Bringing home California's billion-pound baby

page 8
Editor’s note: as part of an interview with Blue Diamond Almond Growers leaders that appears on page 8 of this issue, Rural Cooperatives asked whether there had been any ramifications at Blue Diamond when one of its sister tree-nut co-ops voted about two years ago to convert to an investor-owned corporation. The answer of Board Chairman Clinton Shick deserves special attention, and is printed below.

As a former member of the walnut cooperative that converted — and one who continues to grow walnuts (as well as almonds) — it remains unclear whether the conversion helps the walnut industry long term. If anything, it confirmed in my mind that I am on the Blue Diamond board to serve in a way that benefits all growers in the almond industry.

Still, the conversion required us to evaluate their action as a significant event in the co-op world. Blue Diamond didn’t get to be the world’s largest almond processor and marketer over night. We’ve been working at it for 96 years, and the success we may enjoy today is made possible by standing on the shoulders of a lot of folks who worked hard way before us.

As a director of a cooperative, the lure of short-term gains that may be possible because of preceding, long-term endeavors is seductive and tempting. But what about the future stability of an industry that has been served well by the cooperative business model?

At Blue Diamond, we think the cooperative business model, when properly managed, can continue to serve not just today’s member-owners, but those who will follow after us.

At a recent Young Co-op Leaders meeting, I made the comment that, in and of itself, there is nothing special about a cooperative. But when you have the right management with a long-term outlook, and you have an engaged board, and you have the best people in every discipline, some magic happens. When you enjoy success, all the benefits flow directly through to the member-owners.

In the walnut co-op’s case, there have been short-term benefits in the form of a payout for selling the co-op’s facilities and brand. But at what long-term cost? Have future growers been placed at a disadvantage because of this action? The business is now owned by stockholders whose economic motivation may be sharply divergent from the growers’ interests. The “rest of the story” is still to be written, and who can say how it will turn out?

But for Blue Diamond, it has caused our members to reaffirm their support of the cooperative business model that is focused on building strong markets with profitable returns to members. We believe we have proven, and can continue, to be highly successful conducting business as a cooperative in which all members are treated fairly and equitably over the long term.

When I started growing almonds, there were about 300,000 acres of almonds in California. Today, there are 680,000 acres, and California dominates the world almond market with an 80-per cent share. I simply do not believe that this type of sustained industry growth would have been possible without the presence of a grower-owned cooperative leading the industry in so many crucial ways, from processing to marketing. These gains have resulted in large part from growers working together in a cooperative for their common good and the good of the industry.

— Clinton Shick, Chairman
Blue Diamond Growers
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On the Cover:
Almonds are swept into windrows for harvest. The U.S. almond industry now produces more than 1 billion pounds annually. Blue Diamond Growers officers discuss marketing and other challenges associated with industry growth, beginning on page 8. Photo courtesy Blue Diamond Growers
he farming and food industry in England is currently going through a period of fundamental change. It is widely believed that the recent reform of the Common Agricultural Policy (CAP), particularly the decoupling of subsidy support from production, will increase the scope for farmers to become more flexible in what they produce.

These changing dynamics represent both opportunities and challenges for farmers as they alter production in response to market forces rather than subsidy payments. They must ensure that they meet the needs of their customers in the supply chain in order to compete successfully in the global food economy.

Collaboration provides a means for farmers to achieve this: by farmers working with one another to gain economies of scale in purchasing of inputs, in production or marketing of products, or by collaborating with their suppliers and customers in the supply chain to enable farmers to deliver a cost-effective, professional service to their customers.

However, the farming industry in England is behind the game in collaboration. For a range of historical reasons— including previous trading relationships, differing support structures and land laws and a political focus on the consumer—collaboration among farmers has not developed in England to the extent it has in some areas of Europe and North America.

Changing of the Guard

Market changes lead to higher level of farmer collaboration in England

By Charlotte Lee-Woolf
Research Associate, EFFP Ltd.

Grainfarmers PLC is the largest farmer-owned grain-marketing company in the United Kingdom, with an estimated 20 percent of the nation’s grain volume. Members’ crop is processed into bread and other wheat-based foods. Photo Courtesy Grainfarmers PLC
The total output of farmer-controlled businesses (or FCBs, which are collaborative initiatives often referred to as cooperatives) in England is at some £4.7 billion, or roughly 35 percent of gross agricultural output. By contrast, in Denmark and Sweden farmer-controlled business is double that of their agricultural industries.

English Farming & Food Partnerships (EFFP) is a membership organization with an industry mission to strengthen the profitability, competitiveness and sustainability of England’s farming, food and related farm-based businesses through collaboration. EFFP’s work is funded through a variety of sources, including the public sector, membership fees and commercial income, and any trading surpluses are reinvested to further develop our mission within the farming and food industry.

EFFP aims to make collaboration work through the growth of market-focused and professionally run FCBs and by developing cooperation and partnership activities not only among farmers, but also between farmers and the supply chain. EFFP offers a comprehensive range of services to help make this happen. These include help with collaborative supply-chain development, business start-up, business development, corporate governance services, performance management, director development, finance and communications.

The following examples illustrate some of the ways partnership activities among farmers result in a more effective and efficient supply chain. In each case, collaboration has a different role in improving the competitiveness of the farm businesses involved, including collaborative purchasing of inputs, farm production, storage and processing and marketing of outputs.

They demonstrate the importance of collaboration in creating a vibrant and profitable farming and food industry in England and reinforce the need for farmers to develop understanding of the market they are producing for, act upon opportunities identified, reduce unnecessary costs and add value to production.

**Achieving production efficiencies**

Brixworth Farming Co. was established in 2000 by a group of neighboring farmers wishing to collaborate with each other at the production level to reduce overhead costs and improve profitability in an increasingly challenging trading environment. This joint venture business now farms 4,000 acres and is able to reduce operating costs by 25 percent, or £40/acre, by pooling resources.

The group is also able to purchase inputs more cheaply due to its collective bargaining power. In addition, the partnership offers additional spare management time for the group to explore other business opportunities or interests.

The key to the success of the partnership is that all collaborating farmers share the same vision for the joint venture and have compatible business objectives. Consequently, combined lateral thinking among the farmer members has improved profitability of their farm businesses.
Sourcing of inputs

Woldmarsh Producers Ltd. was founded in the 1960s by a group of farmers who believed they were paying too much for their inputs. By aggregating their input demand and employing professional buyers they not only have managed to significantly reduce their input costs, but have saved time in the buying process and administration.

The company has grown to reach an annual business volume of more than £46 million and has over 600 members. This growth has been helped by a cellular structure, whereby Woldmarsh negotiates input prices for its members through a central buying team, while maintaining a high level of communication with its members through local groups across the region. The dedicated central-buying team has built close supplier relationships and is able to maximize cost savings to members.

Members buy as much as 95 percent of their production supplies through Woldmarsh. This loyalty is a result of the prices the company is able to negotiate, but also the large range of services offered to its members.

Woldmarsh Producers is based upon a simple but effective business model. Attention to detail and a constant desire to improve its service for its members is the key to success.

Storage and processing of outputs

Grainfarmers PLC stores and conditions grain on behalf of its members and is now the largest farmer-owned, arable and grain-marketing company in the United Kingdom, with an estimated 20 percent of the grain market volume. Grainfarmers recognizes two key “customer” groups: its members and its customers. For members, the company has focused on cutting out costs in the supply chain, minimizing risk and developing guaranteed markets for its grain. For its customers (e.g., major end-use flour millers, feed compounders and crushers), Grainfarmers has focused on reducing costs in the supply chain and meeting specific end-user product requirements.

During 2002, the company entered into a period of disinvestment, acquisitions and joint ventures to strengthen and expand its grain-trading business. The joint venture formed between Grainfarmers and United Agri-Products (UAP) during this time provides the company with access into national seed, fertilizer and agro-chemical supply capabilities and is seen as a key area of development going forward. Subsequently, in October 2005, Grainfarmers bought out the UAP share of the joint venture agreement to further strengthen its position in this area.

The forging of long-term supply partnerships has added value for both growers and end users, supported by the provision of an appropriate level of investment in logistical infrastructure and robust quality-control and food-safety systems.

Marketing of outputs

Long Clawson Dairy is a marketing
FCB, which adds value by processing and marketing milk produced by its members. It provides an excellent example of how farmers can collaborate to add value to their products, secure routes to market and create new economic opportunities by being better placed to provide the volumes, quality and consistency of supply required by customers.

Long Clawson Dairy was founded in 1911 when 11 farmers formed a cooperative to produce Stilton cheese in the village of Long Clawson in Leicestershire. Today, Clawson is the largest independent producer of Stilton, making around 3,400 tons a year with a turnover of over £31 million in 2004. About 85 percent of its milk comes from dairy farmer shareholders, the majority of whom are within 15 miles of Long Clawson. Long Clawson is run on a commercial basis; the benefit to the farmer is focused on enhanced dividends rather than the milk price.

A major development for Clawson in the mid-1970s was the move from Stilton production into specialty cheeses. This move followed recognition that it needed to diversify into more value-added products for its growth and development. Since then, a significant level of investment has been made in research and development, so that Clawson now has a portfolio of more than 50 blended-cheese products, which account for around 40 percent of turnover.

Clawson’s clear focus on its consumers—the retailers—has allowed the cooperative to outperform industry trends, taking a larger share of both the Stilton and blended-cheese sectors. Furthermore, Clawson has expanded its markets by becoming involved in two initiatives to develop its export market in both Europe and the United States.

Long Clawson dairy is acutely aware of the need for investment in the business, particularly in research and development of new products. In July of this year, a new dairy and innovation center was opened. The new dairy will significantly increase output and will also help accommodate increased demand during seasonal peaks. The automation of many processes in the dairy will improve efficiencies and product quality and consistency, and the new innovation center will allow Long Clawson to respond effectively to their customers’ requirements.

Editor’s note: for more information about EFFP, the services it offers or the businesses featured in this article, visit its web site: www.effp.com, or contact it via e-mail: info@effp.com, or call (+ 44) 02027 2130430.
n the mid-1980s, Blue Diamond Growers ran a series of humorous TV commercials, showing co-op growers buried up to their waists in almonds, asking Americans to buy “a can a week, that’s all we ask.” In those years, the U.S. almond industry (then as now, virtually 100-percent California based) was producing around 400 million pounds of nuts in a typical year.

If those same commercials were filmed today, the growers would be buried up to their necks, as the California crop now tips the scales at more than 1 billion pounds in a typical year. The co-op anticipates a 30-percent increase in bearing acreage by 2010 and that crops will then top 1.5 billion pounds.

In the history of specialty crops, few, if any, can match this success. In 1950, U.S. production of 50 million pounds represented just 17 percent of the world market, while Spain commanded more than 75 percent of the market. Today, that picture has been turned on its head. California’s slice of the world almond market is now 80 percent. Yet the market has not been glutted, and crop prices remain strong.

How have they done it?

On the production side, the gains are not only the result of new orchard
plantings (statewide acreage now totals 680,000 acres), but through continual advances in the art and science of farming. More sophisticated fertility and irrigation technology and practices are playing a big part. So are new orchard-planting strategies, which involve various combinations of almond tree varieties (there are dozens) and planting patterns (there are hundreds) that increase the odds of a successful crop set during the crucial spring pollination season. Orchard pollination is a science unto itself, involving close teamwork with the honey-bee industry.

Of course, none of this industry growth would have been possible without parallel advances in almond processing and marketing, where for 96 years Blue Diamond and its more than 3,000 grower-members have been the industry leader in developing new almond products and opening domestic and international markets. From its own brand of almond snack and cooking nuts, to the dozens of different sliced, diced and slivered almonds and almond pastes developed in its own research and test kitchens, Blue Diamond has proven that there are limitless ways to improve all foods with almonds. The co-op works closely with major food companies that produce pastry, candy, ice cream, breakfast cereal, marzipan, frozen foods and vegetables, breads, salads and other foods.

Rural Cooperatives recently spoke with Blue Diamond President and CEO Doug Youngdahl, Board Chairman Clinton Shick, and long-time Public Affairs Director Susan Brauner about the role the co-op plays in ensuring the continued success of its member-growers.

**Question:** How has the almond industry sustained such dramatic growth without glutting the market? With even bigger crops to come, where will they all be sold?

**Doug Youngdahl:** Demand has actually out-paced supply. Although prices are cyclical, the overall trend has been sufficiently profitable to support and encourage increased almond plantings. We’ve expanded markets around the world and now sell in 95 countries. In the United States, where about 30 percent of each crop is consumed, we’ve seen annual per capita consumption rise from around three-fourths of a pound to one pound.

The marketing challenge involves a combination of making gains in mature, well-established markets and opening new markets in developing countries where the standard of living is rising. The biggest growth opportunities today are probably China and the rest of Asia. We’ve made significant gains—especially this year in China, a market of 1.3 billion people where we’ve only had a real presence for about five years. India is a market of another 1 billion people, and more of them now recognize that almonds are a delicious source of protein and 21 vitamins and minerals.

**Q. Where are the major almond-production growth areas?**

**Clinton Shick:** There has been huge growth in Kern County [the Bakersfield area] and along the west side of the Central Valley in Fresno and Kings counties. Growth is being fueled by both new, ‘high-octane’ orchard plantings and conversion of other tree and row crops into almonds. We used to think a ton of almonds per acre was nirvana, but now 3,000-pound yields are produced regularly, and some orchards produce 4,000 pounds per acre. We are just much more productive with our land.

**Q. How have Blue Diamond members fared during this period of growth?**

**Youngdahl:** During the past five years, Blue Diamond returns to our growers have increased each year—on a per pound basis, compared to the prior year—by 26 percent, then by 35 percent, then 43 percent and now 27 percent. What is particularly amazing about this recent trend is that the increases have occurred over the four largest crops in California almond history.

**Q. Internationally, who are your major competitors today?**

**Youngdahl:** Spain ranks second. Ironically, it is also our largest export market. They have equipment in place to process almonds and have found that our California almonds are actually easier to process than their own. So Spain re-exports a lot of what they buy from us. Spain has the necessary Mediterranean climate and a lot of acres to cultivate, but water is the limit-
ing factor. Australia, which currently produces around 45 million pounds, is expanding and hopes to double its production in about five years, which would give it about the same size crop as Spain.

