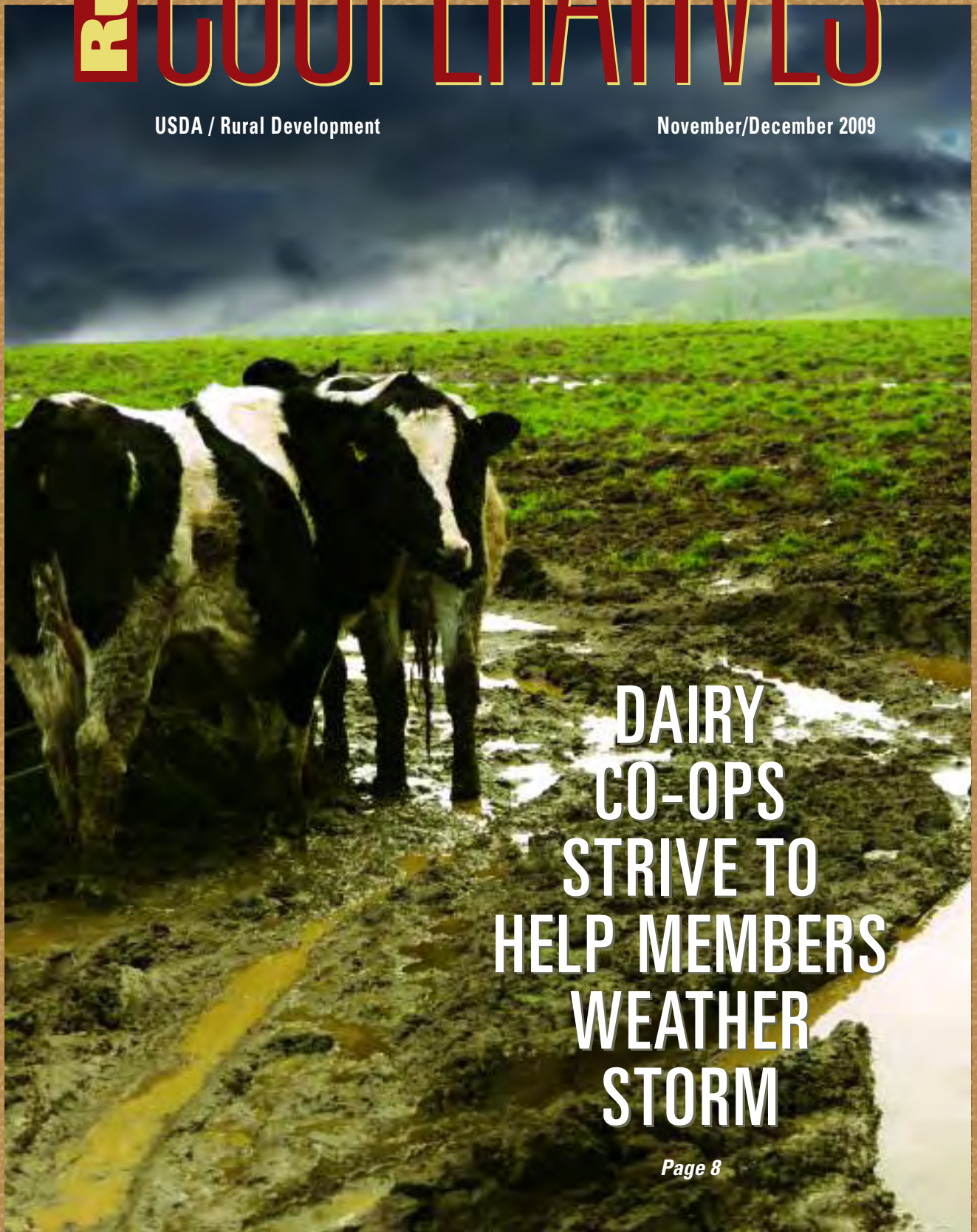


# **Rural** COOPERATIVES

USDA / Rural Development

November/December 2009



**DAIRY  
CO-OPS  
STRIVE TO  
HELP MEMBERS  
WEATHER  
STORM**

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# Commentary

## Cooperatives make good sense, serve their communities



*The Chugach Mountain Range towers above the headquarters of the Matanuska Telephone Association (MTA) in Palmer, Alaska. The co-op employs 400 people and pumps millions of dollars into the local economy. Photo courtesy MTA*

**By Greg Berberich, CEO**  
Matanuska Telephone Association

*Editor's note: this guest commentary originally appeared in the Anchorage Daily News.*



Last spring Alaska's Matanuska Telephone Association mailed checks to our member/owners, ranging in size from \$10 to \$24,000. These were capital credits returns, which are sent annually to members based on their share of the cooperative's margins.

A cooperative exists for the benefit of its members, who are also its customers. And while this benefit is predicated on a service-over-profit philosophy, even during challenging economic times the success of the cooperative form of business is clear: its singular focus is on creating long-term value for its owners.

In a marketplace where the traditional for-profit business model has often demonstrated an inability, and at times unwillingness, to create sustainable value for its investors, a locally owned cooperative, dedicated to its customers,

employees and the communities it serves, is a precious commodity.

The global economic crisis is a prime example of how the bigger some companies grow, the more their priorities change. In order to satisfy the demands of investors, they often create an environment of profit and risk-taking that shifts the focus from the sound business practice of serving their customers to serving themselves.

In contrast, a defining point of a cooperative is that it focuses on its members and gives them a democratic voice in its governance. In co-ops, member-owners have a close association with the enterprise as producers, employees and/or consumers of its products and services.

Excess economic benefits are distributed proportionally according to each member's patronage in the cooperative: the more revenue a member generates, the greater the benefits received in return.

Co-ops are typically formed to meet consumer needs not being served by existing market participants. Many cooperatives were created to bring telephone service to rural communities because for-profit providers knew there would

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# Features

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The nation's dairy producers have been through a wringer during the past year as milk prices plummeted. Dairy co-op leaders discuss what they are doing to help producers and what type of structural action is needed to prevent a reoccurrence of the situation. See page 8. Photo illustration by Stephen Hall



# What Cooperatives Are (and Aren't)

*Economist says co-ops represent the aggregates of economic units*



**By Charles Ling, Ag Economist**  
Cooperative Programs  
USDA Rural Development



Many factors are converging to bring new attention to the cooperative business model. Discussions about a possible role for co-ops as part of national health-care reform and an explosion of interest in local foods, farmers markets and community-supported agriculture and fisheries — which often employ co-op business models — have added to this attention.

During the past 10 or 15 years, we've also seen many experiments with variations on the traditional co-op business model, as have occurred with some new-generation processing co-ops and producer-owned limited liability corporations (LLCs), including those involved in renewable energy production. As such, it is timely to take a fresh look at what a cooperative is and how it differs from an investor-owned business.

## **Emelianoff's definition**

A concise definition of a cooperative by Ivan V. Emelianoff — in explaining the economic structure of cooperative



associations about 70 years ago — remains refreshingly clear and applicable today. His work marked the beginning of a new era in the development and evolution of cooperative theory. The narrative of ideas presented in this article is primarily drawn from Emelianoff's book, and will hopefully shed light on the nature of cooperatives.

In *Economic Theory of Cooperation*, Emelianoff carefully reviewed the worldwide literature on cooperative theory from the late 19th century until 1939. He came to the conclusion that for economic analysis of cooperatives, the economic structure of cooperative organizations should be clearly defined, and that the definition should be free from the encumbrance of sociological, legal, technical, social-philosophical and ethical considerations.

Against this backdrop, Emelianoff established this definition: "Cooperative organizations represent the aggregates of economic units." While that is more "bare bones" than many definitions of cooperative, it crystallizes the essence of what cooperatives should have in common.

"Aggregate" is commonly defined as: "Any total or whole considered with reference to its constituent parts; an assemblage or group of distinct particulars massed together." Further, as defined by Emelianoff: "An economic unit, or economic individual, is an economic body admittedly complete and sufficiently integrated for individual existence and independent (in conditions of an exchange economy — interdependent) economic functioning."

## Co-ops as aggregates of farms

In the agricultural context, farms are such economic units. The nature of cooperative associations as aggregates of member-farms is clearly discernible in the embryonic forms of such associations. For example, a buying club of farmers may want to purchase certain goods together, such as fertilizer.

The buying club would have someone take orders from member-farmers and place orders with a vendor, as well as perform other related chores. If the vendor requires a deposit, members may advance money to the buying club for the deposit requirement in proportion to their respective buying volume.

There may be an elected committee to facilitate decision-making if the number of members is large. Members may each have one vote if their purchasing volumes are about the same. Otherwise, some form of proportional voting may be adopted to conciliate large-volume members.

When the fertilizer (for example) is delivered, members pay the balance of their obligations. After the transactions have been completed, payment to the vendor and other expenses are subtracted from the sum of money paid by members. Any surplus is returned to members in proportion to the volume of fertilizer they have purchased.

This buying service is conducted at cost; every aspect of a member's transaction through the buying club is in

proportion to their patronage (buying) volume. The buying club may be disbanded after fulfilling its joint-buying purpose.

This scenario shows that the buying club represents the aggregate of its member-farms, through which they purchase fertilizer. If the buying club metamorphoses into a permanent purchasing cooperative association, the picture may look more complicated. However, the underlying nature of the cooperative as an aggregate of member-farms remains the same.

## Making it permanent

In this new scenario, the person who manages buying orders and other chores will be the manager of the cooperative (usually a hired professional). The committee of members becomes the board of directors. Advanced payments by members to the cooperative become equity capital for financing the operation and for carrying inventories and owning facilities.

Year-end surplus is returned to members as refunds in proportion to patronage volume, but a portion may be retained as revolving capital. The principles of proportionality and service at-cost remain intact, but their practices may be less evident because the operation has become more complex.

Although the above example is based on purchasing cooperatives, the same line of reasoning also applies to marketing cooperatives. The difference between purchasing and marketing cooperatives is: instead of procuring goods, a marketing cooperative markets products produced by member-farms.

In either case, the member-farms coordinate their activities through the cooperative, but each fully retains its economic individuality and independence.

A cooperative may be described as a center of member-patrons' coordinated activities, or as an agency owned and controlled by members through which they conduct their business. In this respect, it is identical with the special departments or branches of single member-farms.

For example, a dairy cooperative is the collective marketing arm of its member dairy farms; a farm supply cooperative is their supply purchasing department; and a livestock-genetics cooperative is the breeding service branch for its members. As some would say: a cooperative is an off-farm extension of the farming business.

## Characteristics of co-ops

Being aggregates of member-farms, cooperative associations have these characteristics in common:

- a) The equity capital of a cooperative is the sum of advances needed for financing anticipated transactions of individual members of the cooperative; it is not the same as the entrepreneurial capital of an investor-owned corporation.

- b) The member-owners of a cooperative are independent farmers who have chosen to coordinate certain activities via a cooperative. They are not the same as the stockholders of an investor-owned corporation, who are a diverse set of shareholders joined solely by common investment.
- c) The surplus or deficit of a cooperative is the account payable to, or receivable from, the member-patrons of the cooperative on their current transactions; this is not the same as the profit or loss of an investor-owned corporation.
- d) The sum for patronage refunds to members is the sum either underpaid (overcharged) to the members, or — in case of a deficit — overpaid (undercharged) to members on their transactions through the marketing (or purchasing) cooperative; the sum for patronage refunds is not the profit of the cooperative or its income.
- e) The dividend on capital, if any, does not represent a profit or any income of the cooperative; it is the interest payment for using capital advanced by members. By contrast, investor-owned corporations pay dividends to shareholders out of earnings.
- f) All the economic functions of a cooperative are ultimately the economic functions of the member-farms performed through the cooperative as their collective branch or collective department.

