

Rural COOPERATIVES

USDA / Rural Development

November/December 2003



**New days,
new ways:**

*Co-ops finding
ways to adjust to
changing market
conditions*

Setting up the forms

Issues vital to the future of the nation's producer-owned cooperatives were closely examined during a hearing conducted by the House Ag Committee on Oct. 16 (see page 9). While no firm answers or course of action was decided upon, it was obvious that the state of the co-op sector is front and center on the agenda of the House Ag Committee. As Rep. Charles Stenholm said, this was not a day for pouring concrete, but for setting up the forms.

How those forms are filled during coming months may well determine the future of the nation's farmer cooperatives. All those with a vested interest in cooperatives should monitor this process and be prepared to provide their input.

Ultimately, the question appears to be not whether change is needed, but how much change. Some feel a minor tune-up will suffice, while others say an engine overhaul is closer to the target. As you can read in our coverage of the hearing, there is some strong feeling that the new state co-op laws in Minnesota and Wyoming go too far in broadening the co-op model, while others feel those are the type of changes needed to keep co-ops alive and well in the 21st century.

Much of the testimony related to how a number of new generation cooperatives—whose leaders are committed to the concept of producer ownership and control—have converted their business structure to LLCs in order to secure tax benefits and outside equity to invest in value-added efforts. Others warned that this outside equity comes with strings attached—strings that

could potentially lead to some loss of producer control to outside interests. Similar differences of opinion exist over whether the closely related issue of CoBank's charter should be expanded so that it can finance a broader array of cooperatives, and even continue to lend for a period of five years to some

How to help producers get needed capital while still keeping the operations under the control of farmers is the bottom line.

non-cooperatives that convert to other business structures.

Clearly, Congress and the co-op community have their work cut out for them. The stakes are high: cooperatives typically account for around \$100 billion in farm sales and they are often the most important source of jobs and tax revenue in rural towns where every job and tax dollar is desperately needed. They provide quality, affordable supplies and services in rural areas where they otherwise might not be available. Even those farmers who do not belong to a cooperative benefit from their ability to favorably impact prices and terms of delivery and through their market expansion efforts.

Most of the testimony underscored

that successful ag marketing co-ops in the future will increasingly be involved in some stage of value-added processing of their members' crops and livestock. But turning wheat into pizza is a much more expensive undertaking than storing it and shipping out of town in railcars, as Keith Kisling, a wheat farmer from Oklahoma, testified. How to help producers get that needed capital while still keeping the operations under the control of farmers is the bottom line.

A number of questions were raised about whether existing financial assistance programs at USDA could be better used by co-ops if changes were made. Related suggestion ranged from upping the limits on USDA's B&I loan guarantees to making changes that will increase use of our Co-op Stock Purchase Program. As Rural Development Under Secretary Thomas Dorr pointed out, a major co-op program review is being launched to evaluate these programs, which hopefully will lead to improvements.

Regardless of where you stand on this debate, we should all be encouraged to see the strong interest of Congress in cooperatives and to know that Congressional leaders realize the crucial role co-ops play in the nation's rural economy. One thing everyone seemed to agree on: if we take steps to strengthen producer-owned cooperatives, we also strengthen the nation.

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Rural COOPERATIVES

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Volume 70 Number 6

Rural COOPERATIVES (1088-8845) is published bimonthly by Rural Business-Cooperative Service, U.S. Department of Agriculture, 1400 Independence Ave. SW, Stop 0705, Washington, DC. 20250-0705. The Secretary of Agriculture has determined that publication of this periodical is necessary in the transaction of public business required by law of the Department. Periodicals postage paid at Washington, DC. and additional mailing offices. Copies may be obtained from the Superintendent of Documents, Government Printing Office, Washington, DC, 20402, at \$21 per year. Postmaster: send address change to: Rural Cooperatives, USDA/RBS, Stop 3255, Wash., DC 20250-3255.

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This publication was printed with vegetable oil-based ink.

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Grain rolls in at Western Iowa Cooperative's 600,000-bushel elevator, from where much of it will be shipped to California livestock operations. Learn more about how it and other cooperatives have restructured for success.

Photo by Larry Laszlo



New days, new ways

Co-ops, producers find many ways to prepare for the future

By Robert Heuer

Stephen Longval knew his grandfather's grain business was struggling upstream in a changing farm economy, and he was determined to prevent it from dying. But the Iowa farmer knew Sloan Cooperative couldn't survive with a business plan devised in the 1930s. So Longval led the effort a few years ago to merge several local cooperatives, which then built a railroad facility that allowed members to sell grain to distant markets.

"Somebody has to do this business," the 59-year-old Longval says. "Farmers are best positioned to do it for themselves."

Leading the way to change

A decade ago, Longval was elected chairman of the 200-member Sloan Cooperative. For decades, the co-op operated an elevator that served a six-square-mile area along Iowa's western edge. Member-owners hauled shelled corn and soybeans to town where the crops were sent to regional markets.

In the 1970s, the membership voted to replace the 40-year-old elevator with a new one that they thought would meet their needs for years to come. However, as farms got bigger, individual farmers invested in huge combines, storage bins and semi-trailers. Eventually, members were going to bypass the co-op, choosing instead to pocket the nickel-per-bushel premium for hauling corn to an Omaha terminal and beans to a Sioux City area processor.

By the mid 1980s, the co-op was on the verge of becoming an unneeded mid-

A fast-changing competitive landscape is forcing cooperatives large and small to reinvent themselves. The farmer-owned business model, created 75 years ago by the U.S. Congress, appears alive and well, but may be in need of updating. Some cooperative leaders say policies regulating governance, capital formation and structure need added flexibility to keep co-ops in step with a changing farm-business environment. In recent months, 60 federal legislators have joined the Congressional Cooperative Caucus, which plans to explore legislative actions that can help farm co-ops evolve with the times.

dleman. "We spent several years figuring out what the cooperative could do for farmers that farmers can't do for themselves," board chairman Longval recalls.

Knowing their business was in jeopardy, the board faced a tough decision.

Many members were retired or nearing retirement and interested in seeing the co-op's assets sold so that they could get their share of the proceeds. But Longval and others on the board felt that the majority wanted to keep the business going.

In 1995, Sloan saw an opportunity to market the co-op's Iowa grain to California livestock operations. This could be accomplished by tapping into the Union Pacific Railroad main line that ran through town. But with only \$15 million a year in annual sales, the co-op couldn't afford the \$6 million cost for a high-speed grain elevator and track linking the elevator to the Union Pacific line. Nor could it hope to generate the grain volume to justify such an investment. All of the area's local co-ops were facing similar limitations. Ultimately, they merged to form Western Iowa Cooperative.

CoBank, which finances cooperatives nationwide, loaned Western Iowa \$6 million—a sum representing 80 percent of the 1,200 members' local equity. The co-op built a \$6 million agro-industrial complex that includes a 100-car rail-spur and a 600,000-bushel elevator to load unit trains.

In 2002, the co-op generated \$70 million in sales, providing members a 10- to 15-cent per bushel premium for shipping corn to the West Coast. With plans in the works to sell soybeans to Mexico, Longval says, "We should survive for awhile."

A state of flux

Western Iowa Cooperative is far from alone in having to deal with such challenging issues. Cooperatives



Jack Cronin (right), manager of Western Iowa Cooperative, and co-op member Stephen Longval check out the co-op's new, \$6 million agro-industrial complex, which includes a 100-car-rail spur. Longval led the effort to merge several local co-ops to make the new facility possible. Photo by Larry Laszlo. Inset: Stephen Longval's grandfather, Ulric, and father, Harry, on the family's Iowa farm, circa 1930s. All three generations of the family have been co-op members. Photo courtesy Longval family

nationwide are looking for better ways to serve their grower-owners. Mergers are on the rise. Successful businesses realize their “customers” include both farmers and consumers at faraway grocery stores, as well as stakeholders throughout the supply chain. To survive, co-ops must find a niche in a global agri-food sector that links producers to suppliers, processors, distributors and retailers.

Such realities were unimaginable in the 1920s and 1930s, when Congress enacted legislation to promote the formation of farmer-owned cooperatives. The regulatory framework that governs the U.S. cooperative system today continues to cater to the small, diversified farms that populated the countryside 80 years ago.

Lawmakers exempted producer associations from anti-trust regulations so members could pool marketing activities and, as a result, get better prices when buying and selling goods and services. To help ensure farmer control and equal influence for all members, lawmakers required cooperatives to generate the lion's share of capital internally (from their members).

Neighboring farmers formed small cooperatives. They, in turn, banded together to form regional cooperatives that provided greater purchasing and marketing power.

