

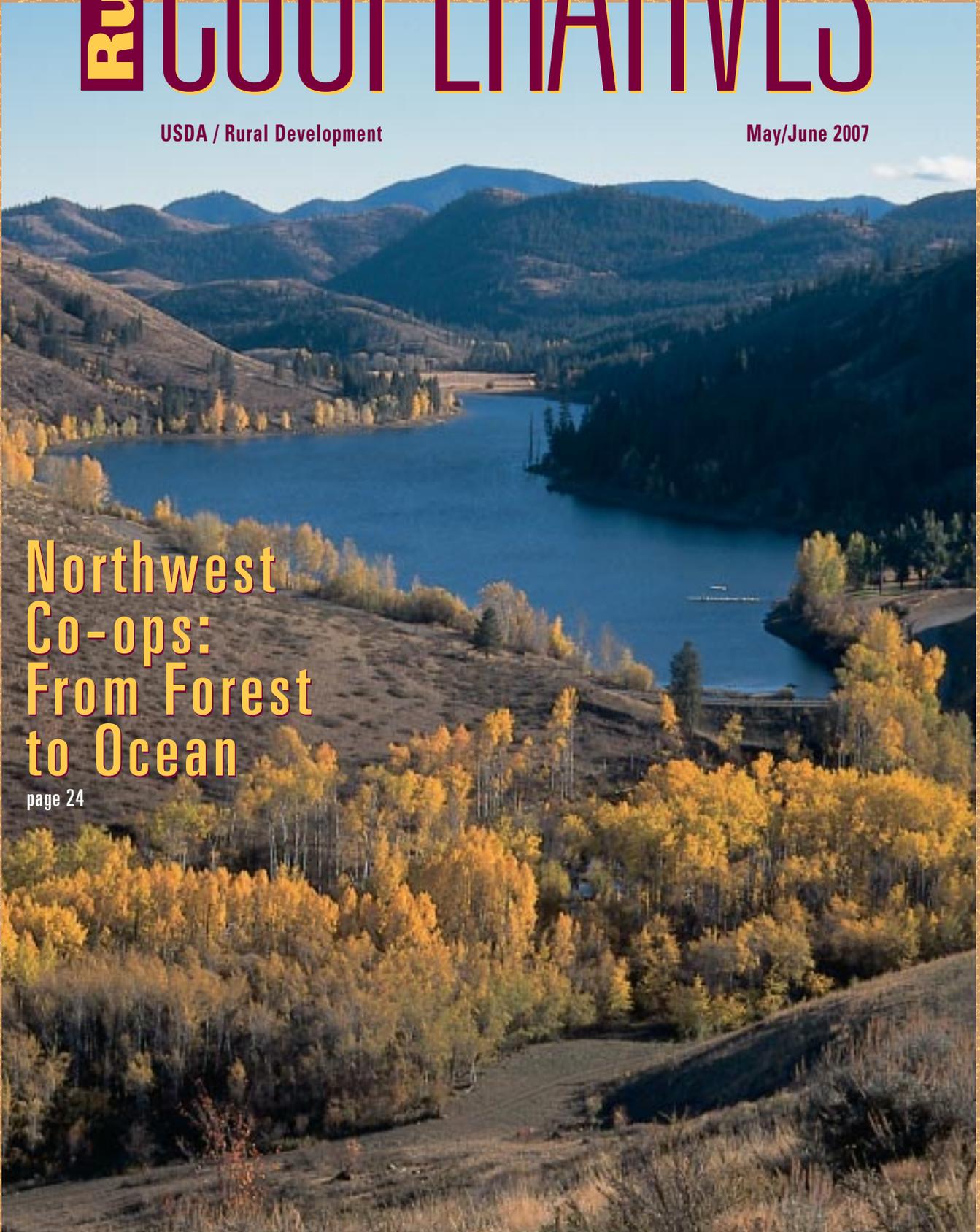
# Rural COOPERATIVES

USDA / Rural Development

May/June 2007

## Northwest Co-ops: From Forest to Ocean

page 24



## Heed the Call

In an average year, 1,200 tornadoes will rip through America. These storms often develop and move at astonishing speed, sometimes allowing those in the path only a few minutes of warning to find shelter. This renders conventional warning systems — such as television and radio — inadequate, since if you're not listening or watching, you won't get the warning in time.

One answer to this problem is a self-activating radio receiver that emits a loud alarm when a storm warning is issued. The National Oceanic and Atmospheric Administration's (NOAA) Weather Radio All Hazards System uses special transmitters that broadcast on assigned frequencies and can be picked up by special receivers. The receivers are left in a quiet "standby" mode until a storm signal is issued, which activates the receiver and emits a loud warning signal to everyone in earshot.

The awesome, terrible power of tornadoes — and the importance of early warnings — was once again driven home May 5, when the town of Greensburg, Kan., was virtually wiped off the map by an F-5 tornado, with winds in excess of 200 miles per hour and a funnel that was more than a mile wide. Seeing the photos on the front pages of the morning newspapers the past few days, one can only wonder how most of the 1,400 residents survived (there were about 10 confirmed deaths as of this writing). The only recognizable structure left standing was a grain elevator. The town was otherwise utterly devastated, looking like the target of a wartime saturation bombing.

News accounts indicate that residents received a warning about 20 minutes before the tornado struck, which doubtless was the reason the number of fatalities was not far higher. This underscores the importance of a Newline item on page 39 of this issue, concerning an announcement Agriculture Secretary Mike Johanns made in March about USDA Rural Development awarding \$415,000 to extend coverage of the NOAA Weather Radio All Hazards System.

As of March, the Rural Utilities Program of USDA Rural Development has awarded 92 grants under its Weather Radio Transmitter Grant Program to extend the coverage of the system. These grants cover 100 sites in 26 states and Puerto Rico. Of the grants, 21 have been awarded to electric and telecommunications cooperatives. Co-ops have been major



USDA photo by Tim Rogers

supporters of the program and often make their telecommunications towers available for antenna and transmitter placement. For more details on the program,

visit: [www.usda.gov/rus/telecom/weather/weatherradio.htm](http://www.usda.gov/rus/telecom/weather/weatherradio.htm), or call Craig R. Wulf, (202) 720-8427; or e-mail [craig.wulf@wdc.usda.gov](mailto:craig.wulf@wdc.usda.gov).

### Tragedy hits home

Among the buildings pulverized in Greensburg was the USDA Service Center office, which included USDA Rural Development offices. A day or two after the storm, an e-mail I received related the story of one staff member and her husband who lived about a mile south of Greensburg. "Their two-story home collapsed on them and they were trapped until neighbors could get them out," it said. It then relates how another USDA staffer helped pull "several people out of homes" before returning to find his own home demolished.

Another "storm dispatch" that landed in my e-mail a day after the tornado came from the Kansas Cooperative Council (KCC), which did a quick survey of the tornado's impact on its member co-ops and has been doing an outstanding job marshalling efforts of the co-op community to help the victims. It says: "Southern Plains Co-op, Lewis/Greensburg — Four employees lost homes, along with most of the other residents of the town. The co-op facilities in Greensburg were, for all essential purposes, lost. Co-ops from the surrounding areas are lending personnel and equipment to aid in the relief effort."

The KCC report goes on to list the storm's impact on a number of other area co-ops, adding that, "Our hearts go out to those families who lost loved ones. We encourage co-op members to take the opportunity to act on one of our core cooperative values, *commitment to the community*, by doing what you can to help at the appropriate time."

KCC has set up a disaster relief fund. For more information contact: Kansas Cooperative Council, PO Box 1747, Hutchinson, Kansas 67504, or [leslie@kansasco-op.coop](mailto:leslie@kansasco-op.coop).

— Dan Campbell, Editor ■

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### *On the Cover:*

*Co-ops in Washington state are meeting a wide variety of needs, from the state's mountain forests to its coastal fisheries. Forest landowners in the Okanogan County area have formed a co-op to help improve forest health. Seen here is Patterson Lake. Photo by Don Portman, courtesy Okanogan County Tourism Council*





# When a Co-op Dies

*Long-time gin closes doors, one more casualty of California's shrinking cotton industry*

**By Catherine Merlo**

*Editor's note: Merlo is a Bakersfield, Calif.-based writer/editor with extensive experience writing about cooperatives and the issues that impact them.*

**L**arry Gallian grew up with Visalia Cooperative Cotton Gin in his blood. Gallian's father served as gin superintendent of the California operation from 1951 until 1982, helping build it into one of the best-known cotton businesses in the San Joaquin Valley.

At its peak, the gin annually



produced 30,000 bales of cotton and returned about \$1 million to members after ginning costs. Every July, up to 1,500 people from the surrounding community flocked to the gin for the "Tennessee Bologna Feed" put on by Gallian's father.

The younger Gallian continued the gin's prominence after he took over as Visalia Co-op's manager in 1964. He would go on to serve as president of each of the state's two ginners' organizations and was named ginner of the year by the California Cotton Ginners Association in 1991.

But today, Visalia Co-op is a thing of the past, its membership disbanded, its doors closed, its ginning equipment

shuttered and silent. The sandy parking lot, once filled with the pickup trucks of farmers who stopped by early each morning for coffee and news, is empty. The very bones of the business – the gin stands, the bale presses, the seed storage site – have been sold. Only Gallian, 63, stops by now, unable to resist looking at the place where he spent most of his life, a site many consider a north Visalia landmark.

Fifty-six years after it began, Visalia Co-op formally ceased operations on Dec. 31, 2006, victim not to bankruptcy or merger but to the same forces that have overtaken California's once-thriving cotton industry. High costs, urban sprawl and a shift to more profitable permanent crops are dethroning King Cotton in the Golden State.

California's cotton production has been declining for 25 years, and today is only about a third of what it was in its benchmark 1981 season. That year, the state turned out 3.53 million bales, a far cry from the 1.28 million bales California will likely produce in 2007. Estimates put the state's 2007 cotton acreage at about 460,000, down from 560,000 last year and a dramatic drop from the 1 million acres planted in the early 1990s.

As cotton acreage has waned, so too has California's cotton ginning industry. Once dotted with 299 cotton gins, California is now home to only 61 surviving gins, according to the California Cotton Growers and Ginners Associations (CCGGA). Of the remaining gins, 19 are co-ops.

### Fighting to survive

For a while, Gallian thought he could keep Visalia Co-op from suffering the fate of other gin casualties. "We fought it for years," he says.

After all, the gin sat in the heart of Tulare County, one of the top three agricultural counties in the nation. Visalia, located about 45 miles south of Fresno, had always depended on farming. And the co-op had weathered

storms before. In the 1970s, Visalia Co-op had successfully fought verticillium wilt, a disease that threatened cotton fields. In the 1980s, the co-op had withstood high interest rates and competition for acreage from new citrus plantings. An influx of dairies arrived in the 1990s, tempting local cotton growers to switch to producing more profitable dairy cattle feed.

Visalia Co-op had endured those threats, even adding fertilizer and farm

supply businesses to its operations. But by 2000, the odds for survival were dimming.

Across the San Joaquin Valley, home to the bulk of California's cotton production, growers were exiting the high-cost cotton business, shifting to more profitable crops like almonds, pistachios, alfalfa, fresh-market tomatoes and carrots. Others had begun diversifying into businesses like dairies and real estate. Still others were finding



*"We rationalized that we would lose too much of the growers' equity if we continued," says former manager Larry Gallian, outside the now-closed cotton gin. Opposite page: San Joaquin Valley cotton fields ready for harvest. Photos by Catherine Merlo*

more profit in selling land for development to accommodate the valley's booming population growth. Visalia alone saw its population jump by almost 18,000 people in just five years, climbing to 110,000 by 2005.

Equally daunting, perhaps, were

time, compared to 11 employees a decade before. The gin's returns to members had eroded as well, dropping to \$15-\$20 per bale from \$45 in better days. Moreover, Visalia Co-op's returns lagged behind the \$30-\$40 per bale that larger co-op gins were paying.

fibered cotton such as Pima.

Traditionally, most California gins have used saw gins to process shorter-fibered upland or Acala cottons.

But roller gins have increased in popularity as California cotton growers have turned to Pima production. The



*The cotton gin co-op's membership had dwindled to nine by the time it closed, down from 166 when it formed in 1950.*

increasing air-quality regulations required by the San Joaquin Valley air pollution control district. In 2002, Visalia Co-op spent \$350,000 for air emissions mitigation equipment, "just to stay in business," Gallian says.

By 2005, Visalia Co-op's membership had dwindled to 15, down from a high of 166 when the gin formed in 1950. In 2006, the co-op counted just nine members. Only Gallian and the plant superintendent were employed full-

Gallian and the gin's board of directors realized the co-op had reached its end. "We rationalized we would lose too much of the growers' equity if we continued," Gallian says. "You didn't have to be a brain scientist to see where cotton was going."

To operate for the 2006 season, the gin would have had to borrow \$700,000. As one possible survival strategy, the co-op considered installing a roller gin, used to process long-

long-staple cotton is enjoying huge demand and good prices. At the same time, some growers have found a profitable niche by roller-ginning, rather than saw-ginning, upland cotton. The production costs are higher, but it has proven worthwhile for some growers.

Yet, without the necessary cotton volume in the Visalia area to bring in adequate revenue, the gin could hardly afford a \$3 million roller gin. A few

attempts at merging with other co-ops went nowhere. There was little point in trying to continue.

### **Closure 'very emotional'**

All the same, the discussions to close Visalia Co-op were "very, very emotional," says Gallian. "For a while, no one wanted to bring up the word, 'closure.' And there was the matter of pride. No one wanted to be the board or manager who had closed the gin."

But, on Sept. 11, 2006, the five-member board voted unanimously to end the business. Among those voting that day was Gerald Steiner, 85, who had helped put up the money to start the co-op gin in 1950. "We invited him to the meeting and gave him an honorary vote," Gallian remembers. "He had tears in his eyes and his hand was shaking as he voted for the closure."

Over the next few months, the gin liquidated its assets, selling vehicles, module trucks and other rolling equipment. The co-op sold 15 acres of nearby property for \$225,000. The 30-acre gin site, where the office and gin buildings sit, sold for \$1.15 million this spring.

### **Final distribution dilemma**

Gallian and the board are determined that every grower will "get back every dime he invested in the co-op," he says. That includes 37 growers who still have revolving funds due them.

By late April of this year, the co-op had \$380,000 in revolving funds to distribute. Beyond that, the gin also was awaiting \$225,000 from the sale of air pollution credits. Combined with the proceeds from selling its property and existing money in its bank account, Visalia Co-op has \$1 million to return to former members after its last revolving fund payout.

The final distribution of the co-op's assets has been a bit of a sticking point. "How far back do you go to determine who is paid?" Gallian asks. "As far as practical," the bylaws of Visalia Cotton Co-op stipulate. Going back to the co-

op's start isn't feasible, Gallian says, since 75 percent of the membership from those days is deceased. A 6- to 10-year period may be more realistic, but discussions are still underway with the gin's attorney and auditors.

"Distribution of excess money is key to closing a co-op, but there's nothing out there to show us how to do it," Gallian says. "Most co-ops close broke. We still have money."

The board will have to decide by June 30 this year when the co-op once and for all closes out its books.

### **More closures ahead**

More San Joaquin Valley cotton gins will close in the coming year, leaving only a handful of large cooperative gins to handle the bale-making and cotton seed business. Recent higher prices for cotton seed will allow a few gins to hang on a bit longer. But the clock is ticking for many.

"It's a heck of a transition period," says Earl Williams, president and CEO of CCGGA, two linked trade organizations that represent cotton growers and ginners in legal, legislative and regulatory affairs. "It's survival of the fittest now."

Like Gallian, Williams grew up in the cotton ginning business. But while Gallian came from the cooperative side, Williams emerged from independent gins.

"Growing up, the co-op gins were the enemy," Williams remembers. "But one thing I was always envious of was how well the co-op gins were organized."

As California's cotton ginning industry has dwindled, however, Williams has seen increasing dissension and disagreements. He's seen it, for example, among co-op gins that have met to discuss merging as a way to survive.

"Then the arguments would start," Williams says. "'Which gin do we keep, which do we close down? Which manager, which board members do we keep?' It went downhill from there."

### **Changing landscape**

Despite the industry contraction, few are writing off cotton just yet. The bright spot is Pima cotton. "We can't grow enough Pima to meet worldwide demand," Williams says.

The state now produces 90 percent of the nation's Pima crop. The long-fibered variety has surpassed upland cottons in planted acreage, a complete about-face from past years.

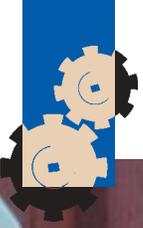
Further, thanks to a long, dry growing season and variety improvements, California cotton growers continue to produce high-yielding, high-quality cottons that are among the world's best. Nearly 100 percent of the state's cotton is exported, heading to China, Korea, Thailand, Japan, India and Pakistan.

Even so, the state's once-familiar cotton landscape has a different feel. In December 2006, one long-time cotton cooperative, California Planting Cotton Seed Distributors, was acquired by Bayer CropScience. At least three more cooperative gins and perhaps as many independents will close soon, Williams predicts. Some gins that are holding on are not re-hiring managers when the former ones retire or leave. Instead, they're counting on office managers to do the job.

Gallian has found work as an ag chemical salesman. "I was offered four or five jobs, but I chose the one that gave me close contact with growers," he says.

Although Visalia Co-op is history now, it's still near and dear to Gallian. Having come through the gin's painful demise, he offers clear-cut advice for co-ops that may be contemplating whether it's time to close their doors.

