Burlington Northern Santa Fe (BNSF) and Union Pacific (UP) railroads. A new, 8,000-foot looped track was built around the terminal in order to move cars continuously through the unloading facility without switching. AGP also has a staging area that will hold approximately 300 railcars prior to the arrival of a vessel.

During unloading, Nelson points out that product is fully covered from the receiving building to the ship, helping maintain product quality. Railcars are emptied two at a time over a 100-foot-long receiving pit, and the product moves along on air-supported conveyors to a scale and automatic sampler. This high-speed conveying system has no cracks or crevasses to retain product, while brushes and air jets continually clean the belt.

A mobile loader that traverses the length of the dock to load the ship is another feature of the terminal. This allows the ship to remain stationary, saving on fuel and crew costs, as well as reducing loading time.

The terminal is equipped to meet or exceed international standards for weights and grades, and can be washed



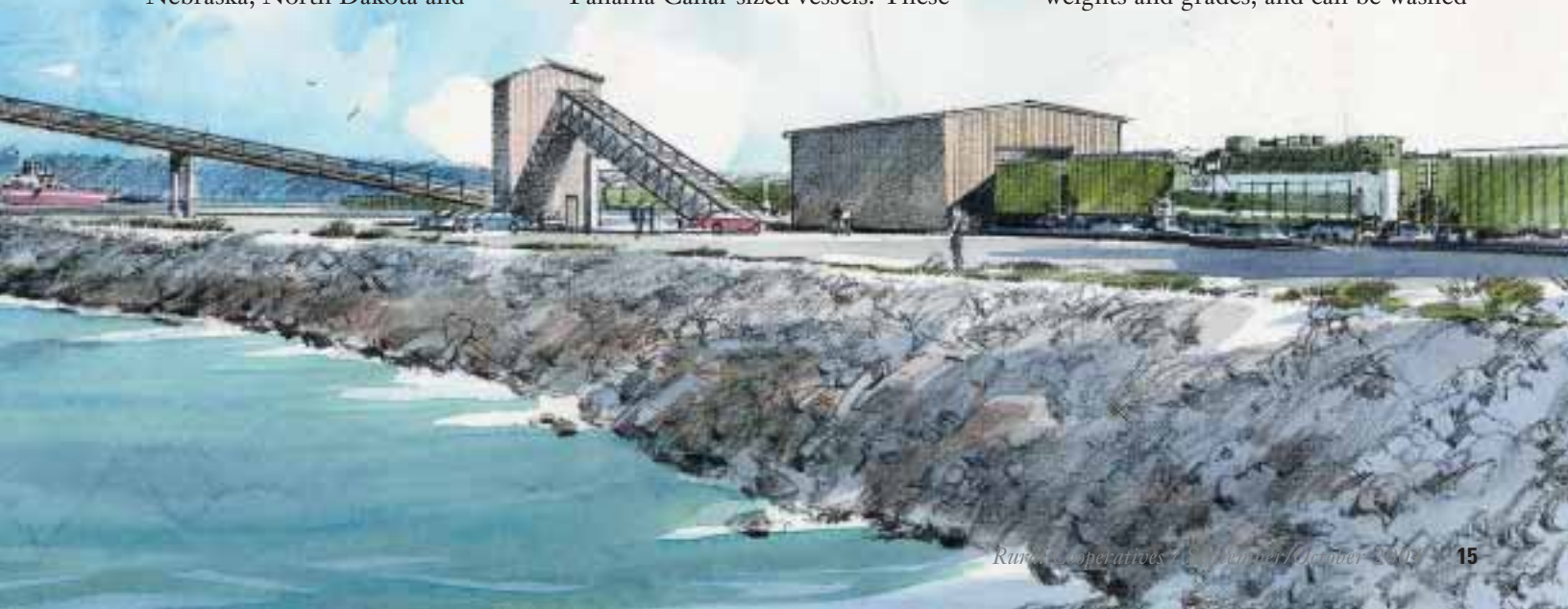
*Midwest-grown soybeans, soybean meal and other grain products will get to Pacific Rim customers faster, thanks to AGP’s new port facility.*

who gave the group a briefing on the grain markets and industry trends:

- The ascension of China as a major importer of goods such as steel and grain. This strong demand has resulted in ocean freight rates reaching record levels, magnifying the advantages of the most cost-effective terminals.
- U.S. soybean production heading west, with dramatic increases in soybean acreage in Minnesota, Nebraska, North Dakota and

most direct route from its processing plants in the Midwest to Pacific Rim customers. Gary Nelson, executive director of the Port of Grays Harbor, says the deep-water port is two hours from open sea, compared to 12 hours from other Pacific Northwest export facilities located on the Columbia River.

The Port of Grays Harbor made several modifications at Terminal 2 to handle AGP’s design criteria for Panama Canal-sized vessels. These



and cleaned after each shipment to meet requirements for identity-preserved products.

### Market success hinges on quality and timeliness

“What makes the whole thing work is the people here at the port,” says Mishek. “The work ethic and commitment from the longshoremen and port management is superb. We have great partners.”

Those partners include Midwest soybean producers, who are represented by associations such as the Iowa Soybean Promotion Board (ISPB).

“The ISPB has been very interested in the Grays Harbor project from the early stages, as exports are extremely important to the soybean industry,”

says Grant Kimberley, market development manager. “For U.S. producers to stay competitive with South America,

we must guarantee consistency, quality and timely service. And that’s what this new port facility can do.”

The ISPB has worked with AGP to



*A new, 8,000-foot looped track was built around the terminal to move cars continuously through the unloading process without the need for switching.*

## Co-op boosting yields of protein, oil through approved variety program

In addition to gaining greater access to foreign markets for its members, AGP is also striving to add value to its products by encouraging farmers to enroll in its Approved Variety Program, which promotes planting soybean varieties that produce higher-than-average yields of oil and protein.

Leon Wojahn, a northwest Iowa soybean producer, has planted 200 acres of soybeans with AGP-approved varieties, a four-fold increase from his participation level last year.

“I contracted 50 acres in the program last year through my local cooperative, MaxYield Cooperative, to try it out. I had a good experience,” says Wojahn. “Those nickels add up.”

By planting and contracting AGP-approved varieties through participating member cooperatives, producers are guaranteed component premiums of at least 5 cents a bushel. These soybean varieties have historical data showing potential for achieving desirable oil and protein levels.

“I think we’ve proven that it’s a fairly easy program [launched in 2003] to comply with, as producers are not necessarily required to make big shifts from what they’re already planting,” says Greg Twist, AGP marketing vice president for soy and corn processing. “We’re starting to make some headway in raising pro-

ducers’ awareness of what they’re putting in the field. They’re asking questions about oil and protein content, which is now becoming a front-burner issue for seed companies as they develop new soybean varieties and work on their genetics.”

While some varieties on the approved list for 2003 failed to make the grade for 2004, Twist says even more new varieties have been added, giving producers increased planting options under the program.

“A good feature of the program is that some of the varieties already popular in this area are included,” says Gary Strube, general manager, Great Lakes Cooperative in Everly, Iowa. “It’s an easy way for a producer to pick up \$2.50 an acre, based on 50-bushel beans. We think it’s a good program for soybean farmers and it has helped boost our seed sales.”

Cooperative managers of participating cooperatives are taking the opportunity to report to their board not only about local earnings, but also additional premiums that their members receive for contracting approved varieties. “This revenue doesn’t necessarily show up in the cooperative’s bottom line, but it is having a positive economic impact on its members,” said Twist. ■

— By Jim Rodenburg



bring in potential international customers so they can see the whole process from the very beginning on the farm, to the elevator, to the processor and then on out to the port facility.

“We are trying to show customers that we are serious about meeting their needs, listening to their concerns and showing them what we can accomplish,” says Kimberley.

Vegors was equally enthused about the opportunities the port terminal represents for Iowa and Midwest agriculture. “As we get to see more gene stacking and specialty traits of grain that companies in foreign countries are

desiring, the ability to clean out the facility and turn it from one product to another makes it ideal for the IP process,” Vegors says.

During the visit to the port, Greg Twist told the Indonesian contingent about AGP’s success working with member cooperatives and their farmer owners to produce, process and deliver identity-preserved products, such as non-GMO soybean meal. He also says the quality of soybeans can be raised through AGP’s approved variety program.

“Spending time developing face-to-face relationships with international

buyers — such as the Indonesians, who represent some of the largest consumers of soybean meal in the world — is a very valuable investment,” Twist says. “I think they were very impressed with the port facility and realized that U.S. farmers take a real interest in supplying quality and meeting or exceeding their needs. It’s all about bringing value to our customers in order to increase exports, and that value includes a competitive and efficient transportation system.”

For more information about AGP’s export terminal, go online to: [www.agpportofgraysharbor.com](http://www.agpportofgraysharbor.com). ■

## Agriliance to operate major terminal at Port of Galveston

To help it better provide wholesale dealers with crop nutrients, Agriliance has signed a lease with the Port of Galveston to operate a general-purpose bulk cargo terminal. Agriliance, a joint venture owned by CHS Inc. and Land of Lakes, will enter a 15-year lease with the port, with an option for seven additional three-year renewal periods.

By mid-2008, Agriliance expects to ship more than 800,000 tons of cargo annually through the terminal.

“With the Port of Galveston, we’re enhancing our crop nutrients distribution capabilities across all U.S. markets, especially for rail shipments to western regions,” says George Thornton, Agriliance president and chief executive officer. He says Agriliance also anticipates that moving shipments through Galveston will allow the company to divert some rail loads from Mississippi River terminals, thereby helping ease river bottlenecks.

“We began importing bulk product in 2003 through a port in Louisiana,” he continues. “Expansion into Galveston is an integral part of our company’s import strategy, which is expected to increase significantly in the near term.”

Steven M. Cernak, port director, says “This agreement will allow the Port of Galveston to increase our cargo throughput, which will result in increased employment at the facility and at other ancillary companies servicing the new terminal.”

Agriliance will operate as a general-purpose bulk cargo terminal that will initially receive only inbound

products. The longer-term goal is to make improvements to allow for both import and export operations. Potential cargoes include bulk fertilizer products, bulk agricultural products, bulk grains and grain substitutes, non-hazardous bulk minerals or mineral products and non-hazardous chemicals.

Pier 35/36, the old Imperial Sugar Docks, was previously leased to River Materials LLC. With the signing of the agreement, Agriliance acquires the use of the terminal and purchases the assets of River Materials.