Throughout the industrialization era, most farmers and ranchers have specialized in producing high-volume, low-value commodities while other businesses focused on processing and marketing. But increasing numbers of cooperatives are developing methods to capture a larger share of the consumer's food dollar.

Co-op leaders say that collective action offers the means for farmers and ranchers to capitalize on the forces that are merging production, processing and marketing functions. Questions are arising about how to provide cooperatives with the latitude to stake their claim in the new food delivery system.

Producer control

Several decades ago, North Dakotan Mike Warner and fellow Red River Valley sugar beet growers were tired of selling their commodities to a processor whose out-of-state owners refused to upgrade the plant. So they formed a

cooperative and bought the company. Designed to turn member-owners' commodities into food products, the American Crystal Sugar Cooperative (ACSC) became what some say was the first “new generation co-op.”

Unlike a traditional co-op that serves an unlimited number of members, ACSC is a closed co-op that sells a limited number of shares. Each share represents an obligation to deliver a unit of production to the co-op. By pooling resources to process and market products, farmers turned a struggling beet factory into the United States' leading beet processor.

“Farmers are still the guys at the throttle,” Warner contends. “Slowly but surely, I think farmers are going to gain further control over the processing of food. Over time, the demand from end users for quality and value will drive food processing into the hands of raw commodity owners.”

Nowadays, Warner spends less time raising crops and more time raising awareness about the marketing clout of closed co-ops. His 1996 speech made a keen impression on Kansas rancher Steve Irsik.

“I’m not a rah-rah co-op guy,” says Irsik, whose family-owned enterprise includes wheat fields, a cattle-and-dairy herd and a cattle-feeding operation. “Yet, for years I produced genetically superior products and got paid commodity prices. So, I’m intrigued by the cooperative concept of developing a delivery system that allows customers to know where the product is coming from—whether it’s identity preserved, genetically engineered or organic.”

Irsik is a founding member of the 21st Century Alliance, an umbrella organization that has helped farmers launch six value-added co-ops in the last five years. As a production network, such enterprises can control both a sizeable amount of land and raw product. This gives end users something that a General Mills or ConAgra cannot: a verifiable connection to specific farmers.

Alliance officials estimate that 300 to 500 producer networks are forming nationwide to pursue value-added opportunities. Nearly all are undercapitalized and unlikely to acquire necessary funding through traditional cooperative financing mechanisms. Irsik figures most of these businesses will be hybrids—in part, closed cooperatives structured as LLCs and pitched to prospective investors with a plan to sell to private or publicly traded companies.

Irsik is one of 375 Kansas, Oklahoma and Texas farmers who own the 21st Century Grain Processing Cooperative. He sees capital access issues hindering the growth of a business that supplies tortilla and bread manufacturers in the southwestern United States. “Too many small investments by too many people becomes cumbersome,” he says. “The greater the ownership stake, the greater the commitment to success.”

Restructuring needs

Texas farmer Jimmy Dodson doesn’t have much experience with value-added businesses, but he’s got an opinion on the future of cooperatives. Dodson is a Gulf Coast cotton and milo grower, and a board member of Farm Credit Bank of Texas. The bank is a



member of the \$111 billion Farm Credit System, a nationwide network of lending institutions owned by more than a half million farmers, ranchers and their cooperatives.

“Well-run cooperatives will continue to thrive,” Dodson says, referring to co-ops that offer value to customers through competitive pricing of products and services. “Cooperatives need to be sensitive to market forces as they affect customers of all sizes.

“There’s no question that co-ops should be structured a little differently,” Dodson says. “As farming operations become larger, co-ops need to be more flexible in their policies and governance practices to provide competitive services for all sizes of operations. Large operations already qualify for discounts and special services from manufacturers and distributors, so co-ops must offer these producers advantages like quantity discounts, bulk packaging and board positions. Keeping large operators under the co-op tent will enable smaller producers to continue to benefit from their cooperatives’ economies of scale.”

This is, of course, a hot topic with many cooperatives, especially in the area of governance. Some say providing proportional voting based on the business volume a member generates

goes against the one-member, one-vote tenant at the heart of cooperative principles. But others, like Dodson, say such a change has to be made if the co-op business system wants to keep large producers on board in an era of consolidating farm operations.

At a crossroad

Nationwide, many co-op boards and managers are grappling with such difficult ownership and structure questions. Some are asking whether these enterprises must lose cooperative status to remain competitive? Or, as an Illinois Institute for Rural Affairs report asks, “Will agriculture be integrated by and for the farmer, or for the benefit of the suppliers, processors and distributors at the expense of the farmer?”

These are two of the questions the newly created Congressional Cooperative Caucus will consider under the leadership of Rep. Sam Graves of Missouri, Rep. Earl Pomeroy of North Dakota, Senator Larry Craig of Idaho and Senator Blanche Lambert Lincoln of Arkansas. This forum was created at the behest of the National Council of Farmer Cooperatives (NCFC) to modernize laws governing cooperatives.

Terry Barr, who was recently named interim CEO of NCFC, says farmer cooperatives are, in essence, partnerships formed because producers think they can either make a dollar or save a dollar through the pooling of resources. “That need is as great today as ever, possibly even more so now that the food and agriculture industry consolidation and globalization has fiercely increased competition and the demand for capital,” Barr says.

Doug Sims, vice chairman of NCFC and in line to become chairman in January, grew up on a western Illinois farm. He recalls that co-ops provided the best price for the seed, feed, petroleum and tractors that the family bought, as well as for the hogs and grain that they sold. The same is true a half-century later now that his cousin runs the farm and Sims is chief executive officer of CoBank. As the only nationally chartered institution in the

Farm Credit System, CoBank provides financing for 1,500 agricultural cooperatives across the United States.

“What the founders of co-ops were looking for years ago is very different from what members want and expect today,” Sims observes. “Today, capital needs often exceed members’ ability to pay. Yet, the co-op model remains a dynamic economic tool for producers who realize they can accomplish much more as a group than they can alone. Our customers want to remain cooperatives, but they also need the freedom to adapt to new circumstances.”

Some co-ops are finding that the pursuit of new opportunities could mean losing their cooperative status and their borrowing relationship with CoBank. The Farm Credit System is seeking legislation to modify the Farm Credit Act, allowing CoBank to finance all farmer-owned cooperatives, including new generation co-ops. The bank wants to finance entities that have both a producer and investor class of membership, provided that the producer class holds at least 50 percent of the voting control and operates on a cooperative basis.

South Dakota Soybean Processors (SDSP) is one such cooperative that both wants to tap new opportunities and remain a CoBank customer. SDSP was formed in 1993 by farmers tired of exporting soybeans to a distant processor and then paying freight on soybean meal shipped back and fed to livestock. The processing co-op has begun supplying a manufacturer that turns oil resins into industrial products.

With demand for products exceeding members’ supply capability, SDSP will generate significant new sources of non-patronage income. To avoid double taxation—for the cooperative at the entity level and members paying on their share of the proceeds—SDSP has converted to a limited liability corporation (LLC).

SDSP remains true to cooperative principles, such as the one-member, one-vote policy, CEO Rodney Christianson says. “Who we are is not necessarily determined by the business structure that we use for tax purposes. The farmers’ task of capturing a greater

share of the food dollar is a difficult one. Government regulations should not tie their hands to only one acceptable business structure.”

Many other cooperative leaders nationwide are reaching this same conclusion. Cooperative principles have the best chance of enduring if the business structures are able to adapt to new opportunities, Christianson says.

The power of numbers

“Co-ops provide a layer of strength for producers through added buying and selling power and marketing strategy,” Wisconsin dairy farmer Scott Maier says. “If a lot of private companies had their way, they’d flush out the co-ops and dictate the price that we get for our product. The co-op gives you a little more control. If the co-op makes a profit, you either get a dividend or management invests the money into expansion with the goal of providing additional benefits to members in the future.”

Maier, 38, and his wife, Daun, are NCFC’s 2002-2003 Young Ambassadors. The Maier family partnership belongs to seven cooperatives, including dairy manufacturer and marketing cooperative Foremost Farms USA. Last winter, they expanded from 275 to 450 cows. “With cattle and milk prices down, we hope to catch the up-trend in prices,” Scott explains. “Belonging to cooperatives gives us a little more stability. Cooperatives give our industry a much stronger voice to the people who make policy. We’re not going to be left out in the cold.”

And neither is Doug Carstens, who chairs the board of Farmers Cooperative Company (FC). His co-op is helping to position central Iowa grain producers for the future. For decades, FC was a typical small-scale supply and service cooperative catering to farmers near Farnhamville, Iowa.