"Don't keep going out of pride," says Gallian. "We could have kept going. We would have made money for our members, but not as much as they could have received ginning somewhere else. That's not fair to farmers. A co-op is supposed to be there for the farmer," he adds. "When the co-op can't do the farmer justice, it's time to go." ■



## Forging family-to-family food chains

**C**ooperative Development Services (CDS) is one of the nation's best known sources of expertise and information for existing food co-ops. It was a natural step for CDS to become a partner in the FoodCoop500 initiative, which seeks to raise the number of food co-ops in the United States from 300 to 500 by 2015 (visit: [www.foodcoop500.coop](http://www.foodcoop500.coop)). The other partners are NCB (formerly National Cooperative Bank)/NCB Capital Impact and the National Cooperative Grocers Association, which recently pledged \$200,000 to support

the project for the next two years.

Recently, CDS reaffirmed its long-standing commitment to producer co-ops, as well as consumer co-ops, with a new initiative. "We will work with producers of natural and organic products for a sustainable world," said CDS Director Kevin Edberg. "As with our renewable energy work [profiled in the July-Aug. 2006 issue of *Rural Cooperatives*] we will leverage our contacts to help producers find relationships with food retailers that support their entry to the market."

One example of this work is with PastureLand, a small organic dairy co-

op that makes cheese and butter from cows that graze on carefully managed grasslands in southeastern Minnesota. In 2006, the co-op's butter won its third consecutive award at the American Cheese Society Competition and Judging.

PastureLand General Manager Jean Andreasen worked at Mississippi Market food co-op in St. Paul, Minn., for more than a decade, providing her a good look at the work CDS does with consumer-owned retail stores. "They helped Mississippi Market with our expansion project, staff trainings and surveys. They were always there when

Minnesota's PastureLand Co-op families (opposite page) are benefiting from a new business plan. This page (clockwise from upper left): La Montanita Food Co-op in Albuquerque, N.M.; Los Poblanos co-op member harvests lavender for La Montanita; growers now visit La Montanita by choice, rather than necessity; the Wedge Co-op in Minneapolis, Minn., is another food co-op that supports local farmers, including PastureLand. Photos courtesy featured co-ops



we needed something. So when I came to PastureLand and wanted some professional co-op business development services, I knew where to go."

CDS helped PastureLand write a business plan and raise funds for operations. "I'm really happy with the relationship we've been able to cultivate," Andreasen adds.

Prior to coming to PastureLand, Andreasen was marketing coordinator for the Midwest region of Food Alliance, a national certification organization for environmentally friendly and socially responsible agriculture practices, funded by Land

Stewardship Project and CDS. PastureLand was the only Food Alliance-certified dairy cooperative in the region, and she worked with the members to "market their co-op difference" by placing articles about the co-op's products, practices and producers in the newsletters of all the food co-op stores in the area.

These stores have long-standing commitments to local producers and already carried PastureLand's butter and cheese, but this was an additional link, from one cooperative to another. Andreasen points out that this is a way of implementing both the fifth and sixth

International Co-op Principles: commitment to education and cooperation among co-ops. And that's good for co-op business.

### **MOON lights up Ohio**

The mission of the Miami Oxford Organic Network Co-operative Services Inc. (or MOON Co-op) is to help grow a sustainable food system in southern Ohio and Indiana. Its nearly 250 members – local producers as well as urban and rural consumers – plan to open a natural foods store that specializes in local and regional farm products.

Earlier this year, the group was visited by Stuart Reid, who has been hired to work fulltime with grant recipients of the FoodCoop500 program. He was "very impressed with the groundwork" the co-op had done, saying "their hard work bodes well for a vibrant and successful store."

This year MOON received a \$25,000 Sprout Fund loan from FoodCoop500 following a \$10,000 FC-500 Seed Fund grant it won last year. In addition to financial assistance, co-op members take part in regular conference calls with consultants and people from successful co-ops, and the board submits regular reports on its progress to Reid.

From the very beginning, co-op organizers sought help from their local specialists at the Ohio Cooperative Development Center (OCDC). Treasurer Debra Peter recalls, "In our initial organizing stages, OCDC helped us determine the structure and function of our organization and provided us with contacts and resources to get incorporated. We also received two \$5,000 start-up grants from OCDC that were used for professional fees and supplies. We have a solid legal and financial foundation for our cooperative because of the assistance provided by OCDC."



### Midwest farmers sharing resources

Farmers throughout the Midwest are being challenged by rising costs of machinery and shortages of skilled labor. Some farmers are sharing these resources to reduce costs and improve efficiency. But there are a number of factors to consider before making such a move. These include tax, liability and farm payment eligibility issues associated with sharing equipment and labor, as well as identifying available resources to help producers plan and implement that sharing.

To help producers better evaluate proposed sharing arrangements, Iowa State University Extension and University of Missouri Extension economists developed a "Machinery and Labor Sharing Arrangements" workshop, held in three locations last winter. More than 80 people attended, many looking for options to help them efficiently transfer assets to the next generation of farmers, or to a young producer working to get established.

The case study research that served as a framework for the workshop was

developed by the Iowa Alliance for Cooperative Business Development as part of a Rural Cooperative Development Grant from USDA Rural Development (more at: [www.machinerysharing.info](http://www.machinerysharing.info)). Program sponsors were North Central Risk Management Education Center, Leopold Center for Sustainable Agriculture, Iowa State University Extension and University of Missouri Extension. The Iowa Farm Bureau Federation and Grundy National Bank also collaborated.

### Cooperating in the Southwest

The Beneficial Farm and Ranch

## CooperationWorks! goes co-op

The national network of cooperative development centers has reorganized itself as a member-owned service cooperative. This will enable individuals and other organizations engaged in the development of new co-op enterprises to join. Members may select from a menu of services delivered at cost.

In addition to continuing as a professional peer network for practitioners engaged in the development of new cooperative businesses, CooperationWorks! program priorities for 2007 include the popular professional development training 'The Art & Science of Developing a Cooperative Business' (two intensive five-day sessions in Madison, Wis.); three face-to-face membership meetings; more of CW's well-attended conference calls on relevant issues for the development of new cooperative enterprises; and maintaining a listserve that will help members seek and share information more readily.

The new co-op also plans to continue its public education and advocacy for the development of new cooperative enterprises as an effective economic development strategy, which includes the publication of its newsletter *Net-Works*. For more information contact: Audrey Malan at 307-655-9162, or [cw@vcn.com](mailto:cw@vcn.com). ■

*Buying food locally as well as from small co-ops in developing nations (top) is often called "fair trade at home," and is practiced by many food co-ops, such as the Wedge. Beneficial's award-winning eggs (lower left) are featured at La Montanita Co-op. Members of Moon Co-op in Ohio move ahead with plans for a store featuring local food. Photos courtesy featured co-ops*

Collaborative originated with a group of farm families in southern Colorado and northern New Mexico who sought to meet the rising demand for a stable supply of fresh foods in one of the nation's most challenging growing regions. They developed a labeling initiative to reward organic farmers and ranchers and to provide incentives for conventional producers who would agree to make the transition toward organic.

The staff of Rocky Mountain Farmers Union Cooperative Development Center helped the producers with strategic business planning as well as outreach and recruitment. The producers were seeking to increase their product base without the demand for spending more time off the farm.

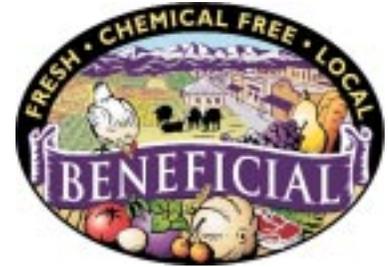
The Center's Dan Hobbs notes,

"From the outset there was discussion about how the members were going to sustain themselves as a service cooperative when most of the other 'buy local' labeling programs are not economically viable."

The answer came in the form of consumer-owned La Montanita Food Cooperative. Begun in 1976 by 300 families in Albuquerque, today the co-op has 13,000 consumer-members, annual sales of more than \$20 million, and four stores located in Albuquerque, Santa Fe and Gallup, N.M. In recent years, annual member surveys indicated that the desire for local products was surpassing the desire for organics. So the retailer stepped in to help the producers.

"What the farmers could not do alone, the consumers had the wherewithal to help them achieve," says

Hobbs. "This has reduced duplication in the delivery process and saved producers valuable time as well as money. And it has spread the risk more evenly between the producers and the consumers."



Food co-op members supported a plan to lease a refrigerated truck and pay drivers to pick up the food at the farms and bring it to the stores. More suppliers were recruited. Other retail partners — including natural food chain Whole Foods — were invited to join the "regional food shed" project. A full-time manager (one of the original Beneficial Co-op member farmers) and an assistant manager were hired to run the distribution operation.

Last January, La Montanita opened a 10,000 square foot distribution center that includes 3,000 square feet of refrigerated storage and 1,000 square feet of frozen storage. A second truck will be leased soon.

In 2006, 20 percent of La Montanita's sales were from 400 products grown or raised locally and/or with substantive value added within the region. "This is a long-term project that must include as many producers, retailers and consumers as possible to move the needle on local production here in New Mexico," says La Montanita General Manager C.E. Pugh. "We don't know how much is possible. We do believe that we must actively work within our community to increase the market and value of these goods or the decline in regionally produced food for local markets will continue." ■



# Antitrust report a wake-up call for co-ops to defend marketing rights

**By Donald Frederick**

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**I**n 2002, Congress created the Antitrust Modernization Commission (AMC) to examine whether the antitrust laws should be "modernized" and to submit its findings to Congress and the President. The AMC was a 12-member, bipartisan commission consisting primarily of antitrust lawyers with large metropolitan law firms, several with prior experience at the Antitrust Division, U.S. Department of Justice.

During its deliberations, the AMC developed and studied a list of all antitrust immunities and exemptions, including those of greatest importance to agricultural producers:

- Section 6 of the Clayton Act (authorizes the formation of non-stock agricultural co-ops),
- The Capper-Volstead Act (permits agricultural producers to market their production on a cooperative basis),
- Fishermen's Collective Marketing Act (similar to Capper-Volstead, protects associations of aquacultural producers), and
- Agricultural Marketing Agreement Act (authorizes agricultural marketing orders and agreements).

The Commission submitted its report on April 3, 2007. The report does not call for repeal of the Capper-Volstead Act or other laws important to rural cooperatives. It does, however, include recommendations which, if enacted, would create serious challenges for agricultural producers who market their production on a cooperative basis.

## Producers need antitrust protection

Since enactment of the Sherman Act in 1890, it has been a criminal felony for competing businesses to agree on prices and terms of sale. Each farmer or rancher is a "competitor" under antitrust law. Without protection, any time their cooperative establishes the price or other terms of trade for selling the food and fiber they produce, they would be committing a criminal act.

Capper-Volstead and the other laws listed above shield farmers and ranchers from antitrust liability to market their production on a cooperative basis. Cooperatives are used to

marketing many types of products across the United States and internationally, including: dairy products, fruits, vegetables, nuts, wheat, feed grains, rice, oilseeds, cotton and livestock.

Without this protection, producers would be at a severe disadvantage when trying to individually negotiate sales of their products to the large national and international processing and distribution firms in the food industry. Capper-Volstead levels the playing field by allowing farmers to combine their economic strength to balance that of the firms that purchase their products.

Consumers are protected from being charged unreasonable food prices. Section 2 of Capper-Volstead provides that if the price of any agricultural product is "unduly enhanced" by a cooperative, the Secretary of Agriculture shall issue an order directing the producers to cease such conduct. The U.S. Department of Justice has authority to enforce the order if the cooperative doesn't stop its unreasonable activity.

## AMC deliberations

The overall AMC activity covered a wide spectrum of antitrust law. Ten study groups were formed. The one that examined producer association issues was called "Immunities and Exemptions." So while the findings in this area are significant to farmers and ranchers, the AMC did not only look at these exemptions. They were a small part of a much broader review.

During its process, the AMC asked for public comments on all of the issues it was studying. Several organizations filed comments in strong support of Capper-Volstead, including: the U.S. Department of Agriculture, the Congressional Farmer Cooperative Caucus, the National Council of Farmer Cooperatives, the National Farmers Union and the National Milk Producers Federation.

While a limited number of persons were allowed to make presentations in person to the Commission, most were antitrust enforcement officials, academicians and attorneys in private practice whose backgrounds were similar to those of the Commissioners. No one was allowed to appear as a representative of any industry with antitrust protection.

## Report recommendations

The Commission concluded that U.S. antitrust law and

enforcement are fundamentally sound and sufficiently flexible for the changing global economy and the evolving understanding of how markets operate. Nonetheless, the 540-page report offers 80 often multi-faceted recommendations to the President and Congress. The more far-reaching recommendations include:

- Repealing the Robinson-Patman Act;
- Overruling Supreme Court decisions to allow indirect and direct purchasers of price-fixed goods to sue in federal court;
- Streamlining the clearance process for mergers between large firms;
- Urging the United States to enter into agreements with other countries to spur international uniformity in antitrust law and enforcement.

In the area of immunities and exemptions, the Commission recommended:

- Congress should draft, and the courts should construe, antitrust immunities and exemptions narrowly and against the beneficiaries;
- All immunities and exemptions should be subject to sunset provisions, forcing supporters to get them reenacted every few years or they become null and void;
- The Federal Trade Commission should be authorized to study the competitive effects of and justifications for immunities and exemptions.

Many co-op leaders feel that adoption of these recommendations by Congress, particularly the sunset policy, would weaken cooperative marketing as a producer tool. Uncertainty over whether Capper-Volstead and other protections would be available in the future could make it more difficult for cooperatives to arrange affordable long-term financing, establish good business relations with suppliers and customers, and maintain a committed cadre of producer-members.

It is important to remember that the AMC can only issue recommendations; only Congress can make changes in antitrust law. On May 8, the Antitrust Task Force of the House Committee on the Judiciary held the first Congressional hearing to receive and review the report. The only witnesses were the Commission's chair and vice chair. While their emphasis was on the more general recommendations of the Commission, they expressed skepticism about the value of antitrust immunities and again suggested enactment of a sunset provision in all statutory immunities.

Congress will likely hold additional hearings on the report and one or more bills will likely be introduced to implement some of the recommendations. Producer-members and leaders of cooperatives — particularly agricultural marketing associations — will want to keep abreast of legislative developments in this area or risk losing the right to market their production on a cooperative basis. ■

## NCFC: Commission recommendation would destroy farmers' ability to compete

Recommendations made by the Antitrust Modernization Commission (AMC) in its final report would destroy the ability of farmers to form cooperatively-owned businesses, leaving America's agricultural producers in a severely weakened position in the marketplace, according to the National Council of Farmer Cooperatives (NCFC).

"Farmer cooperatives offer the best opportunity for America to realize the farmer-focused ideal of an enduring, competitive agricultural industry," NCFC President Jean-Mari Peltier said in a statement issued in April following release of the Commission's report. "Instead of recognizing the positive impact that cooperatives have had on rural America, the Commission recommends gutting the ability of farmers and ranchers to form effective co-ops and instead leave them at the mercy of giant multinational corporations. If enacted, it would represent a step backwards for American agriculture.

Farmer-owned cooperatives enjoy limited antitrust immunity for marketing agricultural products under their founding Capper-Volstead Act, often termed the "Magna Carta of farmer cooperatives." This limited immunity is necessary to allow two or more farmers to simply talk about price or terms of sale. The AMC recommended to Congress that it sunset all immunities and exemptions, including Capper-Volstead.

The Commission's recommendations would apply to other statutory antitrust immunities utilized by farmer cooperatives,

including the Agricultural Marketing Agreement Act, the Webb-Pomerene Act, the Export Trading Company Act and others.

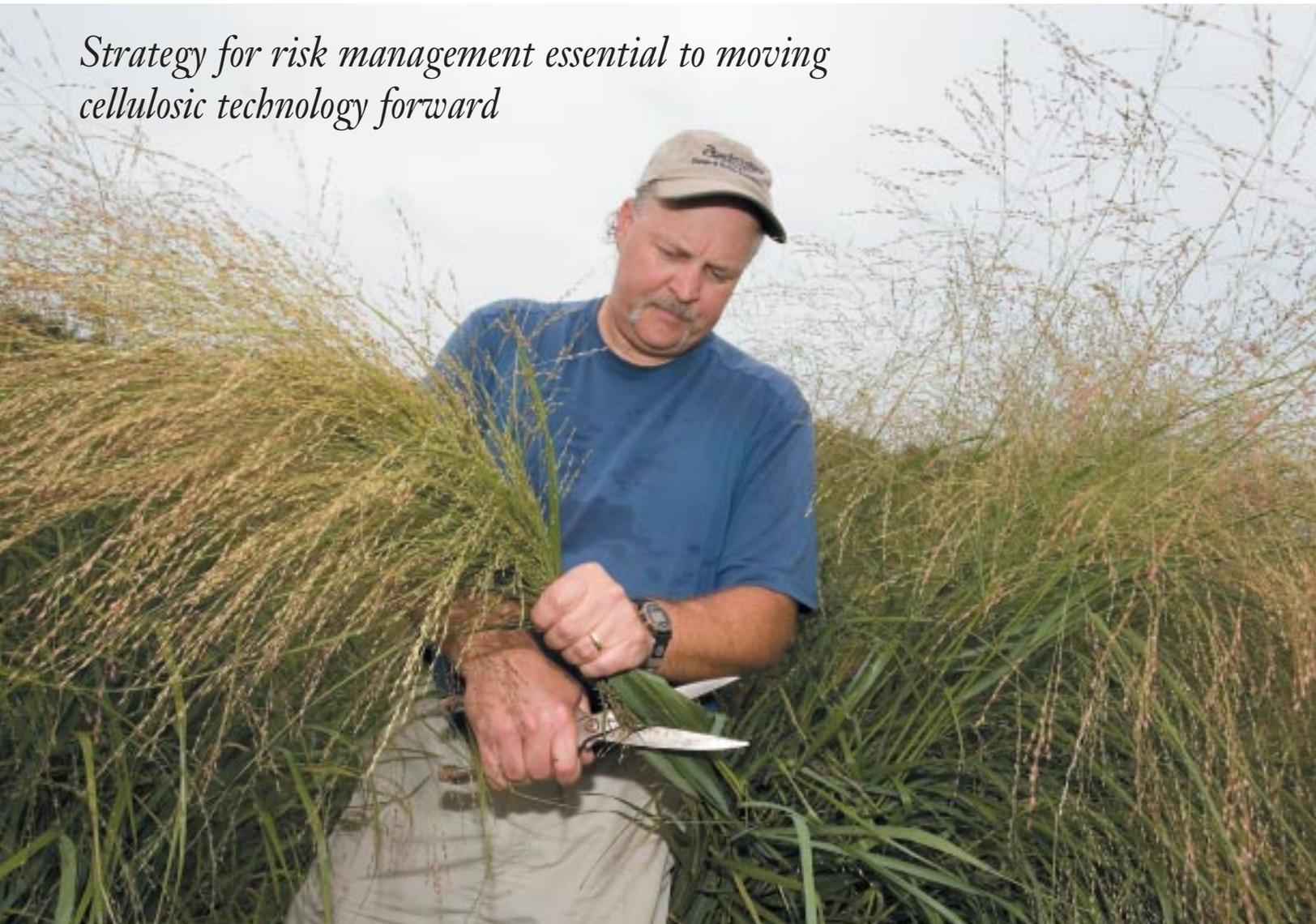
"Today, the Capper-Volstead Act is more important than ever as agricultural producers compete in an economy dominated by relatively few, large buyers," Peltier said. She also objected to the Commission's refusal to let affected industries testify at its hearings, choosing instead to hear only from academics specializing in antitrust and government witnesses. "Apparently, the Commission didn't want to hear from a dairyman from Wisconsin or a peach grower in California, both of whom see the direct benefit of their cooperatives not only to producers, but to consumers as well," she said.