Therefore, all economic services of cooperative associations are performed at cost.

Emelianoff emphasizes: “None of such traits can be unreservedly used as an unerring test of a truly cooperative organization, since these traits only indirectly disclose the economic character of the cooperative aggregate....The only comprehensive and indisputable test of the cooperative character of organizations is their aggregate structure.”

### Unique aspects of co-ops

The unique aspects of cooperative character, however, are often not readily apparent. There are many reasons for this, some examples being:

- Cooperatives only reflect the characters and aspirations of their membership, which are diverse and manifest the diversity of the population, the geographical regions and the commodities involved. Such differences directly, or indirectly, have a certain bearing on the character of an association and its cooperative ideals. The variability of the external characteristics of cooperatives is kaleidoscopic and infinite. Differences in their external and superficial features obscure cooperatives’ ultimate economic character of being aggregates of their member-farms.
- Most cooperatives are incorporated. The legal vestments of incorporated cooperative associations also cloak their economic structure as aggregates of member-farms to such a degree that they are often mistaken to be the same as

investor-owned corporations. This is one of the principal sources of confusion in understanding cooperative organizations.

- A lack of distinction between the concept of an investor-owned corporation as a profit-seeking economic unit and the concept of a cooperative as an agency of its member farms is another factor that confuses many. Use of common accounting terminology for both business models adds to this confusion. As the above list of co-op characteristics shows, such conventional terms as “profit,” “capital,” “shareholders,” “dividends,” etc., should be used with reservations when describing cooperatives.
- In governance, a cooperative board of directors — including its board election rules, composition, function, responsibilities and interaction with management — is not the same as the board of an investor-owned corporation (especially the publicly traded ones). Consequently, the role of the top manager of a cooperative is also somewhat different from that of an investor-owned corporation (even if they have the same title).

Emelianoff’s conclusion that cooperative organizations represent the aggregates of associated economic units provides a clear insight into how cooperatives organize and function. This insight is not limited to agricultural cooperatives.

### A unique mode of organizing coordination

In a paper dealing with the issue of economic coordination some 45 years later, James Shaffer echoed (though without citing) Emelianoff’s definition of cooperatives as aggregates of member-farms. Because member-farms are independent entities, represent independent profit centers and act independently, except that they jointly own the cooperative, the cooperative association is neither a horizontal integration of its member-farms nor a vertical integration between member-farms and the cooperative. He asserted that “the cooperative is a third mode of organizing coordination.”

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# Legal Corner

## What Is Democratic Control?

**By Stephanie M. Smith,**  
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Cooperative Programs  
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**T**he cooperative business model is drawing extra attention these days in the media. Industries such as health care, dairy and utilities have attracted headlines and sparked discussions about what cooperatives are and how they function. Furthermore, members within cooperatives are retooling their efforts to “bullet-proof” their organizations against the financial downturn.

One way that members are seeking to sustain their cooperatives is to encourage participants to contribute equity beyond what is proportional to their use of the organization and to seek outside or non-member equity. The question then emerges as to whether these deeper pocket cooperative members can seek more control of the cooperative in return.

If cooperatives are looking to attract members with deeper pockets or incentivize them to buy more products and services offered by the cooperative, should these members be given more weight in voting rights than other cooperative members? With respect to outside or non-member equity investors, should voting rights be proportional to their level of investment? In both of these scenarios, does the notion of these alternative forms of voting shake the very foundation of one of the fundamental principles of cooperatives: democratic control equals one member/one vote?

Cooperatives traditionally allow for every member to have one vote (sometimes evidenced by their being issued one share of voting common stock) because they are user-controlled, not investor-controlled, organizations. Although the basic premise for this concept was based on cooperative members having democratic control to encourage an egalitarian existence, the question is: do other methods of voting also constitute democratic control?

Federal laws do not expressly define the term “democratic control.” Federal laws related to cooperatives — such as Capper Volstead, the CoBank borrowing eligibility statute and the Ag Marketing Act of 1929 — allow for alternative voting, but do not specify what those alternatives are. Internal Revenue Code Section 521 and Subchapter T, which describe how cooperative corporations are required to calculate their taxable income, are silent on this issue.

The Internal Revenue Service (IRS) has not provided a statutory definition of “democratic control.” It has, however, long been in favor of one member/one vote, based on its reliance of case law, as revealed in certain prior revenue rulings. In Rev. Rule 93-21, it held that the cooperative principles provide the basis for determining whether a corporation is operating on a cooperative basis for purposes of Subchapter T (see *Puget Sound Plywood, Inc. v. CIR*, 44 TC 305, June 14, 1965 and *Etter Grain Co. v. United States*, 462 F.2d 259, 263 (5th Cir. 1972).

In fact, the IRS has generally referred to “democratic control” as “the

periodic assembly of the members at a democratically conducted meeting at which each member ordinarily has only one vote” (GCM 38061, 1979 WL 52855).

However, IRS co-op training materials have referred to “member control” and not specifically to “one member/one vote.” Therefore, apparently cooperative members can control their cooperative either through one vote per member or through some other weighted voting system that relates to the amount of business (referred to as “patronage”) that each member does with the cooperative. In two private letter rulings, the IRS determined that a cooperative’s proxy voting arrangement satisfied the democratic control requirement and approved a weighted vote for the nomination of directors of a federated cooperative (PLR 200629018 and PLR 9725011).

As confusing as this may be, cooperatives can have some level of comfort in how to govern their organization by examining the statutory requirements of their state laws. Some state co-op incorporation laws require one member/one vote. In those states that do not, cooperatives have several alternative forms of governance. The most widely used is some type of “weighted voting” based on a member’s patronage, delivery rights and/or equity investment (assuming it is reflective of patronage). Other forms of weighted control may be evident in some form of membership delegate system whereby members in different districts are represented by one or more delegates.

*continued on page 38*



# Storm Shelter



*Dairy co-ops strive  
to help members  
survive severe market  
downturn*



**By Dan Campbell, Editor**  
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When the national and world economies fell into recession in the fall of 2008, the impact slammed home with a vengeance on many farms across the nation. But few have borne the brunt as heavily as dairy farmers.

“It would be difficult to overstate how bad the situation is,” says Steven Rowe, senior vice president and general counsel with the Northwest Dairy Association/DariGold in Seattle, Wash. “Our members’ operations vary in size from 50 cows to many thousands of cows. But no size, sector or method of farming has remained profitable during this period.”

A survey of nine dairy cooperatives by “Rural Cooperatives” in October shows a unanimous perception that the downward spiral for milk prices has indeed been a crisis for the industry. “This cost-price squeeze is the worst I have seen in the dairy industry,” says Richard Cotta, President and CEO of California Dairies, Artesia, Calif. “Many producers have gone out of business in California either through forced sellouts or the CWT [Cooperatives Working Together, the industry-funded herd-retirement program]. The 4-percent drop off in milk production is all the evidence one needs.”

From a record-high, U.S. all-milk price of \$21.90 per hundredweight in November 2007, milk prices hit a low of \$11.30 in July 2009. Co-ops in some regions report widespread farm failures, and many more are likely still to come.

“From coast to coast, America’s

dairy farmers are struggling to survive the worst economic conditions since the Great Depression,” confirms Dairy Farmers of America (DFA) President/CEO Rick Smith. “Faced with record-high production costs and the lowest milk prices in years, farms of every herd size are losing money on each pound of milk they produce.”

Farm failures in Northwest Dairy’s territory (Washington, Idaho, Oregon and far Northern California) have been common, Rowe says. “We’ve had bankruptcies, while some are selling their cows to others. There was one unfortunate situation where the farmer just quit — literally just walked away and a neighbor had to come in and care for the cows. Liens are being enforced on farms almost every day. There are many other farms just hanging on.”

But some co-ops report minimal loss of farms, as producers have so far been able to get by digging into equity and tightening their belts. “Market attrition has been very slow, in spite of prolonged low milk prices. It appears as if the bankers also think waiting for price recovery is a better option than loan foreclosure,” says Michigan Milk Producers Association (MMPA) General Manager John Dilland.

Mitigating the situation somewhat is that “many of our producers raise most of their own hay and silage, which has helped reduce current cash needs for feed costs, since the feed was laid-in last year,” Dilland says. Still, many more MMPA members have chosen to send their herds to slaughter under the last round of the CWT program than in any previous rounds of the program.

Florida-based Southeast Milk Inc. also reports a minimal loss of producers. “Fortunately, there have been few dairy farmers exit the business

due to the financial situation,” says co-op CEO Calvin Covington. “Most are digging into their equity, reducing expenses, have a good banker and hope that prices will soon improve.”

### **Impact extends far beyond farms**

The ramifications of the crisis extend far beyond the farm gate, or even the co-op office. Not only dairymen, but those who supply the industry — grain dealers, hay dealers, pharmaceutical and equipment suppliers and financial institutions — have been negatively impacted, says Cotta.

DFA’s Smith concurs. “In many parts of the country, dairies are bedrocks of their rural communities,” Smith says. “In regions that have been especially hard hit, the agriculture service industry also is struggling as farmers have cut spending on both essential and non-essential services, and rely increasingly on equity and credit to maintain their operations.”

As a rule of thumb, Rowe says that for every \$1 invested on a farm, another \$5 to \$7 is invested in non-farm locations — such as suppliers, downstream processors, retailers, etc. “I can only assume there is a lot of other suffering related to the dairy situation.”

As a feed mill operator and a farm supply co-op, as well as being a milk handler, Southeast Milk has been feeling both the primary and secondary impacts of the crisis. Sales at both the feed mill and dairy supply business have fallen off.

### **Reversal of fortune**

There is no mystery as to the identity of the “truck” that ran down the dairy market. Co-op leaders are unanimous in saying it was the national



*AMPI dairy farmers and field representatives take a break from making the rounds at the La Crosse County Fair in La Crosse, Wis., to discuss the dairy market. Milk prices plunged from nearly \$22 per hundredweight in late 2007 to \$11.30 last July. Photo by Sheryl Meshke, courtesy AMPI*

and global recession that caused demand to wither, seemingly overnight.

This situation was made even more acute by the fact that there had been a “bull market” and record-high milk prices the previous 2 years. The market had been bolstered by a cheap dollar that led to a surge in demand on export markets. High demand triggered a surge in production, much of which was starting to fill the pipeline just in time to collide with the recession.

“The worldwide economic collapse last fall dealt our industry a double

whammy,” Smith says. “Dairy exports dropped more than 50 percent during the first 5 months of 2009, according to USDA. Then, as all that milk backed up in domestic markets, belt-tightening by U.S. consumers and slow movement by retailers to cut dairy prices exacerbated the situation.”

Foremost Farms (Baraboo, Wis.) President David Fuhrmann also sees the loss of exports as being a key component of the market collapse. “The downturn in the world economy at the end of 2008 and early 2009

caused dairy exports to vaporize,” he says. Prior to the worldwide economic crisis, 11 percent of U.S. milk production was exported as cheese, butter, whey products and nonfat dry milk.

Dairy farmers responded to that demand by ramping up milk production, reinvesting in facilities and new technology and keeping cows in the milking string longer rather than sending them to slaughter, Fuhrmann says.