Agriliance LLC markets crop nutrients, crop protection products, and seed and crop technical services to farmers and ranchers through local cooperatives and independent dealers in all 50 states, Canada and Mexico. ■



*Bucket cranes unload bulk materials from ships and drop them on this conveyor belt, which terminates in a warehouse. More conveyor belts carry them from the warehouse to rail cars. Photo courtesy Port of Galveston*

# Backyard powerhouses

*“Green Tags” spur development of renewable power co-ops in Northwest*

**By Stephen Thompson**  
*Assistant Editor*

**R**enewable power is the basis for a new kind of co-op developing in the Pacific Northwest. In Montana and Washington, farmers in Our Wind Cooperative are producing power from relatively small, “backyard-style” wind turbines. In Oregon and Washington, owners of small, home-size photovoltaic arrays — or solar-electric panels — have banded together in the Northwest Solar Co-op. Both co-ops are using a new concept to encourage the use of renewable energy, while putting dollars in their members’ pockets at the same time.

The concept is simple: sell the environmental benefits of renewable energy to customers who want to help reduce the consumption of conventionally produced power.

Doug Boleyn, a solar power consultant in Gladstone, Ore., wanted to find a new way to help clients recover some of the costs of a home solar-power installation. He found the answer in a new project by the Bonneville Environmental Foundation, a non-profit organization based in nearby Portland that seeks to promote the use of renewable energy sources.

## Perfect match

The foundation had developed a new way to sell environmental bene-

fits, through certificates called “Green Tags” (see sidebar), and was looking to expand into small solar systems. It was a perfect match.

Photovoltaic systems provide environmentally clean power, but their output is intermittent: when the sun



*A wind turbine is erected in Liberty County, Montana. Local supporters hope it is the first of many such installations. Photo courtesy NW Seed. (Above, right) The Gray family of Medford, Ore., with their photovoltaic array. Photo courtesy Doug Boleyn. Both sell the environmental benefits of their green power through a new kind of co-op.*

goes down, so does the power. Overcast days reduce output considerably. For this reason, home solar-power systems are almost always hooked up to the local power grid. (For an example of stand-alone solar systems, see “Isolated Navajos tap solar power,” *Rural Cooperatives*, March/April 2002, page 6; current and back issues are accessible on-line at [www.rurdev.usda.gov/rbs/pub/openmag.htm](http://www.rurdev.usda.gov/rbs/pub/openmag.htm).)

An electronic inverter converts the direct-current power from the solar panel to usable house current. When the sun is out, the system routes any solar power not being used to the power grid; when the solar system isn’t

making power, electricity from the power utility is used. A meter measures current both ways, and the utility pays the user a rebate for the excess power.

Members of the co-op are required to have their solar systems hooked up to the local power utility to ensure that all the power they produce is used, either by the owner or by the utility’s other customers. The amount of solar power output is measured, and at the end of each year each member sends his or her meter reading to the co-op. The total of all members’ solar production is added up by the co-op and sent in to the Bonneville Environmental Foundation, which pays for the Green Tags and distributes them to customers. The co-op then sends the members the checks for their Green Tags production.

## Utility gets the energy; co-op sells Green Tags

Each member is required to sign an “attestation” form every year, confirming the amount of green power produced and that it meets all criteria for being renewable and non-polluting. The Green Tags are certified as valid by an independent third-party entity, the Green-e Renewable Electricity Certification Program.

A typical home solar-power system puts out a maximum of about 1 kilowatt, and costs about \$13,000 to \$20,000, according to Boleyn. The amount of money each co-op member receives is comparatively small —

about \$200 to \$250 per year. But, he says, the added funds help in making a solar installation cost effective, and selling the tags gives others who don't have access to a green power source a chance to participate in the production and use of renewable energy.

"While \$250 isn't that much," he says, "sometimes it seems to make the difference when people are considering purchasing a solar-power unit. Salesmen for photovoltaic systems are now using Green Tags as a 'sweetener' for potential customers."

### Making money from the wind

Like the Northwest Solar Co-op, Our Wind Cooperative promotes grassroots production of green power. Our Wind members run small, 10-kilowatt wind turbine generators — producing more power than Northwest Solar's solar panels, but a far cry from the enormous turbines erected by utilities, the largest of which can produce as much as 4,200 kilowatts (see "Catch the wind," *Rural Cooperatives*, March/April 2002, page 4).

The co-op was launched by Seattle-based Northwest Sustainable Energy for Economic Development (NW SEED), Last Mile Electric Cooperative, Northwest Cooperative Development Center and other non-profit organizations seeking to promote customer-owned wind power among farmers and rural landowners in the Pacific Northwest.

NW SEED used a number of federal grants and loans to do the groundwork for the co-op. A contract award of \$300,000 from the Department of Energy's National Renewable Energy Systems Laboratory helped get the effort off the ground by financing a survey of wind characteristics in the target area. A Value-Added Producer Grant (VAPG) of \$50,000 from USDA Rural Development was used to conduct a feasibility study and to plan studies of various possible turbine sites.

The Bonneville Foundation helped by making upfront payments for projected Green Tags production, and also made available a low-interest loan.

The initiative had no problem finding potential participants: it received

over 300 applications. Each was screened according to criteria, including availability of financing, local wind characteristics and access to power transmission facilities. Ten sites were chosen for the initial installations.

### Five turbines installed

The cooperative was incorporated in November 2003. So far, five turbines have been installed, and one is under construction.

"Each site is different," says NW Seed project manager Jennifer Grove. Not only do geographic characteristics differ, but so do local regulations and permit requirements.

In addition, incentives for installing wind generators are different in each state as well. In Montana for example, the co-op took advantage of funding from state renewable energy incentive programs and a streamlined permitting process.

The co-op found a different kind of success in Washington. Financial support from Seattle City Light and Klickitat Public Utility District com-

*continued on page 36*

## How Green Tags work

Green Tags are certificates of environmental benefit that can be sold and traded. In effect, they allow a person or entity to support a renewable energy source, without regard to where both the producer and the purchaser are located. Green Tags provide additional income to owners of renewable-energy generators, apart from that derived from the sale of the actual power or the savings derived by consuming home-made power.

Green Tags function on the principle that electrical power is fungible — that is, one unit of it is identical in use to another, regardless of its source.

They work like this:

- A producer of "green" electricity — from a wind turbine, solar array, or other renewable source — records the amount of power produced by the green source. Through a cooperative or other entity, the producer sells certificates for that amount of energy — Green Tags.

- The actual power that is produced by the green source is consumed at the site or sold to the local utility. The sale of Green Tags is thus separate from the sale and use of the power produced by the green source — in this case, solar arrays and wind turbines.
- Customers who want to use green power buy the certificates. The actual physical power that the customer consumes is not produced by the green source. But by buying Green Tags, the customer takes ownership of the "green" characteristics of the green producer's power. Doing so offsets the environmental damage done by the production of the conventional power the customer uses — that is, the customer's consumption of power does not add overall to the pollution being produced to generate power. Conversely, having sold the Green Tags, the owner of the green power source can't claim to be using green power. ■

— By Stephen Thompson

# The canning of Tri Valley

*What went wrong at Tri Valley Growers, and what can other co-ops learn from it?*

**By Richard Sexton, Professor**  
*Agricultural and Resources Economics*  
*University of California, Davis*  
**Himawan Hariyoga, Ag Economist**

*Editor's note: Many questions have been raised regarding the causes of the demise of one of California's leading food processing cooperatives. A recently completed study conducted for the University of California Giannini Foundation provides some answers. USDA Rural Development provided support for the study under a cooperative research agreement.*



*Peach and fruit crops were increasingly forced to subsidize TVG's processing tomato operations in the final years of the co-op. Photo courtesy Modesto Bee*

**T**ri Valley Growers (TVG) was a California agricultural cooperative owned by more than 500 member-growers and was California's largest fruit canner, with \$782 million in sales during 1998. Members — who delivered primarily tomatoes, peaches, pears and olives to the cooperative for processing and marketing — held \$125 million of equity in the co-op in 1998. TVG was also a major Central Valley employer, with more than 9,500 seasonal and 1,500 annual employees.

But severe financial difficulties forced TVG to file a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code in July 2000. Its assets were subsequently sold to various buyers. Although a number of factors contributed to its downfall, perhaps the major one was the cooperative's failure to adequately position its tomato processing operations to reflect the restructuring the industry had undergone. Weakness in the tomato

operation — including under-utilization of plants and failure to meet the explosion of demand for pasta sauces and Mexican food salsas — led to tomatoes being subsidized by the co-op's much more successful fruit canning operations, to the detriment of the latter. Other negative factors included lack of strong membership contracts requiring crop delivery, a high debt-to-assets ratio and poor management decisions, ranging from over-paying members for crops in some years to the termination of too many experienced plant supervisors when new management took over the co-op in the mid-1990s.

A noteworthy finding of this study is that Tri Valley's business structure as a cooperative did not contribute to its failure.

## **Essentials of TVG's operations**

TVG was formed in 1963 when two existing co-ops, Tri Valley Packing Assn. and Turlock Cooperative Growers, merged. In 1964 Oberti

olives joined TVG, while in 1978 TVG purchased S&W Fine Foods. TVG also grew through acquisition of the assets and members of other financially distressed or failed processing cooperatives. This list includes Glorietta Foods in 1981, Cal Can in 1983, and Sacramento Growers Co-op in 1993.

By the mid-1990s, TVG operated 10 processing plants — nine in California and a tomato reprocessing facility in New Jersey. TVG procured raw products from growers on both a membership and a cash-contract basis and converted them into a wide variety of processed products. As time passed, the percentage of product, especially tomatoes, procured through cash contracts increased. For the products it acquired on a membership basis, TVG returned revenues to growers through commodity pools. Prior to 1983, TVG operated a single pool, whereby all revenues and costs flowed into a single account, and surplus in excess of each commodity's "established value" was

returned to members in proportion to their patronage with TVG. Established value, in turn, was usually set in accord with industry prices that were discovered through bargaining between the commodity bargaining associations for tomatoes, peaches and pears, and the major independent processors of those commodities.

In 1983, TVG established the “50/50” pooling concept, whereby commodity-specific pools were established, and 50 percent of revenues derived from each commodity flowed into its own pool, while 50 percent went to the general pool. In 1996, TVG restructured itself as a “new-generation cooperative,” wherein members’ equity was converted to capital stock, and the 50/50 pooling concept was replaced by a complicated alternative that essentially represented a return to the single-pool concept.

#### **TVG’s tomato operations**

Tomatoes comprised about 40 percent of TVG’s revenues in the 1990s.

The industry had undergone major structural changes by then. Production had relocated from coastal areas to the Central Valley, causing a mismatch between production and processing capacity, and the processing technology had come to emphasize low-cost, bulk-paste manufacturing undertaken in the producing areas, with remanufacturing into specific products done elsewhere.

Processed tomato products sell in a global market, and prices are subject to wide fluctuations and are strongly influenced by inventories carried forward from the prior crop year. On both a nominal and a real basis, prices declined on average from the period 1974-2000.