Effective limits to Capper-Volstead's antitrust immunity already exists in the Act itself, she said, noting that the secretary of agriculture has authority to prevent cooperatives from using their market power to unduly enhance the price of the products they market. The framework and operation of the Act places limits on cooperatives' growth, and cooperatives are also subject to inherent practical limitations relating to obtaining capital.

"The Commission's recommendations would destroy 85 years worth of hard work by America's farmers and ranchers to ensure a better life for their children and grandchildren," Peltier said. ■

# Shouldering the risk

*Strategy for risk management essential to moving cellulosic technology forward*



**By Anthony Crooks, Agricultural Economist**  
USDA Rural Development

In his 2007 State of the Union Address, President George W. Bush emphasized the need to increase alternative fuel production to 35 billion gallons by 2017, or nearly five times the original target of 7.5 billion gallons (see sidebar). To meet this goal, the commercial-scale conversion of biomass feedstocks into ethanol, and primarily cellulose to ethanol, will play a prominent role. This effort will create more opportunities for producer-owned co-ops and LLCs to become biofuel producers.

To date, there are still no commercial-scale cellulose-to-

ethanol facilities in operation. The risks and uncertainties of these still unproven technologies are significant. Breakthroughs in new technologies continue to develop along multiple fronts to reach commercialization. A partnership of technical expertise and the financial wherewithal from both private and public sectors is required to bridge the developmental gaps and to distribute the startup risks.

Financing represents the greatest hurdle for an unproven technology. This article describes the difficulties involved with the financing of unproven technologies and describes the significant partnerships now arising to direct the evolution of the cellulose-to-ethanol industry.



*Plant geneticist Michael Casler (opposite page) harvests switchgrass seed as part of a breeding program to develop cultivars that will yield more bioenergy. USDA/ARS photo. Inside Iogen's cellululosic ethanol demonstration plant in Ottawa, Canada (above). Photo courtesy Iogen*

### **Financing unproven technologies**

Twenty-five years of industry experience has helped ethanol industry lenders and financial backers to become well acquainted with the risks associated with ethanol projects. The risks of these projects typically involve a traditional power plant, burning either natural gas or coal, and a well-proven process technology. However, cellululosic ethanol plants that will soon compete for financing will use equipment and/or process technologies that have little or no commercial operating history.

Unproven technology risks embrace all phases of a new project: construction and startup as well as operations. Of particular concern after a plant begins to operate at capacity is 'conversion risk,' the relative efficiency at which the plant is operating. Lenders are rightfully concerned that cutting-

edge technologies operate at state-of-the-art efficiency, and particularly so if their exposure is substantially greater than it would be with a proven technology. But, if it can be independently certified that the plant can operate at a level sufficient to repay the debt plus some risk margin, lenders may be persuaded to assume a portion of the conversion risk.

Biofuels lenders who understand the history of the industry may have fewer concerns about conversion risk. Typically, once an ethanol project operates successfully for a couple of years, it's very likely that it will continue to do so. Consequently, lenders now tend to focus more on the technology risks involved with construction and startup phases of a project, and less so on operations.

Because cellulosic ethanol has no commercial operating history, there is an element of technology risk that cannot be assessed. Further, in the absence of a track record, lenders will want to see if the project has demonstrated success on a smaller scale. In other words: How successful is the pilot plant or the demonstration plant?

Unlike a pilot plant, a demonstration plant uses a continuous process on an industrial scale. A demonstration plant is usually a necessary stepping stone from a pilot plant to a commercial-scale facility. It's very difficult to leapfrog from a 500-gallon tank to building a 20- or 50-million-gallon biorefinery. Moving from a successful demonstration plant to the next level involves finding a construction contractor willing to assume the risk that the demonstration plant can be replicated on a commercial scale.

A related challenge confronting cellulosic ethanol is the absence of a traditional engineering, procurement and construction (EPC) contractor. The EPC is a contractual arrangement signed by the builder and technology provider to guarantee the plant's timely delivery and performance to specifications. The contract is necessary to plant developers as they attempt to obtain financing.

### **The "full wrap"**

Building a traditional ethanol plant involves working with one of the small handful of process providers that offer turn-key design and construction services under a design-build contract. The contract covers the process provider's core technology and the "balance of plant," which often includes every plant system, from grain receiving to fuel storage and all points in between. The process provider is then responsible for ensuring that the fully integrated plant is constructed on time to contract specifications and is fully operational at the specified (nameplate) production capacity. This engineering, procurement and contracting agreement is known commonly as a "full wrap."

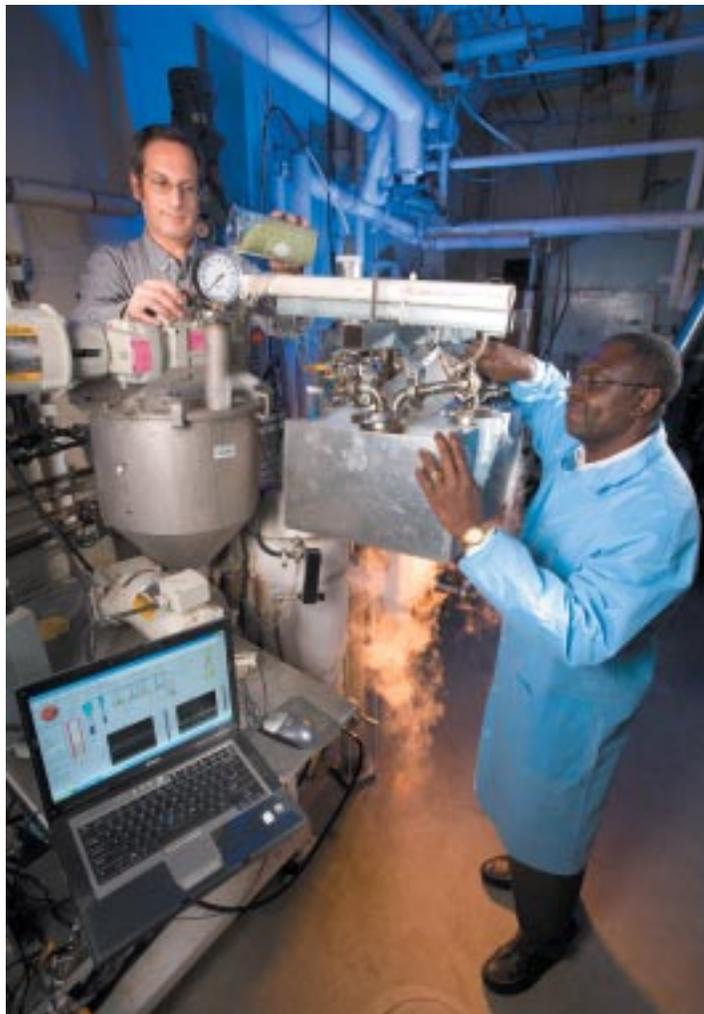
But as industry expansion strains the ability of most

process providers to supply full-wrap services, many technology firms are shifting away from active involvement in design and construction. Firms now focus instead on licensing their core technologies and leave the design and construction of the facility to third-party engineers and contractors. The responsibility and risk of ensuring that all of the disparate systems, buildings and equipment fit together into an integrated operating facility now lie with the owner.

An EPC for a cellulosic plant must embrace elements of conversion risk that protect against inadequate throughput efficiency. Also, liquidated damages (see below) will need to be assessed to repay the debt should the project fail to operate as contractually specified.

Lenders and private equity funds prefer to back an “early development” project — a single unproven technology or process that is part of a system of proven technologies — rather than a “revolutionary” system. However, with the appropriate guarantees (and sufficient reserves), the uncertain elements of the unproven technology can be “wrapped” in with the final performance of the project and proven technologies.

Revolutionary systems are ideally small-scale venture capital investments that range from \$5 million to \$7 million, rather than large project transactions that involve a 20-year payout. Generally, the limit for venture capital is about \$50 million and requires a 25- to 30-percent return on



*Engineers Neil Goldberg (left) and Akwasi Boateng operate a thermo-chemical reactor they designed and built for converting crop residues into renewable bio-oils and fuels. Top: Elite bioenergy switchgrass in eastern Nebraska. USDA/ARS photos*

investment. There is another rub for cellulosic ethanol. For even a relatively modest, commercial-scale cellulosic ethanol biorefinery of 25 to 40 million gallons per year, capacity is expected to cost upwards of \$300 million.

### **Expecting quick returns**

However, perhaps an even greater problem with venture capital financing of a cellulosic project is the expectation of a quicker return. A venture capitalist expects a technology investment to be a means to build a company and gain significant value from the relatively quick selling of either many units of the business, or the entire business itself. This expectation lies in sharp contrast with a private equity investor in energy or infrastructure who looks for a return from business operations over an extended period of time.

So, unless a cellulosic plant is financed entirely from equity, at levels far exceeding those that traditional venture capital sources will support, an equity investor will expect a lender to finance construction. Otherwise, it will be difficult to persuade the equity fund to provide developmental capital.

A financing impasse can result. Lenders refuse to assume risk on unproven technologies and equity

funds won't provide funding unless a lender will finance construction.

An alternative approach might be to separate the unproven elements from the rest of the project. The proven portion of the project might then be financed using traditional sources

## Biorefinery projects awarded \$385 million

The U.S. Department of Energy recently awarded \$385 million in funds for six biorefineries developing technology for creation of cellulosic ethanol. Combined with the industry cost share, more than \$1.2 billion is expected to be invested in these six biorefineries.

- Abengoa Bioenergy Biomass of Kansas LLC, Chesterfield, Mo., will receive up to \$76 million. The proposed plant will be located in Kansas and produce 11.4 million gallons of ethanol annually and enough energy to power the facility. Any excess energy will be used to power the adjacent corn dry grind mill. The plant will use 700 tons per day of corn stover, wheat straw, milo stubble, switchgrass and other feedstocks. Investors/participants include: Abengoa Bioenergy R&D Inc.; Abengoa Engineering and Construction LLC; Antares Corp.; and Taylor Engineering.
- ALICO Inc., La Belle, Fla., will receive up to \$33 million. The proposed plant will be in LaBelle (Hendry County), Fla., and will produce 13.9 million gallons of ethanol a year and 6,255 kilowatts of electric power, as well as 8.8 tons of hydrogen and 50 tons of ammonia per day. For feedstock, the plant will use 770 tons per day of yard, wood and vegetative wastes and, eventually, energy cane (sugar). Investors and participants include: Bio-engineering Resources Inc. of Fayetteville, Ark.; Washington Group International of Boise, Idaho; GeoSyntec Consultants of Boca Raton, Fla.; BG Katz Companies/JAKS LLC of Parkland, Fla.; and Emmaus Foundation Inc.
- BlueFire Ethanol Inc., Irvine, Calif., will receive up to \$40 million. The proposed plant will be in Southern California, sited on an existing landfill and will produce about 19 million gallons of ethanol annually. For feedstock, the plant would use 700 tons per day of sorted green waste and wood waste from landfills. Investors/participants include: Waste Management Inc.; JGC Corporation; MECS Inc.; NAES; and PetroDiamond.
- Broin Companies of Sioux Falls, S. D., up to \$80 million. The plant is in Emmetsburg (Palo Alto County), Iowa, and after expansion, it will produce 125 million gallons of ethanol per year, of which roughly 25 percent will be cellulosic ethanol. For feedstock in the production of cellulosic ethanol, the plant expects to use 842 tons per day of corn fiber, cobs and stalks. Participants include: E. I. du Pont de Nemours and Company; Novozymes North America Inc.; and DOE National Renewable Energy Laboratory.
- Iogen Biorefinery Partners LLC, of Arlington, Va., will receive up to \$80 million. The proposed plant will be built in Shelley, Idaho, near Idaho Falls, and will produce 18 million gallons of ethanol annually. The plant will use 700 tons per day of agricultural residues, including wheat straw, barley straw, corn stover, switchgrass, and rice straw as feedstocks. Investors/partners include: Iogen Energy Corp.; Iogen Corp.; Goldman Sachs; and The Royal Dutch/Shell Group.
- Range Fuels (formerly Kergy Inc.) of Broomfield, Colo., will receive up to \$76 million. The proposed plant will be constructed in Soperton (Treutlen County), Ga., and will produce about 40 million gallons of ethanol and 9 million gallons of methanol annually. As feedstock, the plant will use 1,200 tons per day of wood residues and wood based energy crops. Investors/participants include: Merrick and Co.; PRAJ Industries Ltd.; Western Research Institute; Georgia Forestry Commission; Yeomans Wood and Timber; Treutlen County Development Authority; BioConversion Technology; Khosla Ventures; CH2MHill; Gillis Ag and Timber. ■

and the unproven portion using equity. Overall, the project is a blend of equity and traditional project financing.

A problem with this approach, however, is that equity stands in line behind any debt should the project fail and go to foreclosure or liquidation. The challenge with this structure is to provide a return with a reasonable risk premium, given the enormous scale of the project. Apart from the federal government or a deeply-pocketed construction contractor to guarantee performance, such a project is very unlikely to secure private equity funding.

### Liquidated damages, related issues

One way to get past the technology risk issue might be to

negotiate with the contractor or the equipment vendor to assume the risk and pay the risk bearer in the form of liquidated damages. Damages are said to be liquidated when the amount of damages recoverable in the event of a specified contract breach (for example, late performance at construction, or inefficient performance at conversion) is agreed at a specified date.

Two conditions must be met to uphold liquidated damages. First, the amount of the damages identified must roughly approximate the damages likely to be incurred by the party seeking relief in the event of failure. Second, damages must be sufficiently uncertain at the time the contract is made that both parties recognize the significant benefit of

being spared any future difficulty of estimating those damages.

Liquidated damages for construction risk are generally written to account sufficiently for each phase of construction risk: mechanical completion, substantial completion and final completion. Liquidated damages for mechanical completion,

when the plant is fully ready to start operations, should be no less than the complete cost of construction. Otherwise, the exposure to investors is too great.

Liquidated damages for substantial completion, where the plant is demonstrated to fully work at a specified target capacity — 50 percent, for example — ranges from 10 to 20 percent of construction costs. Final completion involves the plant fully operating at the nameplate capacity specified in the contract, and generally requires liquidated damages of not less than 10 percent.

## Farm Bill supports cellulosic ethanol development

Agriculture Secretary Mike Johanns says the Administration's new Farm Bill proposal would dramatically expand the federal commitment to renewable fuels. He notes that a series of Farm Bill forums showed "real excitement about renewable energy" and the new funding it provides for renewable energy research, development and production — much of it targeted to cellulosic ethanol.

The Farm Bill would establish a program to invest \$25 million a year for four years for incentives to encourage the development and expansion of cellulosic ethanol production. In addition, the BioPreferred Program would be reauthorized and would provide \$18 million over 10 years to expand the use of biobased products by the federal government and to speed the development and adoption of these products in the private sector.

Among other energy provisions of the Farm Bill are measures to:

- Include a biomass reserve within the Conservation Reserve Program (CRP), under the proposed Conservation legislation.
- Reauthorize the Renewable Energy Systems and Energy Efficiency Improvements grants, loan and loan guarantee programs to provide an estimated \$2.17 billion of cellulosic ethanol loan guarantees and \$500 million for grants, under the proposed Rural Development legislation.
- Revise the Biomass Research and Development Act of 2000, providing \$150 million for grants focusing on cellulosic ethanol production, under the proposed Rural Development legislation.
- Include a Bioproducts Research Initiative, providing \$500 million in grants to increase the cost-effectiveness of bioenergy, in the proposed Research legislation.
- Provide \$150 million for Forest Service research into better ways to use woody biomass for the production of bioenergy, in the proposed Forestry legislation. ■

### Other ways to allocate risk

Suppose, however, that a project is sufficiently interesting for a venture capitalist and a lender to consider financing, but the lender is unwilling to assume the technology risk. A project finance expert can parcel out, or deconstruct, and distribute the risks of a project among many takers: insurance providers, ethanol or specialty product marketers, sponsors, construction contractors and technology licensors.

