

# Rural COOPERATIVES

USDA / Rural Development

March/April 2009

Things looking up for forestry co-ops

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Grain co-ops, lenders survive wild ride *Page 4*



# Commentary

## The 'Go-Local' Movement: How will your co-op be affected? What is your role?

By **Randall E. Torgerson**

*Editor's note: Dr. Torgerson is the former administrator of USDA's Agricultural Cooperative Service, now the Cooperative Programs of USDA Rural Development. He lives in Alexandria, Va.*



Michael Pollan, a University of California-Berkeley journalism professor, recently wrote an open letter to the incoming secretary of agriculture, in which he suggests a need to re-orient our agricultural production and distribution systems. In the letter, published in the *New York Times Magazine*, Pollan sees a need to emphasize policies that encourage producing and buying locally produced food. This approach — embracing a polyculture system of producing food, rather than the present monoculture of subsidized commodity crops — is sparking much discussion.

Instead of the present heavy reliance upon fossil fuels, it foresees smaller farms, more use of organic and/or other “greener” production methods and development of local markets for fresh food. It is viewed as a policy alternative to continued price supports which go to ever-larger, industrial-type farms (a number of which do not support cooperatives).

It also envisions saving energy by lowering transportation costs, improving stewardship of the environment through use of best-conservation practices and promoting consumption of fresher, quality foods that enhance the health and well-being of the public.

### Impact on ag cooperatives

Cooperative leaders need to ask themselves how this approach influences their operations. More specifically, will cooperatives have a role to play if such an approach gains traction, including policy support from Congress and the new Obama administration?

The concept isn't totally new. In fact, statistics from the recently released 2007 Census of Agriculture reflect a 4-percent increase in the number of U.S. farms since 2002. Many of these farms were created by subdividing larger parcels near suburban areas as some people have sought the benefits of a more rural lifestyle. Data show that these new farms tend to have more diversified production, fewer acres, lower sales and younger operators who, in some cases, also work off the farm. The latest census figures show a continuation in the trend toward more small and very large farms, but fewer mid-size farm operations.

The census report also demonstrates that the concentration

of agricultural production has increased during the past five years. In 2007, just 125,000 farms were responsible for 75 percent of the value of U.S. agricultural production, compared to 144,000 farms in 2002 for the same share. This structural shift has consequences for cooperatively owned businesses, which must continue to adapt to the makeup of production agriculture.

### Direct marketing emphasized

The growth in smaller farming operations has been accompanied by emphasis on direct marketing to local communities and establishment of farmers markets. USDA has been active in promoting and supporting direct marketing through the Extension Service and grants funded by USDA's Agricultural Marketing Service. This effort has come at the expense of diminished resources devoted to encouraging cooperative marketing.

Growth in community-supported agriculture (CSA) has also expanded. By joining a CSA (many of which are either organized as cooperatives or at least operate on cooperative principles), a consumer pays a fixed rate at the beginning of the growing season in return for being supplied with fresh fruits and vegetables all season. Much, but not all, of the production meeting these needs is provided by local farmers, often producing on a relatively small scale. Historically, these small but intensively farmed operations have been known as truck farms.

Paralleling the growth in this approach — and often encouraging it — has been buying clubs of like-minded consumers who have organized natural food store cooperatives to help meet growing demand for organic and natural foods. These foods are produced without use of hormones, pesticides and artificial fertilizers (in the case of organic foods) to support what is deemed a sustainable environment.

In response to this development, USDA has adopted organic food standards. The rise in popularity of organic foods has reached national food chains and bulk discount stores where organically labeled foods can be found on many store aisles. Some have predicted that the current economic downturn could deal a setback to the growth of the organic food movement, but the overall trend still appears to be on the ascent.

### Co-op business model fits demand

Application of the cooperative business model can, and does, fit both ends of this spectrum. Linkages between farmer

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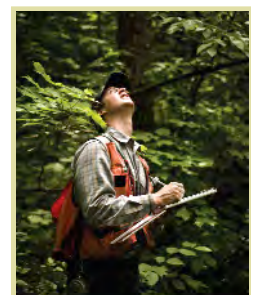
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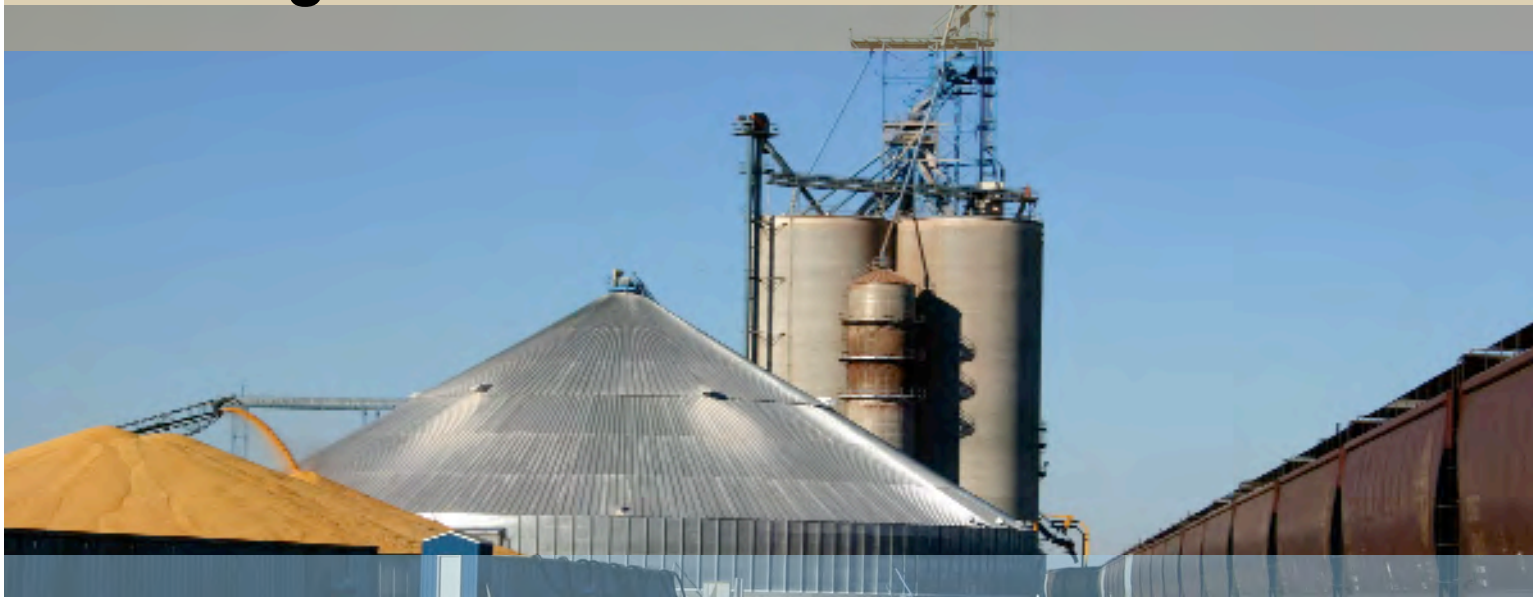
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Thomas Wyse, a forester with the Living Forest Cooperative (LFC) in northern Wisconsin, marks out a forest stewardship plan for a co-op member. The LFC has joined the National Network of Forest Practitioners, which provides technical support to its members while promoting healthy, productive forests. Photo by Peter Hoffman



# Passing the Stress Test



A shuttle train loads at South Dakota Wheat Grower's elevator in Mellette, S.D. Photo by Cheryl Crase, courtesy SDWG.

## *Grain co-ops and lenders work as a team to meet unprecedented credit needs during '08*

**By Dan Campbell, editor**  
USDA Rural Development



Throw out all those clichés about farm commodity markets being like “a wild roller coaster ride.” In 2008, grain markets behaved more like the Tower of Terror (an elevator thrill ride), ascending to dizzying heights, only to have the bottom drop out and plunge earthward again.

Managing a co-op, or serving as a grain marketer for one, has never been a job for the faint of heart. But rarely have those marketers felt the stress of their profession more than in this past year.

The good news is that there were very few co-op failures linked to grain market volatility. And when the dust settled, most co-ops and their members

had posted solid gains for the year.

But oh, how they — and their lenders — worked for those margins. Indeed, local and regional co-op spokesmen interviewed in February for this article all agreed on at least one thing: 2008 was a year that underscored the importance of having a good, well-established relationship with a lender who understands co-ops and grain markets.

CoBank, in particular, was repeatedly singled out for praise for going the extra mile to help its member-borrowers sail turbulent financial waters. However, opinions are more varied as to the long-term ramifications of such a year for grain co-ops.

“Given the volatility of the past year, based on what we know today, I would say 2008 was a success story for co-ops, their lenders and the grain futures markets,” says Kurt Legred, market

analyst with Country Hedging, the grain futures brokerage subsidiary of CHS Inc.

Roger Krueger, vice president for grain at South Dakota Wheat Growers (SDWG) cooperative in Aberdeen, S.D., agrees. “The risk-management system that country elevators use — hedges on the Board of Trade and normal trading-price relationships with other commercial grain firms — performed almost flawlessly. Everyone who put their hedges on and kept them in place, then met the margin calls, got the margin money back again when the market dropped back down. Producers got good net returns per acre and elevators were able to generate good, solid margins. They showed their value in the marketplace.”

“It’s just a very efficient, self-regulating bulk-commodity system,” Krueger continues. “If you can’t cut the



Harvest Land Cooperative's facility in Springfield, Minn. Photo by Greg Latza, courtesy VistaComm.

## “Many co-ops had to ask lenders to quadruple their credit lines.”

mustard, pretty soon someone who can will be taking that slice of the business.”

Some people talk about the markets getting messed up. “But the market is always right,” says Legred.

### Under pressure

“It was the most stressful year I’ve seen in my 30 years in the business; it just created so much risk — risk like we’ve never seen before,” says Gordy Jensen, general manager at Harvest Land Cooperative in Morgan, Minn. But it also created opportunities for the co-op, which has about 1,200 members and did about \$160 million in sales last year. For those who negotiated the market well, it was a profitable year, Jensen says.

It was actually farm supply co-ops and diversified grain/farm supply co-ops with large carryover stocks of fertilizer purchased near the peak of the market

(fertilizer prices basically tracked grain markets last year) that were in the most precarious position entering 2009 (see sidebar, page 7).

“No one was objecting to high grain prices; it was financing that was the big issue,” says Michael Sulzberger, general manager for Prairie Central Cooperative, which operates 10 grain facilities that handle about 25 million bushels of grain in the highly competitive central Illinois market. “There is an elevator every five miles here, which drives your margins very low,” he notes.

“There was just a perfect storm of conditions that fed the higher prices this year,” Sulzberger continues. “We had margin calls of \$2 million to \$4 million in a single day. While we never tapped out our credit, we had some

pretty serious talks with our lender. I tip my hat to CoBank for working so aggressively to support us and keep us away from the cliff edge.”

For Krueger, the most stressful part was managing counter-party risk, both with producers who had forward contracts with the co-op and with ethanol plants it was contracted to supply corn to. The bankruptcy of VeraSun in October (see related article, page 17) idled two of its three plants, which SDWG supplies with corn. Other ethanol plants were also under financial stress, he notes.

The biggest factor behind the \$7 and \$8 per bushel corn prices was the flood of investment capital shifted from other sectors of the economy into the commodity markets. Rising grain demand from export markets, demand from ethanol plants and cheap credit all played a part in the historic price run-up.

“You had these huge pension and hedge funds jumping into the grain market — it was like spraying accelerant on a fire,” says Sulzberger.

“Commodities became the trade of choice. A lot of money flowed into the market and it fed on itself,” adds Louis Blank, manager of risk management with MID-CO COMMODITIES Inc., GROWMARK’s grain hedging service subsidiary. “Everything was tilted toward the buy side.”

### Too much of a good thing?

Corn prices soared to a record of more than \$8 a bushel in late June, only to fall back to \$2.90 in early December, then rising to \$3.76 in early February. Soybeans and wheat also experienced record price run ups and subsequent fall-offs.

Those who don’t deal with grain forward contracts and hedging may find it hard to understand why record grain prices could be a bad, or difficult, thing for farmers and their co-ops. But for co-op elevators — the “middlemen” and conduit of America’s huge grain market — the historic price rise meant they were exposed to a vast increase in risk levels as they scrambled to meet repeated margin calls for grain forward-contracted on the Chicago Board of Trade.

Many co-ops had to ask their lenders to more than quadruple the credit lines they started the season with. Harvest Land’s Jesnen says his co-op started with a credit line of \$14 million, but that it peaked at \$80 million. “We wound up borrowing about \$76 million of the \$80 million,” he says.

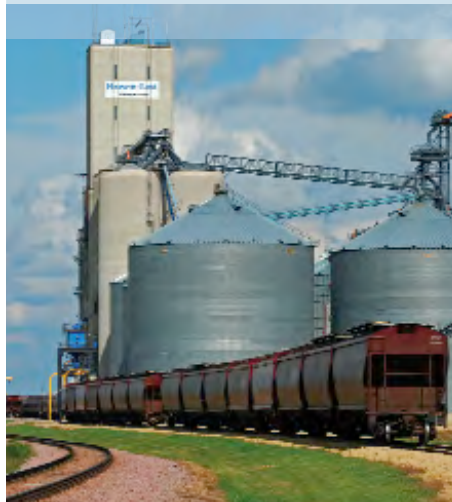
Another co-op manager said he had to expand his line of credit from about \$28 million to \$200 million.

Many co-ops were virtually tapped out on even these expanded borrowing limits by the time the bull run for grain subsided. Many grain handlers — both co-op and private — reduced the time-windows for grain forward contracts they traditionally offer to their

members. Some slashed the window for forward contracts from as much as two years out to as little as 45 days.

Corn prices sometimes spiked 30 cents in a day. “That resulted in some hefty margin calls that had to be posted that night; there is no wiggle room in these futures exchanges,” says Tim

*Loading a train at Harvest Land Cooperative elevator. Photos pages 6-7 by David Lundquist, courtesy CHS.*



Emslie, research manager at Country Hedging, which works with hundreds of co-op elevators throughout the Midwest and Northwest. “If you don’t meet the margin call, you are subject to liquidation, and that’s a very ugly situation.”

Still, despite such pressures, most co-ops were able to meet the margin calls.

“Every one of our customers met their margin requirements last year,” says MID-CO’s Blank. “We had no defaults, but it became necessary for them to have a close relationship with their banker.”

“We heard of just two or three co-op failures, including one in Illinois,” says Emslie. “But our impression was that those co-ops did not have a good financial standing to start with. Most co-ops made money.” Some elevators had to stop buying ’09 crop, which was the biggest ramification of the market

for producers, and could have some long-lasting implications for them, he notes.

Those high prices prompted growers to sell a larger percent of their crop earlier than normal. “They marketed a huge share of their crops in the first six months of the marketing year — which is not the normal pattern,” Blank says. “That, too, put extra stress on the elevators, which were coming off a large crop the previous year.”

Most elevators need to net about 10 to 15 cents per bushel on corn, and a bit more for soybeans, to keep their business healthy. But the interest co-ops had to pay on those huge margin calls chipped away at their profit margins. “Last year, you could have had all of that margin eaten up by interest on your margin calls,” Emslie says.

“Interest costs eroded gross margins,” concurs Jensen. “All in all, grain had a poor year as far as gross margins because of that. But we stuck with the program because we had commitments to ship.”

The majority of grain was sold before it ever got to \$7 or \$8 per bushel, he says. “The long tail of this thing — with high rent and land prices and high input costs — is that it could take away every gain they got in the short term over the next few years.”

### The new norm?

The question everyone is contemplating: *Was this year the new norm?*

“The volatile times are not behind us,” says Blank. “As long as we trade a commodity that is so subject to shifting world demand and varying weather patterns, and that can be so affected by investors, we will continue to have a volatile market.”

“Volatility is the natural state of commodity markets,” adds SDWG’s Krueger. “I don’t think we will see the same levels of volatility as we did last

*continued on page 8*

## High-priced inventory from '08 big problem for some supply co-ops

Whereas the story for grain markets last year was basically “all’s well that ends well,” many farm supply co-ops are still facing a great deal of risk if they are holding large unsold inventories of fertilizer purchased when the market was at, or near, record highs.