Q. What’s been the impact of the strong euro vs. the U.S. dollar on your sales in Europe? Did the creation of the euro make business transactions a little simpler for you?

Youngdahl: The strength of the euro has helped us in Western Europe, our largest market, because they can afford to buy more almonds. But currency rates go in cycles. People often ask what happens when the dollar gains strength again. I like to point out that fastest market growth rate is in the U.S., where consumers obviously are paying in U.S. dollars.

Fortunately, we have always sold internationally in U.S. dollars, so the euro has had no real impact on our sales transactions there. However, it has made it easier for some of our European customers to buy from us and then move almonds around by trading with a uniform currency.

Shick: We’ve had a pretty stable, cheap dollar for a number of years, and it’s played a big part in avoiding a supply/demand problem. I can remember back in the 1980s and early 90s when it was the other way around, and it really fouled up our ability to market overseas. So we really put a premium on trying to develop as much domestic business as we can, because changes in the dollar value vs. international currencies do not affect us here. One day the exchange rate may not be as favorable for exporters, so you can’t get lulled into false sense of security. You need to plan accordingly.

Q. Any key international trade issues facing BD?

Youngdahl: We work closely with our government trade representatives to open markets around the world for California almonds, and we very much appreciate the good work they have done in the trade arena. Blue Diamond has always supported free-trade agreements for almonds throughout the world, whether via bilateral or multilateral agreements. In addition, the Market Access Program has been another key enabler supporting the expansion of the almond industry in export markets over the years.

Q. Doug, you’ve been the CEO there now for five years. What was the biggest challenge facing you when you came on board, and what changes did you implement? What’s on top of your “to do” list right now?

Youngdahl: When I became CEO, the biggest challenge was an almond market price that was near or below the cost of production for our members. In addition, our Blue Diamond return was not viewed as competitive with others in our industry.

Working with our board of directors, we began in 2001 to hold annual joint strategic planning sessions between our board of directors and key management.

Through this transparent strategic planning process, we define, review and agree upon clear strategies for the future. During the last five years, we have redefined our culture around the business maxim: “Good planning is a prerequisite for good execution on the way to desirable results.”

Without spelling out all of the changes, the results of this approach have been highly successful. Blue Diamond member-returns have been...
among the best in the industry, our operations have become leaner and more efficient, our customer relationships have been further enhanced and strengthened, and our balance sheet is stronger.

We are now preparing for our next strategic planning session. In this session, we are looking out over a 10-year planning horizon to ensure Blue Diamond is properly positioned to meet the challenges and the golden opportunity that is sure to come with the larger almond crops forecasted.

Q. Any crucial factors for successful strategic planning?

Shick: One reason it has worked for us has been the transparency of the process. When these efforts don’t work, it’s often because board and management don’t have a relationship of trust that allows for open and honest dialog. Doug has been very open, and the meetings have been transparent. Not everything that is said gets implemented, but the process puts issues on the table that we can talk about openly and honestly. It’s really a good thing from both sides of the equation: the farmer/producer side and the marketing/processing side. It is helping us get to where we need to go.

Brauner: In preparation for the next session, management is already reviewing our progress last year and drafting new targets. When we meet with the board in April, we will strategize off-site for three days. We’ll get a clear picture of where we are and where we need to go.

Youngdahl: These six sessions so far have provided a perfect opportunity for board and management to reflect how the company is performing within our industry for our members. Are we achieving our mission and vision? Are we doing the job we need to do in the short term, and what do we need to do to prepare our organization for the long term, in five and 10 years? It’s been a key part of our success.

Q. Clinton, you’ve been vice chairman for 17 years while Howard Isom served as chairman. He was well respected not only by the members and the industry, but by co-ops nationally. What do you think his greatest talent as chairman was?

Shick: All Blue Diamond board members, whether owners of small or large operations, are successful businessmen. In addition to his almond ranch, Howard has a very successful certified public accounting (CPA) business in Chico, Calif. Most people point to his financial skills and acumen as his greatest contribution to our board. While important, I really think that was secondary. Because of his CPA work with many types of businesses through the years, he could see which practices work and which don’t. He would never mention business clients by name, but he obviously gleaned an enormous amount of experience and insight from them, and that influenced the mindset he brought to our board room. So I would say his greatest contribution was bringing to the table successful business practices and ideas. He was sharp enough to apply those practices to the almond industry.

Q. What is your basic philosophy of being a successful director?

Shick: First and foremost: you hire the very best CEO you can find, and we’ve done that. You hire good people, you establish expectations, and then you hold them accountable to hit the targets the board sets. You evaluate openly and honestly.

Directors need to stay out of the operational issues as much as possible. Farmers tend to be very operations oriented, and it’s real easy for them to get into the nuts and bolts of how a business runs. I am going to try to resist that tendency. Instead, we will sit down with Doug and his management team and set realistic goals every year, then we as directors will concentrate on monitoring and evaluating the co-op’s real performance against those goals. That is the critical role of the board.

It is vitally important that we take a long-term view in managing our company’s capital. For a time, I think we were playing it too close to the vest when it came to moving into new technologies that could help us. We’ve changed course there and are now staying more on the cutting edge of technology additions to our processes. We realize that to maintain an industry leadership position, we must be a low-cost producer.

Q. A sensitive issue for many co-ops is that they feel they pay most of the bill to open markets, and then their com-
Free-riders are a fact of life whenever you are a market leader. While you may pay the price of admission to open markets, you do not own them. You have to repeatedly earn market share to keep it.

Youngdahl: Free-riders are a fact of life whenever you are a market leader. While you may pay the price of admission to open markets, you do not own them. You have to repeatedly earn market share to keep it.

Shick: A rising tide lifts all boats. If you are the biggest and smartest force in the industry, it is just your lot in life. To help ourselves as Blue Diamond members, we know we will be helping the industry as a whole, but that is a good thing.

Q. Does the existence of the Almond Board of California help ensure that all pay a share for marketing and promotion?

Youngdahl: Blue Diamond was a key supporter for the creation of the Almond Board of California under a federal marketing order in 1950. Today, a three-cent per pound assessment exists on all California almond production, which is collected by almond handlers and paid to the Almond Board. This revenue supports a collective investment in our industry’s future, primarily to increase consumer global awareness of California almonds. The process is working, and it is partially offsetting the “free-rider” syndrome.

Q. There’s been a lot of good news on the health front for tree nuts and almonds. Is that playing a part in surging demand?

Youngdahl: Absolutely. There has been a lot of good news about almond nutrition and the related favorable health benefits. Scientific evidence continues to mount suggesting that a regular diet of almonds may help maintain healthy hearts, reduce weight, prevent diabetes, fight arthritis, inhibit tumor cell growth and may even help lower the risk of Alzheimer’s. The International Tree Nut Council’s Nutrition, Research and Education Foundation, which I chair, has invested in new science and research, resulting in the Food and Drug Administration’s approval of a health claim for almonds and other tree nuts. Additional research, plus investments by the Almond Board, has brought forth some really exciting science, and more studies are underway to support the health benefits.

Brauner: Just 10 years ago, none of the nine world tree nut industries were talking to each other. They viewed each other only as competitors. Through the International Tree Nut Council, they came together in California to figure out ways to increase consumption of all tree nuts. We pooled funds to get solid nutrition research done. We got our qualified health claim from FDA, and that is a key success story for the entire world tree nut industry.

Q. What are the major ways in which Blue Diamond adds value to its members’ crop? What new products look promising?

Youngdahl: We add value by creating and expanding global market opportunities and then by capturing the highest margin product market segments for our members. We sell to the most refined processed-ingredient industrial customers and to the less defined commodity market customers.

Our Blue Diamond retail branded business is in one of our fastest growing market segments. Gross sales have tripled in the last five years and will double again before the end of the decade. New products, like our Bold line of wasabi and soy flavored almonds and jalapeno smokehouse almonds, have added excitement to the snack nut aisle. Nut Thins and Almond Breeze have achieved great success within the Natural Foods category. These successes are stimulating more new and exciting products that will be introduced to markets later this year.

Shick: I can’t emphasize enough how our brand separates us from the pack. Even beyond our retail-branded sales, owning an internationally recognized brand helps us in making sales to industrial and food service buyers.

Youngdahl: With big crop increases coming in the next decade, we need to
insulate ourselves as much as possible for what could be a significant price adjustment. Part of the way we do that is to grow our consumer-branded business.

Q. How do you ensure a flow of qualified new directors for the board?

Brauner: About 11 years ago, we started a young leader program based on the Land O'Lakes program. Dan Cummings, our newest board member, and I spent three or four days at their annual meeting, learning about their young leader program. Our program has been very successful for us, with three of our nine directors having come up through the program, and several more on our statewide Grower Liaison Committee.

Shick: Continuing education for sitting directors is also very important. The National Council of Farmer Cooperatives (NCFC) plays a big role there. We try to get a majority of our board members to the director workshops NCFC holds at its annual meeting. We’ve had some very good ‘take-home’ from those sessions and from comparing notes with other co-op directors from across the country. We get challenged in our thinking, and it exposes us to the ways other co-ops are doing things in other places. You get a broader perspective.

Q. You also have to market the co-op to keep and attract members. How competitive is the almond industry in California?

Youngdahl: The California almond industry is very competitive. There are over 110 California almond handlers. Essentially, very large growers who market their own crop are our principle competition. Some of them—including the No. 2 handler—also deliver to Blue Diamond. They understand that supporting the industry leader raises the tide for all in the industry.

Youngdahl: We introduced a volume premium two years ago, which is paid in volume increments—the greater the volume, the higher the premium, up to six cents per pound. Yes, this premium is working to retain and attract larger volume growers to Blue Diamond. Overall, Blue Diamond’s premium program is the benchmark for our industry.

Shick: It’s also been a good thing from the huller-sheller point of view. Blue Diamond receives product either in boxes or in bulk truck loads, the latter being where volume premiums are earned. I’m also a member of a co-op sheller, so that program has caused us to put more emphasis on planning our runs so that we get more product into bulk deliveries to qualify for those premiums. It’s been good for Blue Diamond and has helped us at the huller-sheller level to become more efficient.

Q. Volume incentives for members always seem to be a controversial issue with co-ops, but they seem to be getting more common. Are you offering them, and if so, have they helped keep larger growers in the co-op?

Youngdahl: Blue Diamond offers members health insurance, workers’ compensation, and other benefits. The volume premiums are an added benefit that helps keep larger growers in the co-op.

Q. Any new member services being offered or contemplated?

Youngdahl: Blue Diamond offers members health insurance, workers’ compensation, and other benefits. The volume premiums are an added benefit that helps keep larger growers in the co-op.

A vase from classical Greece shows an almond harvest.
Ohio tree farmers’ cooperative seeks better markets, prices for ‘King of Pines’

By Ashley Lykins
Ohio Cooperative Development Center

S
unlight filters through a southeastern Ohio forest near Amesville as Pete Woyar stops his pick-up truck alongside a gravel road. Pointing to some tree farms, he explains that these stands of white pine belong to members of the Ohio Premium Pine Cooperative (OPPC), based in McConnelsville.

“We’re a group of landowners who thought that by banding together we could more effectively market pine,” explains Woyar, a forester and secretary for the cooperative.
Pine trees are actively marketed, Woyar explains, but it is a relatively low-value market in which most of the trees are used for wood pulp. Many of these pines, however, yield good lumber and with a better marketing effort can net higher value when sold as material for furniture, wainscot siding, log homes and timber frames. That desire is what led to the formation of OPPC.

“We thought we could exert a little more marketing leverage [as a co-op] because together we have a greater amount of pine to work with,” Woyar says.

Marketing the king

The late Harold Jeffers, who founded Jeffers Tree Farm, played a key role in the formation of the co-op in 2000. He moved to the area in 1948, buying a farm near Chesterville, and soon began planting pine trees. In 2003, Jeffers was inducted into the Ohio Department of Natural Resources Hall of Fame—the only tree farmer ever so recognized. Today, Jeffers’ son, Jim, controls the 3,200-acre farm, and he still plants pine trees.

“White pine is a historically important wood in the development of the United States,” says Jim Jeffers. “We’re a little farther south of its [normal] range, but it seems to have good growth and not a lot of disease problems. It’s a majestic tree. It’s not just any pine tree: it’s the king of pines.”

The elder Jeffers worked his large pine acreage intensively, thinning and pruning to build strong stands, says Woyar. “The farm had really grown to a pretty good size,” he says. “But he wasn’t satisfied with selling the pine as a low-value product to be ground into wood chips.”

Jeffers brought Woyar into the picture because “there is a difference between an industrial forester and a land-management forester,” according to Woyar. “I’m an industrial forester,” he says. “I’m the timber beast. They are landowners and growers of timber, and most don’t understand the mechanics of the market. That’s why they brought me in.”

Additionally, Woyar says he knows the technical side of logging, how to restore a site and how to supervise logging contractors.

Meetings lead to co-op

After he became involved, Woyar, a retired forestry instructor from Hocking College, met with a group of tree farmers interested in forming a co-op.

Meetings were held, at which Woyar urged the growers to “be realistic,” stressing that some of the trees were not fit for anything other than wood pulp. However, for many of their trees, he said better markets could be developed.

At that point, the group enlisted help from others, including The Ohio Cooperative Development Center (OCDC) and USDA Rural Development. “They were very helpful,” Woyar says. “We were told how to establish a set of bylaws, how to define ourselves as a business and how to set ourselves up as a co-op.”

Acting as a “motivator” for the future co-op, Ron Miller, forestry industry specialist at the Ohio State University South Centers in Piketon, Ohio, had originally met with a group of people involved with forestry in 1993.

“We discussed issues associated with white pine, and it led to a couple of marketing projects,” Miller says. “This allowed the transition for white pine growers to form a co-op that believed there were more markets for white pine than just paper.”

At that time, “the only choice landowners had was to sell it for paper for a modest payment,” Miller says. “When someone has spent half their life watching the pine grow, that’s disappointing, and the forestry industry’s credibility is at stake.”