In the last decade, FC bought or

merged with eight local co-ops or private companies. Today, FC is modernizing a dozen grain elevators along main rail lines. Representing a membership base of 1.2 million acres, FC can deal directly with national suppliers and buyers.

Clearly, consolidation is shaking up the traditional cooperative structure. “A decade ago, a big regional co-op would take a grain buyer’s plan under its arm and approach 10 locals,” Carstens says. “Today, we can do for ourselves what we needed the regionals to do just a few years ago.”

Ronnie Mohr serves on the board of directors of Land O’Lakes. The Arden Hills, Minn.-based company provides 1,300 member cooperatives with feed, seed, plant food and crop protection products. Mohr sees “merging local cooperatives taking on the role of



“Cooperatives give our industry a much stronger voice to the people who make policy,” say Scott and Daun Maier, Foremost Farms members. Photo by Laura Mihm, courtesy Foremost Farms

regionals, and the regionals becoming more national in scope.”

This 54-year-old Indiana hog and grain farmer recalls, “When I was in high school, 28 families made a living on the 3,600 acres of land that my brother and two sons now farm. Nobody’s more aggressive in mergers and acquisitions than American farmers, and technology has let us do it.

Big, full-time farmers are increasing, mid-sized full-time farmers are decreasing and part-time farmers are increasing. To succeed, you have to be aligned with other people.”

Land O'Lakes operates plants from California to Pennsylvania, supplying dairy products to national grocery chains such as Wal-Mart Stores Inc. Through Agriliance—a partnership of three regional farm supply marketing cooperatives—two of its owners, Land O'Lakes and CHS Inc., continue to negotiate savings for their members.

For example, it recently bought 20 percent of the Monsanto's Roundup herbicide. With such market share, Mohr says Agriliance can add value just as Wal-Mart does through purchasing.

Creating new advantages

Clearly, purchasing power, economies of scale and owner equity give some co-ops a marketplace advantage. For others, their branded products set them apart. That's the story for Mark Duffy, who is among the 1,400 New England and New York dairy farmer/owners of Agri-Mark. Agri-Mark sells a full line of Cabot-brand foods that have been a century in the making. The Cabot name commands a premium price for members of the co-op, which also sells fluid milk.

“We can't be the low-cost producer of milk in the Northeast,” Duffy says. “As a co-op, we need to take advantage of other opportunities. All of our advertising focuses on farmer ownership and the places where the products come from. We benefit from the fact that an enormous number of consumers respect what we do.”

Protecting a brand name at times requires a co-op to make tough decisions. Ken Kaplan, who grows 100 acres of plums in California and markets them through Sunsweet Growers Inc., knows this firsthand. He's seen Sunsweet, the world's leading producer of prunes, shift from a production-driven to a market-driven business.

Formed in 1917 when the average prune farm was 10 acres, the Yuba City, Calif.-based co-op's 650 members

now grow an average of 80 acres of plums. For many years, Sunsweet treated small growers the same as big; whether a member delivered product by the truckload or one box at a time made no difference. In 1997, with the industry facing overproduction, the co-op imposed limitations on a long-standing practice of advancing payments to owners of unsold plum crops.



“All of our advertising focuses on farmer ownership and the places where the products come from,” says Agri-Mark dairyman Mark Duffy. Photo courtesy Agri-Mark

“The reality of the market was that small growers needed the cash flow, but we couldn't borrow money against an inventory declining in value,” explains Kaplan, a Sunsweet board member.

“The viable farmer would be hurt less short-term,” Kaplan continues. “But a lot of growers weren't viable over the long run. If we were purely a processing business, nobody would have listened to the complaints. We'd have sold product at the best price we could. In a co-op, we had to listen, but we also had to make the conscious decision to stop subsidizing small groves at the expense of efficiency.”

Meanwhile, Sunsweet has had to accommodate the demands of grocery chains seeking “category managers” who supply all needs in a specific food category. The prune co-op keeps its position on the grocery shelf by adding products such as apricots, apples and juices bought from non-members.

Stepping outside the box

“Change itself is the biggest challenge facing co-ops,” South Dakota Wheat Growers Association (SDWGA) chairman Jake Boomsma says. Helping SDWGA's 3,300 farmer-investors become more profitable, he says, will inevitably mean stepping outside “the cooperative box.”

In 2002, the 80-year-old SDWGA business hired its first CEO from outside the cooperative system. The board was open to expanding across state lines, doing business with private companies, and offered equity stakes to outside sources to finance expansion. In recent years, the SDWGA has used traditional funding mechanisms to invest over \$40 million in two ethanol plants, a feedmill and four train-loading elevator facilities.

SDWGA is now selling some elevators to farmers who want to expand off-rail storage systems. “We get static from rural leaders because closing down an elevator takes business out of the community,” Boomsma says. “But for our business to survive, we need to make tough economic decisions that provide the best returns to our members.”

Conflicts of interest pose unique challenges for co-ops because their members are also part of the community. Indiana grain and livestock farmer Myron Moyer is also pushing for grower groups to gain the opportunity to attract outside investors so they can compete with corporate-owned businesses.

“I hope the federal government will allow us to be able to partner with non-co-op businesses without losing cooperative status,” says Moyer, who is on the board of Harvest Land Cooperative. “We are for anything that will help producers compete.” ■

Editor's note: Heuer frequently writes on agricultural policy and rural development issues for a number of publications, including AgLender, AgriFinance, Farm Journal, American Bankers Association's Journal of Agricultural Lending and Independent Banker. This article is printed courtesy of CoBank. It does not necessarily reflect the views or policy of USDA or its employees.

Congressional hearing focuses on possible need for more flexible co-op business model

By Dan Campbell, editor

Are structural changes needed in the cooperative business model to help co-ops remain a vital cog in the engine of America's rural economy? That was the central question addressed during a five-hour hearing held by the House Agriculture Committee on Oct. 16 in Washington, D.C.

A wide array of co-op leaders, government officials, lenders, academics and others testified. A common theme was that the fate of U.S. agriculture, the nation's farmer-owned cooperatives, rural lenders and the rest of rural America is inextricably linked, and that for each of them to thrive, they must all be strong and prepared to work together to adapt to change.

But a wide diversity of opinion was expressed as to exactly what changes should be made and how far to go in altering the co-op business model.

New state co-op laws at center of debate

Throughout the day, numerous references—pro and con—were made to the new Minnesota and Wyoming cooperative incorporation laws. Some said those laws go too far in expanding the co-op model and that co-ops organized under those statutes are vulnerable to takeovers by outside investors who may have little real interest in the fate of producers or rural communities. Further, they said if the nation winds up with 50 different definitions of what a cooperative is, it will lead to chaos.

“When is a cooperative no longer a

cooperative?” was asked several times. One committee member noted that under the new Minnesota law, 99 percent of the equity and 85 percent of the profits of a co-op could be controlled by non-producers.

But others said that these new state laws are at least a step in the right direction, and that without changes such as they encourage, producers will be locked in a downward spiral. They will continue to lose the control in ag industries that they and their predecessors fought so hard to establish during the past century. They predicted that increasing numbers of co-ops will reluctantly have to change their business structure to Limited Liability Corporations (LLC), or some type of hybrid LLC-co-op.

The announced purpose of the hearing was to focus the attention of Congress and the nation on trends being seen among new-generation cooperatives—particularly regarding why some of them are finding it more advantageous to change their business structure to LLCs. In reality, the focus of the hearing was broader than that, breaking down into three primary areas: 1) Should cooperative law be modified to allow for greater flexibility in business and governance structure—particularly in ways that will allow co-ops to raise more equity capital?; 2) Should the charter of CoBank be modified so that it can finance a broader array of farmer-owned enterprises than is currently permitted?; and 3) What is the status and future of USDA's cooperative programs?

In his opening remarks, Committee Chairman Bob Goodlatte of Virginia noted that “The real subject of our

hearing today may just as well be how we can assist the financing of U.S. agriculture.” He said producers are increasingly looking “to attract outside, passive investors who may have an interest in the community where the operation is located, but who otherwise are looking for a reasonable return on that investment. That calls for new business structures that may abandon the traditional cooperative model.”

Goodlatte noted that the House Ag Committee last conducted a thorough examination of the Farm Credit Act during the farm recession of the 1980s—a crisis period for farmers and ranchers. Changes enacted in the Farm Credit System at that time have proven successful, Goodlatte said, but the time may be right for a more deliberative review process “now that the system is adequately capitalized and relatively prosperous.”

High stakes

“Today, we are laying the foundation for the future of agriculture,” said Rep. Charles Stenholm of Texas, the ranking minority member on the Ag Committee. “We're not pouring the concrete yet—just putting up the forms; we'll pour the concrete later.”