Fertilizer prices followed the same general trajectory as the grain markets, soaring to extreme highs, then “coming down with a big thud,” says Keith Swanson, manager of dealer risk management services for CHS Crop Nutrients. “As goes the grain market, so go crop nutrient prices.”

In the case of nitrogen — the lifeblood of the corn industry — costs surged from around \$200 a ton early in the year to as much as \$850 a ton when the corn market was riding high at more than \$7 per bushel.

“This was record-shattering volatility; we’ve never seen crop nutrient prices go to those levels before,” Swanson said when interviewed in mid-February. “It meant borrowing more and more. Many input dealers are also involved with grains, and the more diversified they were, the more extreme the cash-flow pressures.”

“Wholesale prices have collapsed far below retail prices,” Swanson continues. “The farmer is looking at the wholesale prices, and saying: ‘we don’t want to pay those high retail levels.’ It’s a gridlock situation. If the dealer lowers the price to farmers, he will suffer monstrous losses. It’s a standoff right now. Who blinks first — the farmer or the dealer?”

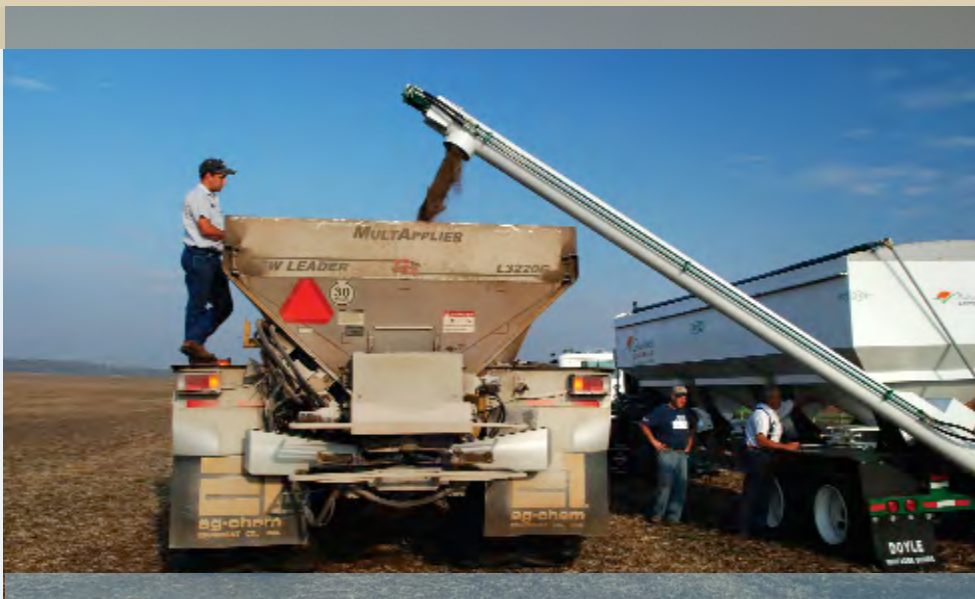
If a dealer had a good first half of the year in 2008, that dealer is probably doing OK, Swanson says. “You just wound up giving back your gains in the second half.”

Some dealers are now buying lower price fertilizer inventory and hoping their overall average on sales will come down far enough to ease them through the situation. “But they will still get hurt — it would take big jump [in fertilizer prices] to cover them,” Swanson says.

### Avoiding the pitfall

Harvest Land Co-op in Morgan, Minn., managed to avoid this situation, says manager Gordy Jensen. “We are very fortunate in that we do not have a lot of the high-priced fertilizer inventory on hand. We have a large plant where we were able to carry most of the inventory on early buy. But volatility in the fertilizer market is definitely causing lots of headaches out here — some companies are under severe stress.”

Through Harvest Land’s AgQuest financial subsidiary, the co-



“We’ve never seen crop nutrient prices go to those [high] levels before,” says Keith Swanson of CHS Crop Nutrients. Above, loading dry fertilizer into an applicator rig.

op came out with a program last winter where farmers could sell ‘09 grain and, at the same time, purchase their ‘09 crop fertilizer (for application in the fall of ‘08). Farmers could take out a loan against that sale to prepay for the buy.

“So the money basically stayed in-house,” Jensen says. “It turned out well, because before the dramatic increases in fertilizer prices, we were able to capture some pretty good sales.”

“It is going to change the way we sell fertilizer,” he continues. “We are trending toward more of a weekly market on fertilizer, where we will basically set the market each week. We will more closely tie our buying of product to selling of product.”

Roger Krueger, vice president with South Dakota Wheat Growers, says that despite the tumultuous market, some supply retailers have fared well. “In managing inventories, if you were on the right side of the market, you had a pretty good year. But if you got to the end of the season and still had a lot product left over, you were probably facing some big write downs when the market collapsed.”

Unlike grain markets, where there are methods to hedge to avoid price risk, the same kind of tools do not exist for fertilizer. “There is not a liquid futures market to spread out your risk,” says Krueger. “If you always want to have inventory to meet farmer demand, it means you will always be long on fertilizer. In a rising market, that’s good; in falling market, that’s bad.”

The best scenario Swanson can see is for good spring planting weather and for expanded corn acreage, since corn requires more fertilizer than soybeans. “Everybody is hoping for early demand to help empty the pipeline and get the ship righted a bit.”

— By Dan Campbell, editor

summer, but grain will certainly continue to be volatile.”

Jensen agrees. “It won’t be as extreme as this year, but in the next 10 years I expect we will see a lot more volatility than we have seen in the previous 10 years. When you strip it down to bare essentials, we are in a global economy and something can happen on the other side of the world that can affect us instantaneously. There are fewer and fewer players in the market, and with the uncertainty of financial markets, it will have an impact on us all.”

Legred thinks one impact of the year is that co-ops and producers will adopt a more conservative stance. “Maybe they will make a basis sale a little quicker — take a little less risk. Remember, what makes a co-op different than a [proprietary] business is that farmers make the rules, and there is a real reluctance not to buy grain out past 90 days. But in general, as your margin calls get a little bigger, you get a little more conservative.”

Prairie Central’s Sulzberger concurs. “I think you will now see a more cautious stance on forward contracts.”

Some believe the wild swings in the market this past year could accelerate the pace of consolidations among local co-ops.

“I think a year like this does encourage consolidation,” says Blank. “Some of these elevators that in the past could exist on their own are finding that they need a partnership to survive the business demands of this industry. But this it not new, it just gets exaggerated in a year like this. The landscape will continue to change.”

“If weaker players recognize that they are in a different operating environment and don’t have the scale, capital structure, management skills or number of people needed, then yes, I would think it would accelerate the pace of consolidation,” says Krueger.

Emslie, on the other hand, says he’s not so sure that the grain market of ’08 will have a big impact on the rate of co-op consolidation.



*“The risk management system that country elevators use...performed almost flawlessly,” says Roger Krueger of SDWG. Photo by Cheryl Crase, courtesy SDWG.*

### Spreading the risk

Does a year like this increase the need for farmers to accept more of the risk that co-op elevators have traditionally borne?

Writing in the November-December 2008 issue of this publication, CoBank Executive Vice President Phil DiPofi said higher grain prices may mean that co-op elevators can no longer shoulder so much of the price risk of selling into futures markets. “Since everybody benefits from hedging, the risks and costs need to be spread across a broad base — one that specifically includes producers,” he wrote. (For the entire article, visit: [www.rurdev.usda.gov/rbs/pub/nov08/nov08.pdf](http://www.rurdev.usda.gov/rbs/pub/nov08/nov08.pdf).)

“I think that is exactly right,” says Emslie. “Some of the risk needs to be pushed to the end of the chain which, like it or not, is the farmer.” He says he is seeing this reflected in the different margin structures being adopted at elevators. “You have to increase your margin, whether you do it through a set fee structure or forward contracts. You need to say you can provide this service for, say, 15 cents per bushel.”

The alternative is for farmers to set up their own futures trading accounts. “That’s not an avenue for everyone — it’s a tougher thing to do,” Emslie says.

“The market will determine who

bears the risk and rewards of accepting these management functions,” says Krueger. “Producers, if they have the financial wherewithal, always have the option to use a brokerage service and make margin calls for themselves. Most are reluctant to do that, and I don’t see that in the long run producers will bear more of that risk. Those that take it — the elevators — will get paid more for taking the risk, now that there is a higher cost associated with it.”

### Skills put to the test

The volatile ’08 market showed that co-op managers and grain marketers need more business acumen than ever. “You find out how well a business is run when it is under stress,” says Emslie. “You need a GM and a board with the foresight to prepare for these types of situations.”

“Whatever business you are in, maintaining profitability is becoming a bigger challenge — you have to pay so much attention to details and all facets of the market,” says Blank. It’s hard to single out co-op managers and grain marketers, he notes. “But if you ask: ‘Is your job more demanding than it was five years ago,’ without doubt, most would say yes.”

There is simply less room for error in markets like these.

“You have to be sharper on all your decisions, to analyze things a little more and speed up your decision-making process,” says Jensen. But you also have to keep some balance in your life. “If you let this stuff get to you...you need to get out of the business.”

No co-op manager could succeed in a market like this without the support of a knowledgeable board of directors. Sulzberger echoed an oft-mentioned theme when he said: “This co-op is blessed with good directors. They have their elevator hat on firmly when they come to a co-op board meeting, and they bring all their considerable experience with them. If the elevator does well, they will do all right too. They want their elevator to be there for them in the fall.” ■



# Largest co-ops reap record, \$88 billion sales year in '07

By David Chesnick, Ag Economist  
USDA Rural Development



The largest 100 U.S. agriculture cooperatives posted a record \$88.6 billion in total sales in 2007, up 23 percent from 2006. These large farm co-ops also set a new net income record of \$1.9 billion in 2007, up 43 percent from 2006. (Table 1 illustrates a consolidated income statement for the combined largest 100 cooperatives.)

The commodity groups leading this increase were dairy, diversified (grain and farm supplies), farm supply and grain cooperatives. The dairy group within the Top 100 cooperatives had an increase of \$9.4 billion, or 33 percent. The diversified cooperatives group had a \$3.1-billion increase, to \$20 billion. Farm supply cooperatives were up 23 percent, to \$12 billion, followed by the grain cooperatives with a \$2-billion increase (figure 1).

Higher milk prices and greater milk volume fueled the dairy sector increase. Grain sales were the leading revenue generator for diversified cooperatives, with feed and petroleum sales helping on the farm supply side.

Petroleum sales were also a driving force for sales gains by cooperatives that deal primarily in farm supplies. Many of these farm supply cooperatives also marketed member's grain, which further boosted revenue.

**Table 1—Consolidated income statement for the combined top 100 agriculture cooperatives 2006-07**

	2007	2006	Difference	% Change
Sales	88,623,541,827	71,852,099,029	16,771,442,798	23%
Cost of Goods Sold	80,410,876,691	64,780,551,893	15,630,324,798	24%
Gross Margins	8,212,665,136	7,071,547,136	1,141,118,000	16%
Service	901,941,098	1,001,663,434	(99,722,336)	-10%
Total Operating Income	9,114,606,234	8,073,210,570	1,041,395,664	13%
Wages	3,301,482,949	3,065,671,176	235,811,772	8%
Depreciation	810,814,465	726,755,228	84,059,237	12%
Interest	572,398,426	475,150,271	97,248,155	20%
Other Expenses	2,701,164,506	2,759,197,988	(58,033,482)	-2%
Total Expenses	7,385,860,345	7,026,774,664	359,085,681	5%
Local Savings	1,728,745,889	1,046,435,905	682,309,984	65%
Patronage Refunds	204,630,638	211,789,118	(7,158,480)	-3%
Non Operating Income	109,862,630	168,647,448	(58,784,818)	-35%
Net Income Before Taxes	2,043,239,157	1,426,872,471	616,366,686	43%
Income Taxes	175,222,677	119,506,244	55,716,433	47%
Net Income	1,868,016,480	1,307,366,227	560,650,253	43%

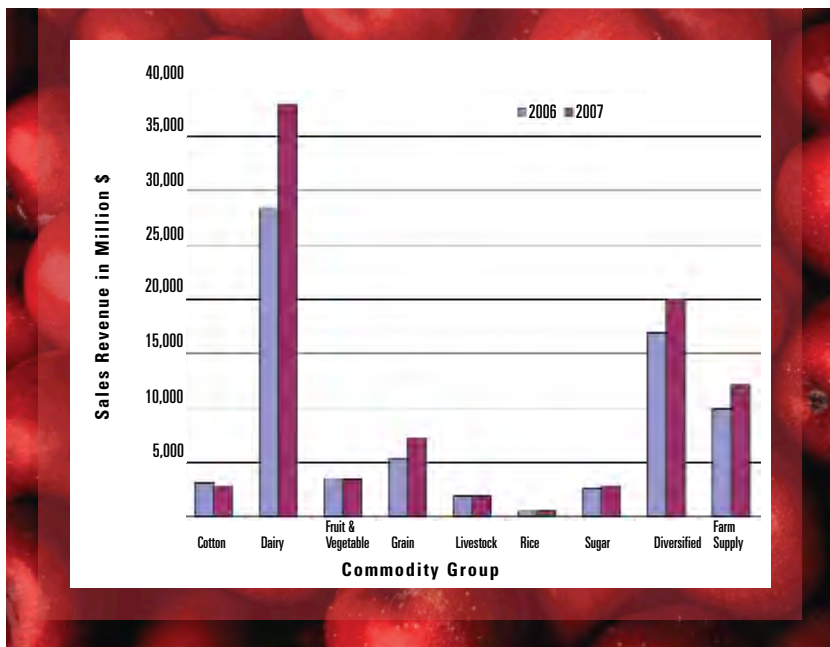
**Table 2—Consolidated balance sheet for the combined top 100 agriculture cooperatives 2006-07**

	2007	2006	Change	% Change
Current Assts	19,568,833,650	13,440,505,860	6,128,327,790	46%
PP&E	7,614,360,494	6,665,388,277	948,972,217	14%
Other Assets	3,796,704,983	3,941,017,610	(144,312,627)	-4%
Total Assets	32,902,504,583	25,551,115,201	7,351,389,382	29%
Current Liabilities	15,972,881,644	10,173,284,738	5,799,596,906	57%
Long-Term Liabilities	6,366,063,135	5,864,488,520	501,574,615	9%
Total Liabilities	22,338,944,779	16,037,773,258	6,301,171,521	39%
Allocated Equity	8,100,592,924	7,366,048,215	734,544,709	10%
Retained Earnings	2,462,966,880	2,147,293,727	315,673,153	15%
Total Equity	10,563,559,804	9,513,341,942	1,050,217,862	11%
Total Liabilities and Equity	32,902,504,583	25,551,115,201	7,351,389,382	29%

## Higher gross margins fuel record income

Cost of goods sold for the largest cooperatives jumped 24 percent, to \$80.4 billion. The resulting gross margins improved by \$1.1 billion, to \$8.2 billion. This surpassed the record-level gross margins from 2006.

Fruit/vegetable cooperatives were the only commodity group to show declining gross margins, with a decline of 35 percent, to \$629 million. The leading cause of this decline was higher-than-expected output, which suppressed world



market prices. However, the cooperatives paid members higher amounts for their products. The result was higher cost of goods sold for the cooperative in relation to sales.

Total expenses for the 100 largest farm co-ops were up 5 percent, to \$7.4 billion, in 2007. Leading this increase was labor expense, which jumped \$235.8 million. Dairy cooperatives accounted for nearly 60 percent of that increase. Dairy cooperatives generally have the highest labor costs, representing about 40 percent of the total, for the Top 100 farm co-ops.

By contrast, cotton and poultry/livestock cooperatives reduced their labor costs by a combined \$4.8 million.

Interest expense jumped 20 percent, to \$572 million, while depreciation was up 12 percent, to \$811 million, in 2007. Most of the interest increase is attributed to grain, diversified and farm supply cooperatives.