Generally, however, it's the construction contractor, equity provider and — on rare occasions — the technology providers that are the principle risk takers in a project. While insurance providers have also attempted to wrap the risk of new technologies into projects, insurance is generally considered ineffective protection because of the gaps in coverage. Moreover, a performance bond on a construction contract is significantly easier to collect than an insurance contract which may have many outs.

### Federal government role

Many are looking to the federal government to assume a significant part of the risk in developing renewable energy technology. This expectation is being fulfilled in the proposed Farm Bill, which includes billions of dollars for renewable energy (see sidebar), and by a \$2.1 billion guaranteed loan program under the U.S. Department of Energy. To qualify for loan guarantees under this program, a project must meet two basic requirements:

- It must avoid, reduce or sequester pollutants and gases, and
- It must use new, or significantly improved, technologies when compared to those in general use in the marketplace.

However, lenders have been loath to participate in the program because the guarantees are structured to put the lender in the "first-loss" position in the event of foreclosure. The government guarantee is for up to 80 percent.

Because the U.S. government takes the first lien on the project, a lender would be left with a second lien for the non-guaranteed 20 percent of the loan value. For a \$400 million

*continued on page 40*

# Producer ownership of ethanol a major plus for rural America

By Dan Campbell, Editor

**R**ural America reaps substantially more benefits from the biofuels revolution when ownership is held on Main Street rather than Wall Street, according to John M. Urbanchuk, director at consulting firm LECG LLC, who called ethanol “an engine for the economic revival of rural America.” Speaking in March on a biofuels panel during the 2007 USDA Ag Outlook Forum in Arlington, Va., Urbanchuk said biofuel production is bringing new vitality to rural towns, and even helping to attract young people back home who had moved away to find jobs.

While the long-term outlook for ethanol production looks promising, the next two years could be a little bumpy, added Tom Houser, a biofuels lending specialist with CoBank in Omaha, Neb.

Another panelist, Ryland Utlaut, president of Mid-Missouri Energy (MME) in Malta Bend, Mo., provided a step-by-step overview of how producers organized and financed their plant. He also discussed how the co-op’s sudden success has attracted buy-out offers from outside (non-producer) investors.

Panel moderator Jack Gleason, USDA Rural Development’s administrator for Business and Cooperative Programs, noted that there is a direct link to increased numbers of rural jobs created when ethanol plants are under local ownership, and stressed that USDA is promoting local ownership through its programs, an example being the financial help it provided to Mid-Missouri Energy.



*The Mid-Missouri Energy ethanol plant is considering doubling its annual production capacity to 100 million gallons. USDA photo by Dan Campbell*

How important are these biofuels jobs in rural areas? Consider this: for the 40 jobs created at the Missouri ethanol plant, Utlaut said the co-op received 450 applications.

## Study sees major gains from local ownership

Urbanchuk was hired about a year ago by the National Corn Growers Assoc. to study the impact of absentee vs. local ownership of ethanol plants. While rural America benefits from both types of ownership, Urbanchuk said that more value-added dollars clearly stay at home when the ownership is held by a producer-owned co-op or LLC than if owned by outside investors.

Today, nearly half of ethanol plants and 38 percent of total ethanol production are farmer-owned, he noted. But that is up sharply from just five years ago, when producers owned about

20 percent of ethanol production. However, total ownership in farmer hands, as a percent of production, is likely to drop in the future as plants get larger and more expensive to build, “although I hope I am wrong about that,” he said.

The rapid increase in plant building costs — the average is now \$2 per gallon of plant capacity vs. \$1.35 just a few years ago — added to the fact that the average size of a plant has increased from 50 million gallons to more than 100 million gallons — is making it hard for farmers to compete with outside investors.

Investment firms have ready cash at hand and often have unlimited borrowing capacity, whereas farmers usually must undertake lengthy equity drives to raise money to build a plant.

Despite the expanding size of new plants, Urbanchuk

stressed that a well-managed, 50-million-gallon plant is still highly viable.

“In many respects, the economic impact of a farmer-owned and absentee-owned ethanol plant on the local community is similar,” Urbanchuk said. “There are, however, two significant differences that increase the impact of a farmer-owned plant: larger local expenditures and dividend payments. Since a farmer-owned cooperative ethanol plant is literally a member of the community, the full contribution to the local economy is likely to be as much as 40 percent larger than the impact of an absentee-owned corporate plant.”

Not only are more jobs associated with a locally owned plant, many of those are the higher paying jobs. Accounting, administrative and marketing functions are much more likely to be filled locally if farmers own the plant, he said. Financing of a farmer-owned plant is also more likely to be provided by local lenders.

Farmer-owners of a cooperative participate in the profits of the ethanol plant through dividends. The distribution of dividend payments represents additional income to the individual farmer-owners and their families, and these dollars

turn over many times in a local community or region. With absentee ownership, most dividends instead flow back to the corporate headquarters.

### Crunching the numbers

Urbanchuk’s analysis was based on a plant producing 50 million gallons per year in a facility that cost \$2 per gallon of capacity to build, with depreciation over 15 years. He figured 60 percent debt financing over 10 years at 8.5 percent interest, with borrowing done locally for the co-op, or outside the area by the absentee-owned plant. He calculated that the farmer-owned plant would set aside 20 percent of the net margins as retained earnings, with the remainder paid as dividends to the farmer-owners. Total operating expenditures were estimated at \$78.2 million for the absentee-owned plant vs. \$84 million for the farmer-owned plant.

Based on this model, Urbanchuk calculated that the plant would have revenue of \$120.7 million if the fuel sold for \$2 per gallon and earned an additional 35 cents per gallon from dried distiller grains (DDG). Net margins would have been \$28.11 million in 2006, or 55 cents per gallon. Retained

## CHS: Make ethanol-blended fuel mandatory

The best way to support continued development of the ethanol industry is to require that all gasoline sold nationwide contain a set amount of ethanol, probably 10 percent, with 85- and 20-percent ethanol blends also available in states that want to go further, according to CHS Inc. President and CEO John Johnson. Speaking at USDA’s annual Ag Outlook Forum in March, Johnson said a nationwide mandate of 10 percent ethanol would require 14 to 15 billion gallons of ethanol production annually. Current annual production is about 5 billion gallons, but rising steadily.

“We believe this kind of across-the-board national standard is the best way to get every driver in our nation to embrace renewable fuels,” said Johnson, who leads the nation’s largest federated farmer co-op, representing 350,000 farmers and ranchers.

“We’re also seeking continued tax assistance for ethanol and biodiesel production and blending, as well as economic incentives when companies substitute an alternative energy source for petroleum or natural gas-based production,” he said. CHS is advocating accelerated investment in cellulose-based ethanol research and development.

CHS owns 22 percent of U.S. BioEnergy, the second largest ethanol producer in the United States, with 650 million gallons of production either on-line or in process. But, unlike most others in the renewable fuels industry, CHS also has a major stake in fossil fuel refineries and distribution. “So, CHS is deeply involved in literally every aspect of



CHS President and CEO John Johnson, speaking at the USDA Ag Outlook Forum, called for an ethanol blend of at least 10 percent in all gasoline. USDA photo by Ken Hammond

these complex businesses, from the farm field to the gas tank,” Johnson said.

The CHS system has been the leading marketer of ethanol-blended fuels for 30 years, he noted. Despite the vast potential of renewable fuels, many challenges must be met, he noted, to build an industry that is resilient enough to withstand the wild swings of the fuel market.

“During just the past six months, we’ve seen wild economic swings that can impact this business,” Johnson said. “When corn prices were \$2 in mid 2006 and crude oil reached \$70 a barrel, the economics were extremely

earnings would be \$5.6 million, with an available dividend of just under \$22.5 million.

The economic impact of co-op dividend payments would generate \$171.2 million in GDP for the co-op vs. \$123.2 million for the absentee-owned plant. There would also be an additional 648 jobs in all sectors of the entire local economy, Urbanchuk said.

### Tapping rural equity

Ryland Utlaut said the energy picture was vastly different just four or five years ago, when producers in Missouri started pursuing the construction of a new ethanol plant (only the third one in the state). At that time, crude oil prices were hovering around \$40 a barrel, a bushel of corn averaged \$1.80 and ethanol was selling for \$1.25 a gallon. At those prices, Wall Street investors were still very much on the sidelines and farmers were on the playing field.

“Our challenge in building Mid-Missouri Energy (see also Sept./Oct. 2006 *Rural Cooperatives*) was to find enough investors to build a \$60 million, Fagen-ICM designed plant,” he said. The plan was to raise \$24 million in equity and

borrow the other \$36 million. The minimum investment was two shares at \$10,000 each. Members also had to make a commitment to deliver corn to the plant, and are paid 80 percent on delivery.

The co-op got bankers and ag lenders involved at the get-go, inviting them to the pre-kickoff meetings for the equity drive, where the business plan was shared with them.

One of the first hurdles was to secure funds to conduct an equity drive of more than 100 producer meetings. Area banks provided the co-op with a line of credit of up to \$500,000. The co-op’s 15 board members guaranteed \$150,000 of that total. The co-op also received a \$189,000 grant from the Missouri Small Business Development Authority.

The co-op collected \$30,000 in donations from community organizations that wanted to support the project, including \$25,000 from Catholic Charities (which has since been repaid \$50,000 by the co-op). Members also paid a \$500 membership fee to join the co-op.

Grain merchandisers were among those the co-op forged early strategic alliances with. “MME buys grain only from shareholders and grain merchants,” Utlaut stressed. “We did

attractive. Investors of all types raced to grab their share; plans for new and expanded ethanol production were announced almost daily.” Between 2004 and 2007, non-traditional investors pumped \$1.9 billion into the industry, Johnson noted.

But when corn hit \$4 a bushel and crude oil prices fell into the low \$50s in 2007, the economic equation changed quickly, he said. [As of this writing in late April, oil prices were soaring again.] “The picture was suddenly far less attractive to those seeking quick returns and who were unprepared or unwilling to be part of what essentially is a commodity business subject to market-driven highs and lows.”

Johnson said CHS sees the nation’s energy future “not as a single pathway, but as a four-lane superhighway, with each lane representing one component of the energy solution, but all headed in the same direction.” Those four lanes are: fossil fuels, renewable fuels, emerging energy technologies and conservation.

With 20 percent (and expected to go much higher in coming years) of the nation’s corn already being diverted from traditional channels to ethanol, concerns are rising about the availability of adequate grain supplies for other customers, including domestic livestock producers and export markets.

Johnson said other complex issues also must be addressed, including transportation logistics for both renewable fuels production and dried distillers grains,

along with concerns about water use in areas with limited water supplies.

“I am convinced that research now underway will deliver increases in corn yields and expand the production geographies,” Johnson said. “When they are given the seed genetics with which to do the job, I have every confidence in the ability of the American farmer to produce bountiful crops that can both feed and fuel the world.”

Johnson said he could not predict a time frame, but that “Clearly, energy research will lead us to other renewable fuel feedstocks, including cellulose, switchgrass or even animal waste.” He also sees great potential for wind power, conversion of coal to gas and other technologies.

On the conservation front, agriculture is helping to lead the way in reducing fuel consumption, Johnson said. “More seed genetics, more efficient equipment and fuel-conserving farming practices have cut overall farm diesel consumption in the past two decades.” He cited research showing that in 2004 alone, no-till farming practices gained through weed-resistant crops reduced greenhouse gas emissions by 10 million metric tons. “That’s the equivalent of taking 20 percent of our nation’s cars off the road for a year.”

Ethanol and biodiesel are here to stay, Johnson stressed. “In the end, I believe as industries and as a nation, we have the commitment and ingenuity to tackle all of these issues, but there are no simple solutions.”

—By Dan Campbell ■

not want to knock any grain merchants out of business, as has occurred elsewhere when large amounts of grain have been diverted to ethanol plants.”

Utlaut said the project was pursued much like “an old-fashioned barn raising.” The community responded with ongoing, supportive coverage in local newspapers and radio stations. Co-op members were featured on radio call-in shows. Service clubs and farm equipment dealers threw their support behind the co-op.

USDA Rural Development provided a big boost — psychological as well as financial, according to Utlaut — when it provided the co-op with a \$500,000 Value-Added Producer Grant in June 2004.

The first round of equity-drive meetings raised \$16 million. There was a 60-day extension, during which another \$20 million was raised. It was followed by yet another 60-day extension, during which another \$24 million was raised. Ag Star, a Minnesota-based cooperative bank, committed to lend the co-op the other \$36 million.

The plant’s ethanol is also marketed through a cooperative: the Renewable Products Marketing Group.

The plant went into operation just in time to reap the rewards of a major run-up in ethanol prices, and members were delighted with a 31 percent dividend in the first year of operation. MME is considering doubling its 50-million-gallon production capacity, financing the new construction by using retained earnings and new borrowing. The other alternative is to use the dividends to pay off its loan from AgStar ahead of schedule. “It’s a tough decision,” Utlaut said.

Such tremendous success soon attracted buyout offers from outside investors — at least one offer being for 10 times the investment cost. “There were plenty of people saying we would be fools to not take such a price,” Utlaut recalled. Others felt it was in the best long-term interest of the producers and the local economy to maintain producer ownership. However, most of the offers began dissipating when ethanol prices began to drop and amid ongoing press reports about the industry being overbuilt.

Buyout offers are especially tempting to those producers who borrowed most of their investment money — and some borrowed all of it, Utlaut said. On average, co-op members invested \$33,000. “The co-op’s policy is to return as much as it can as dividends, since many need that money to service the debt.”

### Perfect weather, or storm brewing?

CoBanks’s Tom Houser provided the perspective of the nation’s largest ethanol financier, with involvement in nearly 50 plants and well more than \$1 billion in debt funding so far. “Biofuels are here to stay, and the industry will continue to grow,” Houser predicted, noting that “well-located, well-capitalized, low-cost producers” will do well.

“My concern is not for the long term, but for the next two years,” Houser said, adding “the industry scares me for the next couple of years. Are we faced with perfect weather, or a

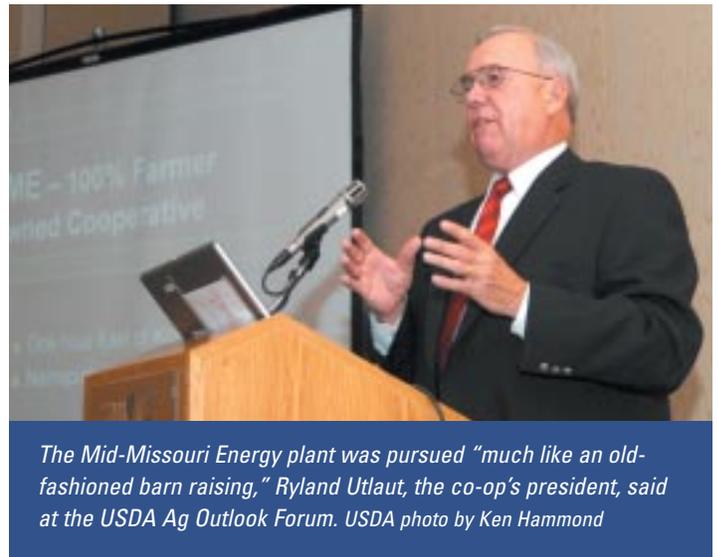
perfect storm,” in terms of production supply/demand and industry economics?

The nation’s 113 ethanol plants are currently producing more than 5 billion gallons of ethanol annually, but with another 78 to 84 plants under construction (and others expanding), Houser said production will increase to 11 billion gallons in just two or three years.

The primary risk plant owners face, he said, is the volatility of oil prices and the related impact on ethanol market values. Houser said the increase in oil prices from \$40 to \$60 a barrel completely changed the dynamics of the ethanol industry by attracting more outside investors.

Corn prices are, of course, the other big factor impacting ethanol profitability. Ultimately, higher corn prices could slow the expansion of the industry, Houser said.

The DDG market also has risks. The market has



improved greatly in recent years with more livestock feeders buying DDG. But with so many new plants being built, the DDG market could become saturated.

Transportation logistics are also challenging the industry to come up with better ways of getting ethanol from plant to refinery. Rail shipments of ethanol have tripled since 2001.

In 2010, the current 54-cent-a-gallon ethanol subsidy could end, although Houser said he expects it to be extended. Ethanol processing technology is constantly being improved to require less energy, he added, which bodes well for the future of the industry.

As for the long-term future of the ethanol, it may well be in cellulosic production — fuel made from grasses, corn stover and wood wastes. It’s not so much a question of “if” but “when” cellulosic ethanol becomes part of the industry, Houser predicted. However, he also emphasized that significant technological progress must be made for production to be economical compared to corn. In addition, infrastructure/ logistical issues associated with gathering and transporting feedstock will also require substantial investment and time to evolve (see related article, page 14). ■



# Four high-priority responsibilities for effective co-op management

By Jim Wadsworth, Agricultural Economist  
USDA Rural Development

**C**ooperative management has many responsibilities to fulfill to keep the business running smoothly. These responsibilities hinge on overseeing day-to-day operations, sound financial management and making the right administrative decisions. Management's ability to meet the following high-priority responsibilities is also critical to a co-op's success or failure:

- Responsibility to the board of directors;
- Responsibility to members;
- Responsibility to employees and
- Responsibility to the community.

If these responsibilities are all met, management will create an effective cooperative business environment that will greatly increase the probability for success.

## Responsibility to board

Cooperative management's overall responsibility is to the board of directors. The board hires and evaluates management and institutes the policies for governing the cooperative. The general manager or CEO must adhere to these policies while overseeing and managing the cooperative's operations. The manager should be transparent in relaying information to the board in a timely fashion. This allows the board to make decisions or determine policies, if necessary, for the manager to follow.