## Co-ops pull out stops to help members

Co-ops have responded in many ways to try to help their members. Some have sped up payment and equity revolvment schedules, or even dipped into reserves to make extra payments. Other co-ops have delayed scheduled cost increases for milk hauling and other services, while some co-ops have tightened the belt on expenses by freezing salaries and hiring. DFA even established a hotline for farmers dealing with financial and psychological stress.

Prairie Farms, Carlinville, Ill., moved aggressively to enhance prices to members by about \$1 per hundredweight after March 2009, amounting to about an extra \$9 million going directly to co-op members. "This



*DFA recently completed a \$23-million expansion at this plant in Fort Morgan, Colo. Photo courtesy DFA*

has come out of Prairie Farms' earnings," says Executive Vice President/CEO Edward Mullins. "Payout of allocated earnings is being sped up. The cash payment portion of earnings from the 2008-2009 fiscal year is being increased from 60 percent to 75 percent."

California Dairies took steps to discourage increases in production. "One thing we reluctantly did was implement a cooperative-wide Supply Management Program to help stop increasing milk production when growth was exceeding our ability to handle milk," says Cotta. "More recently, we have paid an early advance on our cooperative profits."

At MMPA, Dilland says the co-op has been striving to get as much money to members as possible to help them ride out the down market. "We have maximized producer pay prices within our available budget, which has included increasing monthly advance payments, early payment of cash patronage refunds and equity retirements, as well as the payment of a year-end supplement payment."

Northwest introduced the Producer Retention Program, designed to create financial incentives for members to stay in business, which returned an additional \$13 million to producers, or nearly \$2 per hundredweight. "We also deferred certain increases in hauling costs and service-fee charges," Rowe says.

Co-op government affairs offices and co-op trade groups have shifted into overdrive to educate congressional representatives about just how critical the situation has grown, and lobbied for assistance.

Co-ops are also fighting the downturn by throwing greater effort into new product and market development to bump up demand. In some cases, new processing machinery and/or facilities are helping in these efforts.

"We understand the importance of

manufacturing infrastructure that generates returns to help weather times like these," says Associated Milk Producers Inc. (AMPI) (New Ulm, Minn.) President/CEO Ed Welch. "For example, we recently installed a whey protein concentrate dryer at our Paynesville, Minn., manufacturing plant. The co-op can now move into the growing protein market."

DFA recently completed a \$23-million expansion at a plant in Fort Morgan, Colo., and has a \$39.4 million expansion underway in Schulenburg, Texas. It also has a number of new retail dairy products hitting the shelves.

"We're also finding supply-chain savings," says Smith. "Several projects are underway to improve transportation efficiency, including negotiating reduced hauling rates, a new transportation management system to consolidate loads and a pilot program to reduce members' transportation costs."

## Lessons learned?

While opinions vary as to what should be done to try to bring balance back to the market — and to reduce market volatility in the future — most co-op leaders contacted say reviving export markets and use of the Dairy Export Enhancement Program will continue to be a key to the health of the industry. A number of respondents also say the time has come for the industry to take a long, hard look at a new industry-wide production management program.

Several co-op leaders expressed the fear that the industry will not learn lessons from the current market crisis, and that there will be another surge in production once prices improve,

leading to yet another inevitable over-saturation of the market.

“I fear that as prices begin to rise in the future, the dairy community will come back with a new flush of milk and crush the milk market again,” says Northwest’s Rowe.

“Hopefully, the industry can learn from this period of low milk prices and negative margins and work to develop long-term plans to prevent or at least lessen the flow from future such occurrences,” says Southeast’s Covington. “The challenge is that when milk prices recover, and margins improve to a profitable level, there is less interest in doing something. We must not let improved milk prices slow down efforts to make long-term improvements.”

“In the long run, you cannot avoid the supply-demand equation,” adds Cotta. “The industry needs to find a tool to reflect strong market signals to the trade quicker and better. Perhaps a sliding scale support purchase price or some form of crop insurance for milk is needed.”

DFA’s board recently adopted a proposal called the Dairy Growth Management Initiative (DGMI). “This plan, which would require legislative support, is designed to replace the current CWT program and would serve as an effective tool to manage/minimize volatility,” Smith explains. DGMI would be a producer-funded, producer-governed program that would allow for growth in the industry while providing a variety of mechanisms to quickly adapt to changing market forces and stabilize milk prices.

“DFA is collaborating with other



*AMPI’s new whey dryer at Paynesville, Minn., is opening new markets for the co-op. Below: A Northwest Dairy Association field representative pays a call on members. Photos courtesy pictured co-ops*



cooperatives and industry groups on DGMI and working with NMPF to advance this plan, or something similar, and achieve congressional support on a solution that will improve the outlook for America’s dairy farmers,” Smith says.

AMPI is urging national dairy leaders to implement a dairy price

stabilization program to “ensure we don’t go through another stretch like this,” Welch says. An effective program, he continues, must include import controls and impose tariff quotas on such products as milk protein concentrate, casein and butter fat. Milk Income Loss Control (MILC) and the Dairy Product Price Support Program (DPPSP) must also be maintained, he stresses. “When the Farm Bill passed more than 1 year ago, most didn’t think these programs were relevant. At AMPI, we’re glad they are in place today.”


### **Supply management — last resort?**

Prairie Farms’ Mullins says he thinks supply management should be examined, but only as a last resort, and that tools for price and income protection should be more readily available to dairy farmers who want to use them. “We need to regain access to export markets on a continuing basis,” Mullins says. “The U.S. dairy industry should be a player in world dairy markets all the time, not just a supplier of last resort to the world.”

The domestic market also needs to be grown, in part by enhancing the school milk program, Mullins says.

Rowe thinks federal milk order pricing “needs to be simplified, not made more complicated. I have no problem with discussion of supply management, but it is extremely important that we do not end up with something that tries to predict the future — which we have ample proof of that none of us are good at — or that would hinder our ability to fill





international demand at a moment's notice. We have to grow the pie. I believe the world has a desire for dairy, and as world economies come back, dairy will be in demand again. We as an industry need to be ready."

AMPI's Welch says MILC has been an effective, counter-cyclical dairy program during this unprecedented market downturn. "The temporary increase in the DPPSP was also a good move," Welch says. "Implemented for 3 months — August through October 2009 — the program will cost the government very little. The program's "invisible" floor price has been maintained without the Commodity Credit Corporation purchasing a pound of cheese. Cheese buyers are not interested in having the government build inventory at that price. They want it in their warehouses."

But Southeast Dairies' Covington sees trouble ahead if the industry depends too much on dairy price supports. "Government programs, such as the increase in dairy support prices, are just a band aid and provide no long-term solution. In actuality, they help extend the misery of low milk prices and prolong milk-price recovery," Covington says.

He favors eliminating the dairy price support program, and instead expanding the use of risk-management tools, which he feels should be made more user friendly. Covington also supports allowing contracting on all classes of milk and developing a different method of pricing milk used for the fluid market that is more in tune with the market.

"Establish basic milk prices on a competitive situation," he urges, "and develop a pricing mechanism that allows the U.S. to be a more consistent

exporter of dairy products." He would also like to see an economic incentive, via a market for dairy farmers to breed a portion of their herd to beef bulls.

Rowe thinks the MILC program needs to be re-examined, saying it is no longer clear what the program is accomplishing.

The overall market situation would be worse had it not been for efforts such as milk support prices, export incentives and the CWT program, Smith says. "The CWT program has removed 225,000 cows so far this year and another herd retirement is in progress (as of late October). The Dairy Export Incentive Program (DEIP) has helped to export more than 82 million pounds of nonfat dry milk and 35 million pounds of butter in an effort to reduce inventory levels. In addition to these short-term efforts, we need to find ways to minimize, and manage through, volatility in the future. A growth management plan that allows for growth, provides a mechanism to more quickly react to changing market conditions and helps stabilize the milk price is needed to ensure the sustainability of our members and the health of the U.S. dairy industry."

Rowe says the major flaw in CWT is that "two-thirds of the people pay in, and 100 percent get the benefit." He does, however, credit CWT as an industry self-help effort to cut down excess supply. "I don't see any other sector of agriculture doing that."

### Signs of recovery

MMPA's Dilland says there are signs that a price recovery has begun. "But there is still a lot of inventory that needs to move, and current milk production still needs to come down."

AMPI's Welch is encouraged by the

recent weakening of the dollar, which may once again open global markets. "Dried milk proteins are becoming more affordable abroad. The difference between today and early 2008 may be strong production in New Zealand, another milk protein exporter," Welch says. "World buyers, too, may be less willing to tolerate the extreme market volatility of the past few years."

Rowe says he is "just beginning to see some more international activity, but it is still very tenuous. I have a very guarded sense of optimism."

The strengthening on cheese markets at the end of September "is encouraging and hopefully means we are past the low point in prices and on the road to recovery," says Foremost's Fuhrmann. Through September, milk receipts from same-member farms are up significantly from a year ago, he notes. He also salutes the many businesses that provide goods and services to dairy producers for "working patiently with farmers, and for extending lines of credit and repayment schedules."

Retail demand for cheese has been strong due to lower prices and promotional activities, Fuhrmann says, leading to a 5-percent increase in sales that has helped offset weak food service sales.

"Milk production is coming down, and demand is starting to improve," says Larry Salathe, a USDA economist. "The market is tightening both on the demand side and on the supply side."

Still, a way has to be found to strengthen milk checks soon. "What we need right now is [more] dollars per hundredweight," says Welch. "The only way to achieve that will be a change in supply and demand. That may demand a price-stabilization program." ■

Against the backdrop of Mount Ararat, visitors tour a vegetable farm with a drip-irrigation system installed as part of ACDI/VOCA's Water to Market program. Farm Credit Armenia is struggling to secure the capital needed to back farmers who are adopting new technologies. Photos by Pamela J. Karg



# Banking on the Future

*U.S. farm credit co-op model paying dividends in Armenia*

## By Pamela J. Karg

*Editor's note: Karg is a freelance writer from Baraboo, Wis., with extensive experience working with cooperatives. She currently lives in Armenia, where she is a volunteer with the United Methodist Committee on Relief/Armenia. She also is an agricultural cooperatives instructor at the Agribusiness Teaching Center, a university department funded by USDA through Texas A&M University.*



top Farm Credit Administration official recently saw first-hand how the co-op lending structure is working to extend much-needed capital infusion to farmers in a former Soviet republic.

Leland "Lee" Strom, chairman of the board and CEO of the Farm Credit Administration, spent the first days of

October — National Co-op Month — witnessing the successes and challenges faced by Farm Credit Armenia (FC Armenia). From small-scale vegetable farmers to owners of newly constructed wineries, sometimes in broken English and other times through a translator, FC Armenia member-borrowers repeatedly told Strom that the U.S. farm credit cooperative model is working well here as a partner that helps them finance their dreams.

"It's one thing to read about it, and I've read a lot about Farm Credit Armenia. It's a whole different thing to see it first-hand and to hear the stories of what Farm Credit Armenia means to the agriculture industry, the farmers and the businesses associated with them," says Strom, who was appointed to a 6-year term on the FCA board in 2006 and was designated chairman and CEO in May 2008. He also serves as a

board member of the Farm Credit System Insurance Corporation (FCSIC).

## Bridging the cultural chasm

As part of his agricultural tour of a country about the size of Maryland bordered by Iran, Georgia, Turkey and Azerbaijan, Strom learned more about the challenges land-locked Armenia has faced in its past 100 years. He realized the cultural chasm farmers and agribusiness owners had to cross from the former Soviet collective ideals to the internationally recognized, free enterprise cooperative model.