The grain commodity group accounted for 57 percent of the increase in interest expense due to much higher grain prices.

Those commodity groups with the highest increase in interest expenses also had the highest increase in depreciation, including the dairy group.

The record \$1.9 billion of income posted by the Top 100 co-ops in 2007 held true for all sectors, except for sugar cooperatives. Sugar co-ops had a decline in net income of 7 percent, to \$74 million. Several sugar cooperatives suffered

losses due to declines in non-operating revenue sources.

## Cooperative assets continue to rise

Balance sheet highlights for the largest 100 ag cooperatives are presented in table 2. They show that total assets were up 29 percent, ending 2007 at \$32.9 billion. Current assets showed the biggest gain, up \$6.1 billion, to \$19.6 billion.

Current assets now make up 59 percent of total assets up from 53 percent in 2006. Current assets are those assets considered the most liquid. These include cash, accounts receivable, inventory and other assets that could be sold quickly in case of emergency.

Fixed assets were up 14 percent, to \$7.6 billion. Most of the commodity groups invested in fixed assets during 2007. Dairy cooperatives accounted for more than one-third of that increase. Diversified and farm supply cooperatives also accounted for a substantial part of the increase.

Current liabilities jumped 57 percent, to \$16 billion. However, long-term liabilities had a more modest increase of 9 percent, rising to \$6.4 billion. Total liabilities for the largest agriculture cooperatives jumped 39 percent, to \$22.3 billion.

Equity allocated to members was \$735 million more than in 2006, ending 2007 with \$8.1 billion. Every commodity group added to their members' equity account except cotton,

fruit/vegetable and rice cooperatives.

Retained earnings were up 15 percent, to \$2.5 billion. Dairy and sugar commodity groups each had declines in retained earnings. However, higher allocated equity offset those declines, and they ended 2007 with higher total equity.

Total equity for the combined Top 100 cooperatives was up 11 percent, to \$10.6 billion. The only commodity group to post lower equity was the fruit/vegetable group, which saw a 3-percent decline, to \$514 million.

## Other 2007 highlights

USDA analysis of the Top 100 co-ops also shows that:

- Local savings were up 65 percent, to \$1.7 billion. Every commodity group showed a tremendous increase in local savings. Local savings are margins generated from the cooperative business before patronage refunds received, non-operating income and taxes are included. This number looks at the core business of the cooperative.
- Patronage refunds received from business conducted with other cooperatives were down 3 percent, to \$205 million. Non-operating income — revenue sources not directly involved with operations — was down \$59 million.
- While cooperatives are considered “not for profit” entities, they still pay income taxes to both the state and federal government. Income taxes paid ballooned by 47 percent. ■

# Spotlight

## Park sees bright future for Texas ag co-ops

By Blair Fannin

*Editor's note: Fannin is associate news editor for Texas AgriLife Research at A&M University, College Station, Texas.*



Agricultural cooperatives, though smaller in numbers than in the past, are providing more goods and services than ever before in Texas, and new ventures may occur in the future, according to an agriculture expert with Texas AgriLife Extension Service.

"If you look at the amount of business those co-ops are doing, they are actually doing more business than they used to," says Dr. John Park, AgriLife Extension economist and a Roy B. Davis professor of agricultural cooperation at Texas A&M University in College Station. "Those cooperatives represent a large amount in terms of dollars of equity and a large economic contribution by these farmers through a cooperative business."

Park recently was named to the Davis endowed professorship and serves both AgriLife Extension and the agricultural economics department at Texas A&M in dual teaching outreach roles. Conducting research on trends and advising agricultural cooperatives is one of Park's main responsibilities.

"One of the things we are doing now is trying to document the economic contributions of cooperatives through Texas, working through the Texas Agricultural Cooperative Council," he says. "They're very interested in seeing this done; their individual members are interested in seeing this done because it means more support and more dollars when talking to legislators."



*Although fewer in number, Texas farm co-ops are doing more business than ever, says John Park, left. Photo by Jerold Summerlin, courtesy Texas AgriLife Extension Service*

### University seat honors Roy Davis

The Roy B. Davis Professorship in Agricultural Cooperation was created in 1971. Davis was the longtime general manager of the Plains Cooperative Oil Mill and leader in agriculture and cooperative development in Texas.

In addition to serving as the Davis endowed professor, Dr. John Park's research program focuses on value-added agriculture and management issues facing cooperatives and other businesses associated with agriculture and rural communities.

For more information, visit: <http://cooperatives.tamu.edu>.

Park's research and educational responsibilities as part of the endowed professorship extend beyond agricultural cooperatives. For example, he and others assisted the Texas citrus industry by exploring the market potential of a fresh-cut grapefruit retail product.

"Texas grapefruit happens to be a fantastic product," he says. "It's the best-tasting fruit and it's far undervalued. We've worked with the Texas citrus industry and Texas Citrus Mutual to evaluate new ways of capturing value from that product."

Park also deals with risk-management issues. He and other Extension specialists are working with a group of farmers in the coastal region to mitigate damage done by feral hogs to wheat, corn and sorghum crops.

Park teaches two courses: Agricultural Marketing 314 and Agricultural Cooperation 413. The agricultural cooperation course is part of the endowed professorship and is designed to shape future leaders who might become employed by a cooperative after graduation, he says.

His course instruction takes a different approach: Students are elected to board positions, with Park acting as the general manager. Class members receive "patronage dividends" in the form of grade points for specific projects completed. Park says he couldn't be in a better position in serving both Texas agriculture and working with students at Texas A&M who will someday be industry leaders.

"I'm really thrilled to be a part of the cooperative environment here in Texas and with people who are truly concerned about not just their business, but their neighbors and communities," Park says. "To be part of this Roy B. Davis professorship is very exciting and a blessing for me." ■

# Co-op Development Action

National network of practitioners connects forestry cooperatives



*This timber was harvested from 215 acres outside Wytheville, Va., owned by Jim and Sarah Minick, members of the Blue Ridge Forest Co-op. Birch bark is also used to make baskets and weavings. Photos by Michael DiBari Jr.*

## By Rita Simerly Cooperation Works!



The maintenance of a profitable cooperative business practice often calls for outside assistance. To provide the resources necessary to keep cooperative ventures buoyant, the National Network of Forest

Practitioners (NNFP) provides the tools and the know-how to support cooperative growth and instigate inter-cooperative participation. It provides education, technical assistance and networking opportunities for rural forest and wood-related cooperatives. NNFP – the newest member of Cooperation Works!, a national cooperative of cooperative development professionals – supports the growth of

business groups and grassroots organizations while promoting the well-being of the forest. It helps these businesses and local organizations create jobs while stewarding or restoring the forest.

This cooperative development work is distinctive in that it focuses exclusively on forest-related services, including landowner cooperatives, forest products manufacturing and

forest-grown medicinal herbs.

Springing from a collection of forest workers, micro-enterprises and grassroots organizations in the early 1990s, NNFP has become a force for sustainable business development and cooperative ownership. Originally founded in New Mexico, the NNFP is now based in foothills of the Appalachian mountains of Southeast Ohio and focuses much of its efforts in Appalachia, while remaining open to working with other groups nationally.

Members include the Blue Ridge Forest Cooperative, the Ohio Forestry Cooperative, the Living Forest Cooperative and the Massachusetts Woodlands Cooperatives, among others. These include a variety of efforts by people seeking ways in which to improve their livelihoods.

### **Timber industry hurt by housing crisis**

With the timber industry in a freefall due to low housing starts, the need is great for cooperative education and support as communities look for ways to retain workers in the vital wood-processing infrastructure. In particular, sustainable forestry groups are looking for assistance with marketing Forest Stewardship Council (FSC) certified wood. FSC is an international standard for sustainable forestry that gives local businesses a boost in marketing to “green building” projects.

“Our interest is in supporting ownership and entrepreneurship for a broader range of people,” explains Colin Donohue, NNFP executive director. “Business isn’t just for people with a large pool of money; everyday folks should be able to participate in ownership too.”

The association achieves its goals through a variety of means. In order to provide education and consultation, NNFP provides educational services to member cooperatives, encouraging them to share their experiences and take steps that can help shape forestry and rural development policy.

NNFP provides education via its website, newsletters and workshops. In



*Dave Martinson, a member of the Living Forest Cooperative and an organic farmer in Bayfield, Wis., collects wood from his 90-acre property and turns it into furniture. “I look for anything that’s unusual,” he says of his wood selection. Photo by Peter Hoffman*

association with American Forests, the Communities Committee and the Pinchot Institute for Conservation, it helps host the annual Week in Washington to build awareness of federal policy and encourage participation with decisionmakers.

Working with co-ops in a number of states means NNFP needs to “work smart” to stretch funding. A key feature of this has been hosting web-based peer learning sessions that facilitate exchanges of information and ideas to address problems faced by co-ops. Recent webinars have been focused specifically on ensuring the economic survival of member cooperatives in light of the deteriorating economy.

### **Buckle down time**

“Currently, our biggest project is helping people buckle down and get finances in order,” says Donohue.

NNFP provides business planning and general technical assistance necessary to keep cooperative ventures afloat. This is achieved through the webinars, which not only allow for the free exchange of information, but also spare participants the costs and time of travel. In 2009 NNFP will also be cooperating with other organizations to host and facilitate web-learning sessions to help spread the use of this

technology.

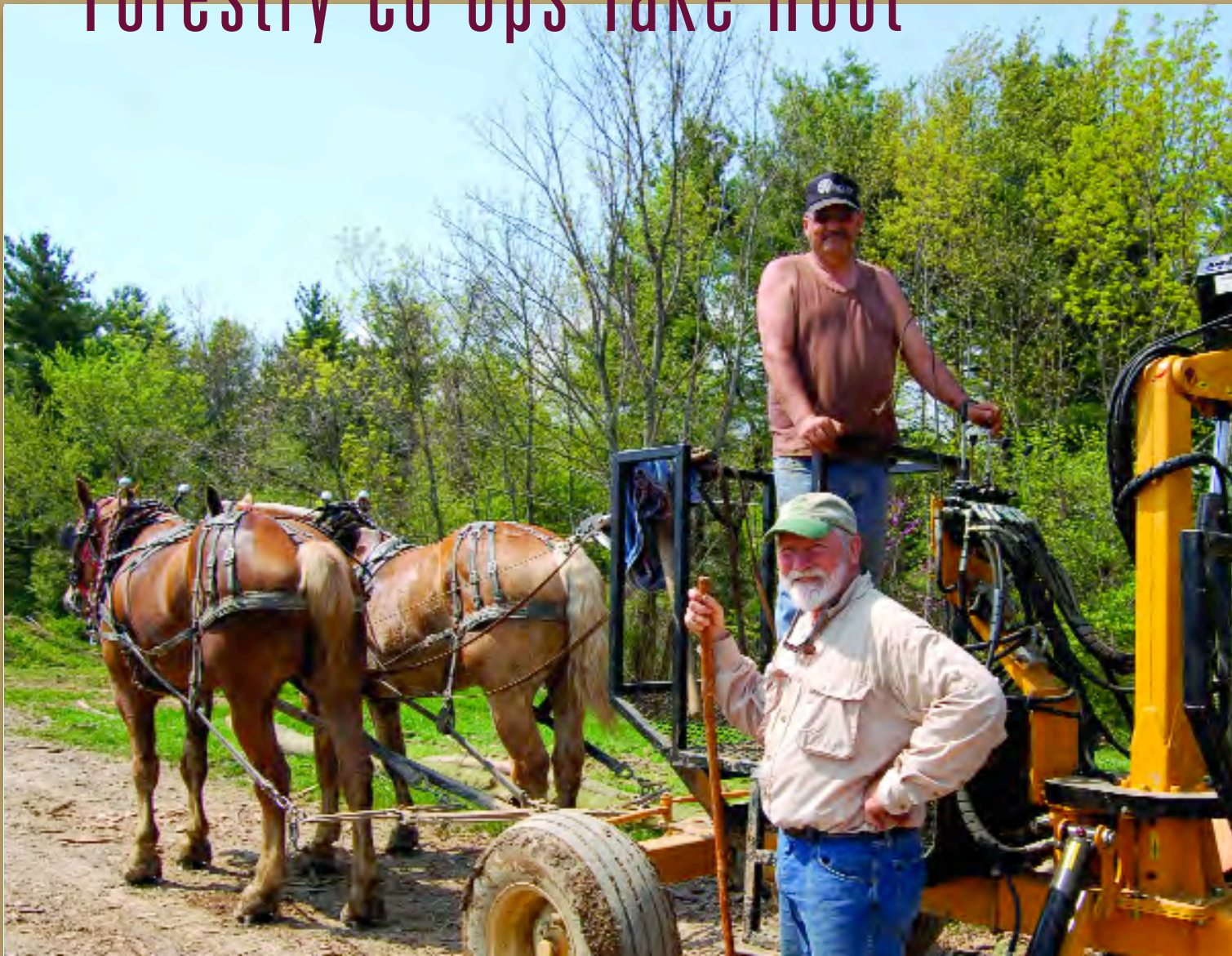
“The webinars are a much more effective way of sharing information,” explains Harry Groot, CEO of the Blue Ridge Forest Cooperative (BRFC), who participated in recent webinars aimed at the economic security of groups such as his. “We can share solutions and problems that we’ve been having, or are going to have, and we come out of it with a prioritized laundry list of issues.”

The Blue Ridge Forest Cooperative helps sustain the Blue Ridge Forest while marketing local forest products. The co-op has benefitted significantly from the webinars, NNFP-hosted gatherings and other assistance. By working with other cooperative forest industries nationwide, BRFC has been able to foresee potential business problems and develop methods of avoiding them.

In the case of the web meetings, members are instantly connected to one another, becoming part of a network of related groups that are then able to collaborate with one another to achieve common goals.

“The webinars have broadened the network of resources we can get assistance from very effectively,” says Groot. “It’s a fantastic group to work with.” ■

# Forestry Co-ops Take Root



**By Jane Braxton Little**

*Editor's note: Little is a California-based writer.*



When Don Flournoy decided to thin a portion of his 235-acre Sugar Bush Farm, he wanted to use a “light-on-the-land” logging method that would not damage his property. He knew right where to find help: The Ohio Forestry

Cooperative.

The organization of Ohio forest landowners put Flournoy in touch with a horse logger who uses lightweight equipment suited to his mixed-hardwood forest. The results left him satisfied — “very satisfied,” says Flournoy, an international telecommunications consultant and professor at Ohio University in Athens.

For forest landowners such as Flournoy, the Ohio Forestry

Cooperative is providing support and critical links that are helping them manage their forests sustainably for wood, water, wildlife and recreation. Ultimately, the co-op may make the difference between lands that remain forested and those that become parceled into smaller and smaller tracts that are no longer economically productive or ecologically functional.

Other forestry co-ops in different parts of the country are providing similar services to landowners.

A “bootstrap” operation first incorporated as the Ohio Premium Pine Cooperative (OPPC) in 2004, the co-op began as a group of tree farmers who banded together to market their pine products. As they worked to improve their pine plantings that had been established on “beat-up” hill farms, some members realized that the services of the cooperative could, and should, be extended beyond pine to sustainable management and marketing of their members’ hardwood forests, as well.



**Flournoy's parents hand-planted 500 acres of pines on their worn-out cotton farm. They never saw the benefits of their labor, but their children did.**

They recently reorganized as a “holistic” forest cooperative, offering landowners services that range from marketing and logging contract preparation to forest management plans.

### **Forest needs vary greatly**

Not all forests need the same treatment, says Pete Woyar, a consulting forester and for 28 years a forestry instructor at Ohio's Hocking College. Determining what a landowner wants and what the land will support is a careful process, he says. Members of the newly reorganized Ohio Forestry Co-op recruited Woyar to help match their members with on-the-ground specialists for land management.

The co-op also provides education, information about conservation easements and other tax-related benefits. Sometimes all a forest owner needs is someone to turn to for advice, Woyar says.

The Ohio cooperative is one of a growing number of regional organizations the members of which share a commitment to ecological care of the land. Others include the Blue Ridge Forest Cooperative in southwest Virginia, Living Forest Cooperative in northern Wisconsin and the Massachusetts Woodlands Cooperative in western Massachusetts.