TVG joined the paste revolution in 1974, when it built a paste manufacturing facility near Volta and secured a favorable 10-year, cost-plus paste contract. In 1984 TVG acquired a paste remanufacturing facility in New Jersey. However, TVG also adopted a non-strategic approach to expansion in the 1980s through acquiring the member-

ship and facilities of two failed co-ops, Glorietta and Cal Can.

The result was that TVG’s tomato facilities were not well aligned geographically with its production, causing it to have higher shipping costs than the competition and, in some cases, its facilities lacked state-of-the-art technology. Its production capabilities were also not well aligned with the market’s needs, as then-CEO and board chair James Saras himself noted in 1993.

These circumstances suggest that TVG needed to make investments in plant modernization and relocation, but it was constrained during the late 1980s and 1990s from doing so because it was already carrying a high debt-to-equity ratio, and its members were themselves suffering from adversities in the raw-product market, making it difficult to collect more equity from them.

TVG’s inability to compete in the growing but cost-driven bulk-paste segment of the market caused it to refocus on producing peeled products



*Tomatoes comprised about 40 percent of Tri Valley Growers’ revenue in the 1990s, which was a period of major change for the tomato processing industry. Photo courtesy Modesto Bee*

and branded product sales in the 1990s, but this strategy was constrained because TVG's brands were weak and the value-added strategy brought it in to direct competition with larger, financially stronger rivals. TVG's major market channels were retail (mostly private label), 44 percent; food service, 30 percent; and contract, 12 percent.

Overall, TVG produced a wide variety of low-value and/or low-margin products. During this period, it manufactured 435 tomato product items or labels, including 154 peeled products, 148 remanufactured products, 61 paste items, 22 sauce products and 17 puree items. For the most part, TVG missed the explosion in demand in the 1990s for pasta sauces, Mexican salsas and barbeque sauces.

Very low raw product prices in 1991-92 caused reduced grower shipments to TVG in subsequent years, leading to underutilization of plant capacity — tomatoes processed in five plants could have been consolidated into three. Poor alignment of production with processing capacity, inefficient technology and under-utilization of plant capacity combined to make TVG a high-cost tomato processor relative to most competitors. Stagnant processed product sales in the early 1990s also led to high inventory costs.

Indeed, tomato market adversities led to low grower returns and persistent subsidization from fruits to tomatoes under the 50/50 pooling arrangement. Most TVG growers were multi-cannery growers and lacked loyalty to TVG. TVG lacked strong membership contracts that would have required delivery and instead was forced to offer tomato growers special deals — cash contracts, accelerated payments and low rates of equity retention — to retain the patronage of tomato growers in the 1990s. Only 54

percent of tomatoes were acquired on a membership basis in 1996.

Tomatoes were a growth industry relative to canned fruits and TVG gained marketing synergies by selling both tomato and fruit products. But the co-op was not competitive in the bulk-paste market, lacked strong brands and resources to compete with major branded-product producers



*A bidder signals his offer for equipment being auctioned at one of TVG's processing plants, following its bankruptcy. Photo courtesy California Farm Bureau*

and faced stiff competition and increasingly powerful retail buyers for private-label sales. Its severe problems and limitations in the tomato market caused TVG to actively contemplate an exit strategy from tomatoes in 1994. But a new board and management team took over soon thereafter and recommitted TVG to the tomato market.

### **TVG's fruit and olive operations**

Fruits comprised about 53 percent of TVG's revenues in the 1990s, with canned peaches and fruit cocktail representing the lion's share. Prior to its bankruptcy, TVG was the largest fruit processor in California, with about a 40-percent aggregate share of the market. TVG had its own brands,

such as Libby and S&W, but sold a majority of its product under private labels.

On balance, TVG was better positioned in fruits than tomatoes, and fruit products on average generated a higher margin than did tomato products. On the downside, per capita consumption of canned peaches and pears declined rather consistently from 1970 through the 1990s, as fresh fruit alternatives became increasingly available. Despite its large share of California production, TVG lacked large national market shares or dominant brands for any of its processed products and was essentially a price taker in these markets.

Things were also more favorable on the membership side for fruits than for tomatoes. Most of TVG's fruits were procured on a membership basis and — perhaps because they had fewer selling options than the tomato growers — TVG's fruit growers were generally loyal to the co-op. However, the persistent subsidies from peach-

es to tomatoes through the 50/50 pooling arrangement from the mid-1980s through the mid-1990s caused discontent among the peach growers.

Although olives were a high-margin item for TVG, they caused many problems. Movement of olives as a percent of production was consistently the lowest of any TVG commodity, the percent of non-member purchases increased rapidly to 71.5 percent in 1996, and costs in excess of \$10 million were incurred due to environmental contamination of the olive processing plant in Madera.

As with tomatoes, acquisitions and joint ventures involving TVG's fruit and olive operations appear to have been happenstance (such as the acquisitions of failed cooperatives), not strategy. Unlike its major competitors,

## What went wrong? Some opinions

- **David Long, CEO of Signature Fruit** (which now runs TVG's fruit canning plants): "TVG had too many products in too many packages, which ended up in inventories. It made a mistake pursuing branded products when its strength was in private labels."
- **Jeff Boese, president, California League of Food Processors:** "TVG was not a low-cost producer. (Joe) Famalette brought in people who were not from the food business."
- **Mike Machado, California assemblyman** and former TVG board member: "TVG lacked capital to make needed improvements in plant and equipment."
- **Larry Clay, CEO of Pacific Coast Producers:** "The board was at fault for failing to discipline growers, lacking a strong business orientation, displaying favoritism towards certain growers and lacking control over management. Acquiring failed competitors was a bad strategy, and accounting tricks and manipulations were used...."
- **Chris Rufer, Morningstar CEO:** "Acquired facilities were in poor condition and unproductive. TVG postponed making the right decisions, lacked strong leaders and was run by a board [of farmers], not entrepreneurs."
- **Bill Allewelt, former TVG CEO:** "The company was taken down by the ruinous decisions from a board of directors that seemed blinded to economic realities. ■"

Pacific Coast Producers, a pear co-op that focused on low-cost, private-label production, and Del Monte, which focused on value-added brands, TVG tried to perform in both market segments. However, despite many problems, TVG's fruit operations (excluding olives) were competitive to the very end.

### "New-Generation" restructuring

In April 1995, Joseph Famalette was hired as CEO and president of TVG. Famalette had been the architect of a restructuring plan for his previous employer, American Crystal Sugar, and presented a similar plan to TVG members in June 1996. TVG's equity base was hemorrhaging at this time due to loss of members and increased use of cash contracts, which presented no opportunity for a retain.

The restructuring plan included converting existing equity to a capital stock issued by commodity class. The capital stock conferred both a delivery right and obligation and could only be transferred, with board approval, to another California producer of the commodity. For example, 1.8 million shares of tomato stock were authorized, implying delivery of 1.8 million tons, but less

than 800,000 shares were issued.

The 50/50 pooling concept was replaced with a "profitability target" concept that was closely akin to the old, single-pool concept. The restructuring was also accompanied by a purge of many employees from the pre-Famalette era who were replaced with executives who had little prior experience with cooperatives or food processing. A retired TVG executive noted wryly, "They fired everyone who knew where the light switch was at."

### Final downward spiral

In 1996, TVG changed its definition of operating income and redefined its fiscal year. The new management also raised prices after the 1996 pack, in market conditions that were not supportive of higher prices. This move resulted in declining sales and rising inventories. Long-term debt rose from \$30.1 million in fiscal 1995-96 to \$145.6 million in fiscal 1996-97. In August 1997, TVG's auditor, Deloitte & Touche, warned TVG of an increased risk of inaccurate financial reporting, in part because the position of chief financial officer had been eliminated in the downsizing.

In August 1998, TVG announced a net loss of \$78 million and fired CEO Famalette. About 50 percent of this loss resulted from paying growers 129 percent of the established value vs. the 90 percent that was guaranteed. TVG ended fiscal 1998-99 with a loss in excess of \$120 million. These losses were carried forward on TVG's books, effectively depleting the cooperative's equity, and making it functionally bankrupt even before the official filing in July 2000.

### Analysis of TVG's demise

The seeds of TVG's demise were in place prior to the 1990s in the form of high inventories, low productivity of assets, high operating and transportation costs relative to the competition and a high debt-to-equity ratio, which inhibited needed investments in modern plant and equipment. TVG was competitive in fruit processing, but not in tomato processing. TVG needed to become competitive in tomatoes by either finding a market niche where it could thrive, or else jettisoning its tomato line.

Using fruit revenues to cross subsidize tomatoes was not a viable long-term strategy. It will never be known

whether TVG could have survived as a fruit processor, if it had divested its tomato lines in advance of the disastrous last years of its operation.

The new-generation cooperative restructuring was largely unsuccessful, in that it failed to stabilize either the equity base or the base of raw product. However, this move had little, per se, to do with the bankruptcy. Rather, the restructuring was a desperate response to severe problems that were already in place. The cost-reduction measures implemented at this time were counterproductive because they were too radical and ill-targeted, so as to negatively impact TVG's ability to generate revenues. The long-standing problems of poor internal controls and lack of a centralized information system were never addressed.

Some have viewed TVG's bankruptcy as a sign that co-ops are ill-suited to succeed in 21st century markets. One way to address this concern is to ask which of TVG's problems were due to its cooperative structure vs. being due to market conditions or internal problems.

We view the acquisition of inefficient capital from defunct co-ops as both a co-op (due to a sense of obligation to help fellow co-ops) and a management problem. The high debt-to-equity ratio that TVG experienced is common among cooperatives, and is due to the limited pool from which they can draw equity (namely, the members), and members' reluctance to

contribute to long-lived projects, known as the "horizon problem." The unwillingness to terminate growers who were no longer viable producers

*Ultimately, we do not think that TVG's cooperative structure was the major factor in its bankruptcy.*

for the cooperative and the dramatic grower overpayments in the final years probably also trace to the grower-ownership dimension of a cooperative.

Market problems were fundamentally twofold, but neither was insurmountable. The tomato market, though growing over time, was very volatile, and the canned fruit market was in decline.

There were several internal problems related to management and the board. Non-strategic acquisitions of failed competitors has already been noted, and failure to adopt an integrated management information system was a critical error. So, too, was the

Famalette-era purge of employees who were knowledgeable about the food processing business.

Other internal problems attributable to the co-op's leadership include failure to come to grips with the grower end of the tomato business, including overreliance on cash contracts. Finally, TVG had a persistent lack of focus on the selling side — for example, whether to emphasize brand or private label sales and whether to emphasize paste or value-added products in tomatoes.