He spoke of the importance of farmer and utility cooperatives in the West Texas district he represents and to his own family. Stenholm noted that he and his son are members of the Plains Cotton Cooperative Association (PCCA) in Lubbock, and that he once managed a rural utility cooperative in Texas.

“PCCA is an excellent example of how things have changed, and also why there is a need to review and modern-

ize federal cooperative law,” Stenholm said. To make his point, he noted that in the 1970s, PCCA built a \$25-million plant that spins cotton into denim. “Since 1976, PCCA’s denim mill alone has provided its members with \$300 million in added-value for their cotton. However, building that same mill today would cost between \$100 million and \$150 million.” With rural economies starved for capital and far fewer producers than 30 years ago, he said it is unlikely PCCA could construct the same denim mill.

Stenholm said efforts such as USDA’s new Value-Added Producer Grant program and the new Agricultural Innovation Centers established in 10 states are steps in the right direction. But he said “there is much more work for this committee and USDA to do to ensure that farmer and rancher cooperatives have the means to compete in an area of rapid consolidation and technological innovation.”

Rep. Collin Peterson of Minnesota expressed concerns about the new co-op law in his state, and said it could allow non-farmer equity owners to take over co-ops, which he said has already occurred. Peterson said co-ops are getting into industries “controlled by just 3-4 entities, and they can squash you like a bug in these commodity areas. When they (large corporations) control so much, they can run down prices and force you to sell out.” Peterson said that perhaps co-ops would find more success pursuing niche markets, and that care has to be taken not to lure farmers into commodity areas where they have little real chance of making money.

Changing rural landscape

Thomas Dorr, under secretary for USDA Rural Development, which houses the Cooperative Services program, painted a picture of a rapidly changing rural landscape in which farmers must find new ways to invest in modern, value-added processing facilities. Otherwise, they face the risk of becoming ever more marginalized as producers of basic commodities in a



A panel, which includes Roger Ginder of Iowa State University (far left), testifies at the House Ag Committee hearing on new generation cooperatives. USDA photos by Dan Campbell

world economy where other nations have huge advantages in low-cost labor and land.

“Farmers and ranchers still retain a high level of confidence in cooperatives and this business model is still one of the most trusted tools of business development in rural America,” Dorr said. “While many producers have substantial assets that are minimally leveraged, their numbers are declining. The amount of funds needed to finance a potentially lucrative agriculture-related business may be more than potential member-patrons can, or should, prudently invest in. Steps should be taken to make investing in a cooperative attractive to local non-producers, and, when advantageous to the producers and the community, non-producer outside investing interests.”

Dorr said that impediments to attracting non-producer equity to co-ops can be found in federal and state laws enacted several decades ago. “If non-producer outsiders are to invest in a cooperative, they may well expect to have a voice in its affairs and the opportunity to earn a return on their investment commensurate with the success of the cooperative,” Dorr said. “Good governance and increased transparency could also help improve the cooperative model.”

Tax issues key

There are numerous examples of value-added cooperatives that have converted to LLCs or formed LLC joint ventures with other co-ops or investor-owned corporations, said Doug Flory, chairman of the Farm Credit System Insurance Corporation, who testified on behalf of Farm Credit Administration Chairman Michael Reyna. Flory said LLCs offer advantages in their ability to attract outside investors by giving them a say in management and a proportional return on their investment. They also may do “a significant amount of business with farmers who are not willing, or able, to acquire an ownership interest in the enterprise,” Flory said.

While some large, well-established co-ops have been successful in raising outside equity capital, most outside investors are not farmers and thus cannot be members nor vote in a co-op’s elections or share in patronage payments, he said. The Wyoming and Minnesota laws attempt to address this situation by allowing the creation of a hybrid between a traditional cooperative and an LLC, with separate membership classes for farmer-patrons and investors.

Flory said these state co-op laws each require that farmers have at least 50 per-

cent voting control, and that Minnesota requires that 60 percent of financial returns go to farmers, unless they vote as a block to accept a lesser amount, but never less than 15 percent. Both laws are too new to determine whether many traditional co-ops will convert to the new hybrid co-op businesses, Flory said, adding that other states are considering similar legislation.

“The success of hybrid cooperatives will depend on whether farmers and investors can work together. Potentially the two groups have different objectives,” which, he stressed, “could be a source of conflict.” Whether the hybrids are successful “ultimately depends on their ability to reconcile potential conflict between farmers and investors.”

CoBank seeks changes

Doug Sims, CEO of CoBank, part of the cooperatively owned Farm Credit Bank system, said provisions of the Farm Credit Act make it “increasingly difficult for a new generation of farmer-owned cooperatives...to obtain financing from CoBank.” Farmer cooperatives are increasingly turning to value-added activities to bolster their members’ farming operations, and many are turning to new business models to raise equity capital from non-producers, to minimize tax liabilities and

gain added operational flexibility, Sims said. “These new structures will often make the cooperative ineligible for financing by CoBank,” which provides about 80 percent of all credit extended to farmer cooperatives.

Sims cited the role of co-ops in the rapidly expanding ethanol industry as an example of this situation. CoBank has loaned \$200 million to finance 20 farmer-owned ethanol plants in the Midwest and Great Plains states. To date, return on equity has been a highly favorable 10 to 15 percent annually. But some of these co-ops are turning to outside investors to build plants.

Tall Corn Ethanol in Coon Rapids, Iowa, recently altered its corporate structure to an LLC to attract more equity from outside investors, Sims said. Even though farmers still control the business, it is no longer eligible for financing from CoBank. The same scenario holds true for South Dakota Soybean Processors, which had been a CoBank customer since its inception in 1996 but recently converted to an LLC for tax and equity reasons.

“This current situation is putting the farmer-owners of cooperatives in a very difficult position—by choosing the most advantageous corporate structure, the cooperative may be forced to forgo access to the lender created specifically to meet the needs of farmer-owned cooperatives,” Sims testified.

CoBank is requesting legislation that would change its charter to:

- Allow it to continue lending to producer associations with both a producer

and investor class, provided that the producer class holds at least 50 percent of the voting control and that it operates on a cooperative basis;

- Permit ag co-ops organized consistent with state cooperative laws to be eligible for CoBank financing;

■ Allow co-op customers adopting new business structures to continue to be eligible for CoBank financing, as long as the customer maintains at least 50 percent farmer control or continues to operate under co-op state law;

- Provide that co-ops that are CoBank customers but restructure as non-co-ops would remain eligible for CoBank financing for a five-year transition period.

“Without this action, CoBank will not be able to meet its mission of serving farmer-owned cooperatives,” Sims warned. He noted that the proposal has received the endorsement of the National Council of Farmer Cooperatives (NCFC), the American Farm Bureau Federation, the Farm Credit Council and dozens of other farm organizations.

Community banking groups oppose CoBank proposal

Weighing in against the CoBank proposal were two banking industry trade groups, which testified that those changes would violate the very reason CoBank was formed while creating unfair competition for locally owned, community banks. As a government sponsored entity, CoBank has access to lower cost funds than do most community banks. They also raised numerous questions about the Wyoming and Minnesota state co-op laws, saying these statutes could have the opposite effect they were intended for, and could actually hasten the loss of producer control.

James Caspary, representing the Independent Community Bankers of America (ICBA), said those state laws would create a business model under which “outside investors could form LLCs labeled ‘farmer-owned cooperatives,’ even when farmers don’t have majority ownership or voting control,



“Farmers and ranchers still retain a high level of confidence in cooperatives, and this business model is still one of the most trusted tools of business development in rural America,” USDA Under Secretary for Rural Development Thomas Dorr testified. To his left is Doug Flory, who testified on behalf of the Farm Credit Administration.

Equity, tax issues prompt beef co-op to ponder switch

U.S. Premium Beef (USPB) recently completed a buy-out of its former partner—Farmland Industries—in National Beef, the nation's fourth largest beef packer. But its co-op structure threw up barriers to raising the needed investment capital, co-op CEO Steve Hunt testified in October at the House Ag Committee hearing on new generation co-ops. The co-op is now weighing whether to convert its business structure to an LLC or reincorporate under the new Minnesota or Wyoming state co-op laws.

The main reasons would be to capture "the benefits of a pass-through tax structure," he said, and because this change would allow "unlimited earnings diversification and provide for recruitment of outside capital, while still maintaining control in the hands of the producer."

But even if the co-op converts its business structure, it faces hurdles, he said. Co-op members could be charged substantial taxes on the gain in their co-op stock value, which has risen sharply. As a new generation co-op, USPB members purchase stock in the co-op which creates a right and requirement to deliver cattle to the co-op. Those shares can be sold to other producers.