Landowners in each of the groups have banded together for the long-term stewardship of forestlands, healthy communities and local economic development. Now the groups are connecting with each other. The National Network of Forest Practitioners is connecting them for peer-to-peer learning and networking, while supporting them by providing education,

technical assistance and targeted services around financing and marketing.

The Ohio Forestry Co-op is in the process of applying for certification under the Forest Stewardship Council for its members' forests, which total more than 5,000 acres and growing. That would offer a market for “green” building materials from sustainably managed forests, says Terry Jeffers, a landowner and the cooperative's president.

### **Management plan essential**

A condition of FSC certification is development of a forest management plan. By working as a group, the co-op members can hire a forester to craft management prescriptions on their separate properties for a better price than each of them could get on his own, Jeffers says.

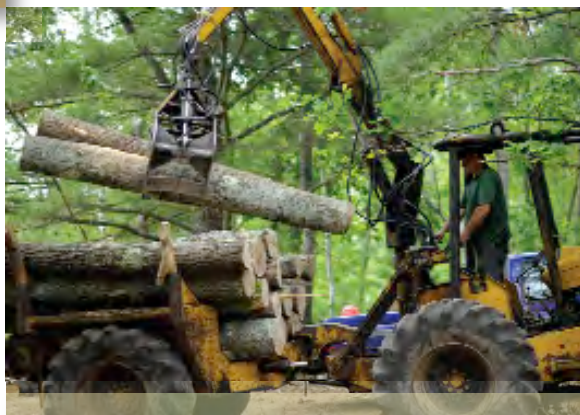
The forest owners also hope to pool their forests' potential for storing carbon and are moving into carbon-offset sales. NNFPP is assisting them in marketing the carbon credits. Colin Donohue, NNFPP's executive director, explains that carbon trading seems to be at a tipping point. “While sales of commodity credits from forestland are currently marginal, there are opportunities for branding and marketing of Family Forest credits that are from “Green Certified” lands in the current voluntary market.

“If the United States establishes a cap-and-trade system for reducing carbon omissions, there will be tremendous potential for these rural landowners to profit,” Donohue continues. “We're helping the co-ops get ahead of the curve.”

Along with these tangible goals, the cooperative is focused on small landowners working together to improve forests for the future, says Flournoy. He remembers his parents hand-planting more than 500 acres of pines on their worn-out cotton farm in east Texas. They never saw the benefits of their labor, but their children did.

“And ours will, too,” Flournoy says. “Our children and their children and their children, along with the rest of society. That's why we do this work.”

For more information, contact: Terry Jeffers, landowner and president, Ohio Forestry Cooperative, 408-354-8384, [tlplaw@comcast.net](mailto:tlplaw@comcast.net). ■



*Peter Woyar of the Ohio Forestry Cooperative (foreground) and logger Rich Douglas use horsepower to harvest timber in Ohio. Photo by Colin Donohue. Lower photo: Emery Hammond loads timber near Barnes, Wis., on a job managed by the Living Forest Cooperative. Photo by Peter Hoffman*

# The Ethanol

# CONVULSION

Farmer-owned ethanol plants may ride out the market crash that bankrupted VeraSun





**By Stephen Thompson, assistant editor**



It was a gold rush.” That’s how Anne Duignan, a securities analyst for J.P. Morgan, characterizes the heady days when ethanol plants were popping up like mushrooms after a spring rain. Ethanol startups made money hand over fist; some paid their investors back completely in two years or less.

Unfortunately, such booms rarely last. Additional investors (mostly non-farmers) chased the high profits, and the resulting over-expansion in the industry — coupled with falling oil prices — caused profit margins to fall. Most of the late entrants into the industry were highly leveraged ventures that are now struggling; the value of ownership shares plummeted some 89 percent in 2008 and there have been some notable bankruptcies.

The most conspicuous ethanol failure has been VeraSun, the nation’s second-largest ethanol producer, with 1.64 billion gallons of annual production at its peak. Many analysts say the company was victimized by its own unwise market decisions. VeraSun, now in bankruptcy, had grown rapidly, in part through aggressive acquisition of other companies, including U.S. Bioenergy. CHS Inc., the nation’s largest farmer cooperative, held a 28-percent stake in U.S. Bioenergy, and thus holds 8 percent ownership of VeraSun. The bankruptcy resulted in the cooperative writing off its \$142-million investment in VeraSun.

But VeraSun is far from alone in feeling the impact of the sharp reversal in the ethanol market. Virtually all corn ethanol operations are now being squeezed by the over-supply, causing a decline in profit margins.

The plunge in the economy that began with the collapse of the market for mortgage-backed securities caused the stock market to tumble, and nervous investors — including huge hedge and pension funds — looked for other places to put their money; many poured their dollars into the commodities markets.

The resulting price boom affected everything from precious metals to petroleum to corn and soybeans. This put corn-ethanol producers in a bind: climbing grain prices squeezed their margins, despite the higher prices they were receiving as ethanol was used to augment supplies of high-priced gasoline.

Corn prices peaked at about \$8 a bushel during the summer of 2008, and then began a steep decline to under \$3, although as of this writing prices have climbed to about

\$3.50. Some ethanol producers, most conspicuously VeraSun, took out long-term contracts on corn when prices were at, or near, the high-water mark, only to be whipsawed when commodity prices crashed. It was the decision most responsible for sinking the company.

Ethanol production, after climbing more than 40 percent in 2008, to 9.2 billion gallons, is now leveling out. Figures from the U.S. Department of Energy’s Energy Information Administration show biomass fuel production remaining essentially flat since January, with only a 4-percent rise projected for 2010. Part of the slowdown is due to the closing of ethanol production facilities, with 1.9 billion annual gallons capacity taken offline since October — VeraSun accounted for 1.2 billion gallons of the decline.

### **Farmer-owned ethanol plants faring better**

But what about farmer-owned ethanol cooperatives and LLCs? How will they weather the economic storm; and what are their prospects in an uncertain market?

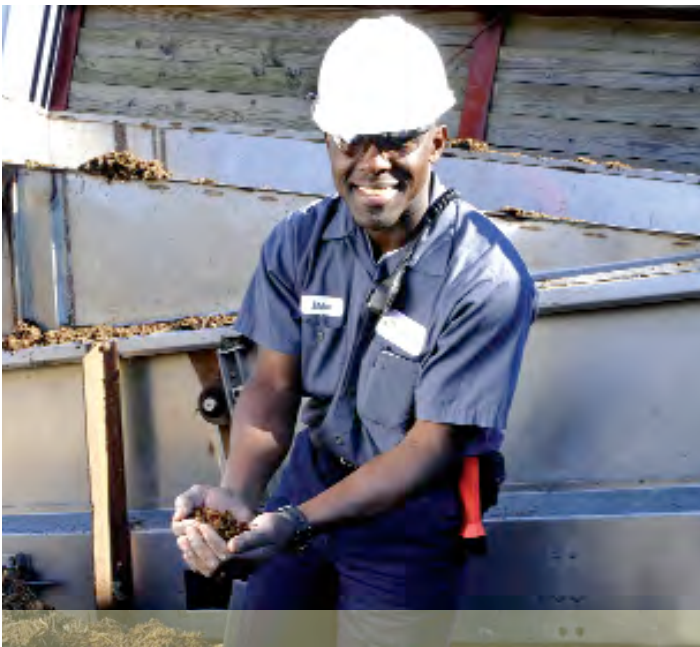
Anthony Crooks, an economist with USDA Rural Development, thinks smaller operations with local feedstock sources are in a better position to weather the downturn if they haven’t gone out on a limb with futures contracts or leveraged expansion. “The small co-ops didn’t use contracts as much as the big operations,” he says.

Robert Cropp, an agricultural economist and emeritus professor at the University of Wisconsin who focuses on cooperatives, agrees. He says that cooperative ventures that depend on member-growers for their feedstock are generally doing a little better than average. “None of them are doing the greatest,” he says. “But some are doing OK because they’ve been around for a while.”

While some ethanol co-ops and producer-owned LLCs took out futures contracts with members, they tend not to have gone as far out on a limb as VeraSun, Cropp says. “It’s different. They were hedging, instead of speculating.”

Cropp thinks that corn prices will generally remain around the \$3.50 mark for the foreseeable future. “I think prices below \$4 are the long-term trend,” he says. “We don’t have hedge funds or speculators in the market for corn any more, so it probably won’t go down to \$2 or up to \$6.”

For those who got into the ethanol market too late, the price can be high. The Greater Ohio Ethanol LLC plant in Lima, Ohio, a 54-million-gallon-per-year operation that cost \$150 million to construct, was recently sold in bankruptcy for just \$5.75 million, with the promise of another \$15 million at



*Sugarcane bagasse (supplied by a farmer co-op), dedicated energy crops, wood products and switchgrass are fueling the Verenium Corporation's cellulosic ethanol demonstration plant in Jennings, La. Photo courtesy Verenium Corp.*

an unspecified later date. None of that money will go to investors. The plant opened last July and closed after only five months of operation due to a deadly combination of low ethanol prices, high debt and design problems, according to press reports.

Crooks says that part of the problem facing ethanol producers is that ethanol prices have become decoupled from gasoline prices. Two years ago, as gasoline prices climbed, ethanol prices lagged. Later, when fuel prices fell, ethanol prices fell further.

The problem seems to have stemmed from waivers from ethanol-content requirements set by the U.S. Environmental Protection Agency (EPA) for oil refineries ill-equipped to handle ethanol shipments. It isn't practical to transport ethanol through pipelines. Unlike other materials handled by refineries, it must be shipped in railroad tanker cars or trucks.

Many refineries unable to deal efficiently with large ethanol unit trains were allowed to skirt the requirements at the time. But, says Crooks, "They should all be in conformance now."

Crooks believes that ethanol prices should normally follow wholesale gasoline prices in a roughly one-to-one relationship. Today, after most transportation problems have been resolved, ethanol prices languish in the \$1.50-per-gallon range — 25 cents higher than those for gasoline, but not high enough for most producers to make money.

### **EPA mandate spurred market**

Ethanol's use as a motor fuel in the United States is primarily the result of legislation. EPA regulations require that gasoline sold in many areas suffering from air pollution

include additives containing oxygen. Until the early 2000s, the preferred oxygenating agent was methyl tertiary butyl ether, or MTBE. The discovery that MTBE was seeping out of storage tanks and contaminating groundwater led to the adoption of ethanol as a substitute, beginning in California in 2003.

The Federal Energy Policy Act of 2005 established a nationwide requirement for the use of "renewable fuels" by fuel producers and importers, with a quota of 6 billion gallons of ethanol or their equivalent in biodiesel or other renewable fuels in 2006. The Energy Independence and Security Act of 2007 (EISA) increased those requirements to 9 billion gallons in 2008, 10.5 billion in 2009 and to a maximum of 15 billion in 2015 and subsequent years. The result was the above-mentioned explosion in ethanol plant construction (see sidebar, page 20).

High petroleum prices in 2007 and 2008 added to the demand for ethanol: with gasoline prices above \$2.80 per gallon wholesale, it was good business to blend it with ethanol priced at \$2.50. But today, with wholesale gasoline going for only about \$1.25, ethanol at \$1.50 offers no such advantage.

USDA economist Dr. Hosein Shapouri says the limiting factor is the "blend wall": the limit on the amount of ethanol that can be blended into gasoline for conventional cars and trucks. Currently, the limit is considered to be a little more than 10 percent ethanol, although Minnesota has mandated a 20-percent blend to be implemented by 2013, and various groups have lobbied for 15 and 20 percent requirements in federal bailout legislation for automakers.

With 10 percent currently an upper limit for blending ethanol into gasoline, the overall amount used is actually less, because some small refineries are exempted from the requirements. As a result, the amount of ethanol that can be blended into gasoline, on average, is about 9 percent.

Members of the Governors' Biofuels Coalition, an organization of state governors dedicated to promoting the use of fuel ethanol, recently announced that they had requested the EPA to issue a waiver that would raise the blend limit to 13 percent. A biofuel trade group called Growth Energy says a switch to 15 percent ethanol would create 136,000 new jobs and inject \$24 billion into the economy each year.

Meanwhile, E85 — which is 85 percent ethanol and 15 percent gasoline — is having trouble penetrating the market, even though more than 7 million "flex-fuel" vehicles in the United States are configured to use it (see sidebar, page 19).

Increasing the blend of ethanol in fuel for conventional engines can pose problems. Ethanol contains only about two-thirds the energy of gasoline. While new technology may enable engines of the future to deliver mileage from higher ethanol blends comparable to that of gasoline, in current engines their use results in lower mileage per gallon.

Moreover, in higher concentrations ethanol also alters the fuel's combustion properties and can cause corrosion in

## Whatever Happened to E85?



Only a few years ago, auto fuel containing 85 percent ethanol was being promoted as the wave of the future. It was touted as the fuel that would help make the United States less dependent on foreign oil producers, keep engines cleaner, cut down on air pollution and prevent global warming. Car and truck makers have built millions of “flex-fuel” vehicles capable of burning E85, and GM and Ford recently announced that half of their vehicle production will be E85 capable by 2012.

Karl Simon of the U.S. Environmental Protection Agency says E85 “must be part of the solution” to the problem of reducing greenhouse gases.

So why is the market lagging? E85’s share of the auto fuel market is tiny. In Iowa, a state with one of the highest numbers of E85 outlets in the country and an active state government promotion program, the fuel makes up only .1 percent of vehicle fuel purchases. In most of the rest of the country, the proportion is far less, and seven states have no E85 retail outlets at all.

Part of the problem is the cost of the fuel vs. its energy content. According to some estimates, ethanol contains only about two-thirds of the energy of conventional gasoline. That means fewer miles per gallon, which is not currently offset by a comparable difference in price per gallon.

The National Ethanol Fuel Coalition, which promotes the use of E85, maintains that its mileage disadvantage is only about 10 to 15 percent, and points out that E85 has a much higher octane rating than even premium gasoline: 95 to 105 octane. The organization compares the E85 mileage loss to those resulting

from “aggressive driving” and low tire pressures: 20 percent and 6 percent respectively.

In any case, Phillip Lampert, the organization’s executive director, thinks the cost drawback is temporary. “I don’t want to start a conspiracy theory,” he says, “But the easiest way for oil companies and petroleum-producing nations to ruin the alternative fuel industry is to drastically lower the price of gasoline. It’s clear that the price of gasoline will increase and ethanol will again be a good buy for consumers.”

E85’s higher octane makes it possible to improve mileage by using engines with much higher cylinder pressures than those in conventional vehicles and technologies such as direct injection into the combustion chamber. Ricardo Technologies, a large independent automotive engineering firm that consults for major manufacturers, says it has developed a turbocharged engine that can achieve mileage rates from ethanol comparable to gasoline and even diesel engines.

Another issue is E85’s need for special handling. It can’t be shipped in pipelines that carry petroleum products. However, Poet LLC and Magellan Midstream Partners LP have announced a joint venture to study a possible 1,700-mile, dedicated ethanol pipeline. The pipeline would cost about \$3.5 billion and deliver ethanol from plants in the Midwest and Plains states to distribution terminals in the Northeast.

E85 can’t be stored and dispensed from conventional facilities at the point of sale; special tanks and pumps must be installed — adding to its expense. ■

vehicles not configured for its use. General Motors has come out against ethanol blends of more than 10 percent in conventional vehicles, claiming they cause damage to catalytic converters and declaring that the use of higher blend levels will void warranties. A recent EPA study found that the use of E15 and E20 was associated with increased temperatures in catalytic converters, and said the additional heat may cause damage. The marine industry has also issued warnings about problems associated with the use of ethanol-blended fuel in boat fuel tanks.

The EPA’s Karl Simon, director of the Office of

Transportation and Air Quality Compliance and Innovative Strategies Division, says that undertaking a study of the effects of raising the blend limit to 20 percent for use in all gasoline engines is impractical. “It would take years and tens of millions of dollars,” he says, because of the need to document the effects of the blend on diverse older vehicles as well as small gasoline-powered tools such as chainsaws and lawnmowers.