Ultimately, we do not think that TVG's cooperative structure was the major factor in its bankruptcy. The fact that peer cooperative Pacific Coast Producers continues to experience success supports this view. We do think the TVG experience offers lessons for cooperatives.

A multi-product marketing co-op is desirable in the sense that modern markets prefer "full-line" suppliers. But marketing multiple products has the potential to create significant internal problems in terms of pooling and director loyalty and responsibility. TVG's experience with its tomato growers emphasizes the importance of long-term grower contracts to encourage member loyalty. However, loyalty to other cooperatives should not replace sound business judgments.

Finally, TVG was probably slower in responding to changing market forces than its competitors, perhaps due to a cumbersome cooperative decision-making process. ■

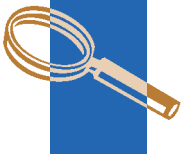
## General conclusions about co-op's downfall

- The seeds of TVG's demise were in place prior to the 1990s, in the form of high inventories, low productivity of assets, high operating and transportation costs relative to the competition and high debt to equity, which inhibited needed investments in modern plants and equipment.
- TVG was competitive in fruit, especially peaches, but not tomatoes. TVG either needed to become competitive in tomatoes by finding a market niche,

or else jettisoning its tomato line. Using fruit revenues to cross subsidize tomatoes was not a viable long-term solution.

- The new-generation co-op restructuring was largely unsuccessful, as it failed to stabilize either the equity base or the base of raw product. However, it had little to do with the bankruptcy. Rather, the restructuring was a desperate response to severe problems already in place. ■





# Innovation drives Accelerated Genetics



## What is Accelerated Genetics?

Accelerated Genetics, based in Baraboo, Wis., is a global provider of bovine genetics and research, reproductive services and solution-based animal health products. Its vision is to be the forerunner in developing innovative technologies and exceptional services that will aid customers in achieving their ultimate herd goals. Starting in 1941, Accelerated Genetics, formerly known as Tri-State Breeders Cooperative, has grown from a small, Upper Midwest cooperative to a global marketer in more than 82 countries.

## What is the co-op's basic business strategy?

While much of the industry has undergone mergers and acquisitions in recent years, Accelerated Genetics has remained autonomous in a shrinking market. It was one of the first in the Artificial Insemination (A.I.) industry to follow a path of diversification. Key business moves have included: 1977 — Created an Animal Health Product Division; 1988 — Developed Genetic Visions, Genetic Marker Research Subsidiary; 2000 — Unveiled Global Alliance, a marketing and technology exchange with European and Canadian competitors; 2001 — Joint Purchase of

World Wide Sires Ltd., a global marketing network.

## How is the co-op adjusting to a changing marketplace?

The U.S. dairy industry is rapidly evolving, as the numerous small herds that once populated the Midwest, East and West Coasts are being replaced by larger operations that use economies of size to modernize and stay competitive in a volatile marketplace. This translates into fewer decisionmakers, or fewer potential A.I. customers. Fierce competition among the five major A.I. firms and a handful of niche semen providers has challenged those left.

"Accelerated Genetics has risen to the challenge by relying on its internal strength: its people," says Roger Ripley, CEO and President of Accelerated Genetics. "Success has come through customers willing to share input, leadership willing to listen and a team of aggressive employees poised to implement new ideas." In four of the past five years, Accelerated Genetics has enjoyed double-digit semen unit sales increases. Value-added services and products have assisted in keeping the company profitable and growing, he noted.

## Any recent capital improvements?

Recent capital improvements have included the expansion of a semen distribution warehouse, expansion of semen processing lab and the addition of a new 70-sire housing facility. All were completed without incurring additional debt.

## How are you ensuring future leadership?

The Young Producer Leadership program was implemented in 1984. This in-house public relations project originally started as a "farm wife" program, but within a couple of years evolved to a different audience. Dairy and beef producers under the age of 40 are encouraged to participate in both leadership and extended-learning conferences hosted around the Midwest membership area. The Young Producer Program is designed to help producers develop friendships, build leadership qualities and strengthen communication skills through an educational supportive network in a fun environment. The obvious by-product of the Young Producer program is the gleaning of future leadership for the cooperative delegate system. Currently, all 10 members on the board of directors are

*continued on page 35*

*Dairy and beef sires are housed in the Accelerated Genetics' Tri-West Production facility in Westby, Wis. Above, champion bulls, such as this one, can help co-op members improve their dairy herds. Photos courtesy Accelerated Genetics*

# Signs of life

*Have you checked your co-op's education pulse lately?*

## **Jim Wadsworth, Co-op Education & Member Relations**

*USDA Rural Development*

**E**ducation is a lifetime endeavor for cooperatives, not a special event. Is your cooperative's education pulse beating strongly? Is it engaged in important educational initiatives?

If not, then it's clearly time for a renewal of your co-op education effort. Even if your education program appears to be running smoothly, it still may be time to check the pulse to make sure that its scope and resources are sufficient for maximum benefits.

The adage that "education is the lifeblood of a cooperative" has always had credence and it continues to ring true today. Cooperative leaders attuned to their environment should be able to clearly see the need for co-op education endeavors.

If not, reflect on some of the recent negative factors that are impacting cooperatives, their members and potential members: major business and co-op failures; ethical meltdowns that have rocked the business world and hurt the public perception of all businesses — co-ops included; co-ops struggling for effective leadership; rising competition from multinational corporations with seemingly endless resources; etc.

We should also reflect on positive factors: cooperatives expanding into new markets; mergers are creating synergies; co-ops developing new value-added products; renewed focus on the producer-owned nature of cooperatives as a marketing advantage, etc.

Both the challenges and opportunities create a critical need for a greater understanding of cooperatives. As far back as the 1920s, cooperative leaders and the agricultural community developed an extensive program of education — the American Institute of Cooperation — to expand knowledge of cooperatives. Even at a time of diminished resources available for cooperative education, the need and importance for it has not been lost today.

### ***Cooperative education program initiatives***

**Goal: Better understanding of how co-ops work for co-op directors, members and employees, as well as the general public.**

**This includes co-op character, governance, finances, policies, structure, operations, strategic efforts and positioning for continued member benefits.**

**Tools include:**

- Workshops
- Conferences & seminars
- Publications & Web sites
- Leadership training
- Institutes
- On-line training
- Colleges, schools
- Specialized training
- In-house instruction
- Special promotions and media events

### **Multiple initiatives needed**

Like a brilliant diamond, cooperative education needs to be multifaceted. Educational initiatives should address directors, members, employees

and the public. A good overall education program should promote understanding of the cooperative's character, governance, finances, policies, structure, operations, strategic efforts and market position.

Education efforts will vary, depending on the audience. The outline below defines cooperative education audiences and provides some examples of the type of training that each audience may require or benefit from.

- Directors — specialized training; leadership institutes; director workshops; seminars/conferences.
- Members (including young cooperators) — initiation to cooperative basics; basic cooperative instruction; seminars/conferences.
- Employees — basic cooperative instruction; specialized position training.
- General public (including youth) — special conventions; agricultural camps; vocational agriculture; cooperative promotions.

Cooperatives should make a point to review educational initiatives in greater detail and scope on a regular basis. Let's take a snapshot.

### **Director education possibilities are vast**

A recent USDA report, *Agricultural Cooperatives in the 21st Century*, says that to develop competent directors for the 21st century, co-ops must provide them with the type of specialized training needed to succeed in an increasingly complex marketing environment. This training could include special financial or business training or courses at local col-

leges or schools. They should also be supplied with appropriate reading materials to enhance their knowledge of both general issues impacting their business, and co-op-specific issues.

Directors should attend leadership institutes, which are highly valuable for increasing the understanding of “big picture” issues and which allow for face-to-face networking and learning from others. The *Graduate Institute of Cooperative Leadership* (GICL), held annually at the University of Missouri, is one such institute. A number of national and state cooperative associations sponsor leadership institutes, as do some cooperative centers.

Directors should also have the opportunity, or even be required, to attend director workshops. These provide a unique learning experience that exposes directors to a variety of crucial topics — both basic and advanced — that are specific to the challenges faced

by co-op directors. Many state and regional co-op councils and associations put on high-quality director workshops and are honing the programs every year to make them even more relevant. For example, the University of Wisconsin Center for Cooperatives (<http://www.wisc.edu/uwcc/>) sponsors a number of workshops for cooperative directors.

Large national seminars and conferences sometimes include director workshops as well.

Even when they do not, attendance at such events can be highly educational and useful for directors. They often provide cutting-edge presentations on important issues or studies and create a kind of open-air venue for networking among cooperative professionals. The Annual Farmer Cooperatives Conference, sponsored by the University of Wisconsin Center for Cooperatives, is one such event.

Others include annual conventions by national and state cooperative-related associations.

Resources and opportunities for director education demand the attention of cooperatives. Cooperatives should look to cooperative centers, state cooperative councils, universities, departments of agriculture, national associations, among others, for information on where and when such special programs are scheduled.

Whenever possible, cooperatives must encourage their directors to participate. If budget limits do not permit sending the entire board, they should at least send one or two directors, who can report back to the full board on what they learned.

Communication of significant information between management and directors is also essential. Management must keep directors tuned in to issues and circumstances the cooperative faces.

## Quick Picks — Some select cooperative education resources

### **USDA Rural Development cooperative programs library:**

<http://www.rurdev.usda.gov/rbs/pub/cooprpts.htm>

This library contains numerous cooperative information, research, and service reports.

### **Examples of publications for basic cooperative education:**

- CIR 55: Co-ops 101
- CIR 11: Cooperatives, What They Are and the Role of Members, Directors, Managers, and Employees (also has PowerPoint slides coinciding with each chapter that can be downloaded from the site...they can be modified as needed)
- CIR 5: Cooperatives in Agribusiness

### **A few director education resources:**

- CIR 58: Assessing Performance and Needs of Cooperative Boards of Directors
- CIR 61: The Circle of Responsibilities for Co-op Boards
- CIR 62: Directors: Asking Necessary Questions

### **Some online educational resource sites:**

- Online Cooperative Business Curriculum (A Baker’s Dozen) developed at the University of Montana-Bozeman: [http://aginternational.msu.montana.edu/Coop%20Lessons/cooperative\\_business\\_curriculum1.htm](http://aginternational.msu.montana.edu/Coop%20Lessons/cooperative_business_curriculum1.htm)
- National 4-H Council cooperative development online youth lesson: Check-out Cooperatives: <http://cooperative.n4h.org>
- Online cooperative training modules by CHS, Inc.: <http://www.mbrservices.com/Training/tutorials.cfm>
- Quentin Burdick Center for Cooperatives - online new generation cooperative modules: <http://www.ag.ndsu.nodak.edu/qbcc/>

## Education tune ups for members, staff, public

Members, employees and the public all need to be continually educated on the attributes of cooperatives.