Leaving the ranks of co-ops would also mean losing its relationship with CoBank, Hunt testified.

He proposed a number of changes to the tax code which

would provide relief for co-ops in such situations, including a one-time conversion tax exemption for cooperatives that convert to an LLC but still maintain producer control.

"Today, as we witness an acceleration of concentration among food industry participants, the need to achieve size, scale and market leverage is becoming paramount to their success," Hunt said. "These changes require vast amounts of capital."

"Under today's rules," he continued, "cooperatives have only to look to cash-strapped producers to secure equity. The alternative is to leverage their business through debt, a strategy that has resulted in numerous public failures."

Hunt said that when Farmland Industries filed for bankruptcy last spring, USPB was able to buy its interest in National Beef. That kept the beef operation under producer control, unlike Farmland's pork business, which was snapped up by Smithfield. Hunt said USPB was forced to form a venture outside of the cooperative and seek outside investors as partners in order to buy out Farmland's share in the partnership. "Had USPB been able to attract alternative sources of capital within the co-op, we would have owned a larger percentage of the beef business and increased our odds of maintaining producer control into an uncertain and very competitive future," Hunt said. "Addi-

and be eligible for cooperative benefits." ICBA, 75 percent of whose members are community banks located in towns of 10,000 or less, "opposes any fundamental rewrite of CoBank's lending charter because it would allow it to make loans to corporations that may have no farmer involvement and that may be unrelated to agriculture," Caspary testified.

"We do feel it is appropriate to explore ways to enhance the accumulation of equity capital within farmer-owned cooperatives and in rural America—but this should be done in a way that doesn't potentially lead to the loss of legitimate farmer control of their cooperatives or in ways that drastically depart from the bedrock principles of what makes a cooperative a cooperative."

Policies should not be enacted that would spur consolidation in agriculture and cooperatives "just for the

sake of growth for some at the expense of survival for others," Caspary said. He presented the committee with a list of criticisms of the Wyoming state law, including a provision under which "one or more outside investors with two-thirds voting control can merge or consolidate the entity into another entity, or liquidate it without any support from the producer-patron members."

Caspary said Congress has recently adopted or updated several programs which could aid farmers and cooperatives pursuing new ventures. "Unfortunately several of these USDA authorities sit either idle today or have yet to be fully implemented."

Roger Monson, representing the American Bankers Association, offered similar testimony. He said the Wyoming and Minnesota co-op laws "will allow businesses to continue to be defined as farmer-owned cooperatives

when...(they) are neither owned by a majority of farmers or controlled by farmers."

Farmers Union urges careful study

Congress must take the lead in re-examining cooperative business structure, "rather than allowing events or other institutions to define a new cooperative model that may sacrifice the characteristics of cooperatives that distinguish it from other business structures," Doug Peterson testified on behalf of the 300,000-member National Farmers Union (NFU). Peterson, president of NFU's Minnesota state chapter, said that despite problems confronting farmers and their cooperatives, "we believe that a level of restraint must be exercised to provide the opportunity for a full discussion of potential alternatives and outcomes before engaging in a significant modification of the cooperative

tionally, in order to achieve a majority position, since equity capital was limited, we were forced to rely more heavily on riskier debt equity, thereby leveraging the company.”

Wheat-to-pizza co-op recounts equity challenge

Keith Kisling, an Oklahoma wheat and cattle producer and former director of the Burlington Cooperative Association, recounted a similar challenge in raising equity capital in 1996 for Value Added Products, a new-generation cooperative in Alva, Okla. The 850-producer co-op processes 642,000 bushels of wheat annually into \$20 million worth of pizza crusts. After just four years in operation, it is the largest pre-proofed and frozen dough plant in the nation, Kisling said.

“Our biggest challenge,” he testified before the Ag Committee, “was collecting up-front capital to convince our lenders to buy into the deal.” Some 40 producer meetings were held with the goal of raising \$10 million of the \$18 million needed. The most useful financial incentive the co-op had in attracting producer-members, Kisling said, was Oklahoma’s 30-percent state credit, which can be used for seven years by new value-added ventures. “I was asked consistently in those 40 meetings if there was a similar federal tax credit, and my response had to be “no.”

The co-op raised the additional capital needed with the help of a Business and Industry Guaranteed Loan and a Value-Added Producer Grant, both of which are programs of USDA Rural Development.

As a result, the co-op “now sells pizza crust to the world instead of railroad cars of wheat. More jobs are available for young people and more sales tax revenue is going into our community to provide basic infrastructure and technology.”

Kisling said more programs are needed to encourage and promote these types of farmer-owned value-added efforts. He urged that USDA’s Value-Added Producer Grant program be funded at no less than \$40 million, and called for Congress to “expedite the implementation” of the Rural Business Investment Program (RBIP). He said RBIP was designed to encourage investments in rural enterprises through rural business investment companies created to raise capital, provide operational assistance to small businesses and participate in a government guaranteed debenture program.

The RBIP, coupled with other co-op development programs, “offers an important opportunity for smaller rural cooperatives to access the resources that are vital to their success,” Kisling said. But Congress should review technical requirements of the enabling legislation to determine if they are too restrictive, he continued. He said the entire co-op development process also needs to be streamlined, including shifting some guaranteed loan programs for farmers to USDA’s Farm Service Agency, which he said is in a better position to encourage more farmer participation. ■

—By Dan Campbell

model.” New state co-op laws may have worthy intentions, but “we are concerned about the longer term effects of these proposals on basic cooperative principles.

“In addition, schemes that blur the lines between cooperatives and other organizational structures may put at risk existing preferential public policy treatment for all cooperatives, including, but not limited to, the issues of partial anti-trust exemption and tax considerations.”

“The old adage, ‘he who pays the piper calls the tune,’ could certainly apply to outside investors, who may in fact be able to qualify as farmers under the current definition,” Peterson warned. These investors could persuade the co-op board to change traditional allocations of earnings away from patronage to return on investment. “They might also exert substantial influence on merger, consolida-

tion, liquidation or other critical business decisions.”

If Congress ultimately decides to allow more outside investors in co-ops, “it should establish strict guidelines and limitations on the level of influence these investors may exert over any cooperative business structure,” he said. “At minimum, these rules should require diversification among investors, particularly those with interests in competing businesses....”

In its testimony, the National Council of Farmer Cooperatives (NCFC) urged that “the highest priority be given to strengthening USDA cooperative programs, including the re-establishment of a separate co-op agency within USDA. NCFC also said the Federal Farm Credit Act should be modernized to ensure farmers have access to a competitive source of credit capital for their cooperatives—including new generation coopera-

tives. It also called for the elimination of the so-called “triple tax” on farmer cooperative dividends.

John Henry Smith, board chairman of Southern States Cooperative (SSC), and CoBank CEO Douglas Sims both testified that their organizations “strongly support” NCFC’s position on strengthening USDA’s cooperative program. Smith said it needs to have resources not only to carry out existing programs, but new ones as well. He also asked that the loan guarantee limit on USDA’s Business and Industry Guaranteed Loan program be boosted from \$40 million to \$100 million.

Rep. Stenholm urged that rural banks find a way to work together with CoBank and the rest of the Farm Credit System, noting that “the rural America we know is dying... We must bring in capital and jobs in non-traditional ways. That’s what this is all about.” ■

Dismantling of Farmland continues; Smithfield buying pork business

By Patrick Duffey, writer-editor
USDA Rural Development

Like a cat unraveling a big ball of yarn inch by inch, once mighty Farmland Industries Inc., at Kansas City, Mo., is being unraveled and dismantled. Its operations are being sold to satisfy an overwhelming debt load that drove the agricultural supply and meat-processing cooperative into bankruptcy May 31, 2002. Although it filed for Chapter 11 bankruptcy, or corporate reorganization, the case has been handled from the early stages as a virtual Chapter 7, or asset

liquidation bankruptcy.

Observers note that Farmland's demise resulted from borrowing too heavily to compete in too many capital-intensive businesses, expanding too aggressively, building too many projects and depending too heavily on the fertilizer business when the fertilizer industry was depressed. Thousands of farmers are expected to lose more than \$700 million in equity or investments.

Robert Terry, Farmland's chief executive officer, said that if the cooperative's reorganization plan is approved by U.S. Bankruptcy Court Judge Jerry Venters, Farmland could begin paying claims by year's end. Additional pay-

ments would occur as the cooperative sells more assets.

Bids have been offered in recent months for Farmland's primary fertilizer, petroleum and meat-processing facilities.