The manager also has a responsibility to the board to hire employees qualified to carry out co-op operations and to properly train and manage them.

Providing the board with annual budgets and operational plans is another basic responsibility of management. Management should ask for feedback from the board and work with the directors on developing a strategic plan, which management must implement.

## Responsibility to members

Cooperative managers must be tuned-in to their members through effective member relations and communications programs. Open communication channels with the board of directors, members, employees and the community are absolutely essential for cooperatives.

Members must be made to feel like an intricate and vital part of the cooperative. Management must let members know they are the co-op owners and its most valued asset, ensure that employees treat members with respect, and constantly gauge whether the co-op is meeting member needs. This entails ensuring that employees fully understand how their company differs from others, and what is expected of them. Co-op employees need to go the extra mile to deliver good customer service, because members aren't just customers, they are the owners.

Communication with members is an ongoing process throughout the year — it does not begin and end with the manager's report at the annual meeting. Most co-ops use a member newsletter or magazine, e-mail and (increasingly) a Web site to keep members up-to-date on the functioning of their co-op.

Providing a reliable method for members to communicate back to management is just as important. Two-way

communications is probably more vital to a co-op than to other types of business. Member committee meetings are often a vital way for management to get regular, detailed feedback from the field. Board meetings, of course, can fill a similar role, but committees can focus on specific subject areas and provide feedback on them, allowing more time at board meetings for conducting other business.

## Responsibility to employees

Management also has responsibility to employees – the

*Managers must be tuned-in to their members through effective member relations and communications programs.*

*continued on page 41*

Forest land in Washington provides year-round recreation opportunities.  
Photo courtesy Okanogan County Tourism Council.

*Diverse  
Washington  
co-ops show  
business model  
flexibility*

# From Forest



**By Dan Schofer**

Co-op Development Specialist  
USDA Rural Development  
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**A** number of innovative cooperatives have been formed or expanded in Washington state in recent years to meet widely divergent needs, ranging from those of forest landowners to the fishing industry. Working with these co-ops and producer-owned businesses is USDA Rural Development and its frequent partner, the Northwest Center for Cooperative Development (NWCDC).

“In the Northwest, we have a very large and growing interest in co-ops,” explains Diane Gasaway, executive director of the Center. “Our goal in recent years has been to build up our abilities and capacity to deliver quality assistance in areas such as feasibility studies and board training.”

NWCDC has been helping people in Washington and the Pacific Northwest since 1979. The staff provides a wide variety of in-house experience and expertise, including financial, organizational, co-op development, business, educational and project management, or a combination of the above.

Jon DeVaney, USDA Rural Development state director for Washington, says, “USDA Rural Development is bringing a variety of tools to the task of supporting agricultural and rural cooperatives in Washington. By combining direct technical assistance from Rural Development staff, ongoing support for the NWCDC and project-specific financial assistance through our Business and Cooperative Programs, we have been able to leverage these resources to the benefit of rural Washington residents.”

Following are some examples of co-ops NWCDC and USDA have helped.

### **Methow Forest Owners Cooperative**

This is a co-op of small-scale forest landowners in rural north-central Washington, near the communities of Winthrop and Twisp. The co-op was created to provide a coordinated effort to help small-scale forest owners promote forest health while managing risk of impact from wildfires.

The co-op, which started with eight members but now counts 60, provides services such as thinning crews, preferred logging contractors and consultations with a contract forester, all at discounted prices. Becoming a member entitles the landowner to a free initial two-hour consultation with a forester.

# To Ocean



*Salmon harvested by a co-op on the Makah Indian Reservation are ready for processing.  
Photo courtesy Cape Flattery Fishermen's Co-op*

Creating a market for small-diameter timber is a major challenge in rural Northwest communities. The co-op is assisting its members with market access to wood flooring manufacturers for small-diameter Douglas fir.

Many absentee landowners live along the coast and west of the Cascade Range. Most do not actively manage their forest land, and even locating and contacting them can be a challenge. To help, the co-op has developed a database of landowners in the region which it is using to educate landowners about the importance of promoting forest health.

The forest co-op has partnered with local community and economic development organizations, including the USDA Forest Service, Washington State Department of Natural Resources, Methow Fire Planning Group, Sustainable Northwest, Okanogan Conservation District and Okanogan Communities Development Council. Local communities benefit from the reduced fire hazard, improved forest health and forest restoration.

NWCDC provided funding for the creation of the steering committee, completion of the feasibility study and development of a business plan. It is presently supporting a public outreach and education campaign.

“The cooperation of private landowners has been integral to coordinate ecosystem restoration, fire safety, energy

security, and community development,” says Lorah Waters, general manager of the co-op.

## **Last Mile Electric Cooperative**

NWCDC worked closely with the Last Mile Electric Co-op to organize stakeholders, develop a board and provide assistance for an initial manager and administration. Members include utility companies, electric cooperatives, nonprofit organizations and government agencies. The mission of the co-op is to provide affordable, reliable, renewable, cost-based electricity to rural and urban customers.

The co-op focuses on: (1) developing small farm and community-sized wind projects; (2) assisting members in researching possible renewable energy projects and (3) developing utility-scale electric projects by and for Last Mile members.

Members of the co-op have formed White Creek LLC to develop an initial 200 megawatt, utility-scale wind project in Roosevelt, Wash., on the Columbia River. Currently under construction, this project will be the largest publicly owned wind project in the country. The project currently anticipates that 100-200 megawatts will be on-line in 2007. An additional 100 megawatts have been sited and will be

developed when commercially feasible.

Dave Warren, the original Last Mile manager, explains, “There have been some bumps in the road, but Last Mile is a great model for large and small utilities to work together on renewable energy projects.”

### Okanogan Producers Marketing Assoc.

Located in north-central Washington, this cooperative includes six family-owned fruit and vegetable farms. The co-op enables these farmers to market their produce collectively to mid-sized grocery chains, CSA customers in Seattle and Spokane and a farmers’ market in Des Moines, Wash. (between Tacoma and Seattle).

The farmers’ market was a demonstration project for Farming and the Environment, a Seattle based nonprofit organization. During the growing season, two members take the co-op’s produce to the farmers market every Saturday, allowing the other members to continue working their farms.

“We are hoping to do more marketing at roadside stands for the local community and tourism,” says co-op member Tom Cloud. “If we want food to be available locally, farmers have to stay in business.”

NWCDC conducted a feasibility study and business plan with input and local research provided by the steering committee and membership. The success of the co-op is credited with saving one family farm, and improving the income of the other members.

### Value-Added Projects

USDA Rural Development’s Value-Added Producer Grant program has also played a vital role in promoting co-op and other producer-owned efforts to increase the value of Washington’s farm, forest and aquatic resources. Following are some examples of how those funds are used.

### AMF Farms

AMF Farms in Burlington, Wash., used a USDA Value-Added Producer Grant in 2005 to conduct a feasibility study and business plan for branded produce. Co-founders Michele Youngquist and Liz Mitchell had previously developed their signature Pumpkin Patch Pals. They also created a “Fruit Deco” process, a proprietary process used to emboss a variety of fruits and vegetables with various edible logos, slogans and other designs.

The “pals” are a vibrant crew of individually hand-



*Selective thinning and other forest management practices espoused by the Methow Forest Owners Co-op (MFOC) are helping to improve forest vigor, as on this member’s land.  
Photo courtesy MFOC*

## USDA programs support co-op development, expansion

Assistance rendered to the co-ops and producer-owned businesses profiled in this article have benefited from three programs administered, or supported, by USDA Rural Development.

- The Value-Added Producer Grant Program (VAPG), administered by USDA Rural Development, provides funds for business planning activities, including feasibility studies and business plans as well as working capital for marketing value-added, agricultural products and farm-based renewable energy.
- The Northwest Cooperative Development Center (NWCDC) is a nonprofit organization funded by the USDA’s Rural Cooperative Development Grant (RCDG) program to foster community economic development, primarily through cooperative development.
- USDA cooperative development specialists provide in-house expertise for grassroots technical assistance, as well as informed input and oversight into both the RCDG and VAPG programs. ■

decorated, painted mini-pumpkins with happy character faces. Over the years, the Pumpkin Patch Pals have been successfully marketed throughout the United States, Canada and even several Pacific Rim countries.

USDA funding enabled AMF Farms to expand its promotion to apples, pears and other fruit. These produce items are marketed under the Farm Fresh Palz. A website and promotional video were created to market fresh produce to children, parents, and teachers. A marketing relationship with Haggen Food and Pharmacy, a local grocery chain, resulted in increased sales and revenue. An in-store consumer survey



*Tribal membership is required to join the Cape Flattery Fishermen's Co-op, which now has about 30 members. Photo courtesy Cape Flattery Fishermen's Co-op*

showed positive reactions from parents of young children and teachers.

AMF Farms recently started a pilot project offering free fruit and vegetable snacks to elementary school students in Skagit County, Wash. Local businesses are sponsoring the project, which will provide a snack once a week to around 5,500 children. "Children are facing serious nutritional problems and being bombarded with influence from all directions," says Michele Youngquist. "Farm Fresh Palz will provide children an alternative snack option, as well as create nutrition awareness."

### **The Cape Flattery Fishermen's Cooperative**

This fishery co-op received a Value-Added Producer Grant in 2006 to expand operations and improve its efficiency. The co-op, located on the Makah Indian Reservation at the westernmost tip of the Olympic Peninsula, started with seven members, but has since grown to about 30 members. Tribal membership is required to join the co-op.

The co-op also buys fish directly from about 30 non-member fishermen, depending on availability of fish and market demand. Salmon, flounder, sole, halibut and cod are

dressed, boxed, iced and sold to four or five regional processors.

Before the co-op existed, the processors did not have to compete for the harvested fish. The fishermen were price takers and not price makers. The Cape Flattery co-op has given the fishermen more control over their catch and prices. In 2005, fishery co-op sales hit \$1 million. In 2006, sales soared to \$2.5 million.

The co-op also sells fillets to local restaurants, although more for the benefit of the Makah Tribal community than the bottom line of the co-op or the fishermen. "You can't get fish any fresher, unless it is still swimming," says Fred Cross, general manager, with a smile.

These are just a few examples of co-ops and other producer-owned businesses helped by USDA Rural Development and the NWCDC.

USDA/RD co-op development specialist John Brugger has played a major role in the growth of co-ops in Washington. In addition to some of the co-ops mentioned above, he has also worked with: the Sequim Lavender Growers Cooperative; Northwest Berry Cooperative; San Juan Island Energy Cooperative; North Country People's Cooperative; Madison Market Food Cooperative; Mountain Community Cooperative; a

community-based anaerobic digester and a community kitchen. He was also on the NWCDC advisory board.

Brugger recently moved on to become USDA/RD's director for the Community and Facilities Program in Oregon, but the fruits of his work will continue to benefit the people of Washington for many years to come.

#### **Partners Contact Information:**

- USDA Rural Development: [www.rurdev.usda.gov](http://www.rurdev.usda.gov);
- Northwest Cooperative Development Center: [www.nwcddc.coop](http://www.nwcddc.coop);
- Last Mile Electric Cooperative: [www.last-mile-electric-coop.org](http://www.last-mile-electric-coop.org);
- Methow Forest Owners Cooperative: [www.okanogan1.com/forest/aboutus.html](http://www.okanogan1.com/forest/aboutus.html);
- AMF Farms: [www.farmfreshpalz.com](http://www.farmfreshpalz.com); and [www.pumpkinpatchpals.com](http://www.pumpkinpatchpals.com);
- Cape Flattery Fishermen's Cooperative: [capeflattery@centurytel.net](mailto:capeflattery@centurytel.net).



# Wisconsin farmers, small businesses benefiting from new health-care co-ops

By Anne Todd,  
USDA Rural Development



Wisconsin is the first state to use the power of cooperatives to bargain for adequate, cost-effective health insurance for agricultural producers and small businesses. The concept of using group purchasing power to bargain for lower health insurance rates is not new. However, prior to the enactment of Wisconsin's landmark Co-op Care legislation, only large organizations had the ability to conduct these negotiations. Co-op Care extends those market concepts to help smaller scale businesses, including farmers and the self-employed.

The Farmers' Health Cooperative is Wisconsin's first health purchasing co-op dedicated to farmers and agri-businesses. Its formation was made possible by the Co-op Care law. Like other co-ops, the Farmers' Health Cooperative will be owned and governed by its members, who will be directly involved in future financial and benefit-package decisions. The initial cooperative board includes six producers and three staff members of the Wisconsin Federation of Cooperatives (WFC), the statewide advocacy association for cooperative businesses.

## Health co-op strikes chord with producers

After three years of extensive development work by WFC and a number of dairy, farm supply and farm credit co-ops, FHC health insurance plans became active on April 1. Within just two days, thousands of people had already requested information about the program, says project coordinator Katie Mnuk. "This shows a clear demand from farmers and agri-businesses for affordable health insurance coverage," says Mnuk.

The co-op's mission is to provide Wisconsin's 70,000 farmers — and the agri-businesses that directly serve them — with access to affordable, comprehensive health insurance. Farmers' Health Cooperative is designed to use its power as a cooperative entity to bargain for cost-effective coverage and increase health care options for its members.

About 35 town meetings were held across the state during the spring to discuss the plan with producers and rural small business owners. WFC President and CEO Bill Oemichen

says attendance was well beyond expectations. In the Green Bay area alone, more than 600 producers attended meetings during a three-day period.

After only five weeks of marketing the co-op program, the number of producers and agricultural businesses that had already signed up and paid their first insurance premiums was rapidly nearing the number projected for the first year, Oemichen noted.

The co-op's marketing effort began Feb. 19 with a press conference at the Wisconsin state capitol led by U.S. Senator Herb Kohl, Governor Jim Doyle and Oemichen.

Aetna, one of the largest U.S. health care insurers, has been selected to provide the health insurance for the cooperative. Agri-Services Agency of New York (ASA) has been selected as the plan administrator. ASA is a subsidiary of DairyLea Cooperative. Now that the plans are active, individual members can begin reaping the benefits of that group purchasing power, backed by the expertise of a health-care industry leader as their provider.

FHC offers members a choice from among six different enrollment plans, with deductibles ranging from \$300 to \$5,000. Mnuk says these plans offer more comprehensive benefits at lower prices than most could buy under an individual plan. FHC members may choose from traditionally structured, preferred provider organization plans, or take advantage of the tax benefits available through coverage under one of two high-deductible health savings account compatible plans.

The various insurance products have been tailored to meet the specific needs of the farming community, and include coverage for injuries that occur on the farm. Also included is coverage for \$500 of preventive care per member per year, maternity care and prescription drug coverage.

One of the co-op's goals is to provide more predictable, stable rates for its members. To be eligible to join the co-op, applicants must be between the ages of 18 and 64, live or work in Wisconsin, and derive at least 66 percent of their income from farming.

An initial capitalization payment is required by state law, and is returned after members have been enrolled for three years. Other than that, the co-op charges a modest, \$2 monthly membership fee that is collected as a portion of members' health insurance premiums.

## Genesis of legislation

During the past several years, limited access to health care and rising costs have become paramount concerns for rural families. Often, producers' only option has been to buy individual health insurance plans that are significantly more expensive than the group plans available to workers in other professions.

Because farming can be dangerous (American farmers have the third-highest rate for non-fatal injuries among all occupational groups) and many producers do not carry workers' compensation insurance, the insurance industry considers farmers a high-risk group. Several studies show that Wisconsin farmers experience a high rate of work-related injuries, and that as many as 82 percent of them don't have access to 24-hour medical care because of restrictions in their policies.

WFC leaders felt that the situation was a crisis, and that a

development and formation of Wisconsin health care co-ops, and progress resumed with renewed vigor.

The Co-op Care goals are:

- To allow purchasing cooperative members to band together to purchase insurance of better value than one could purchase individually.
- To provide members with a comprehensive plan, including coverage for preventive care and prescription drugs.
- To provide members with rate stabilization.
- To advance quality measurement and consumerism in health care purchasing decisions.

Under the Co-op Care law, the cooperative's health insurers must provide insurance coverage for a minimum of three years. This is a unique provision that was intended to provide stability to the cooperative.



*Initial interest in Wisconsin's new Farmers Health Cooperative has far exceeded what was anticipated, says WFC President and CEO Bill Oemichen, flanked here by a number of state and national leaders while addressing a press conference held to launch the co-op. Photo courtesy Wisconsin Federation of Cooperatives*

solution was needed to sustain the state's farm economy and its agriculture-dependent rural communities. In 2003, WFC began seeking legislation that would help producers and small business owners obtain coverage at a lower cost. WFC worked closely on the Co-op Care legislation with state and federal officials, its member co-ops and other affiliated groups.

The Co-op Care law was signed into law by Governor Doyle in December 2003, but development efforts faltered soon after when the Wisconsin Insurance Commissioner's Office concluded that co-op members would still be considered individuals when purchasing coverage and would, therefore, be subject to individual rates and terms. The Co-op Care legislation was unanimously amended by the Wisconsin Legislature in 2005 and again in 2006 in an effort to resolve this concern.

The 2006 legislation included more effective language codifying that the cooperative entity is the purchaser, not the individual members. These revisions cleared the way for

## Healthy Lifestyles Co-op seeks lower costs

The mission of the Healthy Lifestyles Cooperative (HLC), based in Green Bay, is to stabilize insurance rates through cooperative purchasing, while also emphasizing the need for members to take personal responsibility for their well-being by maintaining a healthy lifestyle. The focus on wellness is what makes HLC unique.

Insurance plans sponsored by HLC became active on Jan. 1, making it one of the earliest health care co-ops in the state.