However, newer vehicles are least likely to be affected by higher levels of ethanol, and Simon hopes for a more focused study to find whether they can use it with no ill effects.

Shapouri notes that ethanol is not the only fuel that can be used to meet the renewable fuels requirement. Biodiesel is one alternative that can be absorbed by the energy infrastructure relatively easily, although that market is much more limited.

Another fuel that some say shows promise is gasoline produced by the “BioForming” technology of Virent Energy Systems Inc. The Virent process uses catalyzed reactions to synthesize fuel hydrocarbons from sugars, starches and even cellulose. Virent claims it is more efficient, more economical and more flexible than microbe-based processes, such as those producing ethanol.

Cellulosic ethanol, made from non-food plant material — such as wood wastes, grasses and crop residue — is seen by many as the ultimate future of the ethanol industry. When it becomes commercially feasible, it will be possible to retrofit cellulosic production technology to existing corn ethanol distilleries.

Cellulosic’s potential advantages include the ability to use waste materials and crops grown on marginal land, reducing the emission of carbon dioxide and other greenhouse gases in comparison to grain ethanol, and lowering the cost of production and easing the squeeze on profits. The Renewable Fuel Standard mandates increasing use of cellulosic ethanol

and other advanced biofuels in comparison to corn ethanol. But it remains to be seen how long cellulosic ethanol will take to achieve full commercial viability. The Verenium Corporation is currently operating a demonstration plant in Louisiana, partially funded by USDA Rural Development. This plant uses sugarcane waste, known as bagasse, from a sugar cooperative as the cellulosic feedstock. The firm has entered into a partnership with British Petroleum (BP) to build and operate a commercial-scale plant in Florida, scheduled for completion in 2010.

Other cellulosic ethanol ventures also claim to be close to commercial viability.

For corn ethanol producers, now is crunch time. “Nobody’s making money right now,” says Duignan. But, she adds, if gasoline prices rise 20 cents, ethanol will be profitable again at current corn prices.

Cropp thinks gas will eventually go up — the question is when. He thinks the wholesale price has to rise above \$2 per gallon for ethanol co-ops to do well. “Some operations are more efficient,” he says. “Others will need \$2.50 gas to make a go.”

In any case, the gold rush is over for now. ■



The Renewable Fuel Standard (RFS), set by the Energy Independence and Security Act of 2007, requires that U.S. gasoline producers (except for certain low-capacity refineries) incorporate 9 billion gallons of ethanol, or its renewable energy equivalent, into their production in 2008. Other fuels, such as biodiesel, may be used instead of ethanol at amounts that are pro-rated according to their relative energy content. For instance, biodiesel has 1.5 times the energy content of ethanol, so .67 gallon of biodiesel may be substituted for one gallon of ethanol.

For 2009, the RFS requirement is 11.1 billion gallons. However, only 10.5 billion gallons of the requirement may be met using conventional corn ethanol or its equivalent. Of the other 600 million gallons, 500 million gallons must be biodiesel; 100 million gallons must be supplied through imports or by using ethanol made from feedstocks other than corn, such as cellulose.

Each gallon of fuel ethanol — or its equivalent — produced in, or imported into, the United States is given a 13-digit “renewable identification number,” or RIN, identifying the facility where it was made, the batch and so on. This RIN

is associated with that gallon until the ethanol is blended into fuel, at which time it may be transferred as a credit.

If the fuel processor has used ethanol to meet its mandated portion of the RFS requirement, it uses its RINs to certify this fact. However, if the processor used the ethanol to make E85 (which would far exceed the renewable content requirement for gasoline), or used biodiesel to produce diesel fuel, it will have surplus RINs, which it can use to certify unblended gasoline, or sell to another producer to do the same. This allows fuel producers to sell gasoline with no ethanol content and still meet their obligations under the RFS.

As many as 1 billion RINs are expected to be available to gasoline blenders in 2009. Some of these will have been carried over from 2008; others will come from current biodiesel production or imports of renewable fuels. Thus, the demand for fuel corn ethanol is expected to increase only by about 500 million gallons, unless the cellulosic requirement is relaxed or higher petroleum prices make ethanol more attractive economically.

— By Stephen Thompson

# Value-Added Corner

## Identifying 'better ideas' helps MaxYield Co-op double sales



*"We view ourselves less as a traditional input supplier and more as an entrepreneurial solutions finder," says MaxYield Cooperative CEO Keith Heim. Photo courtesy MaxYield Cooperative*

Like the farm sector itself, Iowa's MaxYield Cooperative has had its ups and downs since its first stockholders met in 1915. But with plenty of local faith and investment, and support from various USDA programs, MaxYield Cooperative (previously West Bend Elevator Co.) and its 18 locations across north-west Iowa are on a healthy growth curve.

One reason for the recent, well-directed growth of this co-op, headquartered in West Bend, Iowa, is USDA's Value Added Producer Grant (VAPG) program. Under the program's 50/50 match rules, MaxYield received \$30,500 in VAPG funding to study the feasibility for installing a methane digester. This was followed by \$50,000 in additional VAPG money to study biodiesel production. (For more information on the VAPG program, visit: [www.rurdev.usda.gov/rbs/coops/vadg.htm](http://www.rurdev.usda.gov/rbs/coops/vadg.htm)).

The two studies led to shelving the digester plan for now and continuing to pursue biodiesel retail sales, although holding off on biodiesel production. These decisions played a part in turning MaxYield's disappointing financial results during the 1990s into today's very healthy profits picture.

When the time is right — perhaps in another 10 years — MaxYield leaders say they will be ready to add methane

gas to its mix of operations.

"The two Value-Added Producer Grants were instrumental in our decisionmaking process," MaxYield CEO Keith Heim explains. "The feasibility studies clearly showed that the time was not yet right for methane digestion here, and that we should continue to expand the biodiesel retail market share but hold off on entering into biodiesel production."

### New solutions

Billing itself as "not your grandfather's cooperative," Heim says "we view ourselves less as a traditional input supplier and more as an entrepreneurial solutions provider, from organic nutrients to ethanol to precision agriculture."

MaxYield's secret is being agile enough to incorporate the best new ideas — like ethanol, biodiesel, precision seed trait choice and nutrient management — but wise enough to avoid other ideas not yet ripe for commercialization. The result, says Larry Arndt, MaxYield director of sales and marketing, is that sales have doubled to \$208 million over the past five years. Along with these record sales, MaxYield notched another record by announcing \$5.5 million in allocated patronage refund payments to its 1,900 members at its 94th annual meeting in December.

The operation remains a traditional, 100 percent farmer-owned cooperative that handles more than 80 million bushels of corn and 5 million bushels of soybeans per year. MaxYield also provides solutions by managing sophisticated marketing, seed, fertilizer, feed and fuel needs both for farmers and for major bioenergy companies, such as Global Ethanol.

"In the last fiscal year, we have become a very 'Lead with Seed' company," Arndt explains. "That's what we call it, because seed-trait technology today demands that we focus on seed solutions for our clients. Agriculture is probably the most exciting thing going on around us in terms of economics and the world perspectives."

Agriculture has its work cut out for it, Arndt says, because "there are more people to feed in the world and more consumers are demanding more protein." Fortunately, he says there are also "more bright young people pursuing agriculture" careers.

MaxYield has been able to attract some of those the bright young people, he says, because of the exciting new programs it has developed — such as SciMax Solutions and the SciMax Nitrogen program, which use half-acre grid maps to precisely manage seed types and fertilizer needs for 25 growers and nearly 40,000 acres. ■

# Royal Treatment



**By Bruce Burdett**

*Editor's note: This article is reprinted courtesy East Bay, Rhode Island, Newspapers.*



ever mind Maine or Idaho, some of the best potatoes grown anywhere come from Sakonnet towns and Westport. Now five of those farms are joining forces to promote that fact with a new, all-local potato brand: the RI Royal.

"Fresh and super creamy, the white potatoes in the purple bag with the Narragansett label" are beginning to show up on store shelves and restaurant tables.

The marketing effort, which takes a page from the successful Rhody Fresh milk campaign, is backed by Farm Fresh Rhode Island, W.J. Canaan Produce Co., the R.I. DEM Division of Agriculture, and Semap "Buy Local" of Southeastern Massachusetts.

Participants include Ferolbink Farms in Tiverton, Lacerda Farm and Quonset View Farm in Portsmouth, Sampson Farms in Westport and Young Family Farm in Little Compton.

The five farms didn't all at once begin growing a new sort of potato, said Jerome Sampson, owner of Sampson Farms. They are simply calling attention to a potato they believe is something special.

"It is a really delicious light potato

that grows especially well in the moderate conditions we get here," Mr. Sampson said. The potato doesn't like extreme heat and needs a longer growing season than is found in Maine. Elsewhere the spud is known as the Norwis, or FL (Frito Lay) 657.

"It is an excellent all-around potato," agrees Joe Lacerda Jr. of Portsmouth. Lacerda Farm grows an early variety to get things started, "but these are 80 percent of what we do. They are great for frying, mashed, baked and with sauces and soups. You can't go wrong."

Mr. Sampson said his farm used to grow other varieties before being tipped off to this type by Pete Peckham, owner of Ferolbink Farms in Tiverton. "He had been given some

# Rhode Island farmers join forces to market RI Royal brand potatoes

*Below: Jeremy Lambert drives a load of freshly harvested potatoes to be sorted at the Sampson Farms barn.*

*Facing page: Gripping a three-pound potato. Photos by Richard W. Dionne Jr., Courtesy East Bay Newspapers*



bags of seed to try and he shared five bags with us.”

After harvest, so thrilled were they all with the results that Ferolbink ordered a truckload of the seed.

“Now it is our main crop,” Mr. Sampson said.

Because it is light and fluffy, this potato is especially good at absorbing flavors, making it delicious alone with butter or sauce or in a stew. It is a big seller in natural foods markets and in Portuguese markets and restaurants, among other places.

## Farmers’ tap demand for local produce

They know their product is a good one, but these local farms face challenges not unlike those that drove area dairy farms to market Rhody Fresh Milk.

The prices offered by big regional distributors make it difficult for small New England farms (in comparison to large mid-America farms) to compete. And any hope of profit can be devoured by transportation costs. So by selling close to home, they avoid long-haul shipping costs and cutthroat pricing policies. The end product on the store shelf can then be priced competitively with those from the

giant potato producers.

“And there is actually a chance a little [money] may land in our pockets,” said dairy farmer Louis Escobar of Portsmouth about the Rhody Fresh milk brand.

Farm Fresh RI and Semap also point out that local brands, such as RI Royal, tap into a growing consumer desire to buy products produced nearby. Not only homeowners, but schools and colleges are increasingly seeking local produce both for quality and environmental reasons.

“Just as successful cooperatives like Rhody Fresh Milk and Rhody Warm Blankets have done, local potato growers have teamed up to cooperatively market fresh local potatoes that are just days from harvest,” said Ken Ayars, chief of the Rhode Island Division of Agriculture. “Buying local keeps family farms viable and ensures a fresh product, and saves on the energy costs farmers would need for storage — and the taste of locally raised spuds can’t be matched.”

## Close enough

Mr. Sampson said that when he was approached about joining the group, he asked why a Westport grower

would be part of a Rhode Island potato project.

“They told me, ‘You’re in Westport — close enough.’” Plus, the potato and the growing conditions are the same.

Mr. Sampson said last year was a decent season for these potatoes.

“It got pretty dry in mid-summer, but we are fortunate to have irrigation — we irrigated twice.” September rains were a bit much, but the earlier dry spell left his fields able to absorb the near record rains.

Overall, it was a good year, Mr. Lacerda said — a year that would have been better without the September downpours that rotted crops in a few low-lying places.

“Our big problem was the squeeze with fuel and fertilizer costs. A few years ago it was the low-carb thing that hurt us, but the diet people are coming back to potatoes,” Mr. Lacerda said, but then-high fuel prices were a big problem.

The RI Royal is available at a growing number of markets including Clements’ in Portsmouth. For more information, visit: [www.farmfreshri.org](http://www.farmfreshri.org). ■



*Carla Lacerda picks out weeds and off-grade potatoes while her father, Joe Lacerda Jr., drives the harvest rig. Photo by Richard W. Dionne Jr., Courtesy East Bay Newspapers*

## About Farm Fresh Rhode Island

*Editor's note: information courtesy Farm Fresh Rhode Island.*

The coastal climate and soils of Rhode Island are fertile ground for spuds. But for many years, potato prices stagnated and potatoes from other states flooded the marketplace. Local connections and farmer-grocer relationships were lost, and Rhode Island potato growers increasingly had to turn to out-of-state wholesalers — or else grow turf or houses.

The farmers who still grow food have come out wiser, and now days many potato farmers are diversified, growing a variety of vegetables. The proliferation of farmers' markets and recent successes of the Rhode Island farm-to-school program have also been key to securing the future of the farmland and local food supply. But farmers' markets alone won't be able to market all the potatoes grown in the state.

Enter Farm Fresh Rhode Island, a 501c3 non-profit organization founded in 2004 that believes revitalized farm-to-grocer connections will be a foundation for more secure farms and more secure food that will benefit Rhode Island's farmers and eaters for generations to come.

### **Farm Fresh mission & objectives**

The mission of Farm Fresh Rhode Island is: "We are growing a local food system that values the environment, health and quality of life of Rhode Island farmers and eaters." The overarching program strategy is to achieve this mission by linking local farmers and buyers.

The organization's objectives include:

- Preserving Rhode Island farmland and agricultural and culinary knowledge;
- Building healthier communities;
- Increasing access to fresher, tastier food;
- Improving the impact of food production and distribution on our environment;

- Strengthening community-based businesses in Rhode Island.

To help achieve these objectives, Farm Fresh Rhode Island is involved in these efforts:

- **R.I. Farms & Foods online database** — a searchable Web resource for learning about fresh foods, farms and markets in the Rhode Island region. Farmers can update the information about what they are growing and how they sell. Consumers and businesses can find out what is in season and how to get it. The database is constantly being updated with information on new farms, photos and markets to ensure it's an accurate and comprehensive tool for finding local food.
- **Urban Farmers' Markets** — strategically manage farmers' markets in Pawtucket and Woonsocket, as well as five farmers' markets in Providence. These markets are the crossroads of urban and rural. They give city dwellers access to fresh seasonal foods and the people who grow them. The markets give life to public spaces and offer a livelihood to farmers from across Rhode Island.
- **Buy Local R.I.** — develops collaborations and partnerships within the Rhode Island business community around environmental sustainability, community health and good food. The educational campaign fosters the sharing of knowledge and experience about bringing fresh seasonal foods into the kitchen. Farm Fresh RI hosts workshops, such as the Local Food Forum, and harvest celebrations, such as the Local Food Fest, to encourage sharing ideas and promote networking between farmers, advocates, chefs, schools and food service. ■



# Management Tip

## A Look in the Boardroom Mirror

**By Jean Freeman, President**  
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*Editor's note: The author is a Fairfax, Va., communications consultant who specializes in governance and communications issues for cooperatives, nonprofits and for-profit companies.*



Any nonprofit corporation — which includes most cooperatives — is required to have a governing board of directors, accountable to the membership. Board members have legal or fiduciary duties, including the duties of care, loyalty and obedience. Serving on a board is not only an opportunity to contribute to a worthwhile effort, it is also a very serious responsibility.

So, how does a board know if it is governing effectively? One of the best ways is to conduct a periodic self-assessment. This provides the board with a chance to step back and take a good, hard look at how well it is governing.

But before a board can assess itself, it should have a “job description,” or a well-defined set of roles and responsibilities. Once board members are certain of what they should be doing, they can evaluate how well they are doing.

### Board job description

Members of the board are responsible for governance, leadership and fiscal stewardship. Some typical responsibilities for boards are to:

- Set the mission of the cooperative;
- Hire, support and assess the performance of the chief executive;
- Plan strategically for the co-op's future;
- Develop sufficient policies to guide the co-op consistently;
- Measure organizational progress;
- Ensure the co-op has adequate resources;
- Monitor and inform the membership on the co-op's progress;
- Enhance the image of the cooperative;
- Ensure sound governance practices.