Cargill, Smithfield bid for Farmland pork division

Competition developed between Cargill and Smithfield Foods for the pork division of Farmland Foods. Bidding peaked in October and went to a bankruptcy court auction. Smithfield emerged as the winner.

Smithfield's initial bid was \$363.5 million, which triggered a hearing before the Senate Judiciary Committee due to concerns about concentration in the meat-packing industry. But the deal eventually was approved by the antitrust division of the U.S. Justice Department.

Cargill, which owns Excell Corporation, a major pork processor in Illinois and Iowa, entered the bidding with a pre-auction cash offer of \$385 million. Smithfield countered at the auction, increased its cash bid to \$367.4 million for most of the assets, agreed to honor Farmland's pork-producer contracts and assumed Farmland's \$90-million pension plan obligation, effectively boosting its offer to \$457.4 million.

Prior to the fall auction, Smithfield sold its Canadian pork business to Maple Leaf. It expected to net \$200 million from the deal.

With the Farmland purchase, Smithfield could become a \$10-billion food company that processes nearly 30 percent of the nation's pork



Farmland Industries had hoped to restructure the cooperative around its successful beef and pork processing businesses, but virtually all of its assets have now been sold. Smithfield has purchased the pork operation, while the beef operation will remain under producer control. Photo courtesy Farmland Industries.

U.S. Premium Beef seals purchase of Farmland National Beef

Farmland National Beef has been purchased by U.S. Premium Beef (USPB), which had been Farmland Industries' partner in the operation and is a producer-owned cooperative of 1,850 cattle producers in 37 states. The purchase, valued at \$232 million, was approved by the federal bankruptcy court in St. Louis on July 15, and the sale was completed Aug. 6.

USPB is now majority owner of Farmland National Beef, which will be renamed National Beef Packing Co. LLC (NBP). It is the nation's fourth largest beef packer, with about 10 percent of the national beef market. It processes about 3.2 million head of cattle annually.

Minority investors are an NBP management group and NBP Co. Holdings LLC, a South Dakota company managed by Beef Products Inc. (BPI).

"This is an excellent opportunity for additional growth in the market for USPB stockholders and members," says USPB Chief Executive Officer Steve Hunt. "Increasing the synergies that already exist between our companies will enable NBP to become even more efficient in processing

and marketing high-quality beef products worldwide."

The sale includes Farmland National Beef packing plants in Liberal and Dodge City Kan., as well as further-processing facilities in Hummels Wharf, Pa., Moultrie, Ga., and the Kansas City Steak Co., Kansas City, Kan. National Beef also owns National Carriers, a 700-unit refrigerated trucking operation.



"Having NBP's management group as minority owners solidifies their commitment to making NBP the industry leader in terms of product quality as

well as plant operating efficiency," Hunt said. "Likewise, IBP, as the world's leading manufacturer of boneless lean beef, has a long history of dedication to quality, food safety and operational efficiency."

USPB member cattle are marketed under the U.S. Premium beef brand and numerous NBP product lines, including Farmland Black Angus Beef, Farmland Certified Premium Beef, Black Canyon Agnus Beef and Certified Angus Beef. Member cattle are also marketed direct to consumers through Kansas City Steak Co, NBP's quality steak mail-order business. ■

supply. Farmland Foods, which ranked as the 6th largest pork processor, has packaging and processing plants in Iowa, Kansas, Nebraska, Illinois and Massachusetts. The cooperative processed more than 7 million hogs per year and accumulated sales of \$1.8 billion last year.

The sale could become effective in early November. The combination of Tyson, Smithfield, Cargill and Swift now dominate the meat processing business.

Farmland's beef processing operation, Farmland National Beef, will remain under producer control, as it has been purchased by its former partner in the operation, U.S. premium Beef, a cooperative (see related story).

Fertilizer assets sold

Meanwhile, J.R. Simplot of Boise, Idaho, has agreed to buy Farmland's interest in SF Phosphates, a Utah-

based joint venture of the two companies. Simplot will pay \$64.5 million plus the value of Farmland's share of cash and working capital. The assets include a fertilizer plant at Rock Springs, Wyo., a phosphate mine at Vernal, Utah, and a 96-mile pipeline connecting the two.

The deal is expected to close quickly once it gets court approval, which was anticipated in early November. The assets were not included in Farmland's Chapter 11 restructuring.

Pegasus Partners II, a Greenwich, Conn., investment firm, has offered to buy Farmland's petroleum refinery and adjacent fertilizer plant at Coffeyville, Kan. The deal would also cover an old oil terminal at Phillipsburg, Kan., and a three-state crude oil gathering system and related inventories required to operate the facilities. The deal was valued at \$281 million. The Coffeyville refinery sale

would be contingent on about \$134 million being committed to bring the plant into federal environmental compliance.

Even after it disposes of these assets, Farmland still has other holdings, chief among them its grain joint venture with Archer Daniels Midland. In partnership with other cooperatives, it also has interest in a pair of joint ventures: Agrilliance LLC, an agronomy marketing and sales affiliate owned with CHS Inc. and Land O'Lakes. The other venture is Land O'Lakes/Farmland Feed.

In May, Farmland closed and sold its catfish processing operation at Eudora, Ark., for \$200,000 to a group of 60 farmers associated with Seacat. No delivery rights were involved. Farmland acquired the operation in 1998 when it purchased SF Services, the Arkansas regional farm supply cooperative. ■

Survey results: public shows strong preference for doing business with cooperatives

By Patrick Duffey, writer-editor
USDA Rural Development

People prefer to do business with cooperatives and rate them higher than investor-owned. They also view the nation's more than 40,000 cooperatives as more democratic and trustworthy than investor-owned businesses. Those were among the findings of a major survey conducted by one of the nation's major polling organizations at the behest of the National Cooperative Business Association (NCBA), Consumer Federation of America and a coalition of national cooperative organizations.

Of particular interest to farmers is that 69 percent of survey respondents said they would be more likely to buy food if they knew it had been produced by a farmer-owned cooperative. Like-

wise, 67 percent said they would be more likely to buy their electricity or telecommunications services from a locally owned utility cooperative.

The results were presented by NCBA President Paul Hazen at a press conference in Washington, D.C., October 1 to kick off the annual observance of National Cooperative Month. Other survey participants included Cooperative Union National Association (CUNA), National Association of Federal Credit Unions, National Cooperative Bank, National Milk Producers Federation, National Rural Electric Cooperative Association, National Rural Telecommunications Cooperative, National Rural Utilities Finance Corp., and National Telecommunications Cooperative Association.

The survey results support the findings of similar surveys undertaken during the past decade. But the new survey found that there is now a much stronger climate of distrust of major corporations due to the numerous stock and bookkeeping manipulation scandals that have been in the news during the past two years. Federal regulators are scrutinizing corporate governance and director election practices. Less than half of those surveyed felt investor-owned companies were ethically governed.

Hazen said more than 75 percent of the 2,031 adults surveyed agreed that cooperatives operate their businesses in a trustworthy manner,

compared with just 53 percent who rated investor-owned firms as trustworthy. A majority also found that businesses—such as cooperatives—that allow customers to democratically elect the board of directors and are locally owned and controlled are more trustworthy. These are common traits found in many U.S. cooperatives, but particularly among those serving agriculture. More than half of U.S. adults say they are cooperative members.

A whopping 77 percent of those surveyed said cooperatives have the best interests of customers in mind, but less than half attributed that trait to investor-owned companies. Cooperatives also rated higher than investor-owned firms by wide margins on questions of value, quality, price and commitment to their communities. Agricultural cooperatives are often major employers in rural communities in which they operate.

Asked whether they would be more or less likely to buy products and services from a business if they knew it was a cooperative:

- 73 percent were more likely to buy products from a food cooperative;
- 71 percent were more likely to use a credit union;
- 69 percent were more likely to patronize independent local businesses that belonged to a buying cooperative;
- 55 percent said they would prefer securing health care services offered by a consumer-owned provider, while 56 percent said they would prefer to use day care services provided by a parent-owned cooperative.
- More than 80 percent agreed that cooperatives strengthen rural commu-

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Chris Galen of the National Milk Producers Association answers a question during a press conference at the National Press Club in Washington, D.C., held to announce the results of a consumer survey that gauged public opinions of cooperatives. He is flanked by Stephen Brobeck, executive director of the Consumer Federation of America, and Paul Hazen, president of the National Cooperative Business Association. USDA photo by Dan Campbell

Revenue, margins trend downward for nation's top 100 ag cooperatives

By David Chesnick,
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Much of the nation's business sector struggled during 2002, and cooperatives were no exception. Symbolic of this economic downturn were Chapter 11 bankruptcy filings by many large U.S. businesses, including several by major cooperatives. Preliminary reports—analyzed as part of USDA's annual financial survey of the top 100 farmer-owned cooperatives—show that more than half of the co-ops ended 2002 with lower total revenue than in 2001. For the top 100 farm cooperatives as a whole, revenue dipped 7.5 percent from 2001.