HLC serves a primarily urban area of northeast Wisconsin. Like the Farmers' Health Cooperative, HLC also uses the collective power of a group of employers, who pool their resources to purchase coverage as a group. Membership is open to self-employed people, for-profit or nonprofit corporations, trade or labor organizations, municipalities or any partnership that does business in, or is principally located in, Brown County.

To be eligible, members must also belong to a local farm

*continued on page 41*

# Where Credit Is Due

*Russian farm credit officials study American finance model*

**By Perry Letson, Vice President for Communications**  
ACDI/VOCA



It seems like southern Illinois,” said ACDI/VOCA Vice President Fred Smith while surveying the rich black soil of Krasnodar, Russia, in 1994. But he was surprised to learn that local farmers only produced 50 bushels per hectare. Fertilizer, hybrid seed and the proper equipment for weed control were available, and the local markets were short on grain supply. “There was just no working capital in the system — no way for farmers to finance improvements,” Smith said.

Smith developed a plan for improving the availability of rural credit in Russia. It took a while to implement, but more than a decade later, the Mobilizing Agricultural Credit program, led by ACDI/VOCA, has been called “one of the most successful programs in the mission’s portfolio,” by Ray Lewman, deputy director of the Office of Economic Growth for USAID/Moscow. The Russians’ appetite for a reliable farm credit system has been whetted.



*Russian farm and credit leaders attended briefings at the Capitol in Washington, D.C., as part of their fact-finding tour to learn more about farm and rural credit in America. Photos courtesy ACDI/VOCA*

## **Credit needed in rural Russia**

Only 5 percent of the market for rural credit in Russia is currently being served. The Russian Rural Credit Cooperation Development Foundation (RCCDF), together with ACDI/VOCA, managed the groundbreaking Russian-American Loan (RAL) Program that has helped to bring rural credit to Russia.

The idea was hatched by Smith, a North Carolinian, who was frustrated by the unfulfilled potential of rural Russia. It was initially funded with loan capital from USDA and technical assistance

funds from USAID, first through the Mobilizing Agricultural Credit project and now the Cooperative Development Program.

From a starting point of \$6 million in USDA capitalization, the RAL Program now has \$10 million of equity and has successfully loaned more than \$38 million to rural credit cooperatives. About 91,000 people belong to Russian rural credit co-ops, which provide the best — and often the only — access to financing.

“While credit cooperatives improve access to credit for farmers and rural

entrepreneurs and are thus an important economic development tool, they also facilitate grassroots improvements to local civil society,” says ACDI/VOCA’s country representative, Michael Harvey.

Credit cooperatives also have a national impact. Credit cooperative leaders have become political leaders in Russia. At least one female credit co-op leader has been elected to the State Duma, Russia’s parliament. In addition, staff of the RCCDF and Union of Rural Credit Cooperatives have served as expert advisers in both the Duma and the Federation Council.

### Building a rural credit system

Given this history, ACDI/VOCA was the natural choice to organize a recent U.S. fact-finding mission for some Russian farm and credit leaders. Nine Russians, among them three republic ministers of agriculture, looked intently at the American model last November.

ACDI/VOCA President Carl Leonard welcomed the group to the organization’s headquarters in Washington, D.C., and Smith spoke of the company’s seminal work in Russia. The Russians got an overview of the U.S. farm credit system from John O’Day, former vice president of AgriBank, and a briefing on the federal government’s role in fostering cooperatives from USDA Rural Development economist James Baarda.

The first day ended with a reception, at which Asif Chaudhry, deputy administrator of USDA’s Foreign Agricultural Service, formally welcomed the group on behalf of the government. After dinner, participants took a nighttime tour of the Lincoln Memorial.

The next day the group was off to the heartland. O’Day had arranged meetings at AgriBank in St. Paul, Minn., the largest farm credit bank in the nation, with a loan portfolio of \$40 billion. The Russians were addressed (in Russian) by a bank employee who had

emigrated to the United States at age 16. C.T. Fredrickson, former bank president and former senior deputy governor of the Farm Credit Administration, had a rapt audience when he spoke about the dire U.S. farm credit crisis of the 1980s and the lessons it provided.

While the turmoil and dislocation suffered by many farm families and farm credit professionals could not be ignored, Fredrickson said a legislative remedy proved highly successful — no doubt an interesting lesson for the

*Small Plans*,” much of which is applicable to Russia as it strives to build a stronger rural credit system. Egerstrom stressed that a co-op has two main objectives: to succeed as a business and to help its member-owners succeed in their own businesses.

- John Schmitz and Tom Larson, CFO and executive vice president, respectively, of CHS, the largest U.S. farmer co-op, also addressed the group. Schmitz said that he saw great



*John O’Day, former vice president of AgriBank and now a consultant, explains the workings of the U.S. farm credit system during a briefing at ACDI/VOCA headquarters in Washington, D.C.*

Russians. He added, however, that there were dangers in the government playing too prominent a role in such situations. “Those engaged in businesses in which government policy is a large factor in determining prices, profits and asset values should always remember that the market forces cannot be suppressed by the government indefinitely,” Fredrickson said.

Other tour highlights included:

- Lee Egerstrom, business reporter for the *St. Paul Pioneer Press*, presented the Russians with signed copies of two of his influential books on cooperatives, including “*Make No*

potential for Russian agriculture, but that Soviet style co-ops, while able to perform certain governmental functions, are poorly structured to succeed as businesses in the global marketplace.

- Bob Doane, a regional manager of CoBank, provided an overview of CoBank operations, while a representative of Farm Credit Leasing Co. explained how it works with CoBank customers and others to determine if it is advantageous to lease or buy equipment. Export financing is an important part of CoBank’s portfolio, and the bank has

\$2.3 billion in lines of credit, including \$158 million in Russia. Members of the Russian delegation expressed interest in working with CoBank in importing new and used farm equipment, fertilizer and Jersey cows.

- Upon their return to the Washington area, the Russians visited the headquarters of the Farm Credit Administration (FCA) in McLean, Va., where they learned about its role as an independent regulatory agency in governing the farm credit system, as well as the nuts and bolts of rulemaking and the examination process. Several FCA officials have a keen interest in global rural finance, including Roland Smith, secretary to the FCA board, who has facilitated the short-term service of FCA staff as ACIDI/VOCA volunteers. Smith introduced one of them, Ron Boehr, who has served on six assignments in Russia over 11 years.
- Gene Swackhamer, former president

of the Farm Credit Bank of Baltimore, sketched a history in which farm credit authority migrated from the U.S. Treasury Department to USDA, and then from the FCA to the banks themselves and, more recently, to associations.

- The Russians traveled to the Maryland Eastern Shore to tour the 65-head St. Brigid's Dairy Farm in Kennedyville and some local grain and chicken farms.
- A briefing was held at the Farm Credit Council, the U.S. farm credit system's advocate in Washington. Terry Barr, economist for the National Council of Farmer Cooperatives, discussed the economics of world agricultural trade and the issues of the Doha round of trade talks.

#### Wind-up on Capitol Hill

The last working day of the tour was spent on Capitol Hill, meeting with officials of the 5.7-million-member

American Farm Bureau and staff of the Senate Agriculture Committee who explained the mechanics of the Farm Bill. The Russians were interested to hear that the House Agriculture Committee alone employs 48 full-time professional staff members. A tour of the Capitol was provided by Senator Norm Coleman of Minnesota.

During lunch at the Monocle Restaurant (considered a Hill institution) the group met with Senator Richard Lugar of Indiana, who at the time chaired the Senate Committee on Foreign Relations and who formerly chaired the Senate Agriculture Committee. Senator Lugar, who visits Russia at least once a year, listened intently as the visitors described objectives of the mission and of the progress being made in Russian agriculture.

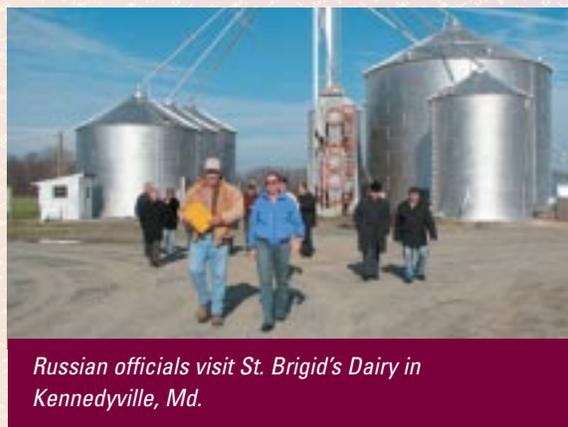
As a result of the tour, strong relationships have been established with ministers from key areas of Russia's North Caucasus region and they have found new contacts within the cooperative credit system. ■

## Exporting the U.S. cooperative model

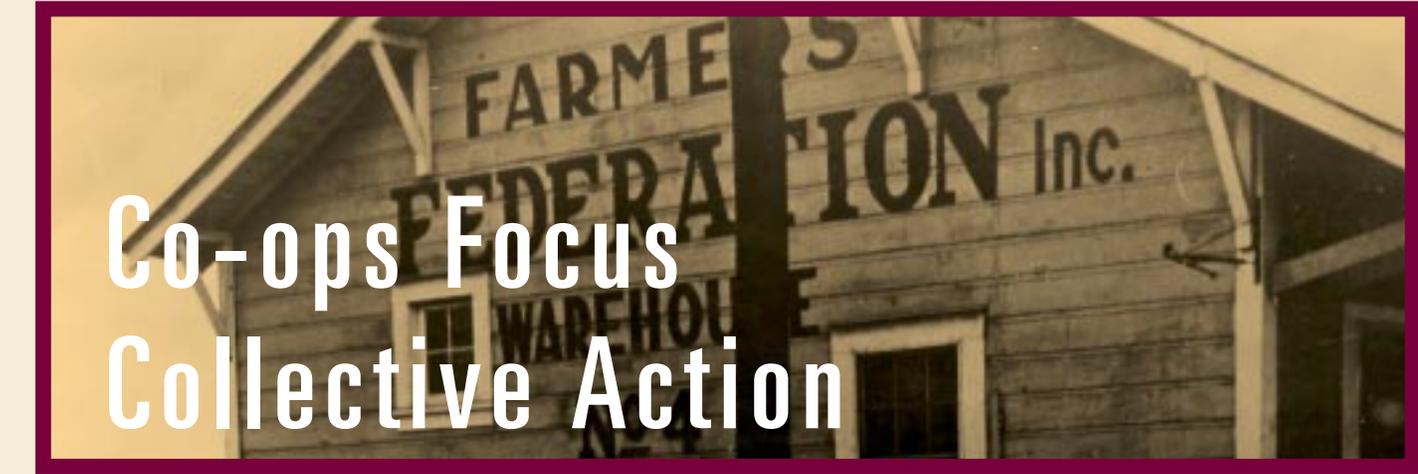
ACDI/VOCA was founded by U.S. cooperatives to bring the advantages of the co-op model overseas. True to its roots, the development organization invokes a great cooperative system that has served this country's farmers and business owners for decades and that now extends to the productive soil of Russia.

Without the support and involvement of the U.S. farm credit and cooperative community, the current Russian system would not exist and the recent fact-finding tour could not have been made. Principles of cooperation soundly trump concerns about competition or lingering cold war issues.

For 43 years and in 145 countries, ACIDI/VOCA has empowered people in developing and transitional nations to succeed in the global economy. It delivers technical and management assistance in agribusiness systems, financial services, enterprise development and community development in order to promote broad-based economic growth and vibrant civil society. ACIDI/VOCA currently has approximately 90 projects in 40 countries and revenues of approximately \$85 million. ■



Russian officials visit St. Brigid's Dairy in Kennedyville, Md.



# Co-ops Focus Collective Action

## *Business structure helps producers address power disparity in the marketplace*

**By Thomas W. Gray, Ph.D.**

Rural Sociologist

USDA Rural Development, Cooperative Programs

*Editor's note: The author welcomes feedback from readers on this article and more generally on farmers, collective actions, and social movements at: [Thomas.Gray@usda.gov](mailto:Thomas.Gray@usda.gov).*

**W**hen cooperatives are in their early formative stages, they can often resemble social movements. Social movements are a kind of group action, composed of individuals with common interests, seeking to achieve some larger socio-economic, political, and/or cultural change.

Social movements go through various stages, from pre- and early-mobilization, through organizational formation and sometimes closure. In the case of market failures and economic grievances, businesses may form as cooperatives. This article focuses on the importance of common belief systems, grievances and identities, participation and leadership during mobilization.

### **Role of re-awakened belief systems**

Berton Klandermans, (2001, "Why Movements Come into Being and Why People Join Them") says social movements and collective actions seldom invent ideas they form around. Rather, they build upon a heritage of ideas, values and earlier actions in a group's history. During the early stages of a collective action, people's historically held belief systems and cultural inheritances may sometimes be re-awakened. Farmers

have a long history of actions that have waxed and waned with the booms and busts of the farm economy, and the cycling of government intervention and free-market policies.

Farm history is, in fact, rich with movements that resulted in the creation of cooperatives. Examples include, among others, the Grange, the Northern and Southern Farmer Alliances, the Farmers Union, the National Farmers Organization and the Federation of Southern Cooperatives (see, respectively, books by Patrick Mooney, "Farmers and Farmer Movements"; Jon Lauck, "American Agriculture and the Problem of Monopoly"; and Bruce Reynolds, "Black Farmers in America").

Many of these movements have at their core farmers who wish to continue to live and operate as farm families, with values that embrace civil liberties, property rights, civic participation and decentralized democracy. As Kendall Thu and E. Paul Durrenberger of the University of Iowa put it, they seek: the social and human character benefits of "learning honesty, hard work, ingenuity, flexibility and fairness as part of being reared in a farm environment." Cooperatives themselves are embedded within a series of values that include, among others: mutual self-help, equality, equity, democracy, voluntarism and service.

These embedded belief systems can link farmers to contemporaries who may be struggling in similar situations, as well as to mutual histories as surviving farmers in particular regions, raising particular products. Klandermans suggests such belief systems — when re-awakened in collective actions — can help

facilitate a greater sense of life-meaning among members, as well as provide a grounding and vehicle for voicing feelings of injustice.

### **Farmers and market grievances**

Farmers have formed social movement groups, or focused their collective action, for several reasons. Frequently (though not exclusively) an economic or market grievance is involved. Potential members come to realize they have certain unmet needs, and/or are positioned in certain disadvantaged market relationships.

For example, farmers may find that input prices are too high, or prices for their product too low, leaving them to operate in only a minimally solvent (or less than solvent) manner. Or some needed service or product may be lacking, and not easily obtainable.

They might also discover in operating and engaging in their various farm transactions, that they are forced to deal with a single business or a very limited number of large businesses. They may have few, if any, alternatives beyond these firms. Historically, when these situations have occurred it has not been unusual for power disparities to evolve between the larger business and the much smaller farm operation. Various terms have been constructed to help describe these different power relationships, including “monopoly.”

Generally speaking, a monopoly exists when there is but one seller of a product or service in the market place, and many buyers. A monopolist may be in a position to potentially dictate prices for products and assume a “take it or leave it” market stance. Since there are no alternative businesses for buyers to go to, and there are many buyers, individual purchasers have little power in the monopoly situation. The monopoly firm can dictate a given price, knowing full well buyers have no choice but to buy their product or go without.

What if several producers are trying to sell a product to a single purchaser? Similar to the single-seller situation, a single buyer may be able to make an offer to buy products at a certain price and rebuff potential sellers who argue the price is too low. The term used in this situation is “monopsony.”

In a monopsony, sellers have no choice but to sell their products to the single buyer. There are no alternatives. Since there are many potential sellers, the monopsonist firm can dictate a price, knowing there are many sellers to buy from, and no alternatives for sellers, regardless of the price set. Again, there is a “take it or leave it,” mentality and approach to the market.

Of course, in either of these situations, monopoly or monopsony, the price cannot be either so high or so low that it drives all of the many sellers or buyers out of business. The firm with predominant market-power must be careful not to destroy its own market.

There are very few actual unregulated large monopolies or

monopsonies in the United States. Where they do exist, typically they are heavily regulated by government oversight. Where such power disparities exist, small numbers of large firms, rather than a single firm, hold large proportions of market share in particular product areas.

When these firms are sellers, they are “oligopolies” (rather than monopolies); if they are purchasers of products, they are called “oligopsonies” (rather than monopsonies). While their actions in the marketplace are complex, their power over large numbers of small firms parallels the monopoly and monopsony situation.

Researchers argue that U.S. farmers have had to deal with these various power disparities historically (see, for example, analyses of Cargill, ADM, ConAgra and Dean Foods by William Heffernan of the University of Missouri, and various writings on market concentration by Ronald Cotterill, University of Connecticut, Richard Sexton, University of California-Davis and Bruce Marion, University of Wisconsin-Madison.) John Craig of York University suggests that when these situations have occurred, farmers have historically off-set (or countervailed) some of their respective power disadvantages by forming cooperatives.

Coming together as a group does not just happen spontaneously because a need exists however. Farmers are famous for being rugged individuals. Some kind of collective identity has to develop, grievances have to be identified and leadership, loyalty and commitment have to evolve.

### **Role of identity and participation**

The grievance may often be associated with a person’s farming, or social identity. Dairy farmers, or grain farmers, or family farmers may find commodity prices too low, or supply prices too high, for example, and in turn, may suffer solvency problems (the grievance). Typically, some precipitating event has occurred, such as a series of farm foreclosures or a business has closed that was providing needed services. Buyers of farm production may have been arbitrary in their pricing and/or in its product acceptance-policies; or sellers of supplies may be gouging customers with exorbitantly high prices (respectively, the oligopsony and oligopoly problems).