This list provides a guideline for developing a group of job descriptions, outlining the responsibilities for board directors,

board officers, board committees (if any), the attorney, auditor and chief executive officer. When boards do not have the leadership framework specifically defined, they often experience uncertainty and inefficiency, resulting in poor leadership.



### Areas to evaluate

There are many generic board evaluation tools available. Most of these include questions measuring the following areas:

- Board orientation;
- Active involvement in planning and priorities;
- Measuring CEO performance;
- Ensuring the co-op is financially sound; funds are managed effectively;
- Demonstrating an understanding of leadership roles;
- Maintaining high credibility with members;
- Operating within co-op mission and values;
- Obeying bylaws, policies, etc.;
- Maintaining a positive partnership with the CEO;
- Exhibiting conflict-resolution and decisionmaking capabilities;
- Ensuring that meetings are run efficiently.

These are all very good areas to measure, but experts in the field of performance evaluation agree that boards are more likely to find the process productive if they put together a thoughtful instrument, designed to measure specific outcomes. Although looking at other existing self-evaluation questions is a good place to start, you'll have greater success if you customize your questions to fit your own cooperative.

### Individual board member assessment

In addition to the board evaluating itself as a whole, there can be value in having each board member assess his or her own expertise in governing. This could be a private undertaking and could primarily serve as a “check-up” or a reminder for the individual. It could also be included in an orientation package, preparing the individual board member for this important role.

*continued on page 37*



# Cotton co-ops benefit from cottonseed oil comeback

*Editor's note: this article supplied courtesy the National Cottonseed Products Association.*



Who knew that actions taken to protect heart health could breathe new life into the cotton industry and cottonseed oil mill cooperatives across the South? But that's exactly what happened when officials in New York City made the decision to ban trans fats from restaurants about two years ago. Many restaurants across the country are following suit. Many food manufacturers — from potato chip makers to donut purveyors — have also started to eliminate the artificial fat, which is blamed for increasing one's risk of coronary heart disease.

The cotton industry, best known for its role in textile production, suddenly had a renewed interest in an old product: cottonseed oil.

"A product that once was sold to help offset ginning costs is now viewed as a viable revenue stream," says Ben Morgan, executive vice president of the National Cottonseed Products Association. "Today, it's about more than just the fiber value per acre."

Currently, cottonseed oil is the most lucrative market for cottonseed processors. Prices peaked in July 2008 at 80-90 cents per pound, more than double the five-year average. Prices have since settled at the 35-cent range, following the downward trend of all edible oils and responding to the current economic downturn of most industries. But demand and optimism remain strong, given the ongoing need for trans fat-free oils.

"For the first time in more than 10 years, more cottonseed will be crushed for oil than will be fed as whole cottonseed to dairy cattle," Morgan notes. For calendar year 2007, government data showed use of cottonseed oil for "salad or cooking oils" reached 573 million pounds — a 47-percent increase from just three years ago.

## Heartfelt health

As America's original vegetable oil was beginning to make a comeback, the cottonseed crushing industry saw an opportunity to reinvent itself and differentiate itself among a growing range of edible oils available to the commercial food industry, including soybean oil and consumer-friendly sunflower oil.

In 2007, the National Cottonseed Products Association launched a new public relations campaign to educate food industry decisionmakers and consumers about cottonseed oil's role as a trans fat-free cooking oil.

Cottonseed oil's built-in stability, thanks to a 23-28 percent saturated fat level, eliminates the need for hydrogenation, the process by which hydrogen is introduced to create artificial stability, making it harder for the body to break down and contributing to heart disease and obesity.

Unlike many other oils with single-digit saturated fat levels, cottonseed oil is stable on its own and valued for its longer fry life and ability to resist flavor reversion.

Still, the saturated fat level is low enough to be recommended as "heart-healthy" by the American Heart Association.

For years, oil mills have provided a steady flow of cottonseed oil which, along with cottonseed meal, makes up about 80 percent of cottonseed's value.

Standing out as one of the more lucrative crops, cottonseed remains on the forefront and continues to provide a reliable, steady revenue stream for cotton gins and farmers through co-op rebate programs. The rebate programs are designed to fluctuate with the market, a delicate balance, and are now seeing a renewed interest in membership.

### Co-ops see increased demand

In Oklahoma City, Producers Cooperative Oil Mill (PCOM) — long known for its cottonseed oil extraction — is producing cottonseed oil for use in a larger number of consumer products than ever before.

"When Frito Lay announced its move away from cottonseed oil a few years ago, the market dropped significantly," says PCOM President Gary Conkling. "But we've seen a reversal since the trans fat movement began and cottonseed oil is now back in high demand."

As the trans fat movement gained momentum in 2007 and the price of cottonseed oil rose, snack food manufacturers felt an urgency to purchase already-produced oil in larger quantities and grew concerned that cottonseed oil would soon not be as readily available, or affordable.

"Cottonseed oil has always been a premium oil in the food market, and manufacturers prefer it over other oils because of

its neutral flavor and extended fry life," says Ronnie Gilbert, vice president of oil trading and packaged oil for PYCO Industries. "However, over the past year, the economy has dipped and consumer behaviors have changed. They've purchased fewer snack food products and are dining out less, so the food industry's oil reserve has lasted longer than expected."

A reborn need for cottonseed oil has surfaced and producers are confident that the demand for cottonseed oil will remain steady, if not increase, this year.

Cottonseed oil continues to compete with corn and soybean prices and fight for acreage in previously cotton-rich states in the South. However, in states like Texas, where the weather is hot and the natural water supply is weak, the cotton crop is favored over competing crops that require more maintenance.

The cottonseed industry also has seen a decrease in the amount of cottonseed that is being fed to dairy cows, freeing up more seed to be crushed for oil.

For members of cotton cooperatives, the positive forecast and continued moderately priced

cottonseed oil means the industry overall sees a significant increase in demand. When the demand for oil increases, co-ops see more seed come in not only from members, but from non-members who have outright sold their seed to the co-op at a competitive price in the open market.

"Members have a choice when it comes to how they want to sell their seed to the co-op. They can sell it direct to the co-op at a competitive price, or they can utilize the rebate program and have the opportunity to see a greater return," says John Fricke, CEO and general manager of Planters Cotton Oil Mill, Pine Bluff, Ark.

"Because non-members don't have access to co-op rebate programs, either way members choose to do business, they're still receiving the marketing, storage and accessibility benefits of belonging to a co-op," Fricke continues. "And when the demand is high and more seed is being crushed from both members and non-members, members are still the ones who enjoy a greater reward." ■



*Cottonseed (above) can be processed into salad and cooking oil (facing page). It is gaining popularity with those seeking trans fat alternatives, including fried-snack makers. Photos courtesy National Cottonseed Products Association*

# Bigger role seen for Ohio farmers' markets

*Editor's note: This article is provided courtesy Ohio State University Extension.*



The popularity of farmers' markets and locally grown food is soaring nationally. According to the Farmers' Market Coalition, the number of farmers' markets in the United States has increased 40 percent during the past decade. More than 3 million consumers shop at farmers' markets, spending more than \$1 billion annually.

A majority of farmers' markets are organized as cooperatives or operate on cooperative principles.

Several efforts are underway in Ohio to help farmers' markets and their farmer-vendors boost the marketing of fresh, local foods. A new Ohio State University (OSU) Extension program, supported by USDA Rural Development, is helping with the effort. The OSU South Centers office in Piketon, Ohio, was awarded a \$99,000 Rural Business Enterprise Grant from USDA Rural Development to launch the Growing! Ohio Farmers' Markets program.

The goal of the program is to help farmers' market managers, boards and vendor/producers in three main business functions: marketing, money/accounting and general management.

"There has been tremendous growth in consumer demand for locally produced foods, and we want to assist Ohio's food producers in taking advantage of this opportunity," says Christie Welch, an OSU Extension farmers' market specialist with OSU South Centers at Piketon. "This is a win-win for producers and consumers alike. The producers increase their financial stability, which helps maintain their farms, and the consumers have access to the fresh local foods they demand."

Welch and her colleagues are partnering with USDA Rural Development in implementing the program, the focus of which will be on providing business training and technical assistance. The technical assistance is designed to increase the knowledge, skills and abilities of the farmers' markets participating in the program.

## Training emphasizes marketing plans

Training, which began in the fall of 2008, includes developing marketing plans, establishing producer standards, building a business plan, developing accounting systems, leveraging resources and conducting feasibility studies. To date, 342 hours of one-on-one technical assistance have been provided to clients who are either vendors at farmers' markets or are looking to become vendors or to start a farmers' market.



*A grant from USDA Rural Development is being used to promote the Growing! Ohio Farmers Markets program. Photo by Cathy Rollison-Krist*

The first six of 12 training programs have been held for farmers' markets and their vendors/producers. Topics presented were:

- Conducting Feasibility Studies and Developing Business Plans;
- Building Bylaws, Establishing Legal Structures and Managing Risk;
- Using technology to market your farmers' market.

More than 60 participants attended, representing 18 existing farmers' markets and three potential markets.

Tom Worley, director of OSU South Centers, emphasizes the importance of the program and its connection with local foods. "This funding is expected to expand the availability of locally grown products by working with current and potential growers and vendors, as well as managers of farmers' markets," says Worley.

## Statewide co-op formed to help farmers' markets

The Farmers' Market Management Network is a statewide cooperative formed in early 2008 to bring together managers, vendors and board members to improve Ohio's farmers' markets, both large and small. Specific goals include helping farmers' market managers determine common needs and collaborate to improve the cost effectiveness of their markets.

The cooperative was scheduled to hold its first annual meeting on March 9 at the Ohio Department of Agriculture in Reynoldsburg, Ohio.

The cooperative is beginning work on two big projects, including creation of an Ohio farmers' market manual for new and emerging markets. It will identify best practices and needed resources for starting a farmers' market. The second



OCDC has assisted in the formation of six new cooperatives, some of which target farmers' markets, manufacturing businesses and healthcare services. The program operates through grants and funding from OSU Extension and the Ohio Agricultural Research and Development Center. OCDC also recently received a \$200,000 grant from USDA Rural Development to continue its efforts.

"We've worked closely with the Ohio Cooperative Development Center to carry out the common mission of rural economic developing using the cooperative business model," says Randy Hunt, former state director for USDA Rural Development in Ohio. "Successful competition for this grant ensures an available funding source for many of Ohio's rural community development initiatives."

### **Appalachia region has greater needs**

Snyder says some of the objectives of OCDC are to increase incomes and production, create employment opportunities and decrease out-migration from rural Ohio communities — in short, to ensure the region is an asset to Ohio's overall economic sustainability.

"In Appalachia Ohio, as opposed to more metro areas, unemployment is higher, the average household income is lower and community structure is not always conducive to business growth. Additionally, businesses tend to be smaller, so they have fewer opportunities to access resources individually," says Snyder. "We recognized these issues and realized that the keys to economic growth may lie in the ability to market as a group and increase business visibility for those seeking employment opportunities."

To help businesses achieve those goals, OCDC staff provides technical assistance and advisory services, conducts training programs, assists with information access, conducts feasibility studies, develops business plans, produces budget and cash flow documents and participates in bylaw development.

"We strive to lobby for the services that Appalachia Ohio needs," says Snyder. "Sometimes the area is just not first on the list to get money, support or attention it deserves."

For more information on the farmer's market program or the Farmers' Market Management Network, visit: [www.ohiofarmersmarkets.osu.edu](http://www.ohiofarmersmarkets.osu.edu), or contact Christie Welch: (740) 289-2071, ext. 234. For more information on the Ohio Cooperative Development Center, visit: <http://ocdc.osu.edu> or contact Tom Snyder at (740) 289-2071, ext. 220. ■

project involves working closely with the Ohio Department of Agriculture to create consistent and reasonable regulations to maintain the highest level of food safety for consumers.

The Network was formed after a focus group of market managers expressed interest in networking, pooling resources and pursuing education for themselves and for their communities. The Ohio Cooperative Development Center (OCDC) in Piketon assisted with the formation of the co-op and continues to work closely with it by providing technical assistance and training.

### **OSU, OCDC support state's co-ops**

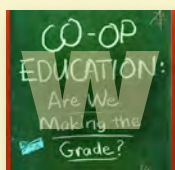
Farmers markets aren't the only co-ops receiving help from the OSU Extension and the Ohio Cooperative Development Center.

In the Appalachian region of Ohio — where low income, high unemployment and lack of opportunities stifle economic growth — an OSU program promotes rural development by pooling the resources, training and services for new and existing businesses. For nearly a decade, the OCDC office in Piketon has also been supporting rural economic development throughout southern Ohio by assisting businesses in developing cooperatives.

The goal, says OCDC's Snyder, is to encourage businesses that serve a common purpose to work together, especially in communities where cooperatives would have a significant impact on economic development and where they would be more cost efficient. "I love the notion of cooperatives," says Snyder. "Working together can be such a great tool and can have quite a powerful, positive impact on an otherwise negatively viewed situation."

# Co-op educators see critical need to ramp-up, expand education efforts

**By James Wadsworth,**  
Co-op Education and Outreach Program  
USDA Rural Development



While many valuable co-op education resources are available today from USDA Rural Development and others, many publications and other co-op educational materials are in serious need of updating. New communications technologies should be better employed and outreach and distribution efforts must be geared up if the co-op business model is to be more widely adopted.

This was the general consensus of a group of 91 people USDA recently engaged in discussions about the state of its co-op education efforts, and co-op education in general in America. Tailoring co-op education efforts to meet the greatest needs is seen as being especially crucial during times of limited resources.

USDA Rural Development's Cooperative Programs staff solicited feedback from educators outside the agency, including: university professors

and researchers, vocational ag teachers and cooperative leaders and officers. Other participants came from cooperative extension offices, cooperative development centers, cooperative councils, national cooperative associations, state governments and USDA Rural Development state offices.

## Audiences ranked on need

The educators ranked primary target audiences based on need for co-op education. A large majority (about 75 percent) of them ranked people considering the formation of a cooperative at the top of the list, followed closely by board members of existing cooperatives. Nine audiences were ranked, as follows:

1. People considering forming a cooperative
2. Cooperative directors
3. Cooperative management
4. Young members of cooperatives
5. Cooperative members
6. Cooperative employees
7. Youth (post secondary)
8. General public

## 9. Youth (K-12)

In terms of groups currently being least well-served by cooperative education efforts, the audiences were ranked as follows:

1. General public
2. Cooperative members and young members of cooperatives
3. Those exploring a new cooperative
4. Youth (post secondary)
5. Youth (K-12)
6. Cooperative directors
7. Cooperative employees
8. Cooperative management

Interestingly, cooperative directors were ranked second among groups needing co-op education the most, but educators seemed to think this type of education is being carried out to a good degree at the present time, since directors are sixth on the list for being least well-served. Those exploring a cooperative were third on the least well-served list, but were identified as the highest priority.

## Most crucial co-op topics

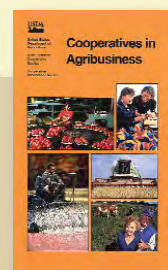
The co-op educators see a wide variety of topics that need to be addressed to improve cooperative "literacy." Topping their list is finance issues — always a key issue for both existing and new co-ops. The topical priorities they see, in rank order, are:

1. Finance
2. Advantages and disadvantages of the cooperative business model

## USDA educational publications seen as valuable resource

About 86 percent of the 91 educators who provided feedback for this report say they are familiar with USDA's co-op educational publications and materials, and most of them personally use these publications as resources.

The top three USDA co-op publications used by educators are: *Co-ops 101*, *How To Start a Cooperative* and *Cooperatives: What They Are and the Roles of Members*,



*Directors, Managers and Employees*. A wide variety of other publications in USDA's co-op library are also used by a significant number of co-op educators. These include publications from all three of the categories to which USDA assigns its co-op publications: Co-op Information Reports, Co-op Research Reports and Co-op Service (or Statistical) Reports, as well as articles from *Rural Cooperatives* magazine

3. The roles of members, directors, managers and employees
4. Governance
5. Strategic planning
6. Cooperative principles
7. Legal issues
8. How to start a cooperative
9. Cooperative structure
10. Cooperative operations
11. Cooperative accounting and tax issues

Educators also listed co-op feasibility, business planning and best cooperative practices as other crucial topics. While many of these topics are the subject of current cooperative education efforts, educators believe the extent of those efforts is not meeting the entire need.