Grants spur market work

The cooperative development center gave OPPC a series of “mini-grants.” One was used to take a trip to Wisconsin to visit a pine cooperative (which is no longer in existence). Another was used to develop a brochure as a recruitment tool, while a third helped create the co-op’s logo, letterhead and stationery.

“The center also provided many services, such as creating a mailing list, mailing things for us and helping us establish our base in McConnelsville,” Woyar says.

The cooperative applied for and received a $160,000 Value-Added Producer Grant from USDA Rural Development that was used for a study of the pine market.

“We did a very thorough, 18-month study of pine markets as they existed then,” Woyar says, which helped to identify opportunities for the co-op’s wood.

By 2004, the cooperative had a complete set of bylaws and membership and market agreements and registered as an Ohio cooperative.

The name of the co-op is important, Miller says. “The name conveys that Ohio pine is premium pine,” he explains, adding that trade marking and branding is a key element in business.

In 2004, OPPC began thinning white pine by using contractors with cut-to-length equipment, a new technology for the region that involves delimbing trees and cutting them to length directly at the stump area.

Lumber prices up sharply

OPPC has, according to Woyar, exerted some influence on the stumpage price,
which is now 50 to 100 percent more than when the co-op was established.

Part of that gain is due to an improvement in the overall market, he notes. “But I like to think that part of it has been our marketing effort, too.”

A Canadian company, for example, is offering 20 percent more than market price for the group’s large pine logs, he says. “We’re looking for specialty products for our individual trees,” Woyar says of the co-op’s marketing strategy. “Some people have large trees, and there is a niche market out there for big pine trees.”

Members thoroughly inventory their properties so as to be knowledgeable about what they’ve got to market. The co-op has an extensive list of contacts, who are kept abreast of what OPPC has available. Likewise, those contacts communicate their needs and specifications to the co-op.

A future goal is to add more value to members’ timber by relying less on “spot sales,” and instead hiring a logging contactor to harvest the trees and either market the logs or go into basic manufacturing.

“The way timber is sold, it’s often a once-in-a-lifetime opportunity for many landowners,” explains Woyar. “They make a decision to sell their timber, and they might cut the whole farm. It might be another 30 or 40 years before there can be another timber harvest. We would instead like to cut a little bit, more frequently, so we’re producing timber on a continuing, sustainable basis.”

Not only are the members of OPPC attempting to be “fairly compensated” for their work and material, according to Woyar, but they also want to set an example. “We’re in this to practice good, sustainable forestry. We would like to see the co-op recognized as a dependable supplier of raw materials for local sawmills and others.”

Challenges ahead

There are major challenges facing the co-op, says Woyar. Finding enough cash to run the business is the first. Right now, the co-op is “making a moderate profit,” Woyar says, but not earning enough to hire a full-time manager. To an extent, it is still reliant on grants.

OPPC recently applied for another grant for smaller, lighter logging equipment which would have less impact on the land and allow it to tackle smaller logging jobs. The logging machinery used now is expensive and is geared for harvesting large quantities of 30- to 40-year-old trees. “That’s our biggest hurdle right now: to get smaller logging equipment on land and make it profitable,” says Woyar.

Recruitment of new members and encouraging member involvement is another challenge, he says. The landowners, especially large forest owners, are usually retired, and they often don’t feel “a sense of urgency” about their lumber business. Demographics play a part when an older member dies and the forest land passes to an heir. “You’ve got an older membership and have to face the facts: mortality becomes an issue,” says Woyar.

“There’s a transition. The new generation comes in with a different set of objectives without the benefit of having gone through the formation process of the co-op. A re-education and training process takes place to bring them on and keep the co-op going,” Woyar says.

The bright side of the transition is that a new perspective can be found with the new members, which include lawyers, doctors, computer programmers and bankers. “It’s a different perspective.”

“There should be a plan for succession,” Miller says. “The next generation comes into the co-op, and they need to get in tune with it.”

Jim Jeffers says he would like to see more members in OPPC. “I think if it’s going to have an economic impact of any significance, it needs to have a lot more members,” says Jeffers, a lawyer in California who has spent considerable time in Ohio since taking over the tree farm. The emphasis, he says, should be to join the co-op and learn how to make the forest healthier.

“There ought to be more emphasis on accelerating growth and making trees less disease-prone,” Jeffers adds. Approximately a third of the family’s tree farm is enrolled in the cooperative. Members sign a marketing agreement, which grants marketing rights to the landowner’s pine to the cooperative.

Inpiring other forest co-ops

“OPPC is truly people getting together to cooperate to make a better situation,” Woyar says. “[Members] are willing to take some money from a sale and put it into a pot to benefit all the members, and that’s what differentiates a co-op from other businesses.”

Miller says he thinks that if OPPC flourishes, there is potential for more forestry cooperatives, including hardwood co-ops.

Establishing a cooperative is a long and slow process, says Woyar. “It takes a lot of work and a lot of talking. You’re not going to sit down and in two days have a co-op.”

A second piece of advice Woyar offers is to seek help from a cooperative development center, the local chamber of commerce and USDA. “They all have talents and skills, and they all have mandates to assist these types of businesses. Avail yourself of all the help that is out there.”

For more information, contact Woyar at 740-664-2475 or pwoyar@verizon.net.
Welch’s Daniel Dillon swaps crops, but stays in agriculture

By Patricia Daughrity

Editor’s note: Daughrity is a freelance writer and a member of National Grape Cooperative/Welch’s, who lives in Ripley, New York.

With his retirement in November, Welch’s CEO Daniel Dillon gave up purple grapes, but not agriculture. Dillon, 61, and wife Sherry are now growing “baby” gourmet vegetables on their 32-acre farm near Sudbury, Mass. Their spread is comprised of equal parts of managed forest, open pasture and fresh vegetables.

The farm was founded by Thomas Bent, who began farming it in the 18th century. It was later taken over by John Stone and held in his family for five generations. To honor its heritage, the Dillons have named the operation Bent-Stone Farm.

Dillon is building a 900-square-foot greenhouse for his specialty-crop hobby farm. Baby cucumbers with delicate blooms, heirloom tomatoes and ultra-ruby crystal lettuce will be some of his initial crops. He plans to sell the vegetable gems to area restaurants, which will use them for unique garnishes. Not entirely done with fruit, he plans on converting the pastureland to fruit trees, and, of course, grapes.

Turbulent days for juice industry

The tranquility of Bent-Stone Farm contrasts with the turbulence of the overall juice industry as it struggles to halt declining consumption. The juice-grape market has been particularly turbulent, leading to some speculation that this may have caused Dillon to retire sooner than planned.

Not so, says Dillon, noting that he informed his board three years ago that he would retire before he turned 62. “Working with the board, we had a well-thought-out succession plan. I was clear that I didn’t want to hang around after I announced I was leaving – particularly when my successor was an internal candidate.” (David Lukiewski, senior vice president of sales and marketing, was named the new CEO in late October.) Dillon, who had been with Welch’s since 1982, says his time there constituted “a most enjoyable career.” Enjoyable, but volatile.

Enjoyable, because Dillon is credited with restoring the company’s competitiveness and building demand for the products of Welch’s, which is the processing and marketing arm of the National Grape Cooperative. Twenty-five years ago, Welch’s was a $200-million-per-year business on the downturn. Today, it does $600 million in annual sales and is owner of one of the most respected food brands in the world.

“In the early 1980s, we seriously considered not accepting more than 225,000 tons [of grapes] because we did not have demand for more than that. In 2006, we received over 400,000 tons and our members were not ‘inconvenienced’ in the least in implementing that accomplishment,” Dillon recalls. “Welch’s has provided a secure market for our members’ quality grapes. We are fulfilling our mission better than at any time in our past.”

Volatile, because low-carbohydrate diets and escalating input costs have combined to create a severe market dip for the “grape-juice rollercoaster.” These pressures were made worse with a bumper crop of sour grapes delivered in fall 2003.

The cumulative result was an estimated 20 percent customer drop-off. The co-op is still in the recovery mode. “Today we can look back at over $70 million in cost increases in three short years.” Because of challenges posed by the 2003 crop and declines in juice category sales, it was obvious that Welch’s

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From ethanol to methane, agriculture is playing a significant role in addressing today’s energy issues. The 9th annual Farmer Cooperative Conference, held in Minneapolis in November, addressed the tremendous opportunities—and challenges—that exist for farmer cooperatives in the rapidly developing field of bio-energy and other renewable energy resources. The conference—sponsored by the University of Wisconsin Center for Cooperatives (UWCC)—attracted more than 150 U.S. and Canadian co-op leaders.

As energy prices and policy interact with the resources and needs of agriculture, the shifting biofuels industry is presenting new opportunities for cooperatives to deliver benefits to producers. Speakers stressed that cooperatives are uniquely positioned to provide an infrastructure for many facets of the biofuels industry and for the development of the environmental offsets market.

Opportunities for traditional marketing and supply services will continue, while new opportunities for cooperatives will develop in response to innovations in renewable energy.

New Farm Bill likely to increase support for energy

Will there be significant changes in the 2007 Farm Bill, and what kind of challenges and opportunities will be created for farmer cooperatives? Terry Barr, economist for the National Council of Farmer Cooperatives, tackled that question, although he noted that many specifics are still lacking.
While bio-energy priorities are influencing Farm Bill legislation, many energy policy issues—such as ethanol imports—are controlled by non-agricultural legislative committees. It is important not to lose sight of the fundamental programs that have been part of the Farm Bill, Barr stressed.

The Farm Bill will be influenced by a broad range of factors, including the federal budget, the Doha trade talks and the general political climate. Battles over discretionary spending may be exacerbated by concerns about federal debt, he said. Any resumptions of the Doha Round of trade negotiations will involve difficult tradeoffs between domestic supports and market access for imports, and are expected to work against the status quo.

Barr noted that the last three Farm Bills have been written in election years. Because the margin of control of Congress is now so close, it will more difficult to move through any legislation in 2007. Positioning for the 2008 elections and budget concerns will influence legislation more strongly than policy issues.

The Farm Bill also affects a wide variety of other non-producer groups that are often at odds with current farm policy. Most farm groups favor a one-year extension of the existing Farm Bill, with the exception of corn and specialty groups, Barr said.

Any significant shifts of funding in a new Farm Bill will alter the business risks and incentives for farmers and cooperatives. Co-ops will have expanded opportunities in marketing and risk management if new revenue stabilization programs replace the marketing loan and counter-cyclical programs and shift more risk to the farmer.

Co-ops need to “follow the money” and develop the appropriate delivery mechanisms for new environmental programs, Barr urged. The ability of co-ops to aggregate the efforts of smaller producers allows co-ops to document environmental compliance and conservation practices needed to establish tradable offsets, and to participate in the development of markets that buy and sell environmental credits.

Most of the significant initiatives for biofuels are outside the jurisdiction of the agricultural legislative committees, but Barr said that significant incentives for cooperatives to participate in the biofuels industry may be part of the next generation of energy legislation.

Biofuel policies no substitute for commodity programs

Randall Fortenbery, Agribusiness Professor at the University of Wisconsin-Madison, described the recent activity in biofuels as being driven by four different concerns: the need to reduce dependence on imported oil; an interest in the potential environmental benefits; a way to increase demand for agricultural commodities and as a catalyst for rural economic development. Fortenbery took a critical look at how effectively current biofuels policy addresses these issues.

Current public policy includes both consumption mandates and production incentives, influencing both demand and supply in the biofuels market. But public policies will not change the fact that the United States will continue to be dependent on oil imports for decades, given current and projected energy consumption levels.

Neither can biofuels public policies substitute for commodity programs to enhance farm income. Ethanol prices are driven by the price of gas, not corn, and ethanol plant investments should not be seen as a hedge on corn crops, Fortenbery said. The U.S. soon will face global competition from countries such as Brazil, which will require technology rather than low commodity prices to be used as a competitive advantage.

Fortenbery also reviewed the type of economic benefits that a new biofuels plant are thought to create. He pointed out that economic impact estimates often use overly optimistic multipliers that generate unrealistic bumps in income, sales, jobs and tax revenues. Support for the public policy that is critical to the growth of the U.S. biofuels industry can only be maintained if it is based on credible, realistic assumptions and goals that do not overstate the possible benefits, he stressed.

Other industry challenges include expanding the transportation infrastructure that is required to support it. Service providers need to be part of facility planning from the start.

As biofuels production continues to increase, so will the volume of distillers-grain byproducts. The byproducts markets are crucial to production facility profitability, but as production volume increases, new markets will need to be developed to counterbalance the downward pressure on prices.

CHS, Growmark, others expanding biofuel efforts

Don Olson, senior vice president of refined fuels for CHS
Inc., presented a model for co-op involvement in the renewable fuels industry, based on CHS’ energy-sector business. Under the Cenex brand, CHS sells refined fuels, propane and lubricant oil and has moved into the logistics and marketing aspects of ethanol and biodiesel production.

At present, 98 percent of the ethanol is produced in the Corn Belt. In five years, it is expected that this figure will be 80 percent. Transporting biofuels to the population centers on the coasts, where competitive products from China and Brazil are also imported, remains a challenge, Olson noted.

Government mandates are needed to promote expanded E85 use, which will be critical to absorbing new ethanol capacity. Cenex already retails E85 in some locations and is well positioned to more broadly distribute it as part of its fuel products mix.

To supply its biofuels delivery system, CHS also has a 25.6 percent ownership stake in U.S. BioEnergy, which has ethanol plants both under construction and in production. The two companies have formed a joint venture, Provista, which wholesales ethanol and biodiesel. CHS plans to have 1 billion gallons of ethanol under contract by 2009 in both U.S. BioEnergy and outside ethanol plants, and plans to develop a larger presence in biodiesel marketing.

Steve Barwick, vice president for sales and marketing at Growmark, said that the co-op’s energy division is its largest division. It has interests in several other energy-related ventures. Barwick sees cooperative opportunities on several fronts. Increased ethanol production will drive demand for products and services that co-ops are well positioned to meet: farm inputs for increased corn acreage; grain storage; agronomic services; and the aggregating, shipping and storage related to transportation of fuels and grain. Longer term possibilities include expansion of the market for dry distillers grain (DDG).