Some rudimentary leadership must emerge to facilitate early meetings among those feeling aggrieved. Common identities among participants (e.g., livestock, vegetable, fruit, and grain farmers/ranchers) can ease discussion and facilitate discovery of other similarities, as well as differences. The sharing of current grievances will likely predominate.

As discussion occurs, members discover ways their grievances overlap. Together, they gradually construct (sometimes through conflict and negotiation) joint meanings and explanations for their situation. Members begin to develop a sense of themselves as a collective group; a concept of “we” evolves. Pre-existing, and re-awakened belief systems can play a particularly important role at this point, helping members solidify their common needs and history.

Once a common collective identity begins to take shape



A co-op poultry receiving station in North Carolina, circa 1944. USDA archive photo

*The more members are involved, the more they build alliances, the more they are heard, the less their individual differences interfere and the more the group is empowered as a group.*

and members more easily join in and participate, the more they participate. Participation engenders more participation. The more members are involved, the more they build alliances, the more they are heard, the less their individual differences interfere and the more the group is empowered as a group.

### **Role of leadership**

During these early phases of development, a more permanent leadership — beyond leadership for the initial facilitation of meetings — tends to take shape. Characteristics of a successful leader are beyond the scope of this article. However, a few aspects will be mentioned (see James Wadsworth “Director Leadership,” “Rural Cooperatives” Nov./Dec. 2003, for a more detailed article on cooperative leadership).

Successful leaders generally come from the communities they help mobilize. They must be able to read the environment for opportunities for grievance resolution, as well as constraints to resolution. Being able to assign causes of the problem and assign blame to someone, something and/or some process is frequently key to bringing a focus to the movement. Equally important, leaders must be able to communicate to the members that taking collective action as a group can be fruitful.

These determinations generally come about through group discussion, as speakers gradually build credibility among the membership. In a process of articulation,

negotiation and re-articulation, members begin to internalize conceptions of a leader (or leaders) as someone who can speak for them and who does so in a manner that does not create group schisms, splits or alliances via scapegoating.

Constructing whole-group solidarity is emphasized. Leaders may also be attuned to calling up and reminding members of the sets of values and beliefs they all grew up with, and share with each other in the community, and historically.

### **Summary**

These several influences — existing belief systems, identities, grievances, participation, leadership — tend to act together to reinforce each other. Members with similar identities and common grievances may come together in a group such that discussion and planning for action are facilitated. Collective identities tend to emerge from this group participation.

In successful movements, leaders emerge who can bring greater clarity to grievances, assess opportunities and engender hopefulness about possible actions. Leaders may also be adept at calling up and articulating sets of belief systems that ground members to their histories and build solidarity across members. As members participate with other members, participation itself deepens collective identity and builds greater commitment, increasing the likelihood that participation will continue.





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

### CoBank's record earnings support \$193 million patronage

CoBank reported record 2006 year-end earnings of \$335 million, an increase of \$37 million from 2005. As a result, it is returning \$193 million in patronage to customer-owners.

CoBank's 2006 earnings represent a 12- percent increase over 2005 and the



seventh consecutive year of earnings growth. The increase was largely due to an increase in net interest income, driven by higher loan volume across most market segments and a reduction in the provision for credit losses, reflecting continued strong credit quality for the year.

"CoBank was able to provide much-needed capital to our agribusiness and rural utility customers during a time of market volatility," says Robert B. Engel, CoBank president and CEO. Of the \$193 million in patronage distributions for 2006, \$126 million will be paid in cash and the remainder in CoBank stock.

Patronage distributions for 2006 represent an 18.2 percent return on average invested capital for customer-owners. For the past five years, CoBank customer-owners received an average of \$160 million per year in cash as a result of their investment in the cooperative bank.

Assets increased to \$41.4 billion from \$33.8 billion in 2005. Loans and leases outstanding to U.S. and

international customers increased to \$33.1 billion, from \$26.3 billion in 2005. This growth was primarily due to increases in agribusiness loan volume, lending to Farm Credit Associations and loans to rural energy customers.

With \$10 billion in loans outstanding, the Agribusiness Banking Group comprised 31 percent of the bank's portfolio, an increase of \$6.9 billion. The bank's Strategic Relationships Division, which includes Farm Credit Association customers, had \$10 billion in loans outstanding, or 30 percent of the portfolio, an increase of 28 percent. Of this total, \$8.3 billion in loans were to CoBank's five affiliated Farm Credit association customers, which serve 28,000 customers in 13 states in the Northeast and Northwest.

The Communications and Energy Banking Group had \$7.7 billion in loans outstanding, an increase of \$865 million. Energy and water sector loans totaled \$5.3 billion, while communications sector loans reached \$2.4 billion.

### UPG forms joint venture to operate potato dehydrator

United Potato Growers of Idaho has formed a joint venture that will create the nation's second largest potato dehydrator, subject to government approvals. United, a cooperative of potato growers based in Idaho Falls, Idaho, joins with Idaho Fresh-Pak Corporation (also known as Idahoan) and the R.D. Offutt Co., together creating a broad network of potato processing plants with convenient access to markets and customers.

"Since forming two-and-half-years ago, United has proven its ability to manage fresh potato supplies, meet and match demand, and improve grower



United Potato Growers is pursuing a joint venture to dehydrate potatoes.

returns," said Jerry Wright, United president and CEO. "This new venture will not only lead to a more stable dehydrator industry, but also serve as an important tool for growers to balance their fresh crop and fresh industry marketing pipelines, all with the objective of improving grower returns. As a result, potato growers, our communities and the entire industry will benefit."

Under the terms of the agreement, United has formed United II, a new grower cooperative that will be involved in the new company with Idahoan and Offutt. Idaho potato growers who are members of United, or who join United, can opt to join United II. By investing in United II, UPG leaders say potato growers will have ownership of the new company, will receive dividends, and have a guaranteed market for their dehydrator-grade potatoes.

"This new venture is another in a series of strategic initiatives by United to improve potato grower returns," says Wright. "The fresh and dehydrator industries work hand-in-hand. By maintaining a fair dehydrator price, fresh grower returns also improve. This

new dehydrator company also provides United with an outlet for surplus potatoes. Through United, growers have access to market data and facts that are crucial to their marketing. Through United II, growers who invest will have the opportunity to earn dividends while having a reliable market for their dehydrator-grade potatoes.”

Members of United II will be the sole potato suppliers for the new company. “Potato growers will now be integrated vertically into the overall industry system,” says Wright. “Through United II, we will create efficiencies from the development of seed to production to marketing. We anticipate greater long-term stability and no more boom or bust cycles.”

### AMPI earnings bounce back

Increased revenue and sharp cuts in expenses helped Associated Milk Producers Inc. (AMPI) record a significant financial turnaround in 2006. AMPI reported \$4.6 million in earnings on sales of \$1.1 billion for 2006, AMPI President and CEO Mark Furth said during the dairy cooperative’s annual meeting in Bloomington, Minn. The co-op handled 5.1 billion pounds of milk from its 3,400 members and made \$8.2 million in equity payments.

The co-op rebounded from a disappointing 2005, when its butter manufacturing facility — a good source of profits — was being rebuilt following a fire in late 2004. A return to pre-fire production levels at the butter plant figured significantly in the company exceeding budget expectations for 2006. Furth said the improved performance reflected the cooperative’s ability to increase energy surcharges and premiums on AMPI dairy products and reduce energy costs associated with milk hauling and manufacturing.

“They probably haven’t heard of us down on Wall Street, but if AMPI were a publicly traded company its stock would be rising,” Furth told delegates. AMPI was able to return to profitability for its dairy farmer-owners despite a milk market-downturn that characterized most of 2006.

“Our milk marketing company is a consistent performer in a volatile marketplace,” said AMPI Board Chairman Paul Toft, a dairy producer from Rice Lake, Wis. “We’re poised to grow in the Midwest — throughout AMPI country.”

### Montana ranchers form Organic Producers Co-op

Twenty-five organic livestock producers have joined together to form the Montana Organic Producers Co-op (MOPC). Its mission is to help organic producers achieve fair, stable pricing for their output, based on cost-of-production, plus a fair return.

Co-op leaders say organic producers face a number of challenges in obtaining a fair price, including: cheap off-shore organic meats being sold to consumers without country-of-origin labeling; a lack of local certified organic

arenas which can affect infrastructure and legislation to the benefit of not only organic producers, but our agricultural community as a whole,” says Clay McAlpine, MOPC chairperson.

MOPC was formed from the input of more than 70 organic producers who worked together to develop a unique co-op model. It orchestrates the growing, feeding and finishing of animals produced by its members, allowing profits of cow-calf and feed sales to remain within the group before finished animals are sold to national and regional buyers.

“Our pricing model has little to do with conventionally produced meats and commodity pricing because our animals are raised using a completely different production management system,” says McAlpine. “MOPC’s certified organic growers adhere to



Terry Keel on his ranch outside Power, Mont., is raising organic beef as one of 25 members of the new Montana Organic Producers Co-op. Photo by [www.KraigofCraig.com](http://www.KraigofCraig.com), courtesy MOPC

processing facilities; limited transportation to inter- and intra-state markets, and a lack of information on cost-of-production and grading to help producers continually improve their herds and manage their pricing proactively.

“MOPC’s purpose is to help organic producers market their products at a fair price regardless of the hurdles particular to organic production. We want to represent our members in those

current organic law, but they take their commitment to sustainable farming practices one step further. Our animals are pasture-raised and grass finished, while commodity pricing levels are tied to corn prices and feedlot systems.”

MOPC began negotiating sales contracts for potential members in 2005. Sales and shipments for 2006 jumped 338 percent and are anticipated to increase another 70 to 80 percent in 2007. MOPC coordinates all animal

shipments of participating producers so that even the smallest producers may benefit from farm-gate prices generally reserved for volume contracts and full potload shipments.

"While our aim is to promote Montana certified organic products, we have attracted members from across Montana and several adjoining states," says McAlpine. "Our current membership is comprised of ranchers from Montana as well as South Dakota, Nebraska and Idaho. We do not anticipate developing a MOPC brand, nor do we require that our members sell all of their production through the co-op. Of course, our hope is to do a good enough job for our members that they'll choose to sell most, if not all, of their production through MOPC."

MOPC's current focus is on beef, but it will also be marketing lamb, goats, pork and possibly bison.

### Alto Dairy to close liquid feed division

Atlo Dairy in Waupun, Wis., announced in April that operations of its Liquid Feed Division (LFD) in Black Creek, Wis., would cease on May 11, 2007. LFD is a leading manufacturer of liquid veal milk replacers, which use whey as one of the main ingredients.

"Due to current market conditions, including the high market price for whey, which is reflected in the price we pay for milk, we assessed our opportunities for pursuing higher-value-added uses for our whey stream. As a result, we have chosen to close LFD and exit the veal-feed business," said Rich Scheuerman, Alto Dairy's president and CEO. "This decision impacts our employees and customers and we are committed to treating everyone fairly and working to help them during this change of strategy for our cooperative."

The current market price for whey is three times its 10-year average, and WPC prices are more than double their 10-year average. These higher prices, which exist industry-wide, have dramatically impacted the profitability of raising veal calves, with many veal

producers choosing to reduce the size of their veal herd or deciding to stop producing veal altogether. This has resulted in reduced demand in LFD's products.



### Sunsweet marks 90th anniversary

The year was 1917 — the first year women were allowed to vote in New York state and the beginning of a dried fruit company in California with products that would become famous throughout the world. Sunsweet Growers Inc., now the world's largest handler of dried tree fruits, is marking its 90th anniversary.

The Sunsweet Growers cooperative boasts a 320-member roster, focusing on farming, harvesting and manufacturing practices that help ensure the highest quality fruit and consistent products are delivered to supermarket shelves. The organization represents one-third of the world's prune supply and continues to build on its foundation of quality, innovation and healthy products.

Headquartered in Yuba City, Calif., Sunsweet products include dried plums, apricots, cranberries and raisins. A grower-owned marketing cooperative, Sunsweet product innovations go back decades, to the introduction of the first pitted prunes and the popular fruit-essence prunes. It is also pioneering new and exciting ideas with both packaging and products, including new Sunsweet Ones. These individually wrapped prunes are meant for the "busy consumer looking for a convenient, healthy food option."

In addition, Sunsweet now offers a wide range of products such as Jumbo Red raisins and a new line of premium dried fruit including blueberries, cherries, mangoes and berry blend.

Sunsweet also offers a line of nutritious juices, including PlumSmart, which launched in 2006.

### DFA to idle Lovington, N.M., cheese plant

Dairy Farmers of America Inc. (DFA) has announced that operations at its Lovington, N.M., cheese plant will be idled, with its cheddar production transferred to other DFA plants. The plant has been jointly owned and operated by DFA and the Greater Southwest Agency.

Open since 1995, the Lovington plant produces 40 million pounds of 40-pound-block cheddar cheese annually. The announcement comes after years of repeated efforts to stimulate successful operations, including periodic adjustments to the production schedule and an expansion to help the facility better accommodate increased volume. Despite these efforts, the plant has failed to become financially viable.

DFA members will experience minimal impact from the plant closure, he said. Milk formerly marketed to the Lovington plant will be absorbed at DFA's other facilities, and no change to hauling rates for member dairy producers is planned. About 60 jobs will be impacted.

### Co-op master's degree application deadline

The Master of Management Cooperatives and Credit Unions (MMCCU) program was recently awarded \$75,000 to help launch a Centre of Excellence in Accounting and Reporting for Cooperatives by the Canadian Institute of Chartered Accountants. The MMCCU is the only degree of its kind in English awarded by an accredited institution (St. Mary's University in Nova Scotia, Canada).

Drawing together an impressive community of faculty and students from around the world, each class meets once each August for an intense orientation week in Halifax, Nova Scotia. Degree candidates then return to their respective countries and sponsoring co-ops or cooperative organizations to

pursue 12 courses of study that combine independent and group work, assisted by telecommunications technology.

Half-way through the program, the class meets for a 10-day study visit to a place where cooperatives dominate the economy, such as Mondragon in the Basque region of Spain, or the Emilia Romagna region of Italy. Non-students may apply to join the Study Visit.

Applications for the Fall 2007 class were due May 31, 2007, but later applications may be considered.

Contact Tom Webb at:

tom.webb@smu.ca. To learn more, read student profiles and the MMCCU newsletter at: [www.smu.ca/mmccu](http://www.smu.ca/mmccu).

### **Foremost has \$12.5 million loss; closes juice plant; hires COO**

Foremost Farms USA, Baraboo, Wis., had a \$12.5 million loss for 2006,

the first loss in its history. Co-op leaders say the loss was the result of federal milk marketing rules and competition from California. Last year, the co-op had earnings of \$4.2 million, and two years ago it had record earnings. Press reports quoted a co-op official as saying Foremost Farms is still in a strong financial situation despite the loss, noting that for every dollar in liabilities the co-op has \$1.38 in cash reserves.

Changes in marketing rules have already corrected some of the problem, Foremost Chairman Ed Brooks told the *Baraboo News Republic*. He added that management is working to cut costs, choose more profitable products and bring the co-op back into the black. He said the co-op's cost for milk and other products it uses to make cheese have increased, and, until February, a federal

"make allowance" rule that had not been adjusted since 1999 did not take into account the co-op's rising costs for energy, insurance and labor. The "make allowance" is deducted from the price a co-op pays farmers for their milk.

Foremost has announced the closure of a fruit juice packaging plant it owns in Fitchburg, Wis., and a distribution center it leases in Windsor, Wis. About 77 salaried and hourly employees will be impacted. The juice facility represents less than 2 percent of the cooperative's annual sales.

In another action, Foremost named Michael Doyle as its new vice president for finance/chief operating officer. Doyle was most recently the chief financial officer of Creekstone Farms Premium Beef LLC. Before joining Creekstone, Doyle spent more than 11 years with Land O'Lakes, where he rose to the rank of vice president for finance and operations for the Ag and Feed Division.

### **CHS distributes record \$258 million to members**

CHS Inc. owners in 47 states are sharing in a \$258 million disbursement as a result of the energy and grain-based foods cooperative's record fiscal 2006 earnings. It marks the third consecutive record return to owners by CHS and is the largest ever made by a U.S. cooperative.

The distribution consists of cash patronage, equity redemption and CHS preferred stock issued as equity redemption. Patronage refunds also include a record 14.8 cents per gallon paid to eligible customers who purchased gasoline, diesel and other refined fuels from CHS during its fiscal 2006, a total of \$99 million in cash on refined fuels purchases. CHS is the nation's largest member-owned energy company.

"This record return represents one of the most important ways we can deliver on our CHS mission of adding value for all of our stakeholders," said Michael Toelle, CHS board chairman. CHS net income for its fiscal year ending Aug. 31, 2006, was \$490.3

## **USDA awards \$415,000 for early-warning broadcasts**

Agriculture Secretary Mike Johanns in March announced the award of more than \$415,000 in grants for weather radio transmitters to extend the coverage of the National Oceanic and Atmospheric Administration Weather Radio All Hazards (NWR) early warning system to seven more rural communities. "With the tragedy of tornadoes, we have heard national broadcasters saying everyone should have a NOAA Weather radio," Johanns said. "These seven grants to rural communities who do not have coverage from NOAA Weather Radio Transmitters will help save lives."

The NWR is a nationwide network of radio stations broadcasting 24 hours a day from National Weather Service offices to alert people of approaching dangerous weather and other emergencies, including natural, environmental and public safety alerts. Thousands of people die or lose property annually because they did not know soon enough about hazards, disasters or emergencies.

The NWR covers all major metropolitan areas and many smaller cities and towns. The Weather Radio Transmitter grant program helps provide coverage to those rural areas that do not have NWR coverage or are poorly covered. The grants are funded using residual funds from grant projects that were completed under budget. Today's award brings to 91 the total number of grants awarded to electric and telecommunications cooperatives, nonprofit groups and state and local governments covering 100 sites in 26 states and Puerto Rico.