Included among members are young cooperators — a group that deserves special attention given that they are the key members of the future and will often become directors. They should be provided the opportunity to attend and take part in various state and national seminars or conferences. Group interaction will broaden their perspectives, exposing them to ideas and solutions being used by other co-

ops that might work for their own.

**Employee co-op education** — extending beyond normal job training — must also be a priority. Cooperative employees must understand their cooperative's unique structure and operations, how it fits into the community and business environment, and how it is positioned for future success. Employees should be provided with materials that clearly explain the cooperative, and they should be allowed opportunities (at workshops, conferences, institutes) where they will learn more about cooperation and the issues facing cooperatives.

The general public is best reached through cooperative-related promotions, special events and advertisements. Some cooperatives do an effective job in educating the public about how they benefit their communities and/or region. A number of farmer cooperatives gain recognition from their branded products or producer relationships. Many rural electric cooperatives and credit unions have aggressive advertising programs that tout the benefits of the co-op in their operating areas.

Cooperative presence at special regional, state, or community events

## Co-op identity among topics during annual ACE institute

The Association of Cooperative Educators (ACE) held its annual institute in Montreal, Canada, in August, where the focus included how health and social care needs can be met through cooperatives and how cooperative identity can be the center of business and development success.

About 80 educators attended the event, the theme of which was "cooperative education: enhancing your business, strengthening your community." Other topics included:

- The Social Economy of Quebec;
- Cooperative Education and Research: Where We Are, Where We Need to Go;
- Integrating Research into Development of Cooperative Management Curriculum;
- Community Building and Cooperative Development;
- Building Democracy with On-line Communities;
- Attracting and Developing Women Leaders in Cooperatives;
- Connecting With Youth.

One of the special attributes of the ACE institute is the cross-border collaboration and sharing of education initiatives among members and associates. Speakers included cooperative educators from Puerto Rico, Canada and the United States.

The ACE institute is a highly participatory event, with numerous perspectives offered through presentations, speaker panels and workshops. Another highlight of the annual institute is the cooperative tours (rural and urban), where participants visit a number of cooperatives for a first-hand learning experience.

The institute is held annually to provide educators with a forum to highlight programs and practices that increase understanding, innovation and professionalism in cooperative education. The institute results in a synergistic sharing of ideas, experiences, and thoughts in the cooperative education arena.

The next ACE institute will be held in Alexandria, Va., Aug. 4-7, 2005.

ACE's growing membership — presently 252 voting members — consists of educators from cooperatives, cooperative associations (local, state and national), cooperative councils and centers, schools and universities, and state and federal government agencies.

ACE benefits cooperative education and the cooperative movement by:

- **Promoting cooperative research:** ACE promotes cooperative research by providing forums for researchers.
- **Developing linkages:** ACE works closely with universities, cooperatives and supporting organizations to coordinate and collaborate on programs and projects.
- **Building capacity:** With foundation assistance, ACE helps to develop future cooperative educators by providing scholarship support for students to the ACE institute.
- **Spreading the word:** ACE responds to numerous inquiries from cooperative educators around the world. Its quarterly newsletter is available to all on its Web site:

<http://www.wisc.edu/uwcc/ace/ace.html> ■

— By James Wadsworth, USDA Rural Development

provides further communication opportunities. Employees and members can also be good resources for educating the general public about the co-op and its special human aspects.

Also included in the public group are youth. Young people need to be exposed to and taught about cooperatives, their unique business structure, member orientation and how they fit in the marketplace. Many youth will have opportunities to become members, directors and employees of

cooperatives and early exposure to cooperation will enhance the potential for future relationships.

Vocational-agricultural schools, state cooperative councils and state and national organizations such as FFA and 4-H expose youth to cooperation. Many cooperatives provide funding and opportunities for members' children to attend youth camps or national association institutes. Reaching as many children as possible with information about the coopera-

tive model will pay dividends in future years to the cooperative community. The annual National Institute of Cooperative Education (NICE) for youth is an example of a national learning event with significant participation.

### Cooperatives must invest

The numerous cooperative education opportunities and programs discussed throughout this article all have

*continued on page 38*

# Required Reading

Keep on top of things with these USDA Rural Development publications.

## All Publications Free



RD Service Report 44

### Keys to Successful Co-op Housing

A guide to setting up and running a successful housing cooperative. Tips on planning and organizing a co-op, and keeping an established co-op financially sound and responsive to the needs of members. Newly revised.

RD Service Report 63

### Website Directory of Farmer Cooperatives

Includes Web site addresses for 518 cooperatives, plus street address, telephone numbers, whether the co-op accepts online orders, and other information.

RBS Cooperative Information Report 11

### Cooperatives: What They Are and the Role of Members, Directors, Managers, and Employees

Essential overview of co-ops. Explains what cooperatives are – their business principles and structural characteristics; and the responsibilities of their members, directors, managers, and employees.

RD Service Report 62

### Farmer Cooperative Statistics, 2002

Farmer-owned co-ops did almost \$97 billion in business in 2002, employing 166,000 workers. Get the scoop on how co-ops are doing with this publication.

Download from our website at [www.rurdev.usda.gov](http://www.rurdev.usda.gov).

Or, mail or fax order form to:

USDA/Rural Business-Cooperative Service  
1400 Independence Avenue, SW  
STOP 0705  
Washington, DC 20250-0705

Telephone: (202) 720-8381  
FAX Number (202) 690-4083  
E-mail: [coopinfo@usda.gov](mailto:coopinfo@usda.gov)

- Copies of SR 44: **Keys to Successful Co-op Housing**
- Copies of SR 62: **Farmer Cooperatives Statistics, 2002**
- Copies of SR 63: **Website Directory of Farmer Cooperatives**
- Copies of CIR 11: **Cooperatives: What They Are**

Name \_\_\_\_\_  
Address \_\_\_\_\_  
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# Furth, Wilson, Moorhouse win top honors for communications excellence



Without strong, effective communication and education programs, most cooperatives won't survive from one generation to the next.

Communications — be it in the form of publications, member meetings, Web sites, annual reports or



*Minn-Dak's Patricia Keough-Wilson*



*CHS' Lisa Moorhouse*

through co-op field representatives — is the life blood of a successful cooperative. If members don't understand why the co-op is taking certain actions — or not taking them — it is only a matter of time before apathy, dissent and the competition erodes the membership base.

For their outstanding efforts to keep their members well informed and their cooperatives alive and well, the Cooperative Communicators Association (CCA) annually recognizes some of the nation's top practitioners of the art of co-op communications. This year's awards were presented in June during CCA's annual communications institute in Louisville, Ky., an

event which marked the start of CCA's second half century of service to the nation's cooperative sector.

Top award winners included: CEO Communicator of the Year — Mark Furth of AMPI in New Ulm, Minn.; H.E. Klinefelter Award winner — Patricia Keough-Wilson, recently retired from Minn-Dak in Whapeton, N.D.; and Graznak Award winner — Lisa Moorhouse of CHS Inc. in Inver Grove Heights, Minn.

percent of AMPI members read Furth's Manager's Message column, mailed each month to members with their milk checks. This high readership rating is a reflection of his integrity, clarity and ability to relate the type of information members want to hear in a style that they can relate too.

He was commended for building communications into all planning and management processes at AMPI, and for successfully using his skills as a one-on-one communicator to bring



*AMPI CEO Mark Furth*

## **Furth: a respected voice in co-op and dairy industry**

When Mark Furth speaks, people listen — especially dairy producers. For example, a recent survey found that 97

AMPI members' viewpoints into national dairy policy discussions.

Furth says he considers the award recognition of the co-op's overall commitment to communications. "I'm fortunate to represent every employee and

member who has gone out of their way to make communications a priority.”

Nominator Don Wick, a well-known Midwest farm broadcaster and dairy journalist, says: “Mark is a tireless advocate for the cooperative system, the dairy industry and his farmer-members.” Adds Bill Oemichen, president and CEO of the Wisconsin Federation of Cooperatives: “Not only is Mark an effective communicator himself, but he is extremely mindful of the role communications play for his cooperative and its members.”

After joining AMPI in 1970, Furth rose through the ranks of the billion-dollar co-op, which has 1,700 employees, becoming general manager in 1989. The AMPI corporate office is located at the site of his first hometown job, here he started as a grocery bagger in his youth. Furth was praised for holding on to “the small town values he grew up with, including hard work and honest, straight-forward communications.”

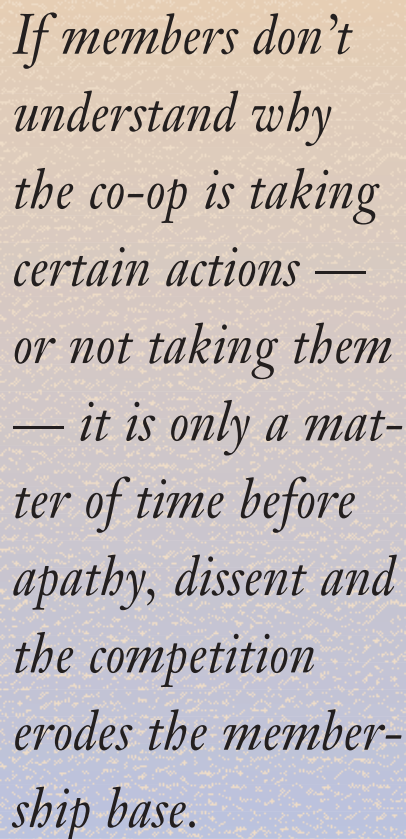
#### **Keough-Wilson: voice and conscience of her co-op**

During its half-century of life, CCA has included within its ranks many outstanding communicators who have done much to bolster the nation’s network of cooperatives. But few rise to the status of being called “the voice and conscience of her cooperative,” as was Keough-Wilson. Co-op leaders say they looked to her to help “interpret the big picture impacting the co-op’s day-to-day business, using her keen insight to present senior management with alternative perspectives.”

Keough-Wilson’s career included stints as a newspaper reporter, publisher of her own agricultural publication and long service as communications director of the Minn-Dak sugarbeet growers’ cooperative. She was communications director at the co-op from 1989 until her retirement in 2003. During her career, Keough-Wilson won countless awards for journalism and communications excellence, but she says the Klinefelter Award — presented to those who help make a sig-

nificant contribution to advancing the art of co-op communications — was the crowning recognition of her career.

Among those nominating her was former North Dakota Governor George Sinner, who said that Keough-Wilson was “a genius in telling the cooperative story and in making that story understandable, as well as believable and acceptable.” Minn-Dak once even “loaned” Keough-Wilson to the city government to quickly and



*If members don't understand why the co-op is taking certain actions — or not taking them — it is only a matter of time before apathy, dissent and the competition erodes the membership base.*

expertly write a proposal to help attract an important ag processing facility to the area.