### Topical gaps

Educators saw these areas as “topical gaps” that education efforts should aim to address:

- How cooperatives create economic value
- Case studies of retail food cooperatives
- Advantages and disadvantages of the cooperative business model, including life cycle analyses
- Research-based information on finance, governance and strategies for leaders
- Information on other types of cooperatives (e.g., housing, child care, employee-owned, etc.) as well as newer businesses, such as buying clubs that operate on cooperative principles
- Director and management compensation

- Comparison of cooperatives with other contemporary business models (limited liability corporations and partnerships, S-Corps., etc.)

A large number of the educators see delivery of services as being the biggest challenge today, and believe more contemporary delivery systems need to be used to a greater degree. These could include: interactive online programs, distance learning programs, video-clips, podcasts, webinars, new school curriculums, CD- and DVD-based programs, etc.

They also indicated that information presently available needs to be updated more frequently and to employ greater use of current examples, situations, case studies and data.

One educator mentioned that short snippets of current important information for co-ops should be made available on a regular basis so that cooperatives, cooperative organizations and educators can “cut-and-paste” them into their delivery tools for members and constituents.

### Planning for future co-op education

The educators’ comments reinforce the widespread perception in the cooperative community that educational materials and programs need to be improved and adapted for delivery to a more technologically advanced society and new topical materials or programs

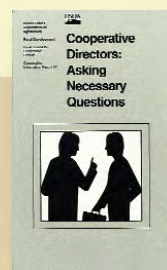
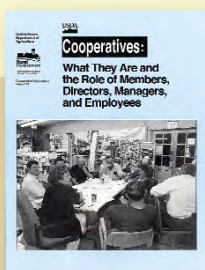
need to be developed to meet contemporary needs.

Cooperative educational publications, information and materials are being widely used, and there are many cooperative educational initiatives ongoing across the United States. However, survey participants see a strong need for ramping up co-op education efforts.

Clearly, greater communication and outreach are needed. Educational resources already available from the Cooperative Programs of USDA Rural Development and from other cooperative organizations need to be updated and more widely distributed.

While many cooperative education resources are available, too many people don’t know about them. Some see the need for a central depository for sharing information, publications, programs and other resources.

“In planning future cooperative education initiatives, educators and the entire co-op community should take the findings of this conversation to heart,” says John Wells, co-op development division director for USDA Rural Development. “Cooperative Programs remains dedicated to cooperative education and will continue to reach out to others for contributions as it develops its research and education programs going forward.” ■



(although the magazine itself was not the focus of the discussions).

The average rating educators gave these publications was “good” for attributes of readability, objectivity and technical accuracy. Format, general appearance and overall quality scored “OK.” A high number of educators rated the attributes of the publications as “very good.”

USDA’s library of co-op publications and *Rural Cooperatives* magazine were deemed “important” for helping to deliver effective cooperative education by a majority of the educators.

A major problem facing Cooperative Programs as well as numerous other organizations as they attempt to update, improve, and expand cooperative educational materials has been a drastic reduction in staffing in recent years. ■

# Newsline

## Co-op developments, coast to coast

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



### NDFU opens 'green dining' option in DC

*Founding Farmers restaurant in Washington D.C. opened last September, and is the second restaurant in the nation's capital owned by members of the North Dakota Farmers Union (NDFU). The other restaurant is Agraria, located on the waterfront in Georgetown. The menu at both restaurants is centered on sustainable agriculture. Founding Farmers operates as a Certified Green Restaurant, having been designed and constructed to meet strict standards of energy efficiency and sustainability. Reclaimed barn wood covers the walls; reclaimed stone pavers and hardwoods line the floor, and fabrics and carpets are made with post-consumer recycled materials. The design maximizes natural daylight and uses energy-efficient lighting to reduce its carbon footprint. It has achieved a LEED (Leadership in Energy and Environmental Design) Gold certification by the U.S. Green Building Council, a first for a full-service, upscale-casual restaurant in the United States. Photo courtesy Founding Farmers*

### CoBank earnings surge to \$538 million

CoBank, a national cooperative bank serving U.S. agribusinesses and rural utilities, saw its net earnings for 2008 increase 28 percent, to \$533.4 million. That's up from \$415.6 million in 2007. The increase was driven by robust

growth in average loan volume across all operating segments. Net interest income rose 34 percent, to \$862.6 million, compared to \$645.4 million in 2007.

At year's end, the bank's loan and lease portfolio totaled \$44.6 billion and total assets were \$61.2 billion, a \$9-

billion increase from 2007.

"CoBank delivered exceptional financial performance during 2008 on behalf of customer-owners, investors and our other stakeholders," says Robert B. Engel, CoBank president and chief executive officer. "As importantly, we were able to stand by our borrowers



in the face of extremely challenging conditions in commodity markets, credit markets and the broader economy.”

Extreme volatility in the grain, oilseed and farm supply markets during the first eight months of the year were a key driver of increased financing requirements from CoBank’s agribusiness customers (see related article, page 4). Lending to rural providers of power, water and communications services also experienced robust growth.

CoBank is issuing \$314 million in patronage payments to customer-owners, up significantly from the \$245 million in patronage paid in 2007. Of that, \$207 million will be paid in cash, with the remainder distributed in CoBank stock. Patronage distributions represent an average 25 percent return on the stock investment of active borrowers.

“The increased patronage payout authorized by our board of directors underscores the strength of the cooperative model and the overall value proposition that CoBank offers its customer-owners,” Engel says.

At year-end, capital levels at the bank remained well in excess of all regulatory minimums. Due to the ongoing turmoil in the credit markets, CoBank says it took steps to enhance liquidity by issuing long-term debt, when possible, and holding higher levels of liquid assets, including cash.

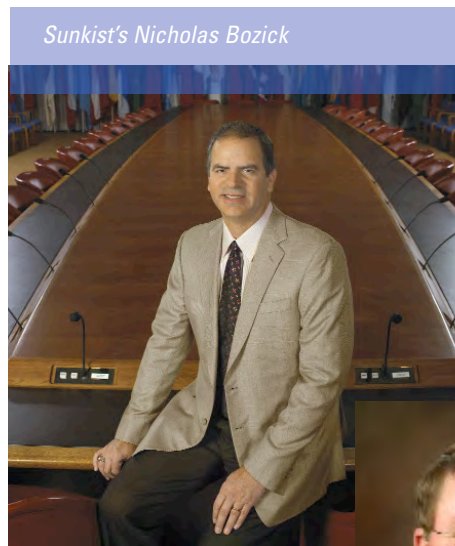
“We have deliberately bolstered the bank’s liquidity and capital base in order to preserve our foundation of strength and stability in volatile markets,” says Brian Jackson, CoBank’s chief financial and administrative officer.

About 97.2 percent of the bank’s loans and leases outstanding rank in the highest regulatory category used to measure credit quality. Non-accrual loans and leases increased to \$217.8 million as of Dec. 31, 2008, compared to \$14.8 million the year before. Additionally, CoBank recorded a \$55 million provision for credit losses in 2008, compared to a \$5 million reversal of allowances for credit losses in 2007.

“Going forward, we expect that the credit quality of our lending portfolio will decline modestly as a result of the broader economic downturn,” Engel says.

### Smith, Bozick win top honors at NCFC’s 80th annual meeting

Eddie Smith, chairman of Plains Cotton Cooperative Association, and



Sunkist’s Nicholas Bozick

Nicholas Bozick, chairman of Sunkist Growers, have been awarded the prestigious Farmer Cooperative Director of the Year Award by the National Council of Farmer Cooperatives (NCFC). Smith received the award for a director with more than 12 years of board service, while Bozick was selected from among directors with 12 or fewer years of service.

Smith, who has been a cooperative member since 1973, produces cotton, cattle and row crops in Floydada, Texas, in partnership with his son, Eric. Bozick, of Mecca, Calif., is president of Richard Bagdasarian Inc., a family-run, multi-commodity produce growing, packing and shipping business in the Coachella Valley. In addition to citrus, the company also handles table grapes and several vegetable varieties.

The award was established to recognize the outstanding achievements of farmer cooperative directors who take the lead to help their board of

directors make decisions vital to their cooperative.

“Both Eddie and Nick have spent their careers exhibiting outstanding leadership of their cooperatives and showing a strong commitment to the farmer cooperative community in general,” says NCFC President and CEO Charles F. Conner. “They are truly dedicated to the principles of farmer-ownership and I congratulate them on being named Director of the Year.”

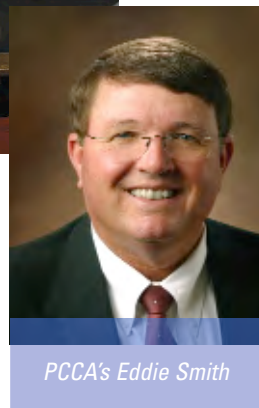
Director of the Year nominees were examined by a panel of judges representing the NCFC members and outside experts. In selecting the winners, judges looked at four broad criteria: how well the nominee understands his or her cooperative; the ability to provide leadership and be a

team player; the possession of good business judgment; and the ability to communicate effectively.

The awards were presented in February during NCFC’s 80th annual meeting.

NCFC is a national association representing America’s farmer cooperatives. There are nearly 3,000 U.S. farmer cooperatives, whose

members include a majority of the nation’s more than 2 million farmers and ranchers.



PCCA’s Eddie Smith

### Wisconsin economic recovery plan aims to boost state’s dairy co-ops

Cooperative Network, the Wisconsin and Minnesota trade association of cooperative businesses, is supporting an economic recovery plan in Wisconsin that would help dairy cooperatives modernize. The proposal includes the creation of two new income tax credits for the modernization of dairy manufacturing and meat processing facilities. The tax credits are aimed at encouraging the continued growth of Wisconsin’s agricultural economy and are nearly identical to legislation

supported by Cooperative Network in the past.

“Because 85 percent of Wisconsin’s milk is shipped through dairy cooperatives, the cooperative community has pushed for state support of our dairy plant infrastructure for years,” says Bill Oemichen, president and CEO of Cooperative Network. “Modernizing dairy-manufacturing and meat-processing facilities is a good step toward bolstering Wisconsin’s economy and will create good jobs.”

According to a 2004 study from the University of Wisconsin-Madison Department of Agricultural and Applied Economics, dairy processing provided more than 17,000 jobs, and had an additional indirect impact of 53,000 jobs.

The dairy cooperative investment credit is identical to Assembly Bill 37, and the meat processing facility credit matches Assembly Bill 12.

### Global co-op award competition launched

The dotCoop Global Award for Cooperative Excellence has been launched to recognize successful businesses in any nation that embrace cooperative principles. The award is being spearheaded by dotCoop, sponsor of the “.coop” Internet domain.

Entrants must describe and document specific processes and activities they employ to “leverage the cooperative business model,” such as using the .coop domain for branding purposes.

For more information and to submit entries, visit: [www.globalawards.coop](http://www.globalawards.coop). The deadline for entries for the inaugural awards is May 31, 2009. There is no entry fee for this award.

Cooperatives can compete in one of three categories based on the size of the co-op. Winners will be selected by an international panel of judges in late summer and will receive funding towards travel to Geneva, Switzerland, in November 2009, where they will accept the award in front of the International Co-operative Alliance General Assembly.



Alabama Farmers Cooperative (AFC) is the winner of the Best Cooperative Communications Award in the National Council of Farmer Cooperatives' Co-op Information Fair. It won for a TV commercial for its Bonnie Plant Farm which promotes its environmentally friendly peat pots. The ad has the “right mix of voice, music and visuals,” the judges said. Photo courtesy AFC

### Study boosts ethanol status for environmental quality

A study reported in the *Journal of Industrial Ecology* found that ethanol derived from corn emits an average 51 percent less greenhouse gas than gasoline. The study was conducted by the University of Nebraska-Lincoln.

“Critics claim that corn ethanol has only a small net energy yield and too little potential for direct reductions in greenhouse gas emissions compared to the use of gasoline,” a member of the research team said in a press release. “This is the first peer-reviewed study to document that these claims are not correct.”

About 30 percent of the U.S. corn crop in 2009 is expected to be shipped for ethanol.

In related news, a big majority of American Farm Bureau farmer-members say they believe that ethanol has been good for the nation’s agricultural economy, according to a straw poll conducted by the Reuters news agency during the Farm Bureau’s annual meeting in San Antonio, Texas, during January. Nearly 80 percent of 820 farmers surveyed said ethanol was good for agriculture, with only 17 percent saying that the biofuel did more harm than good.

### Does your co-op rock? Send videos to NCGA

If your food co-op rocks, let the world know it. The National Cooperative Grocers Association (NCGA) is inviting individuals and groups to submit videos of up to two minutes in length to: My Co-op Rocks Video Contest. Submissions will be accepted from March 1 until April 17 at: [www.MyCoopRocks.coop](http://www.MyCoopRocks.coop). Prizes totaling \$3,500 will be awarded to the best videos in “people’s choice” and “judges’ choice” categories.

Co-op shoppers may share their favorite co-op moments, memories and stories online. NCGA says it is hosting the contest “in celebration of all the qualities and quirks that make co-ops integral parts of communities.”

“No matter the times or economic environment, shoppers remain passionate about co-op grocers and the sense of community that they inspire,” says Robynn Shrader, chief executive officer for NCGA. “Everyone loves their local co-op for different reasons; this contest provides an opportunity for shoppers to tell us in their own words.”

Whether shooting videos with a cell phone or in high-definition digital video, all skill levels are welcome to



submit their videos. Participants are encouraged to unleash their sense of humor and creativity.

Once posted, videos will be viewed and voted on by the general public. A panel of judges will also score entries based on creativity, theme and overall appeal, with prizes awarded to the top three “judges’ choice” entries. The deadline for submissions and online voting is 11:59 p.m. CST on April 17.

Suggested themes include: Top 10 reasons I love my co-op; Top 10 foods at the co-op; Top 10 funniest sights at my co-op; Top 10 ways to get a date at the co-op; Top 10 reasons to become a co-op member, and Top 10 reasons why shopping at a co-op is just better.

### Video focuses on credit unions

The National Cooperative Business Association (NCBA) and Cabot Creamery Cooperative have produced an eight-minute informational video that features interviews with credit union members, employees and industry executives. The video is designed to educate the media and general public about the value of credit unions, how they work and why they are different from banks. To view the video, visit: [www.thebetterchoice.coop](http://www.thebetterchoice.coop). An accompanying online resource helps consumers find credit unions in their area.

Credit unions are cooperative businesses guided by democratic principles that govern all co-ops, which exist to serve their members who also act as owners of the business. Credit unions are routinely rated higher than banks in customer satisfaction surveys.

Paul Hazen, CEO of NCBA, says the ongoing world credit crisis has focused more attention on the advantages of credit unions. “Credit unions have stood apart during this crisis,” Hazen says. “While many banks have faltered due to high-risk, high-reward investment practices, credit unions stuck to their tried and true practice of making responsible loans to their members.”

Although credit unions have not



*Brad Irwin, right, the new CEO at Welch's, gets a lesson in vine pruning from a co-op grower-owner. Photo by Charlene Ryder, Courtesy National Grape Cooperative*

been immune to the challenges of the foreclosure crisis, overall they have fared better than banks, Hazen notes. Almost everyone is eligible to join one of the roughly 9,000 credit unions operating in the United States, he adds.

### Irwin new CEO at Welch's

Brad Irwin assumed duty on Feb. 16 as president and chief executive officer of Welch's, the world's leading marketer of Concord and Niagara grape-based products. Irwin's goal is to help Welch's continue to maximize the organization's value while expanding returns for its grower-owners.

“The opportunity to continue to grow a company that has a strong, iconic reputation grounded in a rich history is very exciting to me,” says Irwin. “I look forward to this journey with Welch's and helping to drive the growth and profitability of the company.”