Gary Haer, vice president of sales and marketing for Renewable Energy Group (REG), discussed biodiesel project development. REG grew out of West Central Cooperative’s involvement in biodiesel, and offers construction, production, management and marketing services for biodiesel projects. Transportation, logistics and coordination with distribution systems are critical to a project’s success.

To avoid setbacks in growth, the industry must address product-quality issues that have resulted from investment in projects oriented towards quick returns, he noted.

Hurdles facing the industry were discussed, including how to handle ethanol trading credits, developing markets for the growing DDG supply and the entry of the petroleum industry into bioenergy. The grassroots structure of cooperatives can be the basis of the infrastructure that is critical to biofuel ventures. Co-op members were early adopters of biodiesel and continue to be a prime market for the product, as well as providers of capital, Haer said.

Co-ops also can represent farmers in the public arena, and have lobbied for tax credits related to biofuels that benefit them.

**Financing co-op energy opportunities**

Tom Houser, vice president for CoBank’s Commercial Agribusiness Division, provided an overview of the risks currently associated with ethanol. CoBank has been a lender to the ethanol and biodiesel industries since 1992, and its biofuels commitments presently total more than $700 million, primarily in ethanol. The growth of the industry has attracted many investors, and startup capital for new plants has recently been readily available. He cautioned that the ethanol industry is a function of supply and demand for oil, and that ethanol is simply a blend component for gasoline at this time.

Houser said if crude prices fall back to $40-plus per barrel, the economics of ethanol drastically change, although the renewable fuel standard does provide a floor for the industry. Volatility will exist in the market as the margin trade-offs between price increases for corn, natural gas and ethanol work through the system. Many of the project forecasts do not take into account debt and depreciation.

The saturation of the DDG market will also need to be addressed, he said. However, the current legislative landscape is favorable to ethanol, and technology continues to improve, Houser added.

Paul Harrison, president of Western Wisconsin Financing co-op energy opportunities
Renewable Energy Cooperative, discussed how the co-op financed its new ethanol plant. A goal of the project was to benefit the farmer-producer, so the cooperative structure was adopted.

State and federal grants were important in the early development stages of the project. The board invested the time to go through each step of the business start-up process thoroughly. Harrison credited the process as having created a project that could attract both producer and outside investors.

Robert Hensley, attorney with Dorsey & Whitney, noted that most biofuel projects are organized as LLCs, requiring a 30–40 percent equity investment. The cost of ethanol plants has skyrocketed, and the backlog of contracts with reputable builders has meant that upfront letters of intent are part of any feasibility assessment.

He cautioned against giving too much equity to outside investors, which tend to be fee-oriented and only interested in a quick return. Another pitfall has been a tendency to underestimate project costs.

Mark Hanson, attorney with Lindquist & Vennum, discussed co-op participation in biofuels projects where both producers and investors are members. For a project to be successful, participants must bring an advantage in feedstock costs, process costs or marketing to the project.

Hanson sees the biggest asset that producer co-ops bring to biofuels projects as the ability to aggregate and store grain. Cooperative participants in biofuels projects have not sufficiently focused on producer exit strategies (which help producers maintain liquidity) and share valuation, which takes into account the “enterprise value,” or start-up risk, that early investors incur.

—By Lynn Pitman

significant percentage of his co-op’s total savings this year is from ethanol. MaxYield’s area of influence is north-central Iowa. Given its location and amount of grain handled, the co-op had already evaluated many biofuel options when it decided to invest in an ethanol plant project in 2002.

At this time, it appears that the co-op made the correct decision to participate in the ethanol project, but the situation could very well change, he noted. Annis expects corn supplies to tighten as investment in new ethanol projects continues in markets already saturated. Co-ops have an edge in sourcing grain in these situations because they are willing to work with small producers, know the product and are familiar with the issues that producers face.

Randall Doyal, CEO of Al-Corn Clean Fuel, pointed out that with the development of the biofuels sector, there is no longer a separation between the cost of feedstock and the value of the final product. This has had the effect of removing barriers for outside investors to invest in ethanol plants.

To meet the challenges from consolidation and from foreign competition, vertical integration with local co-ops is a possibility.

Local elevators have relationships with growers and the knowledge of grain origination that ethanol plants lack, but they will need to shift their perspective to build on these advantages.

Lionel La Belle, president of the Saskatchewan Ethanol Development Council (SEDC), said that while Canada is energy independent, its agricultural situation is similar to that of the United States. There are currently about 101 biofuels plants in operation in western Canada, 48 of which are producer-owned. Another 40 plants are under construction or are being significantly expanded. The Canadian federal government’s Ethanol Expansion Program (EEP) has faltered, and five of the 11 planned ethanol plants are in limbo, he noted.

La Belle sees the development of the Canadian ethanol industry as an essential part of the solution to the problem of falling wheat prices in western Canada. La Belle looks to the federal government to support the development of the industry by setting national renewable fuel standards, supporting rural-based ownership, and promoting a national perspective so that investment in ethanol capacity can occur where biomass feedstock is abundant.

Wind, methane, switchgrass & sugar

Ron Schwartau, director of the Minnesota Rural Electric Association, described the challenges in meeting President Bush’s 2006 State of the Union goal of generating 20 percent of U.S. electricity through wind. A backlog of orders for new wind turbines, increased costs and grid interconnection are all issues confronting the wind industry. Some of these problems may be mitigated by newer designs, and cooperative wind farms may be able to offer the economies of scale that make wind power more feasible.

Dave Malmskog, director of economic analysis for American Crystal Sugar Co., said that under current prices and credits, U.S. sugar feedstock is too costly to be economically viable for ethanol production. Brazil’s success using sugar cane for ethanol is based on low feedstock costs, national support programs and low environmental standards.

Michael Gratz, president of NewBio E Systems, discussed on-site anaerobic digesters to process organic waste into methane gas, using waste solids as land applications, landfill or as animal feed. Economic feasibility of this process hinges on savings in waste disposal costs, current energy costs and energy value of the methane, and whether the processes are eligible for renewable energy or emissions trading credits.

Bill Belden, project manager for Chariton Valley Biomass Project, said the recently completed co-fire test campaigns for switchgrass were not profitable. However, government

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Editor's note: Livingston is a freelance writer based in Maine with extensive experience writing about cooperatives across the United States, residents of many rural towns have to travel 20 miles or more to buy underwear, jeans, sneakers, a toaster, towels or an inexpensive watch. Their locally owned department stores closed years ago, unable to compete with chain stores. Then, many of the chains faltered and faded as out-migration cut the customer base while regional “big-box” superstores kept pulling people farther away from home town Main Streets.

In other cases, communities with no place left to buy everyday clothing and small appliances have tried to attract a big-box retail store to locate in their town, but lack the population base to lure one. This was the case in Powell, Wyo. With a population of 5,500, the community—located 20 miles north of Cody, Wyo., and 90 miles south of Billings, Mont.—simply did not offer the economy of scale sought by a big-box retail chain.

Sharon Earhart, director of the Powell Chamber of Commerce, can laugh now as she remembers the situation. "I'm so glad that when we asked the big stores to come open up in our town, they said, 'Are you kidding? Get a life.' So we did! And a much better one. I'm grateful to them that they all said no, or we never would have started down the road of this great adventure."

Powell takes the plunge
That adventure began five years ago, when some local business people and other Powell residents incorporated as The Mercantile and began selling $500 shares in the company to their neighbors. Within months, they had raised $400,000 in start-up capital.

They opened the door of their new store in the summer of 2002. Community response was enthusiastic. Residents with special expertise stepped forward to help when asked. "Nobody ever turned us down," Earhart says. They were fortunate to have a retired department store buyer and manager, Mike Reile, in their midst. His willingness to work pro bono until the company was formed enabled them to move ahead and begin buying inventory sooner than they had planned to do.

"He's very bold," she says. "You have to be that way because the rag industry is tough and very fickle. You can't let your feelings get hurt, or buy just what you like."

The three or four potential competitors already established in Powell were very supportive of this sort of commercial cooperation. When one of Powell’s two car dealers closed, the remaining dealer was the strongest advocate for attracting another one. "His business fell off because people perceived that without competition the prices would go up. When the original dealer who'd closed re-opened, both businesses did better right away."

Earhart says people come from as far as Billings, Mont., a city of 95,000 people nearly 100 miles away. "All the malls are like cookie cutters, they all sell the same thing," she explains. "Here, you don't know what you're going to find, but it will be something you won't find at the mall. People like that."

Five consecutive profitable years
A good merchandise buyer is key to a store’s success, Earhart stresses. Powell was prepared to mount a national search until they found Mike Reile. But, she adds, a community may not have to look that far. While meeting with a group in Upstate New York, a steering committee member recalled that her employer’s wife was a buyer. "When the idea gets to the point where it becomes real and people see its validity," she notes, "people step forward."

And step forward they did, in Powell. Within months of selling the first $500 shares to local residents in early 2002, The Mercantile raised $400,000 in start-up capital. They opened the door of their new store that summer. They have had five straight profitable years,
and in 2006 they purchased the store next door in order to double their size. "We've become a tourist destination, who'd have thought it!" Earhart exclaims.

Similar efforts have started in a number of rural communities in Wyoming and Montana, and are now sprouting in the Northeast. One of the first towns to take a hard look at community ownership of a retail department store is Greenfield, Mass. A group of Greenfield citizens have been pursuing the idea of starting such a store for two years. This past November, in partnership with the Cooperative Development Institute (CDI), they invited Earhart to share her town's story. As of this writing, they were awaiting state approval to launch their stock sale.

Co-op oriented town

Greenfield has more than three times the population of Powell, but—sitting halfway between the thriving communities of Northampton-Amherst, Mass., and the popular tourist destination of Brattleboro, Vt.—competition for retail dollars is fierce. There's even a department store on Main Street already, but it deals mostly in more upscale, pricier products.

Greenfield also has certain advantages. It is the county seat of rural Franklin County and received national attention about 12 years ago when it mounted a successful referendum campaign that prevented a big-box chain store from opening there. Three years ago when an Ames department store chain store closed, the strong undercurrent of loyalty to local businesses remained undiminished.

Despite Greenfield Mayor Christine Forgey openly courting a big-box store, the "buy local" sentiment keeps growing, as witnessed by the farmers markets and community-supported farmers' associations that dot the county. The town supports several thriving retail grocery stores that include—in addition to a multinational-owned chain store—a well-established, family-owned store and Green Fields Market, a natural products cooperative on Main Street owned by its 1,400 consumer-members.

There's also a Greenfield Co-op Bank, a farmers' cooperative exchange, several worker-owned co-ops and some cooperative housing in this town. So when the idea of a community-owned, retail department store began to surface in Greenfield, many people were quick to see the possibilities.

Seminar plants seed

The idea for a community-owned store was planted when Bob Rottenberg, a local business development consultant, attended a cooperative-business-development training institute in 2003, where a Montana retail store was presented as a case study. The training was conducted by CooperationWorks!, a national network of cooperative development centers. Rottenberg was on the staff of CDI at the time. CDI, the Northeast region's development center for cooperative enterprise, is a founding member of CooperationWorks!

So it was only natural that when a local resident came to Rottenberg and asked what could be done to prevent the big-box stores from becoming established in their town, he suggested they look into a group-based business.

A small group of active citizens began working together. The group included a couple of city council members, the executive director of the county community development corporation, a bank president, a carpenter, an insurance adjuster, a filmmaker and one clothing retailer.

"Most of us were not experienced in the retail business, and none of us had ever been involved in selling stock," Rottenberg notes. But they had been unsuccessful in attracting private entrepreneurs who might back their endeavor, so they were faced with creating their own business.

The first step was to review the options for incorporation. While many were drawn to the co-op model, the steering committee ultimately chose the community ownership path. Their reasoning, after many hours of discussion and a considerable amount of research, was that they needed to acquire start-up capital within a set timeframe to get the business off the ground.

Establishing the appropriate price for a share was a challenge. The "one member, one vote" principle of cooperatives was seen as too restrictive, because group members felt they would need many people to buy more than one share.

As a compromise, shares were priced at $100, but were initially offered only in blocks of five. Initial investors can buy between $500 and $10,000 worth of stock. If, and when, enough equity is raised to open the store, they hope to offer individual shares of stock, instead of a five-share minimum investment. In the meantime, the group is exploring ways that local banks might use the Community Reinvestment Act to set up low-interest loans or outright grants to help less-affluent residents become co-owners of Greenfield Mercantile.

Most dollars leave town

The Mercantile business plan lays out key market numbers: of the $50 million local residents spend on these types of retail items every year, $40 mil-

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The U.S. tobacco program was successful for more than 60 years in creating a stable market that returned untold millions of dollars from the golden-leaf cash crop to rural producers and communities. The tobacco program helped balance supply with demand each year under a system that involved growers owning or leasing “quota shares” to produce tobacco, much of which they sold at auction through cooperative-owned warehouses.

But the industry has been rocked by seismic changes in the past decade, during which domestic tobacco production has steadily declined as health-conscious consumers have increasingly turned away from cigarette smoking. In 1995, U.S. tobacco growers produced about 1.2 billion pounds of tobacco. By 2005, production was down to about 647 million pounds. At the same time, competition from foreign tobacco producers has become much stiffer. Today, the United States ranks fourth in production, behind China, Brazil and India.

The “tobacco buyout program” of 2004 ended the nation’s traditional tobacco program, creating even more changes. The dust has now begun to settle somewhat from that change.

By Anne Todd
USDA Rural Development

Turning Over a New Leaf
in the industry’s foundation. Despite what some thought, the industry—while changed—appears likely to survive. Indeed, it even shows signs of rebounding in many areas, according to Burley Tobacco Growers Cooperative Association (BTGCA) President Roger Quarles, who says progress in developing new overseas markets—including China—offers much promise for U.S. producers.