She was praised for consistently demonstrating an interest in defining communication as broadly as possible, believing in the importance of two-way communications and multiple approaches to achieving goals. Keough-Wilson “is willing to take risks to try something new, but lays the groundwork carefully to ensure success.”

She directed the launch of a co-op leadership-development program that has become a national model.

Graduates of the program say “she saw the need to ensure the future success of the co-op by acting in the present...and helped us gain a vision of how we can influence and lead our organization in the years to come.”

Keough-Wilson was the first woman board member to serve on her state’s Coordinating Council of Cooperatives and chaired the board of the Cooperative Foundation, which supports a broad array of cooperative-based initiatives, and where she helped to establish a new communications strategy.

Through her leadership in CCA, including service as president, she has been a bridge builder, pushing for the first joint program between a regional association of CCA and the Association of Cooperative Educators’ Institute. More recently, she chaired CCA’s 50th anniversary observation.

#### **CHS’ Moorhouse excels at multiple communications tasks**

Lisa Moorhouse has a real passion for communications and cooperatives. Her selection as the Graznak Award winner recognizes her as one of the nation’s best young (age 36 and under) co-op communicators. She was praised for her “creative internal communications efforts at CHS and the ability to share an often complex cooperative story with employees and many other stakeholders in the co-op.”

A co-worker said of Moorhouse: “Even though our co-op has been enmeshed in constant change, she has met every challenge with a can-do attitude, professional skill and creativity.”

Moorhouse is responsible for CHS employee communications, including serving as editor for the employee newsletter and manager of the employee Intranet site. She also develops communication strategies, including human resources-related issues, and works with governmental relations and a wide range of additional communications responsibilities.

Not only does she help to inspire CHS employees, they help to inspire

*continued on page 37*



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

### Iowa hearing examines key issues affecting co-ops

Iowa Senator Chuck Grassley, chairman of the Senate Committee on Finance, conducted a hearing in Sioux City, Iowa, on Aug. 25 to examine legislation that would increase tax incentives for rural communities and cooperatives. Grassley called the hearing to focus on his Heartland Investment and Rural Employment (HIRE) Act, introduced in July. The HIRE Act proposes a series of changes to benefit agricultural cooperatives, small businesses, and promote affordable housing in rural communities, among other goals.

The bill includes creating a commission to study the tax laws pertaining to cooperatives, including Subchapter T of the federal tax code, which governs agricultural cooperatives but has not been updated in more than 40 years. The commission would study: whether the subchapter should be modernized; the barriers to raising equity within a cooperative; and whether a new limited liability cooperative structure should be created for cooperatives that would benefit from being taxed and (for business purposes) be treated under the more flexible rules of a limited liability company.

As proposed, the commission would include cooperative experts from all over the country and would have one year to submit a report to the President and Congress with its findings and recommendations.

Updates for agricultural cooperatives include:

- a modification to cooperative marketing rules to include value-added processing involving animals;
- an extension of declaratory judgment procedures to farmers' cooper-

ative organizations;

- payment of dividends on stock of cooperatives without reducing patronage dividends;
- and the apportionment of credits, meaning cooperatives could allow eligible patrons the benefit of general business credits earned by the cooperative.

"These changes need to happen so cooperatives can continue to compete effectively in the world-wide market," Grassley said.



### U.S. Premium Beef converts to LLC; begins test marketing natural beef

Shareholders of U.S. Premium Beef Ltd. (USPB) have voted to approve the conversion from a Kansas cooperative to a Delaware Limited Liability Co. (LLC), effective Aug. 29, 2004. "The LLC structure is a business platform that better positions U.S. Premium Beef to compete in a very dynamic industry," Steve Hunt, USPB CEO, said in announcing the conversion. "Our philosophy of financially rewarding producers who market high-quality grading cattle through our company will not change," Hunt added.

"Under the LLC structure, our unit holders, as well as producers who lease units to deliver cattle, will have

the same opportunity to market their cattle through the company's value-based marketing system as before."

The LLC structure creates Class A and Class B units. The Class A units will carry delivery rights and obligations, just as USPB shares did under the cooperative structure. Class B units are "investor" units with no delivery rights. The restructuring will allow both beef producers who want to guarantee market access to deliver cattle and other non-producer investors to own units in U.S. Premium Beef, LLC.

U.S. Premium Beef Ltd. was organized as a Kansas cooperative in 1996. Today it is the majority owner of the nation's fourth largest beef processor, National Beef Packing Co., LLC, (NPB) which processes approximately 10 percent of the U.S. fed-beef supply at its plants in Liberal and Dodge City, Kan. More than 1,900 producers from 36 states have joined USPB to market cattle on the company's high-quality grid.

In other news, National Beef has begun test marketing its first product line in the natural beef food category, with the introduction of Naturewell Natural Beef™, which comes from cattle given no antibiotics, hormones or steroids during the final 120 days in the finishing process. Cattle that qualify for the Naturewell brand are exclusively English and English cross-bred cattle. The beef is Grade A maturity only and has a "Slight 30" or higher marbling score. It is a blend of Choice and Select grade beef product.

"While our introduction of Naturewell is only in the test stage at this time, we are encouraged by the results of the extensive consumer



research we've conducted to determine the potential market demand for natural beef products," Hunt says. "Because it is a test market product, we're working with a small number of USPB and NBP customer feedyards that can commit to deliver cattle on a weekly basis that fit the Naturewell specifications to our plants."

### Riceland's Richard Bell retires in year of record sales, income

Richard Bell, 70, credited by many with transforming his co-op into the world's leading rice miller and marketer, retired July 31 after nearly a quarter century at the helm of Riceland Foods Inc., in Stuttgart, Ark. He's going out with a bang, as Riceland expects record sales of more than \$950 million for the current marketing year, a 9-percent increase from the previous year. The co-op also expects to pay record earnings and payments to its members, up 22 percent from the previous year. Total assets and member equity will also set new records by year's end.

Bell's successor is Daniel Kennedy, who had been the co-op's executive vice president. Kennedy joined the co-op in 2000 after 16 years with Monsanto Co. He is a Louisiana native and holds a bachelor's degree in agricultural economics from Mississippi State



Daniel Kennedy



Richard Bell

University and a master of business administration degree from Northwestern University outside Chicago.

Bell, an Illinois native, came to Riceland in early 1977 from Washington, D.C., where he served as assistant agriculture secretary for international affairs and commodity programs. He also served as president of

USDA's Commodity Credit Corporation and as chairman of the Federal Crop Insurance Corporation. His early career was spent as a foreign service officer at various American embassies.

Bell plans to remain active in the rice industry, including working as an advisor to Riceland on legislation, trade and crop research issues. He will also continue outside activities, including serving on the boards of Arkansas State University, the University of Arkansas for Medical Sciences Foundation Fund and various other civic, educational and charitable boards.

Riceland provides marketing services for rice, soybeans and wheat grown by its 9,000 farmer-members in Arkansas, Louisiana, Mississippi, Missouri and Texas.

### Co-op buys cigarette plant

U.S. Flue-Cured Tobacco Growers Inc., an affiliate of the Flue-Cured Tobacco Stabilization Corp., is paying nearly \$26 million for a cigarette manufacturing

## USDA's Tom Gray honored for public service to co-ops

Thomas W. Gray, Ph.D., rural sociologist with the Cooperative Services office of USDA Rural Development, is the recipient of the 2004 Rural Sociology Society award for excellence in public service. The award was presented at the annual professional meeting of the Rural Sociology Society (RSS), held in Sacramento, Calif., in August. The award is granted to those people who have distinguished themselves in their work roles with contributions that achieve the missions of the Society and their applications to rural America.

Dr. Gray was nominated, and competitively selected, for his lifetime contributions to the generation, dissemination and applications of knowledge to agricultural cooperatives across the United States at the university and community levels.

The RSS is a professional social science association oriented to enhancing the viability and quality of rural life, communities, and the environment. Gray was cited by the RSS for "creating an innovative agenda of research and technical assistance — which did not exist (at USDA) before — and built a multi-scaled approach that ranged

from understanding micro-level factors influencing cooperatives, to their operation and challenges within a restructured global food system." Gray was also called the person most responsible for keeping an interest in co-ops alive among the nation's rural sociologists.

"Tom's work helps us to never forget that cooperatives ultimately are organizations of people, created and operated for the benefit of the members and their communities," says John Dunn, director of the Resource Management Division at USDA Rural Development, of which Gray is a part. "There are myriad human and social issues that arise out of this unique form of business ownership, and Tom's career has been devoted to examining these issues and stimulating others in the rural sociology profession to advance their understanding of the rich meanings of cooperative behavior." ■



Tom Gray

plant near Roxboro, N.C., which was formerly owned by Vector Tobacco.

The co-op, which has members in five states, will manufacture both its own brand of cigarettes, and will custom pack under other brands for its customers. Co-op members will be the preferred source for tobacco, but it will contract with other growers for leaf if demand requires it. Plant capacity is about 30 million pounds of leaf.

Lionel Edwards, general manager of the co-op, says the goal is to add value to members' crop by producing a premium cigarette for a reasonable price.

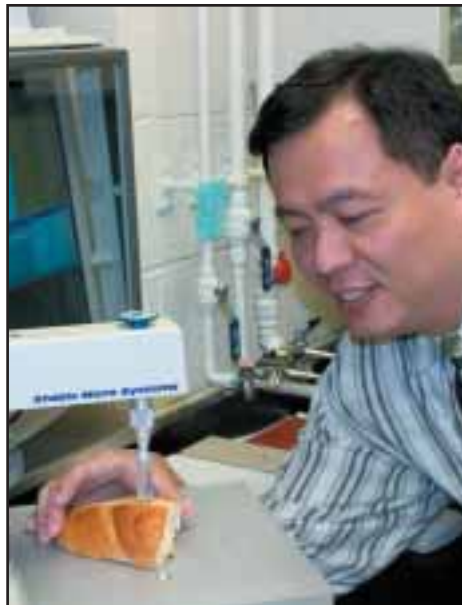
### Chesapeake farmers to market low-carb bread

Chesapeake Fields Farmers, a farmer-owned LLC that includes a co-op in its membership, and the University of Maryland are ushering in a new generation of bread making. Together, they've created a low-carb, low-calorie, high-protein, artisan-quality bread, which they say is unlike anything found on today's grocery shelves.

Slated to hit stores in September or October, Chesapeake Fields' breads offer just six grams of carbohydrates per slice — with no added calories and no genetic modifications. "Most lean breads on the market have a reduced carb count of eight grams per slice, compared to 12 for traditional breads," says Y. Martin Lo, an associate professor of food bioprocess engineering at the University of Maryland. "The

problem is, these new products pack on extra calories."