Despite the deteriorating revenue picture and bankruptcy filings, the largest cooperatives showed surprising resilience in the face of a difficult economy in 2002.

Most of the \$5.2-billion decline in operating revenue can be attributed to lower sales in the dairy and diversified co-op groups. These two sectors accounted for 80 percent of the revenue decline. Strong showings by cotton, grain and rice co-ops helped offset the downtrend, as indicated in table 1 (which compares total revenue for all co-op commodity groups between 2001 and 2002).

Gross profit margins for the top 100 co-ops also declined, falling 2.2 percent, to \$5.6 billion—the lowest amount in 10 years. Cost of goods sold mirrored the change in revenue, falling

Table 1—Total operating revenue by commodity group, 2001-02, top 100 cooperatives

	Total sales and operating revenue			Change —per-
	2002	2001	Difference	
cent—	—\$1,000—			
All cooperatives	63,971,600	69,153,776	(5,182,176)	-7.5
Cotton	2,564,256	2,237,298	326,958	14.6
Dairy	18,934,405	21,058,156	(2,123,751)	-10.1
Diversified	21,460,701	24,324,871	(2,864,170)	-11.8
Fruit & vegetable	5,151,426	5,269,664	(118,238)	-2.2
Farm supply	5,280,025	5,892,671	(612,646)	-10.4
Grain	5,673,474	5,289,782	383,692	7.3
Poultry & livestock	2,402,144	2,469,662	(67,518)	-2.7
Rice	1,049,388	1,038,287	11,101	1.1
Sugar	1,455,781	1,573,385	(117,604)	-7.5

8 percent in 2002, which prevented gross profit margins from falling more than they did.

Operating expenses of \$4.8 billion remained virtually unchanged from 2001. This resulted in net operating margins of \$796 million, another 10-year low. Lower interest expense and non-operating revenue boosted net margins from operations by 15.5 percent, to \$613 million (table 2).

Cotton co-op margins soar

Cotton prices edged higher in 2002, thanks in part to rising exports. Most cotton cooperatives reported improved revenue, with a 14.6-percent gain for the sector. Prices returned to members in the form of cost of goods sold increased 8.8 percent, substantially less than the increase in revenue. The result was higher gross margins, which reached \$232 million in 2002, an increase of just under 150 percent and

the highest level recorded in the past 10 years.

Cotton cooperatives needed higher gross margins to cover record-high operating expenses. Operating expenses jumped 84.3 percent, to \$161 million (due mostly to the cost of processing a very large crop), leaving net operating margins of \$70 million in 2002. Due to lower interest rates as well as lower debt levels, interest expense was down 41 percent, to \$14 million. The result was \$62 million in net margins from operations in 2002, a tremendous improvement over a \$4 million loss in 2001.

Dairy suffers low prices

Lower milk prices coupled with lower volume pushed revenue down 10.1 percent for dairy cooperatives in 2002. After reaching record levels in 2001, dairy cooperatives ended the year with total revenue of \$18.9 billion,

Table 2—Net margins from operation by commodity group, 2001-02, top 100 cooperatives

	Net Margins			
	2002	2001	Difference	Change
	—\$1,000—			—percent—
All cooperatives	613,634	531,166	82,468	16
Cotton	62,444	(4,175)	66,619	(1,596)
Dairy	203,098	245,046	(41,948)	(17)
Diversified	(88,086)	97,222	(185,308)	(191)
Fruit & vegetable	95,163	49,353	45,810	93
Farm supply	13,858	17,298	(3,440)	(20)
Grain	99,894	105,725	(5,831)	(6)
Poultry & livestock	67,177	41,642	25,535	61
Rice	151,223	8,441	142,782	1,692
Sugar	8,863	(29,386)	38,249	(130)

down \$2.1 billion from 2001. Similar to cotton cooperatives, dairy cooperatives lowered their cost of goods sold by 10.5 percent, resulting in a 2-percent drop in gross margins, to \$1 billion, in 2002.

Operating expenses for dairy co-ops were up 2 percent, to \$933 million. Lower gross margins with higher operating expenses caused net operating margins to fall 19.4 percent, to \$157 million, the lowest level in the past 10 years. Lower working-capital loans and lower interest rates cut interest expense by 25.2 percent, to \$48 million. Although down 17.1 percent from 2001, net margins from operations were still a healthy \$203 million in 2002.

Cooperative failures hurt diversified sector

Diversified cooperatives took a hit in 2002, with two cooperatives filing for chapter 11 bankruptcy. The losses generated from these cooperatives pushed total revenue for diversified cooperatives down 11.8 percent, to \$21.5 billion. Gross margins were down 15 percent, to \$1.2 billion, levels not seen since 1994.

Lower gross margins and higher operating expenses left diversified cooperatives with a net operating loss of \$13 million. Despite higher non-operational revenue and lower interest

expense, diversified cooperatives ended 2002 with a net loss from operations of \$88 million.

Mixed results for fruit/vegetable co-ops

As in 2001, the market was mixed for fruit/vegetables. Some produce crops had higher prices, while prices retreated for others. The net result was that fruit/vegetable cooperatives saw their net revenue dip 2.2 percent, to \$5.2 billion. Cost of goods sold was cut 2.7 percent, resulting in a slight 0.3 percent decrease in gross margins, to \$997 million.

Fruit/vegetable cooperatives continued to cut operating expenses. Operating expenses are down 30 percent since 1999, falling to \$771 million in 2002. Lower expense boosted net operating margins 24 percent, to \$226 million. Lower interest expense also helped the bottom line for these cooperatives. Net margins from operations were up 93 percent, to \$95 million, in 2002.

Petroleum sale decline cuts farm supply revenue

Farm supply cooperatives suffered a \$612.6-million decline in revenue in 2002. Lower petroleum sales accounted for nearly half of the decrease in revenues. Lower demand for fertilizer also hurt farm supply sales. Gross margins were down 6 percent, to \$682 million,

the lowest amount since 1993.

Operating expenses increased 2 percent, to \$664 million, for farm supply co-ops. That's the highest expense level in the past 10 years. Higher operating expenses combined with lower gross margins sliced deep into net operating margins. Net operating margins were down 76.4 percent, to \$18 million. Fortunately, lower interest expense, along with higher non-operational revenue, prevented net margins from operations from becoming a net loss. Net margins from operations were \$14 million, down 19.9 percent from 2001.

Grain revenue climbs

Grain prices and supplies held steady from 2001 to 2002. Virtually all co-ops categorized as "grain co-ops" in USDA's top-100 co-op survey also provide farm supplies and services to their members. However, those cooperatives that predominately market members' grain generated higher revenue from their farm supply sales and service revenue. Feed sales pushed up total farm supply sales by 37 percent, helping boost total revenue for grain cooperatives by 7.3 percent, to \$5.7 billion.

Gross margins for grain co-ops climbed 2 percent, to \$533 million. However, operating expenses jumped 12 percent, to \$471 million, suppressing net operating margins 38.6 percent, to \$62 million. Similar to farm supply cooperatives, grain cooperatives had lower interest expense and higher non-operational income, which lifted net margins from operations to \$100 million. However, this was down 6 percent from 2001.

Livestock margins surge upward

Declining livestock sales pushed revenue down for poultry & livestock cooperatives in the top 100. This commodity group had a decline in revenue of 3 percent, to \$2.4 billion in 2002. Gross margins of \$174 million were up 28 percent. Even in the best of times, margins are generally tight for poultry/livestock coopera-

tives, so any increase helps.

Higher gross margins and lower operating expenses provide livestock/poultry cooperatives with a 165.6 percent increase in their net operating margins. Net operating margins reached \$65 million in 2002. Lower interest expense also helped increase net margins from operations by 61.3 percent, which ended the year at \$67 million.

Record net margins for rice

Rice sales were up 1.1 percent, which halted the declining revenue trend of the past few years. Rice prices and production declined once again in 2002. A few rice cooperatives opened some foreign markets for rice exports, which helped boost their total sales. However, these sales came at a price, as their cost of goods sold jumped 5.6 percent and caused gross margins to fall 9.1 percent, to \$292 million.

Operating expenses were slashed 54.2 percent, to \$140 million, which left rice cooperatives with the highest net operating margins in the past 10 years. Net operating margins were up 914.7 percent, to \$152 million. Higher operating margins and lower interest expense gave rice cooperatives a tremendous boost to their bottom

line. Net margins from operations skyrocketed 1,691.5 percent, to \$151 million, a record high.