**Early burley co-op history**

The original Burley Tobacco Growers Cooperative was formed in 1921 by a group of tobacco growers to address the problem of volatile and low prices. The co-op signed a five-year contract with more than 75 percent of the growers in a five-state area—Kentucky, Indiana, Ohio, West Virginia and Missouri—who agreed to deliver their tobacco to the co-op. It purchased or leased 124 out of 130 warehouses in the area, contracted and purchased re-drying plants and built storage facilities.

The first few years for the co-op were successful, resulting in the handling of more than 940 million pounds of tobacco. But, at the same time, problems arose because of breaches of contract and because there was no limit on sales.

The first five-year contracts ended in 1926. At the time, membership was 106,000, but interest faded and no new contracts were signed. The existing co-op members kept going, working on various issues and making efforts to reorganize their marketing arrangements, but none of their efforts were successful until the new agricultural policies of the 1930s began to emerge.

**Onset of price supports**

The Agricultural Adjustment Act of 1938 established the tobacco price-support system. The system allowed for a guaranteed price for the product in exchange for the control of supply. Before then, tobacco farmers faced difficult conditions. The price for tobacco was set by the tobacco companies and farmers were at their mercy; tobacco sold for only pennies per pound.

Civic leaders and others saw the plight of the tobacco farmer and did something about it. Around 1941, BTGCA was asked, and agreed, to help administer the federal price-support program. For unsold leaf tobaccos, the program relied on farmer-owned tobacco co-ops, like BTGCA, to manage “pools” of leaf tobacco passed over at auction.

At auctions, if the tobacco companies didn’t bid for a pile of tobacco for at least one cent more than the price support, the farmer received an advance, non-recourse loan from the co-op or pool.

The financing for the purchase was obtained by borrowing funds from the Commodity Credit Corporation (CCC). The CCC, in turn, borrowed money from the U.S. Treasury. Since the 1930s, tobacco co-ops have borrowed and repaid with interest over $10 billion in CCC loans.

**Foreign competition changes picture**

Under the program, BTGCA would borrow money from USDA, process, store and sell tobacco. Subsequently, it would repay the loans.

This system was successful when the United States had the dominant share of the world market. But the system resulted in higher prices each year, which allowed foreign producers to steadily gain in production until the
program was no longer effective. Congress determined that the solution was to eliminate the non-value-added cost of leasing and get production rights into the hands of growers.

In October 2004, the “American Jobs Creation Act of 2004,” which included provisions for “Fair and Equitable Tobacco Reform,” was signed into law by President Bush. The law marked the end of the federal tobacco marketing quota and price support loan programs. The legislation included a Tobacco Transition Payment Program (TTPP)—also known as the “Tobacco Buyout”—to make payments to tobacco quota holders and growers (beginning in 2005 and ending in 2014) to help them with the transition to the free market. It was felt that the buyout was the only solution that would accomplish the goals of eliminating the non-value-added cost of leasing while also providing necessary compensation to both tobacco quota holders and growers.

Beginning with the 2005 tobacco crop season, there were no planting restrictions, no marketing cards and no price-support loans. The deadline for tobacco growers to sign up for the TTPP was June 17, 2005.

Burley Co-op in post-buyout arena

Today, BTGCA continues to represent tobacco growers in the same five-state region. Membership is offered to anyone who is sharing the risk of producing burley tobacco in the five states and who certifies to BTGCA that they are producing at least 500 pounds of burley during the current crop year. Additionally, producers eligible under

Rolling with the Punches

*Flue-Cured Tobacco Growers Co-op developing own products*

In 2002, with the Federal Tobacco Program soon to end, leaders of the Flue-Cured Tobacco Cooperative in Raleigh, N.C., knew that the co-op would have to radically shift gears to remain viable. For some time, direct contracts between the tobacco companies and growers had been threatening the traditional tobacco auction system which, in turn, was adversely affecting price supports.

The co-op would have to make the transition from its traditional role as a price-support program administrator and embark on a new role as a value-added marketing and sales cooperative operating on the free market.

In anticipation of the end of the price-support and quota program, the co-op began exploring new business opportunities to help its members stay in production. One area investigated was the feasibility of manufacturing its own brand of cigarettes.

**Co-op purchases state-of-the-art factory**

In July 2004, just three months before legislation was passed that ended the Federal Tobacco Program, the Flue-Cured Tobacco Cooperative purchased Vector Tobacco, a processing and cigarette manufacturing facility in Timberlake, N.C. Next, the co-op created a new subsidiary organization to operate the facility: the U.S. Flue-Cured Tobacco Growers Inc., and also renamed the facility for the subsidiary.

The Timberlake plant is the first ever of its kind: the only grower-owned cigarette manufacturing facility in the United States. Located off U.S. Highway 501 about 20 miles north of Durham, the state-of-the-art, 350,000-square-foot plant threshes, expands stems, toasts burley, cuts tobacco and manufactures cigarettes, all in one location.

Tobacco products available through the Timberlake facility include cut-rag blended and flavored tobacco products made to customers’ specifications. Annually, the facility can process up to 15,000 metric tons of tobacco strips and produce 10 billion cigarettes.

“We now have the facility to produce several value-added tobacco prod-
the association’s 2002-2004 bylaws, and whose name appears on USDA lists of burley growers for the 2002-2004 crop years, are also eligible for membership. According to BTGCA President Roger Quarles, when the tobacco buy-out was authorized, many growers used the opportunity to exit production (they were paid for their tobacco quota), but the reforms allowed other growers to expand production. BTGCA records show that, on average, in the post-price-support era, the trend is toward fewer, larger farms. However, thousands of small family-sized farms remain, where tobacco best suits the limited tillable land available to them.

Many farms with less than 10 acres of tobacco production are staying in the business, using family labor. But mid-sized tobacco farms (10-50 acres) are becoming less prevalent. Due to the large amount of labor required to harvest tobacco, most farms are staying small enough to use family labor or getting large enough to hire a significant number of migrant workers to support production.

According to BTGCA President Albert Johnson, “That translates to more income opportunities for members in the future.” The ability to manufacture products has already created growth opportunities for the Flue-Cured Tobacco Cooperative. The co-op currently makes cigarettes and small cigars under contract with a number of companies. The cooperative is also working on the product design that will lead to its own cigarette product, marketed under its own brand. The co-op has hired a marketing firm to help with product positioning, sales and distribution, and is testing a variety of blends through consumer focus groups to determine which one appeals most to consumers.

Serving growers for 60 years

For almost 60 years, the Flue-Cured Tobacco Cooperative has been providing consumers with premium U.S. flue-cured tobacco. Established in 1946 just after the end of World War II, the then-Flue-Cured Tobacco Cooperative Stabilization Corporation was started by tobacco farmers in Georgia, North Carolina, South Carolina and Virginia to administer the federal tobacco price-support program and sell members’ tobacco to global buyers. In 1967, the co-op purchased the Brown Tobacco Co. in Fuquay Varina, N.C., to provide re-drying and storage for growers. The facility and storage operation were subsequently renamed Tobacco Growers Services Inc.

In 2001, because of the threats to the auction and price support systems, the co-op started two marketing centers as a pilot program to see if these efforts would benefit their farmer-members. The pilot was so successful that, by the end of 2001, the program was expanded to include 14 marketing centers. For the 2006 crop year, there were 11 marketing centers.

After the federal program ended, the co-op revised its name and became the Flue-Cured Tobacco Cooperative. Today, the co-op has 3,500 active members and, as of late fall 2006, the processing facility was working 24 hours a day, 7 days a week to process the 2006 crop. Co-op members are celebrating the end of quotas limiting the tobacco acreage they can plant and looking forward to new markets and future opportunities for their crop.

To learn more about the Flue-Cured Tobacco Cooperative, visit http://www.fctcsc.com.

In 2005, more than 90 percent of U.S. burley tobacco was purchased from farmers through direct contracts with four tobacco companies (significant consolidation of the tobacco companies has occurred in recent years). However, 15 tobacco auction warehouses in the “burley-belt” still hosted auction sales last year.

BTGCA participated in those 2005 auction sales and purchased tobacco for export customers.

“The presence of an alternative market offers growers something to fall back on, and the BTGCA’s involvement as a buyer adds competition to the marketplace,” says Quarles. “While this alternative market is a small part of the total market, having one more purchaser of burley tobacco is good for all growers.”

In 2005, about 6.1 million pounds of burley tobacco were sold at auction. About 3.9 million pounds were sold for an average of $157.06 per hundredweight (CWT) in markets in which BTGCA participated.

Sales in the other markets averaged $153.98 per CWT.

BTGCA also purchased 2005 crop-year tobacco in an effort to provide a reserve of burley to use in promotion and expansion of export markets. BTGCA has worked to develop new export opportunities for burley growers for many years.

Production and labor concerns

According to Quarles, many tobacco growers are looking to expand production, but are constrained by a farm-labor shortage facing much of U.S. agriculture. There are simply not enough U.S. workers willing to do the hard work needed on a tobacco farm, he says.

An average tobacco farmer must hire 150 hours of labor to produce one acre. “Since it is impossible for tobacco growers to find sufficient local labor to meet their needs, most of this work must be done by migrant workers,” Quarles says.

continued on page 38
To demonstrate the importance of cooperatives in today’s global economy, the International Co-operative Alliance (ICA) initiated the Global 300 project—a listing of the world’s 300 largest cooperatives. ICA believes that cooperatives are not as visible in the global economy as are for-profit businesses. It was felt a Global 300 list would help clarify just how vital cooperatives are to the global economy.

Through the hard work of many cooperators around the world, the Global 300 was released on Oct. 25. The full list of cooperatives and mutuals, as some user-owned businesses are called, can be found at the Web site: www.global300.coop.

The International Co-operative Alliance is the independent, nongovernmental association that unites, represents and serves co-ops worldwide. Founded in 1895, the ICA has 230 member organizations from 92 countries active in all sectors of the economy. Together, these co-ops represent more than 800 million people worldwide.
### World’s Top 25 Cooperatives

<table>
<thead>
<tr>
<th>Name</th>
<th>Type</th>
<th>Country</th>
<th>Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. ZEN-NOH</strong></td>
<td>Food and Agriculture</td>
<td>Japan</td>
<td>$53,898</td>
</tr>
<tr>
<td><strong>2. Zenkyoren</strong></td>
<td>Insurance</td>
<td>Japan</td>
<td>$46,680</td>
</tr>
<tr>
<td><strong>3. Crédit Agricole Group</strong></td>
<td>Finance</td>
<td>France</td>
<td>$32,914</td>
</tr>
<tr>
<td><strong>5. National Agricultural Cooperative Federation</strong></td>
<td>Food and Agriculture</td>
<td>Korea</td>
<td>$22,669</td>
</tr>
<tr>
<td><strong>6. Groupama</strong></td>
<td>Insurance</td>
<td>France</td>
<td>$21,651</td>
</tr>
<tr>
<td><strong>7. Migros</strong></td>
<td>Retail</td>
<td>Switzerland</td>
<td>$17,779</td>
</tr>
<tr>
<td><strong>8. The Co-operative Group</strong></td>
<td>Retail</td>
<td>U.K.</td>
<td>$16,556</td>
</tr>
<tr>
<td><strong>9. Edeka Zentrale AG</strong></td>
<td>Retail</td>
<td>Germany</td>
<td>$15,986</td>
</tr>
<tr>
<td><strong>10. Mondragon Corp.</strong></td>
<td>Materials</td>
<td>Spain</td>
<td>$14,155</td>
</tr>
<tr>
<td><strong>11. Rabobank Group</strong></td>
<td>Finance</td>
<td>Netherlands</td>
<td>$13,608</td>
</tr>
<tr>
<td><strong>12. UNIPOL</strong></td>
<td>Finance</td>
<td>Italy</td>
<td>$12,386</td>
</tr>
<tr>
<td><strong>13. Co-op Swiss</strong></td>
<td>Retail</td>
<td>Switzerland</td>
<td>$12,371</td>
</tr>
<tr>
<td><strong>14. Groupe Caisse D’Epargne</strong></td>
<td>Banking</td>
<td>France</td>
<td>$12,143</td>
</tr>
<tr>
<td><strong>15. Co-op Norden</strong></td>
<td>Retail</td>
<td>Denmark, Norway, Sweden</td>
<td>$11,968</td>
</tr>
<tr>
<td><strong>16. Confédération Nationale du Crédit Mutuel</strong></td>
<td>Banking</td>
<td>France</td>
<td>$11,848</td>
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<tr>
<td><strong>17. Metsäliitto</strong></td>
<td>Food and Agriculture</td>
<td>Finland</td>
<td>$11,636</td>
</tr>
<tr>
<td><strong>18. R+V Versicherung AG</strong></td>
<td>Insurance</td>
<td>Germany</td>
<td>$11,240</td>
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<tr>
<td><strong>19. CHS, Inc.</strong></td>
<td>Food and Agriculture</td>
<td>U.S.</td>
<td>$10,980</td>
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<tr>
<td><strong>20. The Norinchukin Bank Group</strong></td>
<td>Banking</td>
<td>Japan</td>
<td>$10,643</td>
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<tr>
<td><strong>21. Groupe Banques Populaires</strong></td>
<td>Finance</td>
<td>France</td>
<td>$10,348</td>
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<tr>
<td><strong>22. Dairy Farmers of America</strong></td>
<td>Food and Agriculture</td>
<td>U.S.</td>
<td>$8,936</td>
</tr>
<tr>
<td><strong>23. Zenrosai</strong></td>
<td>Insurance</td>
<td>Japan</td>
<td>$8,932</td>
</tr>
<tr>
<td><strong>24. Fonterra Co-operative Group</strong></td>
<td>Food and Agriculture</td>
<td>New Zealand</td>
<td>$8,354</td>
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<tr>
<td><strong>25. ReWe Group (Zentral-Aktiengesellschaft)</strong></td>
<td>Retail</td>
<td>Germany</td>
<td>$8,307</td>
</tr>
</tbody>
</table>
Global 300 Selection Criteria

Establishing a definition of a cooperative business—one that applies across all countries and business sectors—was somewhat problematic in determining the Global 300. Many cooperatives also use other corporate forms, such as subsidiary company structures in which the co-op may have either total or majority ownership. At what point are some of these related, supporting cooperative business structures no longer really cooperatives?