Lo, in conjunction with Chesapeake Fields, based in Chestertown, Md., tested over 60 strains of wheat and isolated those yielding the best diet-friendly qualities when baked. Those strains, narrowed down to two, are the core of the company's all-natural,



University of Maryland food researcher Y. Martin Lo tested 60 strains of wheat to find the right, diet-friendly recipes for the Chesapeake Fields Farmers. Photo courtesy University of Maryland

high-protein baked goods. The company is also working with Lo through the university's Maryland Industrial Partnerships (MIP) program to add science to bread making.

"Customers want out-of-the-oven freshness," said Lo. "They want hand-made bread that's chewy, but doesn't stick to your teeth. Our goal is to consistently deliver that quality, for longer times on the shelf, by understanding the interaction of proteins during the dough formation and baking processes."

Chesapeake Fields' breads also offer product identity preservation. "We'll be able to pick up a loaf of bread and tell you exactly which lot on which field it came from," says John Hall, president and executive director of Chesapeake Fields.

Chesapeake Fields plans to create 143 jobs and \$52 million in revenue in just four years at multiple manufacturing sites near Chestertown. The company's first products will initially hit 700 retail outlets in Delaware and eastern Maryland and Virginia. MIP provides funding — matched by participating companies — for university-based research projects that help companies develop new products.

The farmers also received a \$250,000 grant from USDA Rural Development.

The mission of Chesapeake Fields Institute is to strengthen the profitability of traditional agricultural markets for family farms, while conserving the region's natural and cultural resources. For more information on Chesapeake Fields, visit [www.chesapeakefields.com](http://www.chesapeakefields.com).

### Great escapes *continued from page 9*

with each member offering information concerning its operations. A list of interested parties is being maintained and follow-up contacts are being made by the individual members.

"We have many attractions specific to this area the people may want to check out," says Price. In addition to the members' farms, the state park and Lake Walter F. George, the area has several excellent golf courses and many antebellum mansions in nearby towns.

Other members in the co-op include a watermelon farmer, fishing pond operator, other hunting plantations and a horseback and nature trail business.

For such a new group and new concept for Georgia, the group has worked well together and anticipates great things coming from their efforts. Watermelon farmer Joyce Sanders is happy to be involved with the group, even though her product is only available seasonally.

"We joined the group knowing that we may not gain as much as others, but we wanted to help," she said.

Price stated that he hopes the co-op will give the incentive to landowners to further develop their land for outdoor recreational activities.

"By joining together to form Southwest Georgia Escapes, landowners can pool their resources and knowledge to capitalize and market resources in this area," he says. ■

## **GROWMARK profits climb; election reduces board size**

Growmark had net income of \$29.8 million for fiscal 2004, compared to \$19 million in 2003. Sales climbed more than \$350 million, topping \$2 billion. Growmark also announced that it would be returning \$25 million in patronage refunds to members.

Helping the regional farm supply co-op to the improved showing were sales of more than 1 billion gallons of gasoline, propane and distillates, due in part to marketing across a broader geographic area. "Member cooperatives continue to use the Home Grown Fuels campaign to promote both ethanol and soy biodiesel products," Vice President of Finance Jeff Solberg said during the co-op's annual meeting in Chicago. "Approximately 70 percent of gasoline marketed by FS member cooperatives contain a 10-percent ethanol blend."

The fertilizer division reported sales up 3 percent, while crop protectant sales surged ahead 5 percent. The seed division also saw sales climb.

In the grain division, member volume fell 4 percent. Ethanol plants in Iowa and Missouri plus large rail shippers in Iowa, Missouri, and Illinois, continue to be strong competitors for grain volume.

MID-CO COMMODITIES, which offers commodity hedging and advisory services to member cooperatives and their producers, had earnings of \$1.3 million and will return \$650,000 in cash patronage.

GROWMARK members also elected 16 directors to its board, reflecting a recent bylaw change that reduces the board from 24 members. Fifteen of the 16 directors were elected from six geographic zones covering all of North America. There are multiple directors per zone, who will serve staggered terms of one, two or three years. One director-at-large was selected to represent the Illinois, Iowa and Wisconsin Farm Bureaus (which are affiliated with GROWMARK). Dan Kelley, re-elected to a three-year term, was also re-elected chairman.

"This board restructuring is part of an overall governance modification plan GROWMARK embarked on four years ago," says Kelley, from Normal, Ill. "Our governance zones represent our business base and provide for geographic expansion in the future."

Newly elected board members (each to a one-year term) were: Allen Tanner of Creston, Iowa; Matt Heitz of Farley, Iowa; John Eccles of Durham, Ontario. Newly elected to a three-year term as the Farm Bureau director is Henry Kallal of Jerseyville, Ill. All other directors were re-elected.

## **Foremost Farms USA revolves \$4.2 million in member equity**

Foremost Farms USA is revolving \$4.2 million of allocated equity and allocated surplus back to its members. The payments are in addition to the cash portion of 2003 patronage, issued

in April. In total, Foremost Farms has issued more than \$6 million in cash payments to equity holders in 2004. The allocated equity payments will be mailed to past and present member-owners age 72 and older who are sole proprietors.

"Our bottom line and balance sheet, which look better this year for a number of reasons, allowed the board to revolve these dollars," said Foremost President Dave Fuhrmann. "Foremost Farms has not only benefited from a better dairy economy in the last year, but from cost-saving measures and operational improvements."

## **Dallas, Nielsen join Co-op Foundation board**

Cooperative leaders Terri Dallas and Jeff J. Nielsen were recently selected as new trustees of the Cooperative Foundation, which represents a diverse array of cooperatives in agriculture, housing, food, electric and credit unions in the Upper Midwest. Dallas, of Shawano, Wis., is vice president of information and public relations for Cooperative Resources International (CRI), one of the world's largest artificial insemination organizations. CRI provides breed-leading dairy and beef genetics to farmers in 60 countries.

Nielsen has been the general manager of United Farmers Cooperative (UFC) since 1999. UFC, based in Lafayette, Minn., is a farmer-owned,

## **Innovation drives Accelerated Genetics *continued from page 25***

products of the Accelerated Genetics Young Producer program.

### **What major challenges confront the co-op?**

The biggest challenges in the cattle business today are getting cows bred and ensuring replacement stock will be available in the future. Accelerated Genetics is assisting in the education, training and organization of science-based estrus-synchronization proto-

cols. Providing labor assistance and recordkeeping technologies will be key to giving value-added services to the basic semen purchase. Accelerated Genetics is also an industry leader in studying semen sexing technologies that might prove commercially viable in the very near future.

### **Future plans?**

"Accelerated Genetics has staked its claim with innovative ideas and

diversification to meet the needs of customers today and into the future," says CEO Ripley. "Delegates, directors and management are constantly challenged to envision the future and focus on products and services that will make a difference to future customers. Their enthusiasm for positive opportunities in the industry helps to mold the policy. We believe in our motto: that innovation breeds excellence." ■

diversified cooperative with nearly \$70 million in current sales. He helped pioneer a new employee-owned, self-insurance group that not only stabilized the cost of health care for UFC's employees, but served as the foundation for a new venture that will allow farmers to participate in a self-driven health care plan.

For more than 50 years, The Cooperative Foundation has supported innovative cooperative development and education projects. For more information, visit: [www.coopfoundation.org](http://www.coopfoundation.org).

### Michigan Sugar to buy Monitor Sugar

Michigan Sugar, owned by 1,000 Michigan sugarbeet farmers, plans to buy Monitor Sugar Co., owned by Illovo Sugar Ltd. of Durban, South Africa, for \$63 million. Monitor is supplied by about 600 farmers. The new company will operate under the name Michigan Sugar, but the co-op will continue to market under Monitor's

Big Chief Sugar brand, in addition to its own Pioneer Sugar brand.

"I think it's a good thing for the growers here," Jack C. Frank, a member of the board of the Monitor Sugar Beet Growers, told the *Bay City Times*. "The industry has been here 103 years and it should stay here. For our industry to survive, we had to become a co-op. That's the trend."

Michigan sugarbeet growers produce about \$115 million worth of sugarbeets a year, 3 percent of the state's \$3.8 billion in farm revenue. The industry employs 1,400 farmers and 2,300 workers at five processing plants, four owned by Michigan Sugar and one by Monitor Sugar.

### Idaho wheat growers joining CHS

Latah County Grain Growers, a wheat co-op in Moscow, Idaho, has opted to merge into Primeland Cooperatives, the Lewiston-based divi-

sion of CHS Inc. The merger will end 75 years of independent operation by the Latah growers. A co-op representative says the move was necessitated by the federal government's accelerated export of stored wheat to poor nations and the popularity of the Conservation Reserve Program, which, when combined, siphoned off too much money.

The government's decision to move millions of bushels of grain overseas during the past 18 months has cost the cooperative \$200,000 in lost storage fees. At the same time, the increasing popularity of the land reserve program has idled 35,000 acres in the county and eliminated demand for items that cooperative provides, like seed and fertilizer.

### Iowa meatpacking plant closes

Iowa Quality Beef has closed its packing plant in Tama, Iowa, and will layoff 540 workers. It hopes to reopen

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## Backyard powerhouses *continued from page 19*

compensated for lengthier and more complicated permitting. All of these factors, including differences in overall yearly energy production, mean that costs and payback periods are different for each installation.

Co-op members own their turbines and are responsible for financing them. However, according to Grove, Our Wind was able to find a number of sources to help share the capital cost of the turbines. Assistance included grants by utilities, rebates by Bergey Windpower, the manufacturer of the turbines, and state, local and federal government programs.

USDA Rural Development awarded the co-op a Renewable Energy Systems Grant of \$77,749 to help offset capital costs for each of nine turbines.

"We were able to reduce installation costs to the members by about 80 percent for the first five turbines, from an average of \$41,000 to about \$8,000," Grove says. "That reduces the time it takes for each turbine to

pay for itself from about 50 years to only seven."

### Turbine ownership & motivation vary

Four of the five existing turbines are on land owned by private citizens or farmers. One was built by a county government.

Co-op members have different reasons for participating. Doug Nelson, who owns an 800-acre ranch in Montana, says that, while he was interested in turbine technology, the main reason he wanted a turbine was to reduce his power costs.

Ed Kennell, on the other hand, a retired plumber in rural Washington, pursued renewable energy systems as a hobby for 30 years. "I was into clean energy when nobody even knew what the term meant," he says.