"I better understand the basic challenges they're facing here, and they are complex. But I also see that a cooperative farm lending institution is the right structure, and it's working," say Strom, owner of a third-generation corn and soybean farm near Elgin, Ill.





*Farm Credit Armenia has been working to extend credit to agricultural operations in the fertile Ararat Valley, such as this fruit-drying operation near Artashat. Below: Trout in Lake Sevan have been over-fished, so this aquaculture operation near the resort town of Jermuk has been developed to help meet the demand for fish in Armenia and Russia.*



Organizations such as USDA and non-governmental organizations (NGOs), such as the United Methodist Committee on Relief and ACDI/VOCA (which promotes economic development in emerging democracies), set up farm programs soon after Armenia declared its independence from the Soviet Union in 1991. Since then, farmers and processors have learned more efficient production techniques, basic business skills, how to organize cooperatives and have started youth education programs, such as 4-H.

They've also learned about micro-

credit and how to jump-start the country's Cooperative Extension-like information and training system. Other NGOs, such as the Center for Agribusiness and Germany's GTZ, followed with more help. While this work is ongoing, improving farm credit became the next logical step.

Access to credit is essential for the nation's farm sector to advance, says Fred Johnston, agricultural project coordinator for USDA's Foreign Agricultural Service (FAS) in Armenia. "As we've learned from the micro-credit experience, credit is a crucial

component in the development of sustainable enterprises of all sizes. Credit allows farmers and processors to take advantage of the technical training that they have or are receiving. It's an essential element in the recipe for success of rural enterprises in any country."

### **The co-op commitment**

In Armenia, there are institutions that claim to serve agriculture, but they have neither a real mandate nor any incentive to do so, Strom says. "Regular banks may abandon agriculture should the rural economy falter or more lucrative opportunities arise. A cooperative organization such as Farm Credit Armenia is owned by its members and, through its bylaws, is required to serve only rural clients."

If credit is the next logical step, the issue of sustainability looms large over

FC Armenia and its members. It received an initial infusion of capital from Millennium Challenge Account-Armenia (MCA) and continues to get technical support from the Farm Credit Administration, the Farm Credit System and the USDA. Strom says he hopes the Armenian government “will see how this structure can and will work, is working, and will help in its sustainability.”

He sees parallels between the 1916 start of the American Farm Credit System, funded through legislation signed by President Woodrow Wilson, and the struggles Armenia faces today. “The U.S. Farm Credit System started small and has grown to serve over 40 percent of U.S. farmers. I can see the same thing happening in Armenia,” Strom says.

Johnston explains that USDA has been working to foster farm credit in Armenia for many years, beginning with a Credit Clubs project. When FAS assumed management of the project from USDA’s Cooperative State Research, Education, and Extension Service (CSREES) in April 2005, FAS began to look for ways to make the



*Twyla and Lee Strom (left) of the U.S. Farm Credit Administration and Armen Gabrielyan (center), CEO of Farm Credit Armenia, learn how this farmer and his grandson are using a line of credit to upgrade their greenhouse.*

project sustainable. While there were several organizations involved with micro-credit and others that claimed to serve agriculture, the needs of agricultural lenders were not being met.

“With that in mind, FAS engaged the U.S. Farm Credit Administration to review the state of agricultural lending in Armenia and make recommendations,” Johnston explains. “One of their recommendations was to set up a farm credit organization that was legally mandated to serve rural Armenia in good times and in bad. Based on that recommendation, we worked with the Farm Credit System and the Farm Credit Administration to set up Farm Credit Armenia.”

## Key questions

As Strom sat through an FC Armenia board meeting during his week in Armenia, he reflected on more parallels. Where should a new office be constructed to more conveniently serve existing and new rural members? Who should be selected from the 170 applicants to fill 11 new loan officer positions? When starting from scratch, what are the available sources of capital the cooperative needs to remain a viable partner for farmers and agribusinesses?

“These are some of the same issues Farm Credit started with in 1916 in America. Boards of directors deal with some of the same issues every

*continued on page 39*

**By Pamela J. Karg**



With a lifetime of experience in farming and finance, one might think William Eyman would want to relax, enjoy the fruits of his labor and watch his crops grow. Maybe keep track of his retirement account. He’s doing all that, but also much more, using his experiences to help agricultural banks around the world grapple with new economies.

“After I retired from full-time farming, I went to work for the United State Bank [in northeast Missouri] full time,” explains the 79-year-old from Knox City, Mo., as he packs up after a 6-week assignment in the Republic of Armenia. “I also felt I was a fifth-generation Knox County American farmer losing touch with a changing world, so I decided it was time to see that world.”

Eyman and his wife, Rosalyn, a retired art instructor, packed their bags and headed to the Czech Republic on what was his first of many assignments around the world.

“It’s been a chance to go all over the world and work in finances in many emerging countries or economies. Either I go in to work starting banks or with loan officer training,” Eyman explains. His work always involves the agricultural side of the bank’s portfolio and people.

## From Tanzania to Siberia

To date, he has worked through organizations as diverse as the World Bank and International Monetary Fund, ACDI/VOCA and the International Executive Service Corps. The countries in which he’s worked include Armenia, Ghana, Uganda, Tanzania, Ethiopia (twice), Kenya, Kyrgyzstan (twice), Republic of Georgia (twice), Zambia, South Africa, Latvia, Poland, Romania (twice), Macedonia, Russia (five times), western



# Missouri farmer helping ag banks in developing countries

Siberia, The Czech Republic and Brazil.

"I've really enjoyed the people more than anything," he says. "Whether working side-by-side with eager loan officers wanting to learn how they can help their local banks and farmers prosper in emerging capitalist economies, or seeing the country through their eyes, they've all always been very kind. And they've always wanted to show me the best their country has to offer, and to learn so they can create a future for themselves, their families and their country."

Eyman is generally on assignment for 2

Armenia, a semi-arid, land-locked former Soviet republic located between Georgia, Iran, Azerbaijan and Turkey. Eyman worked with local ACDI/VOCA employees as part of its "Water to Market" (WtM) program.

The fragmentation of Armenia's agricultural production base is keeping the country's farms from achieving the scale necessary for efficient production. Though rural family landholdings average 3.5 acres, these farms are usually made up of three or more smaller parcels in different locations.

As a result, farmers get low yields and

neighbors: Georgia and Iran.

## Farmers face numerous challenges

More importantly for Eyman's purposes, limited financial resources and a lack of information about on-farm water usage and pest management have led to widespread use of herbicides and pesticides that come from dubious sources and are applied with rudimentary spraying devices, according to ACDI/VOCA.

Due to the small-scale, highly fragmented and diverse production of fruits and vegetables, local marketing is carried out by small traders, or even by the producers themselves. Thus, throughout rural Armenia, the labor-intensive ag sector produces low yields and poor incomes for small farmers.

ACDI/VOCA, in partnership with ARCADIS Euroconsult from the Netherlands and VISTAA in Armenia, was awarded an \$18.4 million contract to implement the Water to Market project as part of the Millennium Challenge Armenia (MCA).

Like other countries' farmers with whom Eyman has worked, small-scale Armenian farmers have no money and little access to credit. As a result, they can neither improve their knowledge on how to be better farmers, or fund any improvements. A majority end up in a subsistence cycle, hoping to produce more than their families can consume so that they can try to sell the extra for whatever the market may bring. Nearly 15 percent of Armenia's 2.8 million people live on less than \$1 a day.

The smallest Armenian farms list assets such as hoes and bicycles as part of the balance sheet they completed with loan officers under Eyman's tutelage. "It doesn't compare at all with U.S. farm operations," he says.

*continued on page 39*



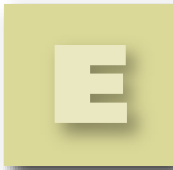
*Working side-by-side with loan officers eager to learn how they can help their local banks and farmers prosper has been one of the greatest "paybacks" for farm credit volunteer Bill Eyman (right), seen here with translator Roman Asatryan in Republic Square in Yerevan, Armenia. Photo by Pamela J. Karg*

months at a time. Often working long days traveling to remote areas, he spends most of his time on farms or in the classroom with loan officers for hands-on, one-on-one or small-group training. That was the case during his trip earlier this year to

inconsistent quality and cannot assemble enough produce to meet market demand. That makes Armenia a food-deficit country and requires it to import costly, and sometimes uncertain, imports through the only two open borders it has with

# Identity Heft, Part II

## *Land O'Lakes freshens image with new co-op brand identity, logo and tagline*



*Editor's note: In the Sept-Oct. issue, CoBank responded to a series of questions dealing with the co-op's decision to update its corporate image with a new logo and tagline. In this issue, Barry Wolfish, senior vice president for corporate marketing and communications at Land O'Lakes (LOL), discusses the same process as LOL approached it. This discussion refers to the co-op's corporate logo, not the co-op's famous Indian Maiden brand logo, which is still used for its dairy foods division.*

*Land O'Lakes is a farm supply and dairy foods cooperative with 3,200 direct producer-members and 1,000 member-cooperatives which serve more than 300,000 agricultural producers. The co-op handles 12 billion pounds of milk annually and produces a wide variety of dairy food products.*

**Question:** *Why did your co-op decide it was time to change the logo?*

**Barry Wolfish:** "In late 2007, the company conducted a communications audit, which looked at all aspects of our communications efforts. We took a really deep dive, examining things like culture and process, as well as the vehicles and elements we saw and used every day. We recognized that there was a significant opportunity to increase the visibility and awareness of our corporate identity and that our existing corporate brand identification was not working very hard to establish personality and distinctiveness for Land O'Lakes Inc."

**Was this part of a larger "re-branding" effort?**

"Again, the pursuit of a new corporate brand identity came

out of our communications audit. We felt it was an element of our overall corporate communications we could enhance."

**Did you do it in-house, or hire an agency?**

"We worked with a Twin Cities-based integrated communications firm called OLSON. The agency conducted the communications audit for us and eventually developed the new corporate brand identity in conjunction with our Corporate Communications department."

**What was the timeline and budget? Did you stick to it?**

"We had a very accelerated timeline and were working on a number of projects connected to, and driven by, the updating of the corporate brand identity. Some of those projects included redesigning our corporate website and creating new marketing collateral, such as our corporate brochure and first Corporate Social Responsibility report.

"So, from the time we started thinking about creating a new corporate brand identity until it was introduced, it took between 4 and 5 months. A meaningful amount was invested in the various aspects of the project as part of an ongoing commitment to increase our investment in corporate identification and awareness."

**Did this effort also involve a new tagline to go with the logo?**

"Yes. We developed our "growingtogether" tagline shortly after the completion of our communications audit and used it throughout most of 2008. The tagline was incorporated into the design of the new corporate brand identity."





*The new Land O'Lakes logo (above) and the old one it recently replaced (below).*

The image shows the old Land O'Lakes logo, which consists of the text "Land O'Lakes, Inc." in a bold, black, serif font, centered within a white rectangular box.

**Land O'Lakes, Inc.**

*“The new corporate brand identity is much more dynamic and appealing. The more we see it, the more it really feels like we made the right decision.”*

***Did you have any problems registering logo as new trademark?***

“No. We had our Law Department register the new corporate brand identity; they encountered no problems registering it.”

***What kind of review or approval process did you follow?***

“Land O’Lakes President and CEO Chris Policinski and the Corporate Marketing and Communications team worked closely with the agency throughout the process. We went through a number of iterations before we got to the final version. Chris shared our recommended approach with the Land O’Lakes board.”

***How many revisions did it go through?***

“There were three rounds of review before we arrived at the final version.”