In order to determine what is, or isn’t, a cooperative or mutual business, a data-validation group was established with the help of the Cooperative Programs staff of USDA Rural Development.

The first test for inclusion was that a business must have a cooperative or mutual character and be recognized as such by its business sector. International Cooperative Association (ICA) members, or members of an ICA-related organization, were placed on the list. Many mutual insurers are members of International Cooperative Mutual Insurance Federation, but are not members of ICA. Regardless, they were eligible for the Global 300.

A business was included if considered a co-op or mutual by its business sector and according to the available business structures in its host nation.

For the next step, the data-validation group looked at the list and determined if inclusions or exclusions should be made from the list for various reasons. It was decided not to limit the list to just cooperatives, because in some countries there is no appropriate legislation for forming cooperatives. In these nations, some businesses that would in other countries be incorporated as cooperatives are instead formed as mutuals.

$1 trillion in revenue

Listed among the Global 300 are some of the world’s largest businesses. The Global 300 co-ops had total revenue of nearly $1 trillion in 2004. If they were a nation, these 300 co-ops would have the 10th largest gross domestic product in the world, ranking just behind Canada.

The United States is home to more of the Global 300 than any other nation, with 62 (or nearly 20 percent of the total list). It is followed by France, with 45, then Germany with 33 and Italy with 28 co-ops on the list. Cooperatives in these four countries represent more than 50 percent of the Global 300.

Japan, however, is home to both the No. 1 and 2 ranked businesses. Topping the Global 300 is Zen-Noh, a national federation of agriculture and food cooperatives that had revenue of $53.8 billion in 2004 (see sidebar). Also included in the Global 300 are: the largest rice miller and marketer in the world; the largest employer in Switzerland; the largest bank in France and the largest food processor in India.

The largest U.S. business on the list is Columbus, Ohio-based Nationwide Mutual Insurance Co. (which is owned by its policy holders), at No. 4, with $23.7 billion in annual revenue. The next highest ranked U.S. cooperative is CHS Inc., a federated agribusiness cooperative, which had sales of $10.9 billion in 2004. The next-ranked U.S. co-ops were DFA at 22, LoL at 28 and Wakefern Foods, a food retailing co-op with $7.1 billion in 2004 sales, at No. 30.

Built to last

Since cooperatives are generally organized for the benefit of members rather than to earn profits for investors, they tend to take a longer term view with respect to their operations. That is not to say that cooperatives don’t look at the bottom line, but rather that they have other objectives that focus more on the long-term survival of the business.

This is illustrated by how long many of these cooperatives have existed. Nearly half of the Global 300 cooperatives were established prior to 1940. Indeed, more than 13 percent were formed prior to the 1900s. That’s right: more than 1 in 10 of the Global 300 cooperatives have been around for more than 100 years. Businesses do not turn the century mark unless they have consistently met a strong need better than their competition.

Three groups or business sectors make up more than 80 percent of the Global 300. These sectors include agriculture, financial institutions (including insurance, banking, credit unions and diversified financial organizations) and retailing/wholesaling businesses.

More than one-third of the Global 300 cooperatives are involved in agriculture. Nearly every country represented in the Global 300 has at least one agriculture cooperative represented in the list of 300 cooperatives.

Financial institutes represented more than a quarter of the total Global 300 cooperatives. However, these cooperatives held the largest amount of assets of any group, controlling more than 45 percent of the Global 300 assets.
Retailing/wholesaling cooperatives represented 31 percent of the total Global 300. More than one half of all these cooperatives are headquartered in three countries: the United States (19.4 percent), Italy (19.4 percent) and France (11.8 percent).

As mentioned earlier, revenue generated by the Global 300 totaled $965 billion. The graph on page 28 illustrates the revenues (in U.S. dollars) of the cooperatives by country. Sixty percent of the total revenues were generated by cooperatives in four countries: France ($174 billion); Japan ($143.6 billion); United States ($133.1 billion); and Germany ($125.6 billion).

One of the main goals of the Global 300 project was to demonstrate the important role cooperatives play in the world market. In that, the project proved to be successful. It is believed that as this project continues, we will find that cooperatives are not “old dinosaurs heading for extinction,” but rather, cooperatives are a vital cog in the global economy.

ZEN-NOH – the National Federation of Agricultural Cooperative Associations – is Japan’s federation of agricultural co-ops and is the largest co-op organization in the world. Of the 3 million farm households in Japan, most belong to one of ZEN-NOH’s 1,010 primary-level co-ops.

The co-op had total sales of $56.3 billion in 2003 and employs about 12,500 people.

In cooperation with Japan’s regional federations and primary-level co-ops, ZEN-NOH serves its member farmers by purchasing and distributing materials and equipment for agricultural production and daily farm needs. ZEN-NOH is equally involved in the collection, distribution and marketing of ag products, which it handles through its own channels. ZEN-NOH works to further develop Japanese agriculture, to improve farm life and to secure reliable food supplies for the nation.

Japan relies heavily on overseas sources for raw materials. To ensure cost-efficient and stable operations, ZEN-NOH imports quality materials for Japanese farmers, including fertilizers, feedstuffs, liquid petroleum gas and oil. Imports for ZEN-NOH from the United States include feed ingredients, feed grains, sulphate of potash magnesia, ammonium phosphate, corrugated-fiber board, soybeans, seeds and sulphate of potash.

Overseas operations range from importing directly from producing countries, establishing procurement subsidiaries and production bases, to chartering ocean-going vessels.

ZEN-NOH was incorporated in March 1972 and includes 1,173 ag co-op members. Of these, 1,010 are primary-level co-ops, 10 are prefectural economic federations of co-ops, 43 are specialized federations of co-ops and 66 are other types of ag federations. There are 44 associate members.

To learn more, ZEN-NOH’s 2004 business profile is available (in English) at: http://www.zennoh.or.jp/ENGLISH/ALA-CALTE/2004/businessprofile.html.
Emerging and mature co-ops have proven invaluable for creating and retaining good jobs. Both can serve as powerful tools to leverage opportunities in tough times and tight industries. Across the country, the cooperative development centers of the Cooperation Works! network are helping working men and women start new cooperative businesses and reshape existing ones, including worker-owned healthcare provider cooperatives.

Northcountry Cooperative Development Fund (NCDF), founded in 1978 in Minneapolis, issues loans to producer, worker and consumer cooperatives in 11 states of the Upper Midwest. NCDF also provides technical assistance, training and advisory services, and is a member of Cooperation Works!

One of NCDF’s recent loan disbursements was to the Circle of Care Cooperative, a home healthcare worker-owned cooperative based in Wisconsin. In addition to the $205,000 loan that enabled it to open for business, NCDF staff also assisted with the co-op’s business plan.

Home healthcare is a low-profile industry, says NCDF Executive Director Margaret Lund, but its potential is sky-high as institutional care costs rise and the population ages. The co-op members form support networks to help one another deal with the challenges of doing some of society’s most important work, work that is too often undervalued. Lund also notes that, as member-owners, “the co-op provides leadership opportunities for these women. The also clients have much more continuity of care because that’s what really matters to the caregivers. So, when they run the agency, that’s naturally a priority.”

Homecare co-op rises to challenge

A major contract fell through just as Circle of Care Cooperative was getting ready to open for business, forcing members to rethink their business strategy in a hurry. They had the help of NCDF staff, which “rolled with the punches” and helped seek a solution. NCDF also offered collective experience, intelligence and a positive attitude for dealing with the situation.

The co-op was also assisted by Margaret Bau, cooperative development specialist with USDA Rural Development in Wisconsin and nationally recognized proponent for, and organizer of, rural worker-owned homecare cooperatives.

Like others, she recognizes that the already huge need for home-based care will only grow, and caregiver co-ops offer a low-equity way to increase and improve services. She and others are looking for ways to overcome obstacles to starting such co-ops.

Challenged industry

“Until recently, I believed that in order to organize a homecare worker co-op, you would need a major contract with a public body (e.g., county or state) and a good relationship with a benevolent public agency,” Bau says. Such co-ops have proven successful in urban settings for many years, such as Cooperative Home Care Associates, based in New York’s Bronx, and Home Care Associates in Philadelphia.

But the upheaval at the Circle of Care forced members to overhaul the
business plan and offer their services to private-pay clients, who are more affluent than the elderly and disabled people covered by Medicare and Medicaid.

Bau explains, “This is an experiment that offers interesting opportunities to the rest of the country. Remember that 50 or 100 years ago, farmer co-op members were not getting advanced degrees and running multimillion-dollar operations. Homecare co-ops are just getting started, and they could use the same kind of help the farmer co-ops received.

“Breaking into the private pay market will require a significant marketing plan,” Bau continues. “This means a larger initial loan. It also means the co-op probably won’t be profitable for two to three years, more like a conventional business start-up. But unlike most businesses, this is a service industry of mostly low-income women, so there isn’t much collateral.”

**Co-op advantages**

Homecare worker co-ops do have some significant market advantages. Because they don’t have to turn profits for investors or pay franchise fees, they can offer workers higher wages, benefits and patronage refunds.

“In the case of the Circle of Care Cooperative,” Bau says, “experienced caregivers are coming out of the woodwork to become members.” They are drawn by wages $2 to $4 per hour higher than local agencies offer, plus health insurance, mileage reimbursements and patronage refunds.

Meanwhile, at five-year-old Cooperative Care in Wautoma, Wis., members have initiated a mentoring program, a self-evaluation process and an ongoing exploration of what it means to be an owner of the business, which serves public-pay clients.

“What I find most telling about them,” observes Bau, “is the number of two-generation memberships they have —there are at least six now. Mothers are encouraging their adult sons and daughters to become member-owners!”

**Guide to go on Web**

The Cooperative Development Foundation in Washington, D.C., recently awarded a $27,800 grant to the regional community action agency, which fostered the development of both caregiver co-ops. A guide of “lessons learned” by the pioneers in rural home-care cooperatives is to be published on the Web.

The guide will pay special attention to replicable aspects of development and those policies each co-ops needs to create “from scratch.” A collection of resources will be made available on the University of Wisconsin’s Center for Cooperatives Web site: www.wisc.edu/uwcc early in 2007.

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**Mississippi produce co-op supplying casino**

Most of Indian Springs Farmers Association market outlets were temporarily shut down in the wake of the 2005 hurricane season. This included a big offshore Gulf Coast gambling casino that had been one of the co-op’s most promising customers. But the business lobby rallied to pass legislation to allow onshore gambling, and by May the casino was rebuilt on land and back in operation. Not long after, the two parties signed a memorandum in which the casino agreed that if Indian Springs produced a food on the casino’s grocery list, the casino would buy all that the co-op could supply of the item.

Indian Springs is one of four cooperatives currently on a fast track for technical assistance from the Mississippi Center for Cooperative Development. Center staff is helping the co-ops concentrate on three niche markets: casinos, schools and farmers markets. Projected outcomes are stated in a strategic plan the co-ops created with the help of the center’s advisory board and the elected board of its parent organization, the Mississippi Association of Cooperatives (MAC).

Goals include having all four co-ops combined hit $1 million in sales by 2011, and for at least one of them to reach the $1 million mark by 2013.

Members see the value in linking to a larger member base, such as MAC, says Melbah Smith, the center’s executive director. Just as the center is a member of the CooperationWorks! national network of co-op development centers, the association itself is a member of the Federation of Southern Cooperatives, which serves mostly black farm families in 10 states and forms a considerable constituency.

In addition to being “solidarity savvy,” one thing these farmers share is vision. “Co-ops like Indian Springs are trailblazers,” Smith says. “They are getting out there, opening eyes and ears—and doors. All they need is a little leadership and direction. They can do the rest.”
Web-based calculator helps control animal-housing energy

Agriculture Secretary Mike Johanns in November unveiled a Web-based energy-awareness tool designed to help agricultural producers reduce energy costs related to animal housing. The “Energy Estimator for Animal Housing” evaluates the energy use and costs associated with heating, lighting and ventilating poultry, swine and dairy housing. This is the fourth energy estimator tool USDA has developed as part of its overall energy strategy to reduce the impacts of high energy costs and to help develop long-term solutions for producers.

“A good analysis of the use and costs for heating, lighting and ventilating animal housing contributes to a comprehensive picture of how energy is used on the farm or ranch,” Johanns said. “This tool can result in significant energy and cost savings for producers if they take the appropriate actions.”

Producers with animal-feeding operations can save up to $250 million annually nationwide by regularly maintaining their ventilation and heating systems and using more energy-efficient fixtures and equipment. Individual producers may realize up to 50 percent savings in energy use by maintaining their ventilation and heating equipment regularly.

The energy estimator has three components—one each for poultry, swine and dairy—that operate independently. Producers should use the estimator for guidance rather than as a sole source for decisionmaking. It evaluates alternatives based on producer input, but does not offer site-specific recommendations. It does not estimate the cost of implementing recommended practices.

USDA recommends that producers take their animal housing energy analysis to their local USDA Service Center, Cooperative Extension office or rural electric cooperative for more field-specific assistance. For additional information, visit: http://ahat.sc.egov.usda.gov.

TFC: Animal health ‘in the bag’

Taking its inspiration from ice cream packaging, Tennessee Farmers Cooperative (TFC) has produced and distributed 50,000 insulated bags as part of a campaign to help ensure that animal health products are safely transported from the co-op to the farm. The bags, which are padded and insulated to protect products from light, heat and cold, are being given to farmers when they purchase livestock vaccines and other animal health items requiring refrigeration at co-op stores throughout TFC’s statewide system.

For years, beef-production experts have been preaching the importance of the proper handling of animal health products that require refrigeration. If the medicine gets too cold or warm, its effectiveness can be compromised. The results are huge, industry-wide losses due to vaccine replacement, added veterinary costs and unnecessary tissue damage.

“The beauty of the bag is that it really kills three birds with one stone,” says John Houston, manager of TFC’s Animal Health Department, who coordinated production of the bags. “It is insulated to keep products requiring refrigeration at the proper temperature; it is made of a reflective material that prevents sunlight from reaching the product, which can decrease its effectiveness; and, perhaps most importantly, it has Beef Quality Assurance [BQA] vaccination guidelines printed on the
outside.”