Irwin was most recently president of Cadbury Adams North America LLC, the confectionery business unit of Cadbury Schweppes plc. He joined Cadbury in 2000 after 20 years with Procter & Gamble.

“The addition of Brad Irwin as president and CEO comes during an important time for Welch's,” says Joe Falcone, board chairman and president of National Grape Cooperative Inc. “Brad's experience with other consumer-based brands and proven organizational leadership will be crucial in helping to drive our business forward successfully.”

Irwin has a Bachelors' Degree in economics and political science from Amherst College. He will be Welch's 14th president.

### Rural Economic Development funds awarded in 13 states

Agriculture Secretary Tom Vilsack in January announced that utilities in 13 states have been selected to receive \$18.1 million through USDA Rural Development's Rural Economic Development Loan and Grant program. “Providing capital to support small business development and improve the quality of health care in rural communities is a key part of USDA Rural Development's mission,” Vilsack said. “By working with our partners, including utilities, USDA is helping to

fund rural infrastructure improvements that will support President Obama's goal of enhancing the quality of community life and helping small businesses compete more effectively."

Rural Development is awarding \$14.2 million in loans and \$3.9 million in grants to a total of 27 applicants. Funds are allocated to Rural Utilities program borrowers, usually rural telephone or electric cooperatives, which in turn provide loans to local rural businesses and communities. Funding of individual recipients is contingent upon their meeting the conditions of the loan or grant agreement.

The projects are expected to create or save more than 1,800 jobs in Alabama, Colorado, Georgia, Illinois, Iowa, Kansas, Kentucky, Missouri, Nebraska, North Dakota, South Carolina, South Dakota and Tennessee.

Among the fund recipients is Se-Ma-No Electric Cooperative in Mansfield, Mo., which is receiving a \$740,000 loan to build a rural health clinic and ambulance base in Mountain Grove, Mo. The project is expected to create 15 new jobs.

The Coastal Electric Cooperative of Midway, Ga., will receive a \$740,000 loan and a \$300,000 grant to help the McIntosh County Industrial Development Authority finance expansion of a local industrial park. The project is expected to create 183 jobs.

A complete list of loan and grant recipients is available on the USDA Rural Development website: <http://www.rurdev.usda.gov>. USDA Rural Development's mission is to increase economic opportunity and improve the quality of life for rural residents.

### **Sunkist sales top \$1 billion**

Sunkist Growers' 2008 revenue jumped 8 percent from 2007, to \$1.07 billion, thanks to a large crop, strong demand and efforts by the co-op to improve its operating efficiency.

Payments to members of \$839 million were up 5 percent over the previous year.

"2008 was another billion-dollar year for Sunkist, the 11th in the past two decades — which includes four freeze years," Sunkist President and CEO Russ Hanlin told the more than 500 growers attending Sunkist's 115th annual meeting at the Ventura County Fairgrounds.

The 2008 results, Hanlin said, are especially gratifying because they were achieved while not only dealing with a record navel orange crop, but also while transitioning the co-op's sales organization to a more centralized structure.

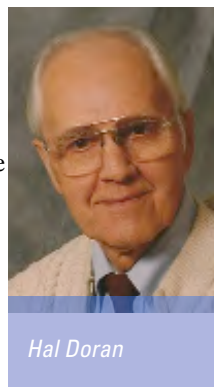
The record navel crop was followed by a large crop of Valencia oranges, presenting more marketing challenges which were exacerbated by record fuel prices followed by the nation's worst economic downturn in decades.

Lemons, Hanlin noted, were a different story. "It was another year for the record books...the highest FOB [free on board] prices and revenue ever, exceeding the record set the prior year by \$20 million and a pretty good 2006 by \$60 million."

Helping the bottom line were ongoing improvements in Sunkist's Citrus Juice and Oils operations. In 2008, Sunkist completed the plant consolidation and now all citrus byproducts are processed at Sunkist's Tipton plant, driving greater economies of scale and increased efficiencies.

"We are now the leading high-quality, low-cost producer on the West Coast and a top supplier of value-added citrus products," Hanlin added. He reminded growers that the industry is changing rapidly.

"Competition is increasing, with offshore fruit impacting both domestic and traditional export markets in ever-expanding volumes and with new trade agreements adding to that competitive equation. Customers continue to consolidate, concentrating more and more purchasing power in fewer and fewer hands."



### **Hal Doran remembered for dedication to co-ops**

Hal Doran, known as "Mr. Cooperative Education" in Pennsylvania and the Northeast, died Feb. 26. "Hal was a mentor to so many of us and influenced the lives of so many cooperative leaders," says N. Alan Bair, director of dairy industry relations for Penn State and Pennsylvania Dairy Stakeholders, Middleton, Pa.

Even though Doran has been retired for many years, he continued to stay in contact with cooperatives and the people that make them work.

"He was one of the 'behind the scenes' people who are so influential, but often unrecognized," Bair says. "He genuinely understood cooperatives and their potential — both from the business and the human side (members and employees)."

Doran was born in 1920, in Moscow, Pa., and grew up on Doran Glenn Farm. He graduated from Penn State in 1942 with a degree in ag education and earned a Master's degree from the same school in 1948.

He worked for Eastern States Farmers Exchange until 1961, where he was a district manager. From 1961 to 1966, he served as operations manager and personnel manager at Agway, then accepted a position at Penn State as director of cooperative business education.

When he retired from Penn State in 1991, the Hal F. Doran Cooperative Business Education Award fund was established to recognize an individual showing leadership and dedication to cooperatives.

A white oak tree and plaque stand on Ag Hill at Penn State in honor of Mr. Dorn's dedicated service. Among the many awards he received are the National Cooperative Business Education Award and the Distinguished Agricultural Service Award, the latter from Eastern Milk Producers. ■

## Commentary

continued from page 2

co-ops and consumers who want more local food are growing, providing a cultural connection with agriculture that is often missing in today's mass-consumption society.

Producers often organize to pool their produce and transport it to markets. In this way they can ensure supplies to customers on a regular basis and avoid glitches from weather, disease or harvesting problems. In many instances, produce that exceeds the demand of the fresh market, or which does not meet required grade standards, can be cooperatively processed or otherwise channeled to a secondary market.

While some producers choose to market individually at roadside stands, most do not enjoy a strategic location nor want the responsibility of maintaining such an outlet. For them, the cooperative method of supplying local markets, restaurants and stores is more viable.

Consumers have often been the initiators of buying direct from local farms. Variations of this "farmer-consumer connection" range from local purchasing groups that handle distribution to members on a voluntary basis, to the more formalized agreements of CSAs. In many cases, natural food cooperatives have initiated outreach to local farmers to achieve committed supply relationships. In some cases, attempts have been made to make producers and consumers members of the same cooperative, thereby internalizing supply arrangements and transactions.

Do these collaborations between local growers and consumers doom the role of local farm supply cooperatives or existing marketing cooperatives? Certainly not. But they do afford an opportunity for exploring support, and perhaps even establishing new linkages not previously considered.

## Helping family farms prosper

An even broader issue concerning the future economic organization of American agriculture is at play here. Farmers have organized cooperatives to gain access to markets that are often geographically distant

Through marketing and processing, they reach store shelves coast to coast and even internationally. Witness the strong reach of cooperative brands such as Florida's Natural, Cabot, Land O'Lakes, Sunkist, Sun Maid, Blue Diamond, Ocean Spray, Tree Top and Welch's among others in national

and foreign markets. These brands are the envy of the marketing world and are a testament to the soundness of the cooperative method of marketing on a national and worldwide basis. They have built a strategic market presence that keeps member-growers in business by building consumer recognition and purchases of their quality products. Farmer-members, small and large, are the benefactors.

Similarly, farm supply, credit, electric and telephone/communication cooperatives continue to provide members with inputs used for production, and these co-ops often have a local presence in their members' communities. Again, farm operators, small and large, benefit from such ownership and supply availability.

The concept that is advocated in the "go-local" policy is one of providing a role and opportunity for smaller scale farming operations to prosper in a marketplace that has become dominated by a monoculture production system that is heavily reliant on fossil fuels and the dictates of national and global mass marketing systems.

This policy envisions the survival of family-run farming operations by once again marrying sunlight, crop plants and animals on the farm. In his *New York Times* article, Pollan quotes Wendell Berry's elegant solution:

*"Sunlight nourishes the grasses and grains, the plants nourish the animals, the animals then nourish the soil, which in turn nourishes the next season's grasses and grains. Animals on pasture can also harvest their own feed and dispose of their own waste — all without our help or fossil fuel."*

In arguing for a "re-solarization" of the food system by "going local," the approach is built upon a "re-regionalization" of the food system, in which food is consumed closer to where it is grown. In the process, the rural country is revitalized and generates new "green jobs" and rebuilds America's food culture.

This vision, if it appears as romanticism for a bygone structure of farming, is exactly what constituted the membership of local and regional farmer cooperatives for more than 80 years and especially in the last half of the 20th Century. What is significant about this movement is that it is supported by an electorate that is deeply concerned about the health of the environment and their children, and is led by consumers as much as by agriculturalists.

The ideas proffered by Pollan and others are worth a look by cooperative leaders who wish to engage advocates and further discuss policy parameters. There is a great deal of food for thought here that should cause critical reflection about our present food system and how it can be improved. ■

## Management Tip

continued from page 25

A self-assessment could include such questions as:

- Do I understand the meaning and value of a cooperative?
- Do I fully understand my co-op's mission?
- Do I understand the co-op's financial statements?
- Do I thoroughly prepare for each board meeting?
- Do I truly understand each issue before I place my vote in a board meeting?
- Do I take advantage of educational opportunities and improve my ability to govern well?
- As a co-op leader, do I take advantage of opportunities to represent my co-op in the community?
- Do I understand the confidential nature of issues discussed by the board?
- Do I leave board meetings feeling unified and prepared to support the

decisions made by the board?

- Do I find serving on the board to be a satisfying and rewarding experience?

### Aligning the assessment with the strategic plan

To really make the board evaluation a valuable tool, tie it directly to the goals and strategies of the organization. In today's climate, members of cooperatives and other nonprofits are seeking greater transparency and want to see evidence that board members are behaving professionally. A board evaluation tied to the strategic plan demonstrates that professionalism and accountability.

The best time to develop this assessment is immediately following a strategic planning session. While the planning is fresh, simply ask yourself: "How will we know if we are doing what we anticipated?"

For example, suppose one of your goals is to enhance member relations, and one of your strategies within that

goal is to develop a new, "Members Only" area on your website. In this case, assessment questions might include: "Did the board monitor the progress of and provide support for management in the development of the new website project?" Or, "Have we requested and reviewed reports from management about the use rates and member satisfaction of the new website pages?"

Boards that take the time to develop these strategic questions have the opportunity to measure their progress toward specific plans and goals. The process of self-assessment can result in sharper, more focused board members who are prepared to shape the future of their cooperative. It will also likely improve communication among directors.

### Steps to take

The first step is for the board to reach agreement that it wants to conduct a self-evaluation and that it is

committed to the process. There should be a thorough discussion about the method used and the desired outcome.

The board should establish a time-frame for the process and determine if an outside facilitator will be used. Once the details of the process have been worked out, a questionnaire should be developed and administered.

When everyone has completed the evaluation, someone will gather and analyze the responses. If a facilitator is being used, that person can summarize and analyze the evaluation. Otherwise, consider giving this job to someone trusted and capable to at least summarize the responses.

The next step is to develop a plan of action based on the results of the self-assessment. There is absolutely no reason to devote the time, energy and budget for such a process if nothing ever changes as a result.

Finally, evaluate the evaluation process! The board should learn how to continuously improve this process. ■

**It's Here!**

USDA Rural Development's expanded, updated Directory of Farmer, Rancher and Fishery Cooperatives is now available at no charge. Almost 1,300 farmer-owned marketing, farm supply, service, fishery, and buying cooperatives are listed alphabetically and by state in a large, easy to use format.

Also available online at:  
[www.rurdev.usda.gov/fbs/frubs/sr22.htm](http://www.rurdev.usda.gov/fbs/frubs/sr22.htm)

Email orders to: [cooqinfo@nwd.usda.gov](mailto:cooqinfo@nwd.usda.gov)  
Or fill out the order form below and FAX to: (202) 690-4083  
Please send me \_\_\_\_\_ copies of the Directory of Farmer Cooperatives, SR 22.

Name \_\_\_\_\_  
Address \_\_\_\_\_  
City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_

# Page from the Past

## Revamped member-relations program turns around negativity toward co-op

*Editor's note: this article originally appeared in the September 1971 issue of USDA's "News for Farmer Cooperatives." It was written by E. J. Huenemann, who was then manager of the Farmers Cooperative Society in Garner, Iowa.*



Five years ago, the business climate for the Farmers Cooperative Society at Garner, Iowa, looked like this:

Business volume was down. No growth had been experienced for several years. The board of directors was thinking of eliminating departments showing losses.

Employees showed little enthusiasm. Customer service needed improving. Members did not understand cooperative financing and were not satisfied with patronage refunds. In short, members had lost interest in their cooperative and had little desire to support it.

As the new manager, I questioned what new life could be given to the cooperative. It seemed that before progress could be made, the communications gap had to be narrowed.

The immediate goal was to set up a program that would result in well informed directors, employees, and members working together for the common good of the cooperative. To attain this goal, we decided to hold three report-to-owner meetings. The board of directors personally invited a group of not more than 50 member-patrons for each meeting.

They proceeded by taking every third name on the membership list. The three meetings were held on successive nights. The local banker and other community leaders also were invited.

We picked a time after harvest, in mid-November, when members were least busy. The dinner meetings were held at a local cafe.

### Support hinges on understanding co-op

Our uppermost purposes were to improve members' understanding of their co-op; to convince them why they should be loyal supporters; and to show them that by working together each individual would profit. Topics included: the purpose of co-ops; aims and purposes of the Garner co-op; credit and credit terms; building programs; products and services available; revolvment policy; marketing activities; sales and savings; changes in member equity and new programs.

These informational meetings preceded producer meetings by about 60 days.

Our first informational meetings four years ago were so successful that we've made them an annual affair. The board and management have learned that the meetings are particularly useful whenever major expansion is being considered. Members have ample time to express their opinions before a final decision is made.

Members often convince each other of the need, and thus a given project receives fuller member support. An example was the decision to build an additional 170,000 bushels of storage two years ago.

### Communications gap closed

We believe the meetings are largely responsible for closing the communications gap. Both employees and members are more loyal. New

projects have been executed with strong support, because members had a part in making the decisions.

Most important, members have begun to feel that the cooperative is their business, and that they do have a voice in its management.

The board has been able to make wiser decisions, based upon members' desires and needs. Management has found that less time is spent explaining board decisions, because members have been aware of actions that were going to be taken.

Garner now has a stronger cooperative.

We've gained 75 new members, and — considering the declining number of farmers — that's doing pretty well. Total membership is now about 700. Volume has increased more than 100 percent in the past four years since the meetings were started.

From the increase in sales, the Farmers Cooperative Society has been able to pay out in cash one year's deferred patronage each year. New facilities and equipment have been added to provide better service.

These member informational meetings have been one of the best member relations programs we've had. We're firm believers that it is dangerous to allow current, every day business activities to be the only member informational program.

Now that we've informed the membership about the value of the cooperative, now that employee and member enthusiasm is stirred . . . what do we talk about? This year we talked about the progress the cooperative had made in the past five years. ■

# No Co-op is an Island



Shouldn't your members know what's happening out there?

Steer them to USDA's *Rural Cooperatives* magazine – now in its 75th year of helping build stronger co-ops. Each bi-monthly issue is packed with information on successful and innovative cooperatives. Simply post a link to the magazine on your home page: [www.rurdev.usda.gov/rbs/pub/openmag.htm](http://www.rurdev.usda.gov/rbs/pub/openmag.htm). We'll even send you a clickable miniature magazine cover. For an electronic subscription, visit: [www.rdlist.sc.egov.usda.gov](http://www.rdlist.sc.egov.usda.gov).

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