***Did you do consumer/customer testing?***

“Our communications audit involved asking employees, members and other stakeholders about their thoughts and feelings about the co-op.”

***In what ways is the new logo being used?***

“We are using our new corporate brand identity extensively. You’ll find it on our corporate website, letterhead, business cards, corporate brochure, signage, annual report, Intranet site, member magazine and clothing and other collateral items. Moving forward, the corporate identity will be featured prominently in all public endeavors.”

***Any special effort to launch the new brand?***

“We introduced the new corporate brand identity to employees during an employee meeting in February. The meeting was held in our corporate headquarters and broadcast to more than 20 facilities around the country. So, we had a very large, captive audience that heard about it firsthand.

“Employees returned to their desks after the meeting to find a screensaver of the new corporate brand identity. We also added the new corporate brand identity to the employee Intranet site that morning. We rolled the corporate brand identity out to members the following week at our annual meeting. Chris introduced it to all the members in attendance.

“All the presentations and materials handed out after that point contained the new corporate brand identity. We

*“To develop something like a new logo or brand identity, you need a foundational document from which to base it.”*

Barry Wolfish



continued to communicate the rollout in our member magazine, Internet site and other vehicles.”

***What was the biggest mistake you made?***

“Waiting so long to update the old logo. The old one used a common font and really didn’t convey much about the organization. The new corporate brand identity is much more dynamic and appealing. The more we see it, the more it really feels like we made the right decision.”

***Major lessons learned?***

“To develop something like a new logo or brand identity, you need a foundational document from which to base it. This document articulates exactly what the brand is and should convey. It’s something that needs broad alignment among your key decisionmakers before moving forward. The creative aspect of designing a logo will be based almost entirely on it.”

***What was the smartest thing you did?***

“We hosted luncheon meetings for our administrative assistants to discuss the rollout of the new corporate brand identity. These employees are really in the front trenches as far as the rollout is concerned. They order the business cards and letterhead; they create presentations; and they advise the people they support on its use and misuse.

“So, we felt it was really important to discuss the philosophy behind the new corporate brand identity, its proper uses and how to get the resources they needed to incorporate it into their departments or businesses. We believe this step really helped to facilitate the introduction of the new corporate brand identity throughout the company.”

***What has the reaction been like so far?***

“Very positive. We’ve received great feedback from members, employees and others outside the company. People seem to have embraced it quickly.” ■



# Utility Co-op Connection

## Algae may help filter CO<sub>2</sub> from power plant emissions

By Anne Mayberry

Rural Utilities Service  
USDA Rural Development  
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Two rural electric cooperatives in Missouri are engaged in a “green energy” research project that has the potential to help resolve some air-quality issues while also yielding a new source of renewable fuel. The technology — while still years away from being commercially viable — uses algae to remove carbon dioxide from electric power plant emissions, then converts it into products such as biofuels and livestock feed. It is hoped the technology can eventually help ease concerns over carbon capture and climate change.

The two cooperatives — Associated Electric Cooperative in Springfield and Central Electric Power Cooperative in Jefferson City — are working with Lincoln University and the Missouri University of Science and Technology to determine whether algae can use solar energy to capture carbon dioxide and reduce power plant emissions. The demonstration project will use carbon dioxide in flue gas from Missouri’s Chamois Power Plant to feed the algae.

The work is funded by the cooperatives and USDA’s National Institute of Food and Agriculture (formerly the Cooperative State Research, Education, and Extension Service).

### Radio show call triggers project

Using algae to reduce carbon dioxide emissions is probably not high on the



University and co-op officials turn the valve to officially commission the new algae research facilities at the Chamois Power Plant, where tanks of algae absorb power plant emissions. Photo by Jim McCarty, courtesy Association of Missouri Electric Co-ops

list of “green energy” projects being considered by most electric utilities. So how did these cooperatives become involved in this research?

“One of Missouri’s rural electric cooperative managers was a guest on a radio show discussing energy, when one of the algae researchers called him,” explains Nancy Southworth, manager of corporate communications for Associated Electric Cooperative Inc. Chamois, a small coal plant in central Missouri, has been the site of other research, and the plant manager was open to these types of projects, she says.

“The bigger picture is this: right now there is no answer to the question of how to sequester carbon dioxide emissions generated at power plants,” notes Southworth. “Any research that has the potential to reduce carbon dioxide from emissions can benefit us, particularly as our nation wrestles with climate-change legislation that will affect operation of coal plants. Our co-ops are dependent on coal for electricity.”

The use of algae to develop a renewable transportation fuel was first studied by the U.S. Department of Energy more than 30 years ago. Back then, algae research focused on the use

of carbon dioxide from coal-fired generation plants to produce biodiesel. But because such alternative fuels were not then financially feasible because of competition from traditional petroleum products, the process was shelved, being deemed to lack commercial application.

### Renewed interest in technology

Today, any process that has the potential to cost-effectively capture carbon dioxide is of growing interest. The big question, of course, is whether the project can move from the research stage to commercial viability. Success may hinge not just on the ability of algae to reduce emissions, but on the value of the byproducts created in the process.

The algae use energy from sunlight to feed on the carbon dioxide. The algae can also produce oil, which can be processed into bioplastics and ethanol; livestock feed is another byproduct of the process.

“We are an agricultural state, so our members are interested in the possibility that this process may produce biodiesel and livestock feed,” Southworth says. “But they also understand that we are a long way from

*continued on page 37*

# Marginal Land Tapped for Biofuels

*New York land bank co-op could be first of its kind*

**By Anne Todd**  
USDA Rural Development



Most of the land around Danby, in upstate New York, is considered marginal for farming. Goldenrod, a weed, grows naturally in abundance, as do perennial grasses. Further, the number of farmers in the area has been declining, resulting in less cultivation of the land (which quickly reverts to brush when not cultivated). Because of these conditions, many fields are not very productive.

While others might view this as a signal of decline, Danby resident Elizabeth Keokosky saw opportunity in those wild, woolly fields.

Keokosky, a Cornell University employee who is pursuing a master's degree in city and regional planning, realized that the marginal land she saw all around her was ideal for the alternative energy biofuels market, in part because it doesn't compete with farmland dedicated to food production.

She came up with the idea of forming a land bank cooperative that would allow local farmland owners to market their grass to be sold as bio-feedstock.

## Pilot takes shape

Keokosky soon set to work organizing a pilot project called the Danby Land Bank Cooperative. Under this pilot project, local member-producers of the co-op would lease their land to be harvested as biofeedstock for grass pellets or briquettes to burn as fuel.

"Our estimates indicate that biomass could heat up to 40 percent of the homes in the county, and that assumes average efficiency. If homes were super-insulated that number could be larger," says Ed Marx, Tompkins County Commissioner of Planning and Public Works.

In return, farmers' land would be cleared for free and they would receive tax benefits, supplies and — eventually, if all goes as planned — a share of the profits generated. If implemented, Keokosky believes this proposed cooperative model could be the first of its kind in the United States.

New York farmers are eligible for a real property tax reduction, known as an agricultural assessment, if they have at least seven acres of productive agricultural land and gross

at least \$10,000 in annual sales. By participating in the cooperative land bank, member-producers may become eligible for this agricultural assessment.

In February, Keokosky held the first meeting with Danby residents to discuss the proposed project. The people in attendance, including landowners, citizens and town board members, were enthusiastic about the concept and excited about the possibility of Danby entering the alternative energy market.

Tompkins County teamed up with Cornell to apply for a \$500,000 grant from the U.S. Environmental Protection Agency (EPA) to establish a county-wide rural biomass demonstration project and implement a self-sustaining biomass fuel model for the county. The rural biomass project would have accounted for about half of the \$500,000.

While they were not successful in the quest for the EPA grant, the co-op is working closely with Cornell Cooperative Extension of Tompkins County, which has played a leadership role in all aspects of this effort, to find other funding sources.

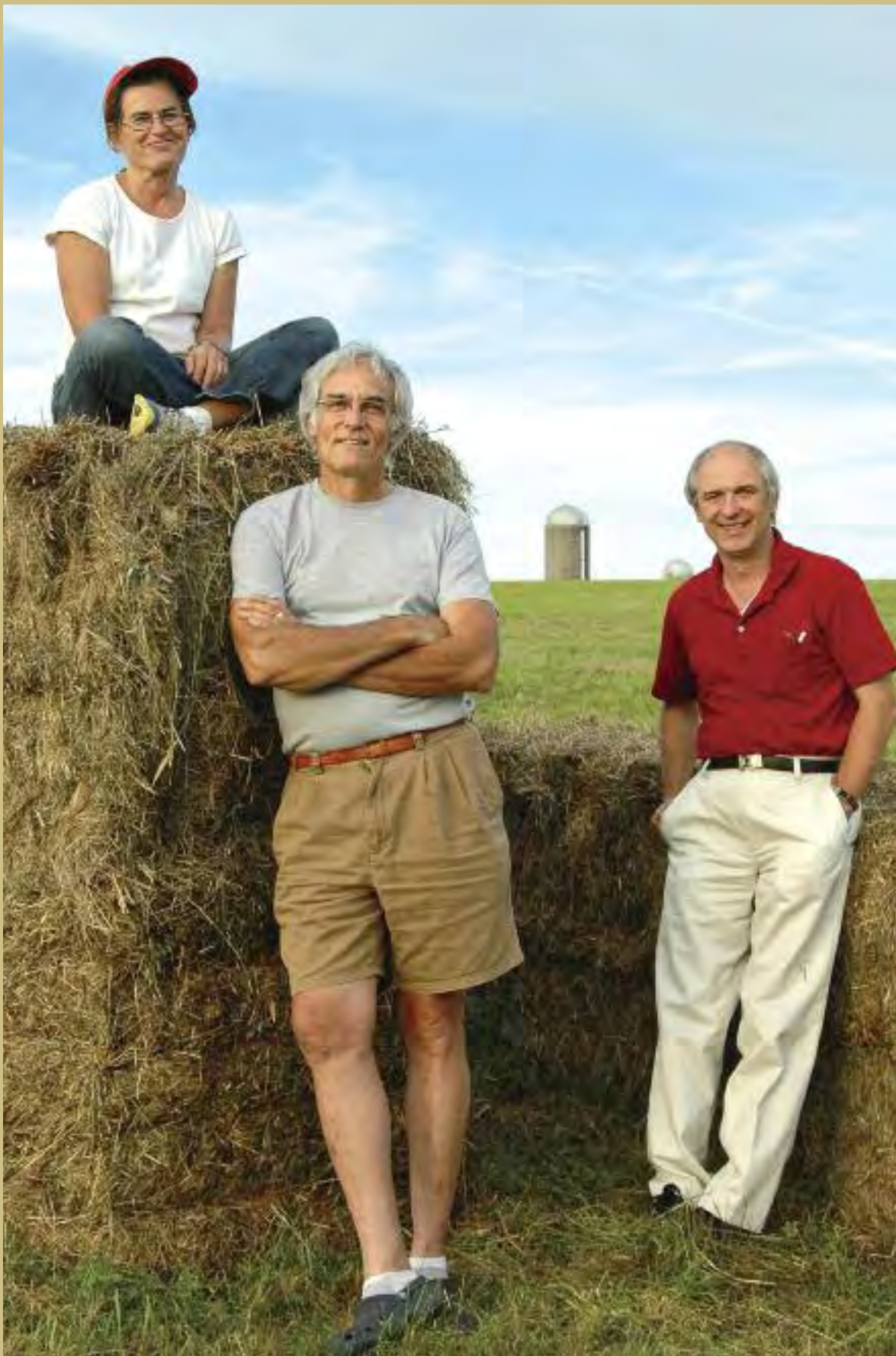
## Economic potential

Since the kick-off meeting only a few months ago, 20 local land owners have joined the pilot and contributed more than 300 acres toward the project. In addition, a steering committee and advisory committee have been formed to support the pilot and move forward toward full realization of the land bank. Members of the Tompkins County Planning Department and Cornell University Cooperative Extension are advisors to the project.