Houston says these guidelines—which include a diagram illustrating the proper injection sites and recommendations on needle size, vaccine and antibiotic storage, and syringe use—will go a long way toward reducing monetary losses attributed to the tissue damage that often results from improper vaccinations.

The idea for the bag originated with Dr. Clyde Lane, a University of Tennessee professor of animal science and state coordinator of Tennessee’s BQA program, who says he was inspired by seeing a customer purchase a gallon of ice cream at a grocery store checkout lane.

**Tennessee Farmers Cooperative has developed insulated bags to help protect livestock vaccines and other temperature-sensitive animal healthcare products.**

**PCCA’s Darneille to lead International Cotton Association**

Plains Cotton Cooperative Association (PCCA) President and CEO Wally Darneille was elected president of the International Cotton Association (ICA) during its annual meeting in Liverpool, England. He is the first American to serve in that position.

“Wally’s term as ICA president in 2006-07 comes at an important time for PCCA and our members,” says PCCA Chairman Eddie Smith, a cotton producer from Floydada, Texas. “His service to the organization will increase the visibility of PCCA and our members’ cotton throughout the world textile industry at a time when the volume of our export sales continues to increase.”

Formerly known as the Liverpool Cotton Association and established more than 160 years ago, ICA represents almost all cotton growing and consuming countries.

Darneille was elected to ICA’s board of directors in 1997 and served as chairman of its rules committee before becoming first vice president in December 2005. About two-thirds of the world’s cotton exports are traded under ICA rules and arbitration, which date back to the dawn of the Industrial Revolution, when Liverpool and Manchester were the center of the world’s cotton trade. The rules provide a framework for contracting and for the resolution of disputes.

ICA also provides testing services and conducts seminars in Liverpool and throughout the world regarding trade rules, practices and new developments.

**Humboldt Creamery launches organic milk**

Humboldt Creamery is launching an organic line of milk. Creamery officials said the cool, coastal valleys where Humboldt Creamery’s dairy farms are located produce lush, fertile pastures where the cows are free to graze year-round in a natural environment ideal for organic milk production.

None of Humboldt Creamery’s member dairies use the growth hormone rBST, and more than half have gone completely organic. “All of our organic dairies have also been ‘Free-Farmed Certified’ by the American Humane Association,” Ralph Giannini, the dairy co-op’s sales manager, told the

**Record sales year for Accelerated Genetics**

Accelerated Genetics Co-op set new sales records in 2006, with sales of $37.4 million, up $3.3 million above the prior year’s record results. At the same time, the cooperative reports that its balance sheet grew in strength and cash-flow improved, allowing the co-op to pay off remaining debt early in the fiscal year.

Semen unit sales exceeded 4 million units, a 7-percent jump. Beef sales also set a record, with domestic sales growth of nearly 16 percent. In addition, farm-product sales remained strong at $8.6 million.

“As the year progressed, challenges arose as a result of declining milk prices,” said Roger Ripley, president and CEO. “However, due to a strong start to the fiscal year, outstanding proofs in all breeds and excitement from developing technologies, we were able to maintain and finish another record year.”

Facility needs have been a priority as part of the cooperative’s long-range planning. During the past year, the co-op’s main production laboratory, in Westby, Wis., was remodeled. Additionally, construction is underway on a semen warehouse and embryo lab, which will be adjacent to “The Palace,” where the co-op’s most popular bulls are housed.

“The need for a new warehouse and lab became evident during this year to accommodate the consistent growth we’ve been experiencing, as well as anticipated growth in this decade,” Ripley said.

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Eureka Reporter. “So organic milk not only gives peace of mind for our consumers, it also means ideal conditions for our dairy cows.”

Humboldt Creamery has been producing organic dairy products for years. The dairy cooperative is the nation’s leading producer of powered organic milk. Its new line of organic ice cream is already on grocery freezer shelves.

Nationally, consumers are embracing organic milk, the sale of which increased 25 percent last year, even as overall milk consumption decreased 8 percent.

Humboldt Creamery is a co-op of 62 member dairies originally formed in 1929.

**Florida’s Natural introduces organic juice products**

Florida’s Natural Growers has launched “Earth’s Own Organics” refrigerated juices. The line of blended, not-from-concentrate juices carries the USDA seal for organic products. The juices are packed using the co-op’s patented, one-liter-quick-chill process, which ensures a long shelf life with the freshest flavor.

“These blended flavors are the first not-from-concentrate refrigerated juices that are also organic with an extended shelf life,” says Walt Lincer, vice president of sales and marketing. Organic products are the fastest growing category in retail grocery.

Flavors available include: orange/mango, orange/peach, apple/peach, apple/cranberry and a 15-percent not-from-concentrate premium lemonade.

Florida’s Natural Growers is comprised of 12 grower organizations representing more than 1,100 individual growers with 60,000 acres of citrus in Florida. The Lake Wales processing facility employs over 700 people and can extract more than 10 million pounds of fruit every 24 hours in peak season.

**Pilgrim’s Pride to pay $1.1 billion for Gold Kist**

Atlanta-based Gold Kist has agreed to a $1.1 billion takeover by Pilgrim’s Pride Corp., according to a December report in the Atlanta Constitution Journal. Gold Kist investors will get $21 a share, $1 per share more than an earlier offer, the companies announced. The deal will create the world’s largest chicken company in terms of production, displacing Tyson Foods.

Pilgrim’s Pride has said previously that it would not close facilities or lay workers off after a merger. Gold Kist’s Chairman A.D. Frazier said in a news release announcing the deal that “after careful consideration” a special committee of independent directors as well as the whole board “determined that the Pilgrim’s Pride enhanced offer is in the best interests of our shareholders, employees, growers and customers. We look forward to working with the Pilgrim’s Pride board and management on a smooth integration, and we recommend that all stockholders embrace this transaction by tendering their shares.”

Gold Kist was once America’s largest poultry co-op, prior to converting to an investor-owned corporation.

**GROWMARK to market BMI soy-based biodiesel**

GROWMARK Inc. has signed an agreement to market the majority of the soy-based biodiesel to be manufactured by BioFuels Manufacturing Illinois (BMI) Inc.’s proposed Peoria, Ill., plant. BMI, a minority-owned company based in Normal, Ill., plans to construct a 45-million-gallon-per-year operation using soybean oil as its primary feedstock.

Capital costs for the facility, which are projected at $35 million, will be financed through equity and debt. Construction is scheduled to be completed in late 2007. At full capacity, BMI will be using the production from nearly 1 million acres of Illinois soybeans annually.

The proposed plant will be located on a 10-acre site in an industrial park just west of Peoria. Initial plans call for the plant to expand to 120 million gallons within five years. GROWMARK’s B100 biodiesel sales increased from 9 million gallons in 2005 to more than 13.5 million gallons in 2006. At a B2 equivalent, this represents nearly 700 million blended gallons.

“The GROWMARK system has been marketing renewable fuels for nearly 30 years, including biodiesel for the past six years,” says Shelly Kruse, GROWMARK Energy Division manager. “This venture reaffirms our commitment to renewable fuels, and helps ensure that we will have a reliable supply of quality biodiesel for our members and partners as we collectively work to meet the growing demand in the marketplace.”

**Iowa, Minn., co-op elevators merging**

Citing higher efficiency and positioning to meet future ethanol grain needs, two North Iowa-based cooperative elevators have merged into a new company called Progressive Ag Cooperative. According to a report in the Mason City Globe Gazette, Northwood Cooperative Elevator, with plants in Carpenter, Iowa, Glenville, Minn., London, Minn. and Myrtle, Minn., officially joined with Farmers Cooperative Co., which has plants in Manly and Grafton, Iowa. Northwood will be headquarters for the company.

Nearly 80 percent of the members approved the merger in a September vote. Osage Cooperative Elevator declined to be part of the merger, with shareholders turning back participation with less than 60 percent approval, according to the Globe Gazette.

The merger affects about 40 employees. No changes in staffing have been announced. The plants store and merchandise grain, offer agronomy services and manufacture fertilizer at the Glenville plant. The merger “helps us with efficiencies, as we face the growth of ethanol plants,” General Manager Warren Fisk said.

**Lukiewski to lead Welch’s**

Welch’s has named David J. Lukiewski to succeed Daniel P. Dillon (see related article, page 17) as its new president and chief executive officer. Lukiewski also succeeds Dillon as one of the two Welch’s executives on the 10-member Welch’s board.

Lukiewski joined Welch’s in 1995 as vice president of sales, a position he
USDA providing $210 million for rural broadband, telecom

Deputy Agriculture Secretary Chuck Conner announced in late October that broadband and telecommunications loans of almost $210 million are being awarded to communications firms in four states. The funds, provided through two USDA Rural Development programs, will allow for the extension of new and improved telecommunications services to more than 40,000 residential and business subscribers.

"Providing state-of-the-art communications service in rural areas not only allows for improved access to educational services, it promotes the development of business ventures and increased job opportunities," said Conner. "This is part of the President’s commitment to make quality communications services available to the residents of rural America."

These loans will be used to:

- Extend telecommunications services to 5,765 new customers in rural New Mexico, most of whom do not have telephone service. The loan to Sacred Wind Communications Inc. of Santa Fe will provide funds to establish a microwave network, install microwave towers and wire the inside of homes for telecommunications service in five counties.

- Enable the Cheyenne River Sioux Tribe Telephone Authority of Eagle Butte, S.D., to provide new and improved service to subscribers in two counties, including connecting 724 new subscribers and deploying 45 miles of new cable.

- Help Southwest Texas Telephone Co. of Rocksprings connect 68 new consumers and deploy 125 miles of cable in six counties.

- Allow Fiber 520-522 LLC, of Salem, Ill., to construct a fiber-to-home broadband system in 12 counties. The system will connect 32,732 residential and 1,494 business subscribers, providing high speed data, video and voice services.

USDA Rural Development’s telecommunications loan program—consisting of hardship, cost-of-money and guaranteed loans—finances voice telephone service. Since 1995, every telephone line this program has constructed has been capable of providing broadband service using digital subscriber loop (DSL) technology. Further information on rural programs is available at: http://www.rurdev.usda.gov.

held until 2000 when he was named senior vice president of sales. In 2003 he was appointed senior vice president of global sales and marketing, the position he held before being named president and CEO. Lukiewski is the 13th president of Welch’s, the world’s leading manufacturer and marketer of Concord and Niagara grape-based products. The company was founded by Dr. Thomas B. Welch in 1869.

During his tenure as senior vice president, Lukiewski led Welch’s corporate domestic sales and marketing and international organizations with responsibility for all customer and consumer activities. He helped to accelerate international market roll-outs in China, Mexico and the United Kingdom while introducing a number of new products and successfully refocusing the company’s marketing efforts on its core business: purple grape juice made from Concord grapes. Those efforts and others have led to a 40-percent increase in sales volume since Lukiewski joined the company in 1995.

Prior to joining Welch’s, Lukiewski held positions at Reckitt & Colman, a manufacturer and marketer of consumer products, and Johnson & Johnson, one of the world’s leading pharmaceutical companies.

He graduated from the University of Scranton (Pa.) with a B.A. degree and received his M.B.A. from the Kotz Graduate School of Management, now affiliated with St. Thomas University in St. Paul., Minn. He is a native of Scranton, Pa., and currently resides in Westford, Mass.

ITC finds dumping injures U.S. lemon juice industry

The U.S. International Trade Commission (ITC) voted unanimously in November to continue an investigation of dumping allegations, by ruling preliminarily that U.S. lemon juice producers have been materially injured by Argentine and Mexican imports. The decision was made in response to a petition filed in September by Sunkist Growers Inc. and supported by Ventura Processing, requesting that anti-dumping duties be levied to offset what some producers consider to be the unfair prices offered by Argentine and Mexican processors in the U.S. market the past three years.

“We are very pleased that all the commissioners voted to move forward with this investigation,” says Tim Lindgren, Sunkist president and CEO. “The U.S. has simply been flooded with unfairly priced juice in recent years, disrupting the market and making it very difficult to earn a reasonable return. A thorough investigation is warranted by both the Trade Commission and the Commerce Department.”

Both the ITC and the U.S. Dept. of Commerce will continue the investigation, with a preliminary determination of dumping scheduled for February 28. If affirmative, this decision may impose an anti-dumping tariff on imports from those countries, which should strengthen the bulk price for juice in the United States. Given the limited volume of lemon juice that is used in making beverages, any additional duty is very unlikely to be felt by the consumer at the checkout counter, but it will help domestic processing remain a viable user of domestic lemons, according to Sunkist.
Billion-Pound Baby continued from page 13

Q. Here’s a situation your field reps probably face: I’m an almond grower, and a small packer down the road from me says he’s paid two or three cents a pound more than Blue Diamond for the past couple of years. Give me some good reasons why I should stay in the co-op.

Youngdahl: There are numerous reasons. We tell growers they should partner with us at Blue Diamond for benefits that include: balanced risk, industry-leading returns, year-round selling strategy, worldwide marketing power, faster payments, powerful consumer brand, innovative product development, more payment options, more contract options and our cutting-edge technology. In addition, we tell them that Blue Diamond is the industry leader—the one all others benchmark on. We influence the market for the benefit of all growers. Such leadership should be supported.

Shick: There are growers who will move for two cents. It’s not as important when prices are at $2 per pound as when they were $1. If a guy wants to play that game, you probably are not going to talk him out of it. But if you look closely at other handlers, not one is consistently at the top. Blue Diamond will consistently be right near the top.

Compensation insurance and an investment certificate program that is currently earning participants 6 percent on their savings.

Outlook for the future

“The goal of BTGCA is to improve profitability and stability for its producer-members while increasing production market share,” says Quarles. “BTGCA's goal is to increase members’ market share of worldwide burley production. The tobacco industry has become increasingly dependent on exports as U.S. manufacturers have shifted production overseas and U.S. consumption declines.”