Don Marble, a Liberty County, Mont., commissioner, says, "We have three things out here: wheat, wind and cows." In an area currently in economic doldrums, he and other members of his community were interested in wind

power as a potential source of economic development. After seeing a presentation about wind power projects in South Dakota, Marble got serious and started an initiative to install an Our Wind generator, which supplies power for county facilities.

For Marble and his community, the new turbine may be only the beginning. The county is currently conducting a survey to determine suitability for larger, utility-style wind generators. Marble says there have already been expressions of interest from a utility company.

Though the total amount of power produced by both co-ops is small, such efforts may point the way for many more grass-roots, green power projects. Much will depend on startup costs, which may improve in the future with better technology and more sources of financial assistance.

Meanwhile, co-op members have the satisfaction of knowing that they are doing their part to reduce greenhouse gas emissions. And for them, that's enough. ■

in a few months. It blames the decision to close on the impact mad cow disease had on beef exports. The Tama plant is a joint venture of the Iowa Quality Beef Supply Cooperative and American Foods Group of Green Bay, Wisconsin.

Wythe Willey of the beef co-op says the closing was necessary because American Foods Group decided not to buy cattle for the plant anymore. Carl Kuehne, owner and CEO of American Foods Group, says his company had been buying the cattle for the plant since February. He says he doesn't know if his company will be part of the Tama operation when, and if, the plant reopens. The Tama plant, which opened in 2003, has the capacity to handle 1,200 hundred cattle a day.

#### **Former Lt. Gov. Bradley takes job with DFA**

Former New Mexico Lt. Gov. Walter Bradley has been appointed director of government and industry relations for the Dairy Farmers of America in the Southwest region.

The Kansas City, Mo.-based organization is the largest milk marketing cooperative in the United States, serving nearly 23,000 dairy farmers in 49 states. In the Southwest, the organization markets milk for 568 dairy farms, which supply more than 939,600 gallons of milk to local markets each year.

Bradley says he's a big fan of dairy products. "This is an exciting opportunity for me and my family," he said. "New Mexico is the nation's seventh largest milk producing state, and DFA's dairy farmers produced more than 70 percent of that milk." He served as lieutenant governor from 1995 to 2002 under then-Gov. Gary Johnson. ■



*U.S. Agriculture Secretary Ann M. Veneman toured the DariConcepts plant in Portales, N.M., in August, where she discussed trade and other issues with Rep. Steve Pearce (center) and DFA board member Alva Carter. The plant is a joint venture of DFA. Photo by Pete Gibbs, courtesy DFA*

## **Furth, Wilson, Moorhouse win top honors** *continued from page 31*

her. Moorhouse relates the tale of a CHS truckdriver who was "so incredibly proud of what he does. You could see it in his face and hear it in his voice. He drove 500 miles a day, hauling thousands of gallons of fuel. He knew how he impacted hundreds of people in his area of the country. What an incredible honor to tell his and others' stories to our employees and member-owners."

She joined the cooperative in 1996 after receiving her BA in public relations from Minnesota State University—Moorhead. In 2004, she earned a Master's Certificate in mass communications from the University of St. Thomas.

Moorhouse has been active in CCA for the past six years. In 2003, she was named volunteer of the year for her work as chair and assistant chair of both the publications and special projects categories of the CCA communications

contest, as well as leading the effort to redesign CCA's Web site. Moorhouse also serves on the Minnesota FFA Foundation board of directors.

#### **Sunkist's Smith among other top winners**

Other top award winners in CCA's 2004 cooperative communications contest included:

- Communications Programs and Projects, Best of Class: Claire Smith of Sunkist for the co-op's Web site: [www.sunkist.com](http://www.sunkist.com).
- Writer of the Year: Richard Biever of Indiana Statewide REC Inc., for a portfolio of articles;
- Photographer of the Year: David Lundquist, CHS/LO'L, for a portfolio of photos;
- Publication of the Year: Richard Schweitzer, American Crystal Sugar, for the co-op's 2003 annual report.

USDA's *Rural Cooperatives* magazine won several awards in the contest, including first place for serious feature articles for "Living with Sprawl," by Catherine Merlo, about how some co-ops are dealing with urban sprawl.

USDA ag economist Julie Hogeland won an honorable mention for co-op education for an article titled "How Business Culture Drives Economic Behavior in Co-ops." The overall magazine won an honorable mention for best member magazine.

For a complete list of CCA award winners and more information about the organization, visit: [www.communicators.coop](http://www.communicators.coop).

CCA is a national organization of more than 350 professional communicators who work for cooperative businesses and organizations throughout the United States and a number of other nations. ■

one thing in common — they require an investment. The investment necessary is financial as well as human. The financial investment comes in the form of developing education programs and materials and/or paying for people to attend programs that others have

already set up and are operating.

The human investment extends to developing enthusiasm and positive energy for programs and as well the time investment needed for development and participation.

Cooperatives must continuously

assess their education initiatives and then allow for appropriate investments to maintain and improve them. The unique nature of the human interactions necessary for strong cooperative efforts makes multifaceted cooperative education an imperative. ■

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## **Proposed sale of Farm Credit System lender to Dutch bank ignites controversy** *continued from page 7*

Several banks, including CoBank, and associations within the Farm Credit System and the Farm Credit Council (the trade organization of the Farm Credit System) have expressed opposition to the deal. In addition, a group of FCSA stockholders calling themselves “Farmers for Farm Credit,” have begun organizing to oppose the sale. That group says it is “dedicated to preserving an American farmer-owned and controlled cooperative lender.”

### **AgStar makes counter bid**

One concern is that if FCSA leaves the system, people who buy Farm Credit System bonds may begin to question the continued financial viability of the system. If investors were to stop buying bonds, it could force a rise in interest rates for farmers and ranchers needing loans, says Paul DeBriyn, president of AgStar, another Farm Credit System bank which has tendered a counterproposal to buy FCSA.

Under the AgStar offer, technically a merger proposal, there would be a cash distribution of \$650 million, and the offer’s value could rise to more than \$1 billion with future cash patronage dividends. Further, by remaining within the Farm Credit System, member-stockholders would preserve their ownership and control of the bank and keep it headquartered in the Midwest — at Mankato, Minn., AgStar notes.

It is FCSA’s lack of paying patronage to members which has left it holding some large cash reserves and

reportedly made it an inviting target for a takeover bid. AgStar, on the other hand, has paid patronage since 1998, including \$23 million to its 12,000 members in 2003.

In a joint letter to the FCSA board, the CEOs of three key Farm Credit System banks — William Collins of AgriBank FCB, F. Andy Lowery of AgFirst and Douglas Sims of CoBank — are urging that the counteroffer from AgStar be accepted, which they say would be backed with their banks’ own \$84 billion in assets.

In a letter to customers, Sims and CoBank Chairman J. Roy Orton say: “The sale [to Rabobank] could have an adverse effect on the Farm Credit System and pose a severe threat to the cohesiveness of the only cooperative financial institution managed to serve rural America.”

They also stressed that one reason FCSA even exists today is that the Farm Credit System invested more than \$600 million (25 percent of it from CoBank or its predecessor) into the Omaha Farm Credit District during the farm crisis of the 1980s.

### **Sale price questioned**

Orton says Rabobank’s proposal amounts to 44 cents on the dollar of FCSA’s book value of \$1.35 billion at a time when other rural lenders are selling for more than twice that much.

Neil Harl, an Iowa State University ag economist, told the *Des Moines Register* that the proposed sale has

“touched off a flood of phone calls from farmers expressing anger, frustration and opposition” to the sale. “I’ve rarely taken so many angry calls,” he said.

Another press report quotes John Blanchfield of the American Bankers Association as saying his organization lacked enough details to comment on the proposed sale, but that in general, ABA supports privatization of the Farm Credit System because it “focuses its lending on larger, wealthier borrowers, abusing its federal sponsorship.”

Farm Credits System banks counter that the opposite is true — that they do, as mandated by Congress, strive to lend to young and beginning farmers and ranchers who they say are all too often ignored by commercial lenders.

United FCS, another Farm Credit System lender which serves about 6,000 farmers and ranchers in Minnesota and Wisconsin, has issued a statement saying the proposed sale of FCSA should spark dialogue within the Farm Credit System “not over who should acquire whom...but instead on what’s best for rural America. Rural America has changed dramatically in the 88 years since the system was established, and yet its charter and authorities are essentially unchanged,” says Marc Knisley, Minnesota Valley FCS president. “We can and should be doing more for rural America, and we view the recent decision of FCSA to exit the system as a symptom of these deeper, underlying issues.” ■



# Back to the future

*Milk was cool with teens in '55, gets an update for '05*

**M**ilwaukee teenagers obviously enjoyed a good milkshake made with local Golden Guernsey milk in this 1945-55 era photo, used in a USDA report of the day on fluid milk marketing efforts by co-ops. Golden Guernsey, now part of the Foremost Farms USA cooperative, is still the preferred milk brand for millions of Americans. But teens of today aren't quite so keen to



*Golden Guernsey milk has always been the perfect mixer for milk shakes, as seen in this circa-1950 photo.*



*The staff at the Golden Guernsey General Store take a milk break during the Wisconsin State Fair. Grip It, Sip It brand chocolate milk appears to be the beverage of choice. Photo by Laura Mihm, courtesy Foremost Farms USA*

indulge their dairy cravings by pairing up with dueling straws over a chocolate or vanilla shake.

So co-ops such as Foremost Farms are offering them a wide variety of new ways to enjoy milk snacks, such as new,

single-serve lowfat chocolate milk drinks. This marketing effort dovetails nicely with the desire of many parents and schools to encourage teens to ease up on their soda-pop consumption and to instead drink more milk and real juice products.

The co-op's 1-percent fat, chocolate drinks are sweetened with

SPLENDA®, a non-nutritive sweetener. They are being marketed under the Morning Glory™ GG Golden Guernsey Dairy®, and Grip It. Sip It.™ brands.

“In today's society, there is wide-

spread concern about obesity and interest in weight loss, coupled with an ongoing calcium crisis,” says Joe Weis, vice president of the Foremost Farms Fluid Products Division. “Chocolate milk is the No. 1 selling flavored milk, so it makes sense to provide a lowfat, no-sugar-added alternative to address consumers' needs.”

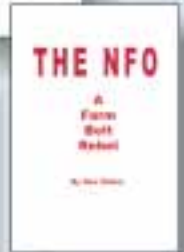
The new product has 56 percent less sugar, 52 percent fewer carbohydrates and 47 percent fewer calories than regular chocolate milk. It is available in pint, quart and half-gallons.

Headquartered in Baraboo, Wis., Foremost Farms operates 20 manufacturing facilities and one milk transfer station for its 3,700 dairy farmer-members in Wisconsin, Minnesota, Iowa, Illinois, Indiana, Michigan and Ohio. The cooperative employs 1,500 people. ■

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