"We want the land bank to become the trusted entity that will bring biofuels entrepreneurs to the area," says Keokosky. She sees an ideal opportunity to create an economic "virtuous cycle" for the community, where the land bank would provide the bio-feedstock and local suppliers would then distribute the grass pellets to consumers for fuel.

The economic potential for the land bank cooperative in the biofuels market, and the resulting benefits for the Danby community, are significant. For example, in the future, the land bank could invest in a local pellet mill to produce its own briquettes. This would reduce costs, increase profits and bring more jobs to Danby. In addition, the land bank could





*Members of the Danby Land Bank Cooperative hope to process weeds and perennial grasses into biomass heating pellets (below). Co-op steering committee members (from left) include: Elizabeth Keosky, Tony Nekut and Mike Rutzke. Photo by Ted Crane, courtesy Danby Land Bank Cooperative*



expand into other biofuels production, such as biochar, a feedstock byproduct. As the project moves forward, it will create an impetus for grants and other development opportunities in Danby.

### **What's next for land bank?**

Keokosky hopes that the project will ultimately expand Danby's business opportunities, provide networking and growth opportunities for local producers, and sustain the local economy and soils. She has almost met all the goals for the first year of the pilot project: She is on track to sell some of the goldenrod to a distant pellet producer and sell hay a member has donated. The two sales will provide more than the necessary \$10,000 in gross sales for the pilot project, though contractor costs will need to be subtracted.

Working closely with Cornell Cooperative Extension of Tompkins County, the county is researching and seeking funding sources for the Danby Land Bank project. Keokosky hopes to be able to use some of those funds, if approved, for the legal work needed to formally incorporate as a cooperative organization.

The Danby Land Bank Cooperative recently launched a Web site at: <http://www.danbylandbank.com>. The Web site will promote its mission and services, its goals for 2010 and provide information and resources about grass-based bioenergy to member-producers and the public. To learn more about the Danby project or the benefits of grass pellet use, visit the Web site or send e-mail to [info@danbylandbank.com](mailto:info@danbylandbank.com). ■

## **A true grassroots effort**

**Ed Marx, Tompkins County Commissioner of Planning and Public Works, discusses more details of the land bank cooperative project:**

**Question:** *Will there be any help for county residents in purchasing the special stoves needed to burn the biomass pellets? Do you think it will require a "hard sell" to get consumers to convert to using biomass pellets?*

**Ed Marx:** "The idea of the project is to demonstrate both the technology and the economics of transitioning to this heat source. The purchase and installation of the heating unit will be heavily subsidized for participants in return for their agreeing to supply the data for the study. We hope that demonstrating both the practicality and the economic benefit of using biomass will spur others to make the decision to change to biomass as a heating fuel. We don't expect that this will occur in a wholesale manner immediately, but as existing heating equipment needs to be replaced and fossil fuel sources become increasingly expensive, a gradual transition would occur."

**Q:** *How important is a local ownership structure for the Land Bank Cooperative?*

**A:** "The benefit of the local ownership structure is that by helping to cover the costs of rural land ownership, it will allow local people to continue to live on the land and contribute to a revitalized rural economy. The hope is that the cooperative will provide them with the ability to manage the resource for local benefit. This is truly a grassroots effort (excuse the pun)."

**Q:** *How important is a local pellet plant to the economic viability and long term success of the land bank cooperative? Can the county do anything to facilitate development of a local plant?*

**A:** "The local pellet plant is essential. We need to be able to demonstrate a reliable local supply in order to give people the confidence to change the source of something so critical as their heating fuel. Also, a local processor is essential to the economics of the local biomass resource. Transporting biomass long distances is not likely to be economically efficient or environmentally sustainable in the long run. The grant would provide some seed money to help in getting the local mill up and running. We may also be able to offer other economic incentives through our Tompkins County Industrial Development Agency or through other Federal or State programs."

**Q:** *Going forward, what do you think the biggest challenge will be to take this project from a pilot phase to a sustained operation?*

**A:** "As with any small business or new industry, I suspect that scaling up will pose some challenges. The Land Bank Cooperative will either need to grow or spawn similar groups around the county. The same is true for the pelletizing operation, the purveyors of heating equipment, etc. However, partners in the community are working to simultaneously develop all aspects of the supply chain for both the fuel and equipment, and we firmly believe that all of these challenges can be overcome." ■



# Newsline

## Co-op developments, coast to coast

Send co-op news items to: [dan.campbell@wdc.USDA.gov](mailto:dan.campbell@wdc.USDA.gov)



*Bravante Produce is bringing nearly 1.4 million cartons of additional citrus fruit annually into the Sunkist system.  
Photo courtesy Bravante Produce*

### Bravante Produce joins Sunkist

Bravante Produce, a well-known grower/shipper in the California citrus industry, is the newest member of Sunkist Growers, the grower-owned citrus marketing cooperative headquartered in Sherman Oaks, Calif. “We are excited about our affiliation with Sunkist,” says George Bravante, managing partner of the Reedley, California-based operation. “Sunkist has an excellent marketing and transportation network and a brand

name that is known worldwide for its premium products. We’re looking forward to enjoying the benefits of Sunkist membership, which we believe will enable us to improve volume and profitability.”

Bravante Produce is a premier grower, packer and shipper of fresh citrus, with a modern 3-year-old packing facility in Reedley, and groves throughout the San Joaquin Valley. With a product list that includes navel and Valencia oranges, lemons and minneolas, Bravante is bringing 2,000-plus acres of citrus into the Sunkist system.

“We’re extremely pleased to welcome Bravante into our organization,” says Russ Hanlin, Sunkist president and CEO. “They are an experienced, respected grower and packer, and bring to our system nearly 1.4 million cartons of quality citrus and a philosophy of excellence that matches our own.”

Bravante is projected to add 1 million field cartons of navels, 200,000 field cartons of Valencias, 150,000 field cartons of lemons, and 20,000 field cartons of minneolas to Sunkist’s portfolio for the 2009-10 season.

### University to develop urban food co-op

The University of Nebraska-Lincoln has been awarded a \$10,000 grant by the U.S. Environmental Protection Agency (EPA) to develop an urban food cooperative that involves urban part-time growers in an agricultural region focused primarily on commodity crop production. The grant is one of 43 awarded to teams of college and university students across the country who will design creative technologies to address sustainability challenges.

The People, Prosperity, and the Planet (P3) Phase I awards for the 2009-2010 competition challenge students, working together on interdisciplinary teams, to design and build sustainable technologies that improve quality of life, promote economic development and protect the environment.

The competition begins in Phase I with the award of \$10,000 grants to student teams who submit applications that focus on a wide range of categories, including water, energy, agriculture, environment, materials and chemicals, and information technology. After working on the project for 8 months, the teams will take their designs to the 6th Annual National Sustainable Design Expo on the National Mall in Washington, D.C. At the Expo, the projects will be judged by a panel of experts, and a few will be awarded P3 Awards and Phase II grants up to \$75,000 for students to further their designs, implement them in the field, or move them to the marketplace.

## Michigan co-op acquires grain facility

Cooperative Elevator Co., Pigeon, Mich., has announced the purchase of a grain-receiving facility in North Branch, Mich. The co-op had been operating the facility under a lease/purchase option since July 2008, with marketing provided through J & J Farm Services in North Branch. It exercised the purchase option on Sept. 1.

Cooperative Elevator Co., which has been operating since 1915, has a 17-million-bushel grain capacity and is owned by more than 900 Michigan farmers. It also has plants in Akron, Bad Axe, Deckerville, Elkton, Fairgrove, Gagetown, Ruth and Sebawaing. Jeff Render is the North Branch plant manager.

“We will work hard to earn the trust and respect from the North Branch area farmers,” says Patricia Anderson, the co-op’s CEO.

## Missouri biomass co-op first to earn BCAP payments

USDA’s Farm Service Agency (FSA) has made the first matching payment under the new Biomass Crop Assistance Program (BCAP) to Show Me Energy Cooperative of Missouri. The co-op is the first biomass conversion facility in



*Agriculture Secretary Tom Vilsack (far left) tours the Show Me Energy biomass plant in Missouri. USDA photo by Charlie Rahm*

the nation to qualify under BCAP, a 2008 Farm Bill Program. Less than a month later, it was paying producers for biomass materials; FSA matched the

payments with BCAP collection, harvest, storage and transportation (CHST) program funds.

Show Me Energy has more than 500 biomass producers supplying materials such as switchgrass, straw, corn stover, sawdust, woodchips and other biomass materials.

According to Show Me Energy Cooperative CEO Kurt Herman, “Our plant produces fuel pellets from agricultural waste products, but could expand to produce cellulosic liquid fuels.” Herman also says pellets produced by Show Me Energy are used to heat houses and livestock facilities. Kansas Power & Light Company’s Sibley plant is testing pellets to determine if the biomass fuel could supplement coal for generating electricity.

The BCAP program encourages biomass conversion facilities to sign agreements with FSA. The agreement can be downloaded from: [www.fsa.usda.gov](http://www.fsa.usda.gov). Once signed up, FSA confirms qualifications and assigns facilities identification numbers. Producers who sell eligible materials to qualified biomass conversion facilities can then apply for FSA payments that match the amount received from the facility. The payments are authorized under the CHST component of BCAP.

For example, if a qualified biomass conversion facility pays a producer \$30 per dry ton for biomass, the material owner or producer would be eligible for a matching payment of \$30 per dry ton from FSA. Eligible material owners or producers, who market eligible material to a qualified biomass conversion facility, may apply for the matching CHST payment at their FSA county office. An application must be

submitted before the eligible material is sold and delivered to a qualified biomass conversion facility.

## 2.4 million agri-tourists visit California farms in '08

The University of California (UC) Small Farm Center says California farmers and ranchers hosted more than 2.4 million agricultural tourists in 2008, based on results from California’s first statewide economic survey of agri-tourism operators. A number of



*Larry Knapp, owner of Yosemite Trails Pack Station near Fish Camp, Calif., is one of the ranchers and farmers in California who played host to 2.4 million agri-tourists in 2008. Photo courtesy Larry Knapp*

cooperatives of farms and ranches have been formed nationally to promote agri-tourism.

The survey’s preliminary findings suggest agri-tourism can indeed be a profitable supplement to a farm or ranch business. Agricultural tourism allows travelers a chance to visit working farms and ranches and can include experiences such as picking their own fruit, visiting a petting zoo, touring a vineyard, buying fresh produce or riding horses.

Small farms made up more than two-thirds of the farms that reported offering agri-tourism. The survey was conducted by a group of researchers from the University of California



Cooperative Extension and the UC Small Farm Program, with funding from the California Communities Program.

## USDA: 5,200 farmers markets now open

Agriculture Secretary Tom Vilsack has announced that the number of farmers markets in the United States is up more than 13 percent from a year ago. The online Farmers Market Directory now lists 5,274 markets nationwide, up from 4,685 in 2008.

"Farmers markets assure that consumers have easier access to local fruits and vegetables and this growth demonstrates incredible interest consumers have in purchasing from local producers," said Vilsack. "Farmers markets also connect the community to the local farmers who produce the fresh food, and play an important role in the direct marketing of produce to local consumers."