BTGCA hopes to sustain a market where producers have a second marketing option for tobacco that is not accepted under contract. Additionally, the co-op hopes to develop new export markets where U.S. burley growers are not currently selling tobacco. BTGCA has focused much of its attention in recent years on China, which consumes 32.5 percent of the world’s cigarettes, but uses practically no burley tobacco.

China produces about 1.7 trillion cigarettes annually—three times more than the U.S. production this year. Rising incomes for many people in China mean that Chinese manufacturers are looking for higher quality tobacco to meet the demand. Even a very small share of the Chinese market could amount to a sizeable increase in exports of U.S. burley tobacco.

In 2002, BTGCA successfully sold the first U.S. burley to China. BTGCA has been a leader in exporting U.S. burley to China, with exports exceeding 4 million pounds over the past couple of years. According to Quarles, Chinese customers prefer to purchase tobacco from BTGCA because it allows them to work directly with growers. While sales have been small so far, BTGCA sees tremendous potential to expand its market in China.

BTGCA is retaining a small inventory—5 to 10 million pounds of burley—to use in developing new markets. The co-op is also exploring opportunities to market value-added products, as well as any other marketing opportunities that will provide new income opportunities for members.

In 2006, around 2 million pounds of burley tobacco were sold at auction for an average of $1.62 per pound. Purchasers are paying higher prices at auction than under contract; however, due to warehouse fees, growers net less at auction.

While the 2006 marketing season for burley is still under-
way, most producers are very pleased with the outcome, Quarles says. Most growers averaged at least 10 cents more per pound than in 2005.

“Overall, BTGCA believes that the general market outlook for U.S. burley is very promising,” Quarles says. World production of burley has remained at a stable level of around 1.7 billion pounds for the past several years. However, for several decades, U.S. growers have experienced a slide in production and market share. According to BTGCA, it now appears that that trend is reversing, and burley growers will see great opportunities for growth in the coming years.

To learn more about the Burley Tobacco Growers Cooperative Association and the opportunities the co-op provides for tobacco producers, visit their Web site at http://www.burleytobacco.com.

**Outside the Box continued from page 23**

Greenfield is home to a number of cooperatives, including the Green Fields Market.

Rural Development. The grant was matched by a $7,000 contribution from board members to help with the early business development.

The key role played by Franklin County Community Development Corporation’s (CDC) executive director John Waite was critical, as was the willingness of both his organization and CDI to allocate some of his and Bob Rottenberg’s time and expertise to the effort.

The steering committee and, subsequently, the board of directors worked tirelessly, meeting weekly in the early months, forming subcommittees that focused on location, market research, a business plan, and other details. While some were motivated by their opposition to big-box stores, others simply wanted to find a way to revitalize the town center.

**Membership open statewide**

"It was important from the beginning that the community-ownership aspect not be obliterated by people being able to amass major blocks of shares,” Rottenberg explains. "So we established a cap that says no one can own more than 3 percent of the outstanding stock. To amass anything like control, or an influencing share, you’d have to put together a lot of people." The business has also been structured with a clause that required approval by a super-majority for a proposed sale or change in the bylaws.

After much discussion, it was decided to open membership to any resident of Massachusetts. As Rottenberg recounts, "We thought there would be people interested in this idea who might want to invest in it, but who wouldn’t necessarily ever shop there. They just might want to support what we’re doing."

"We originally restricted it to western Massachusetts, but later realized that the odds of people from eastern Massachusetts taking control of our store were pretty slim."

"And if people in the Boston area want to support this 'buy local' effort with their dollars,” he says, “We’ll take 'em!"
could not pass through these cost increases with price increases. “In other words, if we did nothing, proceeds would be reduced by $70 million.”

Implementing a company-wide recovery plan, Welch’s closed its Kennewick plant in Washington state, cut compensation, reduced staffing and cut capital investments. Adding to the instability was an unexpectedly large 2005 crop, weighing in at about 414,000 tons—100,000 tons more than a normal crop and 40 percent more than the previous year—and a very high-quality crop.

It cost an additional $6 million to receive and market that crop in fiscal year 2006, money which was not in the fiscal plan for that year, Dillon concedes. “We are not happy with the financial results, but we are very proud of how we managed these issues for the long-term good of the enterprise. We can now look forward to FY ’07 and beyond with optimism. Obviously, we can’t ‘get it all back’ in one year…but the negatives have been managed and the turnaround is well underway.”

Secure market, brand name benefit members

The co-op’s grower-owners have made clear that the ability to deliver their entire crop to Welch’s—year after year, regardless of any industry surplus—is important to them. One of the biggest challenges Dillon faced as CEO was communicating the cost of this “secure market” benefit to co-op members. Recent price estimates range from $6 million to $10 million per year, due largely to costs of crop storage, product development and marketing. Dillon estimates the cost of market security ranges from $100 to $125 per ton.

Dillon offers this advice to his successor: “The strength of the Welch’s brand name is what differentiates Welch’s from less-successful co-ops. Support that brand reputation in everything you do.” He further cites Welch’s brand power as one of the reasons the company remains ranked the “best agricultural cooperative in America,” based on Standard and Poor’s financial rating and consumer ratings. Additionally, Wal-Mart recognized the grower-owned company as “Supplier of the Year” twice in recent years.

Before he retired, Dillon offered one more “berry of wisdom” regarding the organization’s board structure. National Grape Cooperative and its Welch’s marketing arm benefit from a “two-board” system. The National Grape board is 100 percent comprised of growers, while the Welch’s board blends growers, management and outside directors. Dillon likens the system to the U.S. House of Representatives and Senate, both in terms of governance and rate of progress.

Though the wheels sometimes turn slowly, he is a proponent of the quality decisionmaking that he says results from the two-fold board configuration. He cautions against tampering with the structure.

“The two-board system is a unique advantage that this organization possesses. Don’t let the system erode. The roles and responsibilities of the two boards should not be allowed to blur.” He further illustrates that this system works best when there are strong-willed people with strong opinions around the board table.

“As I retire from Welch’s, I number among my friends a number of grower-directors. I hope the majority of grower-directors respect me and my contribution to the co-op as much as I respect theirs,” he concludes.

Following some leisure activities ranging from a trip to Disney World with his grandchildren to international sightseeing, Dillon plans to dote over his “infant vegetables” and to continue service on various industry, philanthropic and for-profit boards, including the Ad Council and Grocery Manufacturers of America, among others.

Says Dillon, “I think retirement is going to be exhausting, but we are looking forward to it.”
initiatives and future market dynamics could make it more attractive.

Producer co-ops can offer the infrastructure for handling and processing biomass, and are well-positioned to develop and manage quality control issues, provide financing opportunities, and provide outreach and education, he added.

Cargill bio-energy efforts

Pat Bowe, president of corn milling for Cargill Inc., said Cargill currently owns three ethanol and two biodiesel plants, one of which is a joint venture with soybean farmers, who have a controlling interest.

Until recently, it has not been easy for the plants to turn a profit, but that trend has changed. Cargill also has service agreements with 12 plants, and that number is increasing. The company provides the infrastructure for purchasing corn from local farmers and selling to the plants.

About 2 billion gallons of ethanol are produced from these activities—about 1 billion gallons from Cargill’s plants, and another billion gallons from its service agreements.

Bowe said scaling-up the transportation infrastructure to keep large plants running is a major challenge.

He expects corn will become a domestic, rather than an export, crop as a result of the increased demand from ethanol plants. That will require additional changes in transport systems.

While money could eventually address hard-asset problems, labor for trucking might be a limiting factor in the short run.

Environmental management opportunities for co-ops

Jim Shelton, agronomy division manager for Landmark Services Cooperative, described agronomy services that can be customized for the specific needs of members. As producers look for lower input prices, higher yields and higher prices for their grain, this type of program can help maintain grower loyalty.

Duane Toenges, manager of AgCert USA Services, described cooperative opportunities associated with greenhouse gas emissions. AgCert produces and sells agriculturally derived greenhouse gas (GHG) emission-reduction offsets by aggregating farm and production activities and providing a link to potential buyers. While agriculture accounts for 20 percent of GHG emissions globally, farming is also an activity that can be a sink for these emissions.

Cooperatives could provide valuable data collection and site assessment functions that would allow individual farmers to aggregate emission reductions that meet all global “credibility” tests. Co-ops could also organize centralized biogas recovery systems.

Larry Wojchick, of Goldstar Cooperative, described the forest management services that local farm supply cooperatives can provide. Woodlands can be a valuable economic part of the farm, but small acreages on individual farms makes it difficult for farmers to obtain better timber prices, forest management plans, or a way to participate in the value added chain.

E.G. Nadeau of Cooperative Development Services, sees a role for farm supply cooperatives as aggregators of biomass, including wood and woody byproducts. However, the development of this infrastructure requires that more farmers think of their woodlots as part of their farm profitability plan.
Citrus co-ops help growers share export bonus

Florida citrus growers earned $12.2 million from citrus exports in the 1955-56 season. Growers realized that amount over and above what they would have received had there been no active export program.

According to Martin Hearn, export coordinator of Florida Citrus Mutual, “Every million boxes of Florida oranges shipped overseas, either in fresh or processed form, results in an increase of 5 cents per box on the entire remaining production consumed domestically. On grapefruit, when production is within tolerable limits, this figure is 13 cents per box.” Or, as Hearn indicates, growers’ returns for oranges are 3 percent higher at the on-tree level for each 1 percent of the total Florida crop exported.

This program should interest cooperators, not only in Florida, but in other areas as well, for it offers a modern-day lesson that clearly demonstrates the value of cooperative organization.

Florida Citrus Mutual put on a campaign in the fall of 1955 to acquaint sales personnel with the preferences and requirements of the European market, which included a 10-day tour of those markets by mostly cooperative shippers.

On the heels of this trip came the realization that Spanish citrus marketing cooperatives accounted for almost nine-tenths of the increase last season.

Locker plants: new merchandising mechanism

Frozen-food locker plants can help farmers process and sell locally some of what they produce. These plants also help farmers consume a portion of their own food.

Community frozen-food locker plants—plus their “side-kick,” the home freezer—offer farmers a unique, built-to-order mechanism for improving local processing and merchandising. Since most plants are located near the source of livestock, poultry and other perishable foods, they can process and merchandise foods in wholesale quantities direct to locker and home freezer patrons, as well as to retail outlets, institutions and others in localized areas.

Such a system of marketing cuts labor, transportation and handling costs, bypasses or eliminates some steps in the marketing process and converts the farmer’s raw product into a form of commercial product suitable for consumer use. Because of these plants’ direct contact with consumers, they can ascertain consumers’ preferences and more quickly reflect them back to producers, as well as narrow the spread between producers and consumers.
cattle feeding, and determination of total-dairy-ration profiles, establishing new turkey growers in a risk-sharing program, and maintaining a truck route for dairy supplies.

Among marketing services are selling potatoes in the futures market, assembling black walnuts for sale, and freezing fish for price stabilization.

Management services include an advance deposit program that earns interest on the deposit, an economic feasibility study guide, and a farm consulting and tax service.

Individual co-op members are being offered health examinations, a credit card program, commercial painting service, mortuary service, and employee commuter vans.

**NMPF meeting focuses on Capper-Volstead**

Words of assurance about the Capper-Volstead Act and a challenge to preserve cooperatives and dairy marketing programs were heard at the National Milk Producers Federation (NMPF) annual convention, Nov. 28 to Dec. 1, 1976.

“There is no threat to the Capper-Volstead Act,” explains Congressman Thomas S. Foley, chairman of the House Committee on Agriculture. “The new administration has committed to protect the basic legislation and the needs of the agriculture movement. Congressional support is overwhelmingly strong and it must be continued.”

Foley also told the 2,500 dairy farmers and cooperative leaders assembled in San Francisco that it may be necessary to extend the current farm legislation one year to give the new administration more time to review current programs. He concluded by calling for federal disaster protection for farmers, some form of price support programs and increased agricultural research and education programs.

NMPF Secretary Patrick B. Healy warned that cooperatives, the market order program, the price support program and preservation of the domestic milk market must not be impaired legislatively. Continuing, Healy said extra care must be taken to make certain that “damage is not done to the complex of legislation that has made farming possible in today’s America.” Referring to these programs, Healy concluded, “Let the word go out from here and be heard by all those responsible—or who become responsible in areas of interest to dairy farmers—that there are certain things we hold to be inviolable.”

**10 Years Ago...**

*From the November/December 1996 issue of Rural Cooperatives*

**Harvest States launches investment plan**

With the disappearing safety net of government farm programs, producers and their cooperatives are looking to the marketplace to provide greater returns. Harvest States Cooperatives, which just reported record earnings of $57.9 million on total sales of $8.2 billion, has devised a strategy to accomplish that goal.

The Harvest States Investment Plan applies to the co-op’s strengths and established track record, adding the best of the new, defined-membership cooperative approach. The catalyst in the mix is a commitment to strive for the maximum return to members from value-added processing, marketing and services.

The plan gives producers and cooperatives an opportunity to increase returns from Harvest States food processing operations by investing in “equity participation units.” Investments would be available on a per-bushel basis. They would carry the right and obligation for the member-investor to deliver the number of bushels involved to an authorized delivery point, normally a nearby member cooperative or Harvest States facility. This provision is a key element in ensuring that the plan qualifies for cooperative status.

**Co-op banks hold market share**

A new Farm Credit Administration report notes that while the Farm Credit System (FCS) has lost market share since the mid-1980s, banks for cooperatives have maintained their historical average market share of about 60 percent. Banks for cooperatives’ portion of the FCS loan portfolio more than doubled, from 10.9 percent to 26 percent, during the same period.

The report traces changes since 1969 in rural and farm demographics, as well as the characteristics of farm finance and farm real estate, as well as modifications that have occurred in the financing of farmer cooperatives.
83rd Annual Outlook Forum
Agriculture at the Crossroads: Energy, Farm & Rural Policy
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"Federal investment in agriculture is a very wise, thoughtful investment. How we do it is the critical issue. At the end, I believe strongly it must be predictable, equitable, and beyond challenge."
- Secretary of Agriculture Mike Johanns

www.usda.gov/oe/ce/forum
Register before February 5, 2007, to avoid additional $15 online fee. See Web for details.