Details of the grant recipients and projects and further information on Rural Development programs are available at: <http://www.rurdev.usda.gov> or at local USDA Rural Development offices.

million. During 2007, distributions are being made to 1,325 member companies and more than 37,000 individuals.

In other CHS news, the co-op has signed an agreement to buy Nor-Lakes Service Midwest, Hugo, Minn., and the Farm-Oyl Co. of St. Paul, Minn. Nor-Lakes is a lubricants manufacturer, founded in 1988 to produce private-label lubricants and greases, including the Farm-Oyl brand. Farm-Oyl has been marketing heavy-duty lubricants to Upper Midwest customers since 1929.

CHS has also announced it has formed a partnership with Sunrise Ag Service Co. to enhance specialty and bulk grain-handling access via the Illinois River. The 50/50, limited liability partnership is to build and operate a new river grain terminal at Havana, Ill. At the same time, the two

companies have entered into a separate agreement with Clarkson Grain for another LLC to manage truck-to-barge access through two belts at the Beardstown, Ill., river terminal.



Ken Nobis

### MMPA elects new president

St. Johns, Mich., dairy farmer Ken Nobis has been elected president of Michigan Milk Producers Association. Nobis was first elected to the MMPA board of directors in 1992 and has served as vice-president. He and his brother, Larry, operate an

800-cow dairy and farm 3,000 acres near St. Johns. They were recognized as Michigan State University's "Dairy Farmers of the Year" in 2006.

Nobis serves as treasurer of the National Milk Producers Federation (NMPF) board of directors and is a member of NMPF's Environmental Committee. He serves on the United

Dairy Industry of Michigan board and the Michigan Dairy Market Committee.

Bob Kran, of Freesoil, Mich., was elected vice-president. To honor retired President Elwood Kirkpatrick's 26 years of service to MMPA, the co-op board has designated him as president emeritus of MMPA.

MMPA is a member owned and controlled milk-marketing cooperative serving about 2,400 dairy farmers in Michigan, Wisconsin, Ohio and Indiana.

### NH to host conference

The New Hampshire Cooperative Enterprise Conference will be held June 15, 2007, at Southern New Hampshire University. Economic Development professionals and nationally respected co-op leaders will explore how cooperatively structured businesses can advance economic and community development goals. For more information visit: [www.cdi.coop](http://www.cdi.coop), or e-mail: [info@cdi.coop](mailto:info@cdi.coop).

## Risk

*continued from page 18*

loan, 20 percent is not an insignificant sum. So a lender has a major exposure if there is a liquidation.

The guidelines also require that both guaranteed and non-guaranteed portions of a loan be traded together in secondary markets. So where lenders often desire to sell the guaranteed portion of a note on a facility, selling just the guaranteed portion appears not to be an option. While the guidelines left unexplained what would happen if this condition were breached, it could lead to inability to enforce the loan guarantee. Opportunities to restructure the risk into a package of wraps and/or strips thus appear unavailable. The intent of the program may have been to encourage lenders to finance projects with unproven technologies, but its impact had the opposite effect.

The U.S. Department of Energy

(DOE) recently announced that is investing up to \$385 million for six biorefinery projects over the next four years (see sidebar, page 17). Each award is equivalent to a 20-percent equity stake. With these awards and the pending guaranteed loans that follow, the federal government will not only guarantee the loans on the projects, it will also assume the first loss in the event of foreclosure.

Given the scale of investment and the role of intellectual property in cellulosic ethanol, the farmer-owned business model may struggle to find its place in this emerging segment of the industry. However, as cellulosic technologies become proven, producer-owned businesses may be launched — or existing ones expanded — to produce cellulosic ethanol under some forms of licensing arrangements.

In four of these six plants, farmers will produce the main source of cellulosic feedstock necessary to

produce ethanol. It may be possible, therefore, for farmers to negotiate a place in the ownership structure for themselves. Broin Companies' system of partnering with farmers and rural investors seems very adaptable to tie together capital, intellectual property and feedstock sourcing.

The DOE solicitation, announced about one year ago, was initially for \$160 million for three biorefineries. However, in an effort to expedite the goals of President Bush's "Advanced Energy Initiative" and "Twenty-in-Ten-Initiative" (which aim to increase the use of renewable and alternative fuels in the transportation sector to the equivalent of 35 billion gallons of ethanol a year by 2017) Energy Secretary Bodman raised the funding ceiling.

"We had a number of very good proposals, but these six were considered 'meritorious' by a review panel of bioenergy experts," Bodman said. ■

## Management Tip

*continued from page 23*

engine that drives the cooperative. It must provide the co-op staff with adequate direction and leadership so that they can do their jobs properly. Employees must be treated fairly, and jobs must be properly delegated.

Management must educate employees in a manner that allows them to perform at their highest level. This is important both for sound cooperative operations and for employee self-improvement. Management needs to provide opportunities for advancement and promotion for those employees who meet or exceed their expectations.

A fair system of employee evaluation is needed so that workers know how they are doing and where they need improvement. Bad or non-performing employees can be disruptive to the cooperative's operations and harm the morale of more productive employees. When necessary, it is management's responsibility to remove such employees. Of course, to offer sustained employment, regular raises and benefits, a cooperative needs to be profitable and maintain a strong financial position.

A quality work environment is one that protects employee health and safety, and which is competitive in its marketplace for wages, benefits and retirement options. The co-op should provide equal opportunity to all and adhere to other relevant employment laws. Employees should be granted the opportunity to invest for their future and/or retirement.

## Responsibility to community

Cooperative management has responsibilities to the communities that the cooperative and its members reside in. This includes the community the headquarters is located in, as well as the communities in which the cooperative has branches or other facilities. As businesses owned by user-members, management must work to integrate the cooperative into the community. The co-op should get involved in community events and gear operations to the greatest extent possible to help build a stronger community.

Management needs to take an active role in communicating with community leaders, local government and other businesses to see that the cooperative becomes an integral and healthy part of the community. The cooperative must work to serve the community.

When management meets all four of these high-priority cooperative responsibilities, along with its other important business responsibilities, the likely result will be a healthy and profitable cooperative business. ■

## Health-care Co-ops

*continued from page 29*

cooperative, the Green Bay Area Chamber of Commerce or a nonprofit resource group.

HLC began negotiating with carriers last summer to determine which would provide the best overall program. Last September, the co-op chose Destiny Health. Destiny offers an array of health savings account-type plans or health reimbursement arrangements for the co-op employer/members.

Although not well known in the United States, Destiny has been successfully administering consumer-directed wellness programs since 1992, starting in South Africa. It entered the U.S. market in 2000. Destiny's innovative program motivates clients to participate actively in their health care, and rewards them for making healthy choices.

Destiny's incentives measure is called the Vitality program, and members earn "Vitality Bucks" which can be redeemed for rewards of their choice. Vitality Bucks can also boost the value of members' health accounts with Destiny.

Clients are required to take an annual health-risk assessment test to determine their general health and identify areas for improvement. Clients are provided with a personal health nurse/coach at no extra cost, who helps them develop personal wellness plans that will reduce future health risks and health costs.

As of April, 135 employer/members were participating in the program, and more than 1,800 employees have already taken their initial health-risk assessments test, a 90-percent response rate. In late April, HLC announced that it is seeking members for a second pool.

## Effects of Co-op Care initiative

Co-op Care backers say the law is having a spill-over effect, in which competing insurance providers have lowered premiums and raised benefits for producers in response to the packages offered through the FHC. They note that one (non-cooperative) carrier has begun advertising 24-hour coverage for farmers, similar to the co-op's plan.

Oemichen, who is also president and CEO of the Minnesota Association of Cooperatives, notes that Minnesota is close to passing similar health-purchasing cooperative legislation.

The Co-op Care legislation has fostered development of a number of health purchasing co-ops in various stages of development around the state. Other projects (in addition to HLC) in the planning stages include a cooperative for Wisconsin physicians, and cooperatives providing health insurance coverage for small businesses in several areas of the state.

According to Oemichen, Wisconsin's novel approach of using cooperatives to increase access to quality health care is attracting significant interest from insurance companies, even some foreign companies. WFC has received a number of inquiries from elected officials and interested parties in a number of other states.

To learn more about Co-op Care, visit the WFC Web site: [www.wfcmac.coop](http://www.wfcmac.coop). FHC's website is: [www.farmershealthcooperative.com](http://www.farmershealthcooperative.com); HLC's Web site is: [www.healthylifestylescoop.org/](http://www.healthylifestylescoop.org/). ■



## From the archives of Rural Cooperatives and its predecessor magazines

### 50 Years Ago...

From the May & June 1957 issues of *News for Farmer Cooperatives*

#### FS Springfield feed mill opens (cover article)

Illinois Farm Supply Co., headquartered in Chicago, took its place in the electronic age with the opening of its new modern feed mill at Springfield early this year. The mill turned out its first bag of high-quality FS feed on Jan. 17 and the first truck rolled away from the loading dock the following day.

An electronic panel with rows of push buttons is the nerve center of the plant. One man can control automatic weighing, batch mixing and blending of each of the 83 kinds of FS

formula feeds. This automation makes it possible to produce a ton of feed with less than one man-hour of labor — a considerable change from the early days of feed mills.

Manufacturing capacity of the Springfield mill is 30 tons of feed an hour in all forms — meal, pellets, or crumbles — either bagged or in bulk. Annual production is projected in excess of 100,000 tons.

The new plant is located on a 20-acre tract south of Springfield. Construction of the mill building required 4,200 yards of cement and 425 tons of steel. At its highest point the building stands 147 feet above ground level. The basement goes down 17 feet below ground. More than 20 miles of electric wiring were used in the various electric circuits plus over a mile of low voltage wire in the blending panel.

Illinois farm supply records show that FS feed is now the largest single brand fed on Illinois farms and demand is continuing to increase. In 1955, feeds accounted for nearly \$13 million of the company's business.

#### Rockingham rings in seventh year

Shen-Valley Meat Packers Inc., Timberville, Va., home of the "Rockingham" brand of beef and pork meat products, has just celebrated its seventh birthday at an annual meeting, its most successful year so far. A local television station also

carried highlights of the meeting.

In 1956, substantial growth was shown in membership, volume of business and in net savings. More members used their meat plant to market their hogs and cattle than in any

previous year. There was a 15 percent increase in 1956 in the membership, now totaling 1,717 members from 20 Virginia and four West Virginia counties.

With a record slaughter of hogs and cattle in 1956, the sales tonnage approached the 20-million-pound mark, a 12 percent increase over the preceding year. Net sales were \$5.8 million. For the first time, the cooperative paid

a 6 percent dividend on all outstanding capital stock.

Keynote speaker Maury A. Hubbard, executive secretary of the Virginia Farm Bureau Federation, said, "You cannot measure the value of a cooperative by the patronage refund. The best way to measure the value of a cooperative is to first do without it."



### 30 Years Ago...

From the May & June 1977 issues of *Farmer Cooperatives*

#### Cooperative Farm Credit Loans Total \$36.7 Billion

The Farm Credit System's loans outstanding on Dec. 31, 1976, totaled \$36.7 billion, a 15.7 percent increase from \$31.7 billion a year earlier. Farmers and their cooperatives borrowed a total of \$34.6 billion through the lending units of the Farm Credit System during 1976, a 15-percent increase from the \$30.1 billion borrowed in 1975, according to figures released by the Farm Credit Administration.

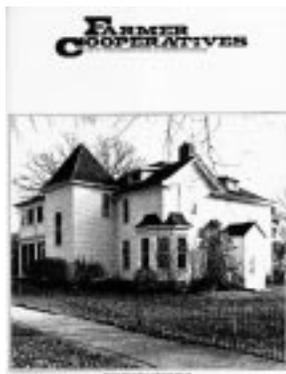
Federal Land Banks had loans outstanding of \$19.1 billion, an increase of 15.1 percent, and made loans of \$4.7 billion during the year, a 6.6 increase. Production Credit Associations made loans of \$18.5 billion during 1976, a 14.9 percent increase



from 1975, while outstanding loans totaled \$12.3 billion, up 13.9 percent. Banks for Cooperatives made loans of \$10.5 billion, up 18 percent.

### Minnesota Cooperatives Buy Volstead House (cover article)

A man reviled by his contemporaries will be assured a place of honor in history after action taken to make his home a museum. Andrew J. Volstead, 1860-1947, served as a U.S. representative from Minnesota's 7th District from 1903 to 1923. He was best known, and often hated, during his lifetime for authoring the Volstead Act, or the 18th Amendment to the Constitution, which established the prohibition of alcoholic beverages.



In turning his home in Granite Falls into a museum, citizens of the community and members of the Minnesota Association of Cooperatives (MAC) seek to pay tribute to Volstead for an achievement that has far outlived the memory of prohibition — his

contribution to co-ops. As chairman of the House Judiciary Committee, Volstead wrote what is now known as the Capper-Volstead Act of 1922. It enables farmers to jointly market their products without being prosecuted for antitrust violations.

Before the law was passed, Minnesota farmers were thrown in jail for trying to bargain with buyers to achieve higher prices. The act prohibits cooperatives from engaging in unlawful business activities, such as undue price enhancement, predatory trade practices and collusion with outside parties.

Before passage of the act, marketing co-ops were small and struggling. Since enactment of what has been called the "Magna Carta of Cooperation," farmers now market \$33 billion worth of agricultural goods annually through co-ops. They purchase another \$9 billion worth of products and services.

In 1923, Volstead wrote: "The cooperative marketing law will do more good than any other law that you can name, because it will make it possible for farmers through farm organizations to sell their products upon an equal footing with the businessmen."

Henry Harren, of the Minnesota Historical Society's historic sites division, says if he had to select one Minnesotan whose life has had the greatest impact upon all Americans, he would vote for Andrew Volstead.

The home was purchased from Mable Connor by MAC with a \$40,000 grant contributed by a number of Minnesota-based cooperatives. MAC has donated the home to the city of Granite Falls. The U.S. Department of Interior's National Park Service has established a \$15,000 grant for acquisitions in the project.

## 10 Years Ago...

*From the May/June 1997 issue of Rural Cooperatives*

### West Virginia Quilters Stitch New Marketing Plan (cover article)

She quietly wields needle and thread, stitching patches of cloth into a portion of the quilt collected in a square wood frame propped against her knees. The rest of the quilt cascades across her lap and onto the floor. She is a member of the Cabin Creek Quilters Cooperative, following a long-standing tradition handed down through families and friends living in the coal-laden hills and hollows of southern West Virginia.



The extra earnings from her quilts have helped to keep her family and others like them alive in this community, both during the heydays of the mines and later when the coal supply played out. When Cabin Creek formed in the early 1970s, the state had 75,000 people working in the mines, but today employment there has dwindled to 25,000.

Today, the co-op claims 300 members. However, only 40 to 100 are active at any one time and receiving checks for their work. "It's often seasonal work for many, explains co-op representative Jamie Thiebeault. "Many work on quilts in the winter; some make only one or two a year, while others are looking for \$100 to \$200 a month to supplement Social Security income."

By the mid-1970s, the cooperative was thriving, helped considerably by national publicity garnered when Jackie Kennedy purchased two quilts and later ordered more. The co-op was propelled into the national market and yearly sales climbed to \$500,000. Prices for quilts soared to the \$500 to \$800 range in the early 1980s. These higher returns to producers were more in line with the intense labor and craftsmanship involved in producing the quilts. However, the higher prices put the product beyond the affordability range for many people. Competitors found cheaper material and labor in overseas factories in Haiti, the Philippines and China.

As cheap imitations began to flood the market and undercut domestic producer prices, the co-op was on the verge of folding. But core members were determined to fight back. They decided they needed a new headquarters store and marketing plan to lower their products' costs.

In 1991, the co-op moved to a historic house in Malden to draw more tourist business and in 1992, it developed the "all-American" quilt as a joint venture with two other domestic craft cooperatives. The co-op decided to market this symbolic product through Land's End, the Wisconsin mail order clothing house. The arrangement continued until 1995. Another marketing strategy is to better tap into West Virginia's growing tourism trade. ■

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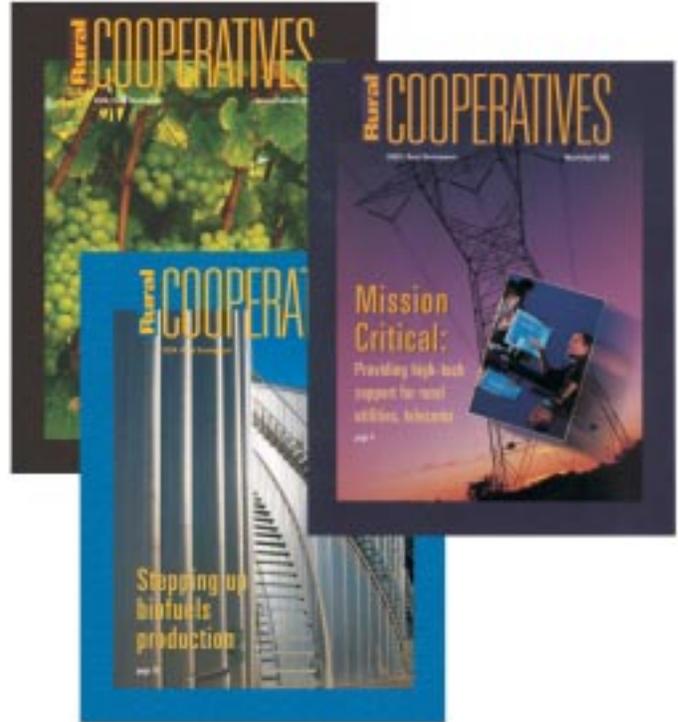
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