Since USDA's Agricultural Marketing Service began to track farmers markets in 1994, the number has grown by nearly 4,000 nationwide.

USDA's support of farmers markets is just one component of the "Know Your Farmer, Know Your Food" initiative to help develop local and regional food systems and spur economic opportunity. By successfully restoring the link between consumers and local producers there can be new income opportunities for farmers and wealth can be generated that will stay in rural communities. There also can be a greater focus on sustainable agricultural practices and families can better access healthy, fresh, locally grown food.

## New distribution deal in Poland for CRI

Cooperative Resources International (CRI), Shawano, Wis., has announced that P.H. Konrad Krzyztopf Przedziecki is the new distributor in Poland for CRI's dairy and beef cattle genetics. Nick Kirby, managing director of CRI Europe, notes the new relationship will provide advantages for

both companies. "P.H. Konrad will be a credible outlet for CRI genetics throughout Poland. At the same time, CRI will share its expertise derived from experience as a major global player in the field of bovine genetics." P.H. Konrad was established in 1995 as a marketing firm for dairy and beef breeding stock. In 2002, the company expanded its services into the genetic sector to create access for Polish producers to the world's best genetics. It is the largest importer of bovine semen in Poland.

CRI has also entered into a long-term agreement with Flying Crane Dairy, one of China's largest producers and distributors of premium infant formula and milk powder. According to a report in the "Business Journal of Milwaukee," CRI will advise Flying Crane as it constructs 10 dairy farms to house 10,000 dairy cows. CRI will provide Flying Crane with expertise in farm construction, dairy production technology, advanced operation concepts and farm management.



Representatives of Cooperative Resources International (CRI) and China's Flying Crane Dairy sign an agreement, under which CRI will help set up 10 dairy farms with 10,000 cows in China. Photo courtesy CRI

CRI, a member-owned holding cooperative, is comprised of three subsidiaries: Central Livestock Association, AgSource Cooperative Services and Genex Cooperative Inc.

## USDA awards \$4.8 million for co-op development

Agriculture Deputy Secretary Kathleen Merrigan in September announced that 28 organizations in 21 states have been selected to receive \$4.8 million under the Cooperative Development Grant program of USDA Rural Development. The announcement was made as part of the "Know Your Farmer, Know Your Food" initiative, a USDA-wide collaboration that connects people more closely with the farmers who supply their food and increase the production, marketing and consumption of fresh, nutritious food that is grown locally in a sustainable manner.

"The cooperative business model continues to be successful in creating wealth in rural communities and can also play an important role in strengthening our food systems," Merrigan said. "USDA is proud to be a partner in the effort to bolster these cooperatives and help them increase the value and appeal of the products and services they deliver."

USDA Rural Development is awarding a \$200,000 grant to The Ohio State University Research Foundation to support the foundation's efforts to help individuals and new and emerging cooperative business entities. The Foundation will provide technical assistance to a statewide farmers market management network cooperative and to a newly formed purchasing cooperative for businesses in Appalachia.

The Value-Added Agriculture Development Center in Pierre, S.D., has been selected to receive a \$200,000 grant to continue supporting the creation of producer-owned, value-added agriculture. The Center will help local growers educate the public,

lenders and producers about the benefits of value-added agriculture. These efforts often increase sales of locally grown crops in addition to increasing local agriculture's contribution to area residents' health and to the local economy.

Cooperative Development Grant program funds may be used for technical assistance, research and informational materials to help rural residents form cooperative businesses or improve the operations of existing cooperatives.

Below is a complete list of the selected grant recipients. Funding of each recipient is contingent upon the recipient meeting the conditions of the grant agreement.

- Alabama: Federation of Southern Cooperatives/Land Assistance Fund – \$200,000;
- Alaska: University of Alaska Anchorage – \$197,783;
- California: California Cooperative Development Center – \$200,000;
- Colorado: Rocky Mountain Farmers Union Educational & Charitable Foundation – \$200,000;
- Georgia: Southwest Georgia United Empowerment Zone Inc. – \$50,000;
- Indiana: Indiana Cooperative Development Center Inc. – \$126,521;
- Iowa: Iowa State University – \$200,000;
- Kentucky: Kentucky Center for Ag and Rural Development – \$200,000;
- Massachusetts: Cooperative Development Institute – \$200,000;
- Michigan: Michigan State University – \$200,000;
- Montana: Montana Cooperative Development Center Inc. – \$200,000;
- Lake County Community Development Corporation – \$99,696; Fort Peck Assiniboine & Sioux Tribes – \$50,000;
- Nebraska: University of Nebraska – \$200,000;
- North Carolina: North Carolina State University – \$200,000;
- North Dakota: North Dakota Association of Rural Electric Cooperatives – \$200,000; Common Enterprise Development Center – \$200,000; ABLE Inc. – \$50,000;

- Griggs Steele Empowerment Zone – \$30,600;
- Ohio: Kent State University – \$200,000; The Ohio State University Research Foundation – \$200,000; National Network of Forest Practitioners – \$200,000;
- Oklahoma: East Central University – \$199,966;
- Pennsylvania: Keystone Development Center Inc. – \$200,000;
- South Dakota: Value-Added Agriculture Development Center – \$200,000;
- Virginia: Virginia Foundation for Agriculture, Innovation & Rural Sustainability – \$200,000;
- Washington: Northwest Cooperative Development Center – \$200,000;
- Wisconsin: Cooperative Development Services, Inc. – \$200,000.

### **GROWMARK sales top \$6.1 billion**

GROWMARK had sales of \$6.1 billion for the 2008-09 fiscal year, with net income of \$96.9 million. It returned \$82 million in patronage refunds to GROWMARK member cooperatives.

“The 2009 fiscal year has been challenging for many farmers as they attempted to plant a crop with extremely volatile pricing for fuel, fertilizer and grain,” said Bill Davisson, GROWMARK chief executive officer. “Overall, I believe this has been a successful year on many fronts, and when looked at historically, this is still projected to be the fourth-highest income in our history.”

The Energy Division enjoyed strong income again, and investments continue to be made in division infrastructure, including biodiesel blending capabilities at the Menard County, Ill., terminal and at Madison Service Co.'s Roxana, Ill., bulk plant. GROWMARK received more than \$50 million in patronage from the National Cooperative Refinery Association (NCRA). The cooperative owns nearly 19 percent of the refinery operation located in McPherson, Kan.

Seed Division sales hit \$240 million, a 23-percent increase over the previous

year. FS corn sales grew 5 percent this year, Davisson said. An 18-percent sales increase was reported by the Crop Protection Division. GROWMARK recently reorganized field-level personnel to support crop specialists in creating and delivering whole-farm cropping plans through FS Green Plan Solutions.

Plant food operations resulted in a gross income loss. Davisson cited a



*GROWMARK's Energy Division enjoyed strong income in 2009.*

worldwide economic downturn, which created significant demand destruction and oversupply of fertilizer, resulting in a huge drop in fertilizer prices after inventories at GROWMARK were in place for fall application. “Still, if you evaluate plant food results over 24 months instead of 12, it was the best period of internal income in our history,” Dawson said.

The cooperative's Facility Planning and Supply Division posted increases in sales and gross income for the fourth consecutive year. Contributing to this success was the construction of commercial grain storage facilities and programs with equipment manufacturers as FS member cooperatives invested in application equipment and rolling stock.

In addition to grain partnering efforts with local FS member cooperatives in Illinois and Ontario, Canada, the GROWMARK System is adding storage capacity and connecting farmers with more end-use markets through a partnership with Central States Enterprises.

MID-CO Commodities had \$1 million in income this year and will

*continued on page 30*



## NCB Co-op 100 revenue hits \$209 billion

The nation's 100 largest cooperatives earned \$209 billion in 2008, up \$36 billion from 2007. NCB (formerly National Cooperative Bank), which compiles the list annually, reports that the 2008 total represents a 157-percent increase from the first Co-op 100 report NCB issued in 1991, when America's top 100 cooperatives generated \$81.4 billion in revenue.

While the companies and rankings change year to year, the cooperative sector continues to advance, playing an increasingly influential role in the nation's economy, says Charles E. Snyder, president and CEO of NCB. "The record-setting dollar amount highlights the benefits of cooperatives' adaptable structure, ultimately enabling these organizations to prosper even in the most difficult of climates. As a bank created and focused on providing



*Navy Federal Credit Union's mascot congratulates children who participated in a recent fun run. Navy Federal is the nation's second largest financial co-op, with \$2.7 billion in revenue last year.*

financing to this community, we're

proud to have been instrumental in the expansion of these businesses over the past 30 years."

As the report indicates, cooperatives remain a driving force in today's marketplace, generating over \$500 billion in annual revenue. Total assets of all cooperatives nationwide surpass \$1 trillion. Nine agriculture cooperatives made the top 100 for the first time in 2008.

The top co-ops, based on revenue by economic sector, include:

- **Agriculture:** CHS Inc., Saint Paul, Minn., \$32.1 billion, up from \$17.2 billion in 2007, which maintained its first place position overall on the NCB Co-op 100 list. Land O'Lakes Inc., Saint Paul, Minn., \$12 billion (second place overall); Dairy Farmers of America (DFA), Kansas City, Mo., \$11.8 billion (third place overall);
- **Grocery:** TOPCO Associates LLC, Skokie, Ill., \$9.9 billion (fourth overall); Wakefern Food Corp., Elizabeth, N.J., \$8.4 billion (fifth overall);
- **Hardware & Lumber:** ACE Hardware, Oakbrook, Ill., \$3.8 billion (11th overall); Do it Best Corp., Fort Wayne, Ind., \$2.5 billion (17th overall);
- **Finance:** CoBank, Greenwood Village, Colo., \$2.7 billion (14th overall); Navy Federal Credit Union, Merrifield, Va., \$2.7 billion (15th overall, up four slots from 2007);
- **Healthcare:** HealthPartners Inc., South Bloomington, Minn., \$3 billion (13th overall); Group Health Cooperative, Seattle, Wash., \$2.7 billion (16th overall);
- **Energy & Communications:** National Cable Television Cooperative Inc., Lenexa, Kan., \$2 billion (21st overall); Basin Electric Power Cooperative, Bismarck, N.D., \$1.5 billion (32nd overall, up from 67th in 2007).

Cooperatives directly employ



*CHS is the nation's largest cooperative, with sales of \$32.1 billion. Below: Food testers at TOPCO Associates, the nation's largest grocery co-op, which had \$9.9 billion in revenue last year.*



nearly 500,000 people across the country, and when including indirect and induced effects, support more than 2 million jobs nationwide. As many sectors absorb the slowing activity of the current economic conditions, cooperatives and their members often fare better in difficult conditions than investor-owned firms, due to their adaptable structure and governing body.

Since cooperatives are controlled by their members, the individuals who use and benefit from the goods and services provided, cooperatives can more readily readjust to market conditions than many of their investor-backed counterparts. As a result, cooperatives are organized to maximize returns and are prepared to weather a downturn, like today's current marketplace.

The entire NCB Co-op 100 report is available at: [www.ncb.coop/uploadedfiles/coop100\\_2009\\_web.pdf](http://www.ncb.coop/uploadedfiles/coop100_2009_web.pdf).

return \$250,000 in cash patronage. AgriVisor, LLC, a joint venture between GROWMARK and Illinois Farm Bureau, continues to bring a broad spectrum of products and services that help producers develop and implement risk management strategies tailored to their operations.

For the second year in a row, General Manager John Knobloch of AGRILAND FS, in Winterset, Iowa, received the prestigious Chairman's Award for Excellence in Management from GROWMARK Chairman Dan Kelley at the cooperative's annual meeting in Chicago. The award is the highest honor GROWMARK bestows to member cooperative managers who have achieved outstanding results in the following management categories: percent or dollars of sales increase, credit administration, operating expense efficiency, and return on invested capital.

### California small farm conference set

The 2010 California Small Farm Conference will be held Feb. 28 to March 2 in San Diego. The conference will feature five short courses with off-site tours of local farms and farmers markets; 25 focused workshops on issues of conservation, business management, marketing and production; numerous networking opportunities and three keynote addresses by industry leaders.

Russ Parsons, food columnist for the *Los Angeles Times*, will be the keynote speaker. He has been the newspaper's food editor, managing editor and deputy editor and is the author of the cookbooks *How to Read a French Fry* and *How to Pick a Peach*.

### USDA loans \$2.4 billion to RECs

Agriculture Secretary Tom Vilsack on Sept. 30 announced that 58 rural utilities and cooperatives in 33 states have been selected to receive \$2.4 billion in loans and loan guarantees to build and repair over 12,000 miles of distribution and transmission lines and make system improvements that will

benefit almost 113,000 rural customers. Vilsack made the announcement during a Rural Tour stop in Las Cruces, N.M., as part of the Obama Administration's effort to develop infrastructure and build the economy of rural communities.

Several of the loan guarantees support renewable energy ventures. For instance in Fitzgerald, Ga., Fitzgerald Renewable Energy LLC has been selected to receive a \$139 million loan



*Willie Wirehand, the mascot of the nation's rural electric cooperatives (RECs), was incorrectly referred to as Willie Wirehands in the last issue of "Rural Cooperatives." But, as can be seen in this photo, he's not taking it too hard. Illustration by Richard Biever, courtesy Indiana Statewide Association of RECs*

guarantee to build a biomass-fueled power generating facility. The plant will use locally produced wood fuel waste to generate 55 megawatts of renewable electric power. The fuel typically will be waste wood provided by vendors within 50 miles of community.

Multitrade Rabun Gap LLC, located in Rabun Gap, Ga., has been selected to receive a \$20.7 million loan guarantee to construct and operate a 17 megawatt wood-fueled biomass facility. The facility has a significant amount of existing equipment already on site, including a wood-fired boiler that was previously used to supply steam and

electricity to a textile manufacturing operation. The new biomass facility will use native renewable fuel from the local forest industry and is expected to sell power to a Georgia cooperative under a long-term power purchase agreement.

### \$71 million to bolster rural co-ops, business

An Ohio farmer cooperative is among the rural businesses nationwide receiving \$71.7 million in American Recovery and Reinvestment Act funds, made available through the Business & Industry (B&I) Guaranteed Loan Program, administered by USDA Rural Development. Altogether, \$1.7 billion is available to businesses across the country through the Recovery Act and B&I loan funding.

In Franklin County, Ohio, a farmer-owned cooperative was selected to receive a \$7.5 million loan guarantee. The loan will help provide business services to more than 50,000 livestock farmers in Ohio, Kentucky, Michigan, Indiana, Illinois and Missouri. The B&I loan will help the cooperative continue to maintain health insurance for its nearly 500 employees, many of whom live in counties with unemployment rates 125 percent greater than the national average and counties that have been affected recently by natural disasters.

Eligible B&I applicants include private businesses, cooperative organizations, corporations, partnerships, nonprofit groups, federally recognized Indian tribes, public bodies and individuals. Funds are targeted to create and retain quality jobs and serve difficult-to-reach populations and areas hardest hit by the current economic downturn. Learn more about the program by visiting [www.rurdev.usda.gov/rbs/busp/b&i\\_gar.htm](http://www.rurdev.usda.gov/rbs/busp/b&i_gar.htm).

More information about USDA's Recovery Act efforts is available at: [www.usda.gov/recovery](http://www.usda.gov/recovery). More information about the federal government's efforts on the Recovery Act is available at: [www.recovery.gov](http://www.recovery.gov).





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a viable project that can successfully sequester carbon dioxide.”

With climate-change legislation moving through Congress, any approach that can keep costs affordable for rural electric utilities is of interest. Southworth says that Associated Electric Co-op is among six utilities

serving Missouri that are looking at carbon sequestration. A U.S. Department of Energy grant is funding another project that will inject food-quality carbon dioxide into a sandstone formation 1,900 feet under the plant site.

“This project will look at stability — what happens after the carbon is injected,” Southworth says.

The sequestration projects are long-term efforts. Southworth says that the rate at which the carbon dioxide can be

“bubbled” into the algae is critical, but this is one aspect of the research that has been determined. Next, researchers Dr. Keesoo Lee of Lincoln University and Dr. Paul Nam of the Missouri University of Science and Technology will look at the effect of colder temperatures on algae growth.

“This winter will be the first for the algae project,” Southworth says. “Currently, the effect of the colder temperatures is not known.”

**NEW from USDA**  
*Three new publications offer information to cooperatives looking to break new ground*

**A Guide for the Development of Purchasing Cooperatives: CIR 64**  
 – Rural communities can often greatly benefit from the institution of purchasing co-ops. This publication offers information on organizing and operating a sustainable purchasing cooperative.

**Cooperative Approaches for Implementation of Dairy Manure Digesters: RR-217**  
 – High costs and low returns often discourage dairy farmers from using anaerobic digesters. A cooperative approach may offer lower costs and better profitability while letting each farmer concentrate on milk production.

**Selecting a Cooperative Membership Structure for the Agriculture of the Middle Initiative: RR-216**  
 – Many medium-sized farms are suffering a squeeze because they are not big enough for economies of scale and not able to take advantage of niche markets. This report explores cooperative approaches to survivability for farms of the ‘disappearing middle.’

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**Legal Connection**  
*continued from page 7*

The same principle applies in the methods by which directors are nominated and/or elected. Some cooperatives have director districts with different numbers of directors assigned to each district. The bottom line is that some members may have more say than others.

The governing aspect of cooperatives is evolving in order for cooperatives to

compete in a more competitive and diversified financial and economic environment. At the end of the day, however, cooperatives must still maintain the basic cooperative principles, including having “democratic control” in the governance of their organization in order to keep their status as a cooperative.

The possible risks that cooperatives face if they do not have democratic control are:

- Loss of Subchapter T eligibility;
- Loss of eligibility as a 501(c)(12) organization;
- Possible lawsuits from members

against board members for breach of their fiduciary duty.

As cooperatives start to “think outside the box” regarding the governing structure of their organization, make sure your cooperative does not inadvertently abandon the principle of democratic control. Any form of member voting other than one-member/one-vote, or a method of weighing board member representation should be carefully studied to make sure that it does not result in defacto control of your cooperative by an individual or small group.

# Get the Big Picture

## The USDA Rural Development 2008 Cooperative Statistics report

A survey of 2,473 U.S. farm, ranch and fishery cooperatives found record sales of \$192 billion in 2008, up more than \$45 billion from the previous year. This USDA report presents a wealth of detailed information about this record-breaking year for the nation's cooperatives.

In addition to sales and income figures by commodity for all cooperative sectors, this publication reports on co-op assets, financial ratios and numbers of members and employees. Balance sheets and income statements for various co-op commodity sectors are presented, both by size and products sold, to help management and board members see how their cooperatives compare with similar cooperatives.

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Please send me \_\_\_\_\_ copies of Farmer Cooperative Statistics 2008, Cooperative Service Report 69, at no charge.



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## Commentary

*continued from page 2*

be insufficient returns on their investment in those markets.

In 1953, none were stepping up to fill the communication gap in Eagle River and the Matanuska-Susitna Borough. In response, valley residents joined together to create Matanuska Telephone Association (MTA). Fifty-six years later, MTA — built through the dedicated labors of local men and women — is an industry leader and powerful economic engine in the region.

This year alone, MTA will pump tens of millions of dollars into the local economy by employing more than 400 Alaskans. We will continue to support our service area through donations of both time and money to local organizations to help make our communities stronger.

Because we are not required to pay dividends to outside investors, another benefit of the co-op model is that we are able to continually reinvest in our infrastructure, which is vital to the long-term health of our company.

As a result, MTA is in an excellent position to compete

with other providers, who now, 56 years late, see our market as a profitable business proposition — for their investors.

Without the cooperative model, dividends issued by for-profit organizations traditionally flow outside of Alaska. Not so with capital credits. They stay right here to be circulated back into Alaska's economy because they are paid to local residents, business owners and government organizations. This year, about \$30,000 was paid to the Matanuska-Susitna and Anchorage School Districts.

There are other co-ops in Alaska that serve multiple community needs, such as credit unions, and REI sporting goods. The success of co-ops has been due in large part to the fact that their customers are their owners. While no business model works without dedicated employees, strong ethical management and relevant product offerings, the co-op model in today's environment bodes well for the future.

While many large companies are under pressure to pay out higher dividends, co-ops re-invest in themselves, their customers and the communities they serve. At a time when there is less money for corporate re-investment, co-ops will continue to thrive for this reason alone. ■

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## Missouri farmer helping ag banks in developing countries *continued from page 17*

Roman Asatryan concurs. The young Armenian man befriended Eyman and volunteered as a translator and tour guide in the evenings and on weekends. Asatryan's parents are typical of many small landowners who raise mostly produce to feed their families, selling any excess in the marketplace.

### Subsistence farming

"People in rural areas and small villages farm to stay alive," Asatryan says. "They really don't have any assets more than what they can carry in their hand or store in the small shed most people build on their land."

Eyman notes that larger Armenian landowners may own enough to hire someone to operate the farm, while the owner also runs a one-room general merchandise store or a small food-processing operation. Separating the farm operations from other businesses was challenging.

"I was on tarragon [herb] farms and vineyards, in wineries

and cheese factories and greenhouses, all the time working with Armenian loan officers who would, in turn, train other Armenians. Then, on behalf of the farmers who qualified, I would go to credit organizations to present recommendations on who could viably handle a loan," Eyman explains. "A large part of the goal was to help the farmers install drip irrigation to improve farm yields."

Working from a loan policy he first developed in Ethiopia, Eyman introduces the document in every country. He follows up with other policies and forms, such as a basic balance sheet, cash-flow assessment and collateral inspections sheets. The countries are free to use them as is, or adapt them to specific nuances in their customs and cultures. The WtM project has reached all 10 Armenian marzes, or provinces, through its training and credit programs and has established demonstration sites.

"The business of banking in agriculture has similarities around the world," he says, adding that "it's a wonderful experience to help people who are looking to the future." ■

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## Banking on the Future *continued from page 16*

month or every quarter they meet," notes Strom. "But then you realize this is just the beginning for Farm Credit Armenia's five directors, outside director and staff — at a time when there are global financial challenges."

Strom says one solution he has offered is to speak favorably about FC Armenia and how its members have embraced the cooperative structure and principles as a means to rebuilding the agricultural sector in their country's emerging free-market economy.

"I do agree with Lee's assessment," says Johnston. "But I would add that I think Farm Credit Armenia offers an opportunity for other donors and investors to fund a great organization that is built on sound cooperative and credit principles." As potential donors and funders look into FC Armenia, he thinks they will recognize the same opportunity to serve rural Armenia as MCA did when it provided it with lending capital.

"Farm credit in Armenia today is where the U.S. system was 50 years ago," Strom says. "Look what has been accomplished in the United States. The same can be done here." ■



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