Margins hold for sugar co-ops

Revenue for sugar cooperatives fell 8 percent, to \$1.5 billion in 2002. However, lower cost of goods sold enabled gross margins to remain relatively unchanged from 2001 at \$351 million. Lower operating expenses increased net operating margins 67 percent, to \$58 million.

Higher net operating margins and lower interest expense allowed sugar cooperatives to post net margins from operations of \$9 million. Sugar cooperatives have been operating at a net loss from operations since 1997.

Assets of top 100 drop

Assets for the top 100 cooperatives fell for the first time since 1998. Figure 1 shows the ownership of assets for the past five years. Outside claims to cooperatives' assets are in the form of liabilities. Members' claims on co-op assets are reflected in member equity.

Total assets for the top 100 fell 2.1 percent, to \$27.2 billion. Most of the commodity groups—with the exception of farm supply, grain and rice cooperatives—saw their assets decline in 2002. Most of the drop was due to

lower amounts of current assets. Current assets fell \$564 million to \$12.3 billion.

On the other hand, total liabilities only declined 0.9 percent to \$17.7 billion. The largest cooperatives appeared to be transferring more of their liabilities from short-term to long-term. While current liabilities fell 4.7 percent, to \$9.5 billion, non-current liabilities increased 3.9 percent, to \$8.2 billion.

Member equity fell \$327 million, to \$8.7 billion, the lowest level since 1995.

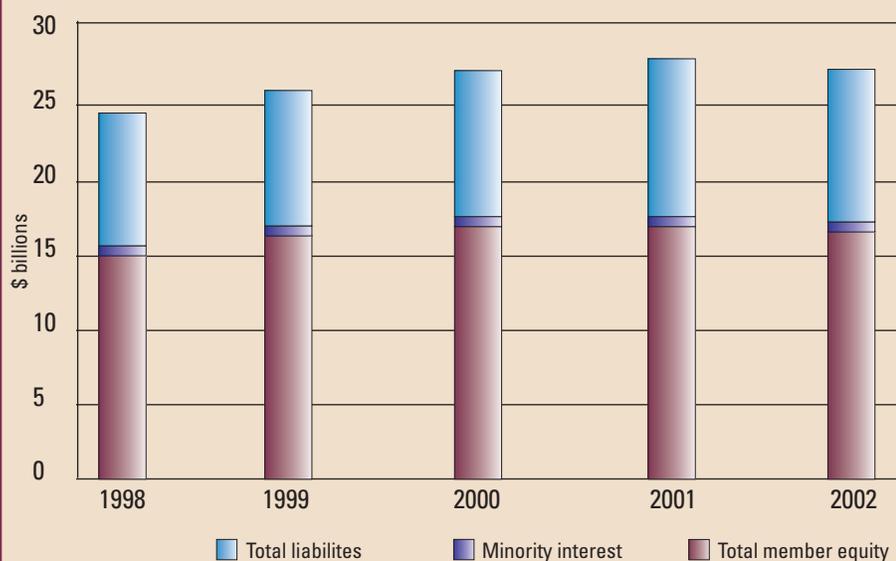
Cotton cooperatives ended the year with 31.7 percent less current assets than in 2001. Declining current assets pushed down their total assets by 23.5 percent, to \$667 million. Their liabilities, both current and long-term, fell 35.4 percent. Total liabilities for cotton cooperatives were \$387 million at the end of 2002. Some of the higher margins from operations were rolled over into their member equity, which increased 2.9 percent, ending 2002 at \$280 million.

Dairy cooperatives also ended the year with lower value assets. Current assets fell 11 percent, which caused total dairy assets to fall 5.1 percent, to \$4.8 billion. Total liabilities declined 8.7 percent, to \$2.7 billion, due to a drop of 12.9 percent in current liabilities to \$41.9 billion.

Long-term debt actually increased 3.4 percent, to \$778 million. Minority interest and member equity remained unchanged from 2001, at \$378 million and \$1.8 billion, respectively.

Despite the much-reported co-op bankruptcies, total assets for diversified cooperatives remained unchanged at the end of 2002, standing at \$10.7 billion. On the other hand, total liabilities jumped 3.8 percent, to \$7.7 billion. Leading this increase was long-term debt. Long-term debt was up 5.2 percent, to \$4.2 billion, while current liabilities were up 2.3 percent, to \$3.5 billion. As would be expected with filings for bankruptcy, member equity fell 10.8 percent, to \$2.7 billion.

Figure 1—Composition of total assets, Top 100, 1998-2002



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Sweet smell of success

Oklahoma wheat producers use USDA financing to launch frozen-dough bakery

By Sally Vielma,
USDA Rural Development,
Oklahoma

Traveling in northwestern Oklahoma, it is evident that the waves of wheat are a major contributor to the economic base of the region. As the state song, “Oklahoma,” says, when the wind comes sweeping down the plain, the waving wheat can sure smell sweet. “Sweet” not only describes the smell at the Value Added Products Inc. cooperative’s frozen dough processing plant, but also the aroma of several other aspects of the cooperative’s bakery operations.



Adding value to hard-red wheat

A core group of wheat producers in the Woods County area of northwestern Oklahoma held initial meetings to discuss value-added processing alternatives for their hard-red winter wheat. This variety is the region’s major crop, preferred by producers as a consistent source of clean, high-quality wheat that has above-average test weights and protein levels. Wheat producers, cooperative groups, economic development partners and agricultural business leaders all shared the vision and desire to add more value to the crop in the region where it is grown.

After careful study of information and research from the Oklahoma Department of Agriculture, Oklahoma State University and a professional consulting firm, the value-added group

opted to pursue production of frozen, self-rising dough products plant.

Co-op launched

The group initially organized as a Limited Liability Company (LLC) as it planned for the processing of area producers’ hard-red winter wheat into value-added food products. The organization, called Value Added Partners LLC,



Oklahoma wheat is being processed into frozen, self-rising pizza crusts at the new Value Added Partners plant in Alva, Okla. Photo courtesy Value Added Partners

“board members say. Project backers held 34 producer meetings across Oklahoma, which resulted in more than 900 separate producer/investors joining.

About \$7.5 million in member equity was raised in just three months. A second equity drive in 2000 brought in an additional \$2 million in one month. The great response to the second equity drive was accomplished by mailing a single letter to producer/investors. The response was indicative of the strong level of commitment and belief the producers had in the VAP co-op.

VAP also used a 70-percent Business and Industry Guaranteed Loan, for \$7.5 million, from USDA Rural Development for some of the capital expense for the project.

Perfect site located

With organization structure and management services in place, VAP selected a site it felt was perfect for the dough processing facility: a 48,000-

assessed the feasibility of a frozen-dough processing plant. Several associations with international expertise in the field of bakery facilities, equipment and supplies greatly assisted the producer group as it examined value-added alternatives.

Value Added Partners evolved into a closed cooperative, and the name changed to Value Added Partners Inc. (VAP) in 1999. The co-op, as originally designed, was to provide wheat producers the opportunity to expand their customer base through vertically integrated processing. It also would allow producers to capture a larger share of the profit margins through the further processing of their wheat.

The project “just felt right to all of us from the beginning,” says Mike Dunker, plant manager. Producer response to the initial equity drive in 1999 was “fantas-

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Co-ops follow more than one path for nominating board candidates

**By Bruce J. Reynolds,
Economist**

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Editor's note: This article is the first in a series (to be continued in future months) on selecting and compensating directors.

Procedures for selecting candidates for boards of directors are seldom a central topic of “best practices” seminars for either cooperatives or investor-owned firms. But the recent wave of corporate scandals has moved this topic to center stage, at least when it comes to investing in corporations. Business journals and other media are abuzz with recommendations for more democratic methods of director selection.

Cooperatives are governed by democratic procedures, which strengthen trust and accountability. For cooperatives, it is important to identify candidates with solid business and planning skills and with good leadership traits. The current debate makes it an opportune time to review some of the alternative procedures agricultural cooperatives use for selecting directors.

No single selection procedure fits all

There is no single “best practice” for finding excellent board candidates. Each cooperative must explore what works best for its members. Clearly, large membership cooperatives often need a different procedure for candidate selection than those with relatively few members. Candidate selection and

nomination are two parts of the process of getting qualified candidates on an election ballot. Selection is a process of deciding who should be nominated, while nomination is the act of putting a candidate on the ballot.

Standard procedures for candidate selection and nomination often have to be adapted to local conditions. Bylaws usually authorize more than one procedure for nominating candidates, but they do not indicate which nomination methods are used most frequently.

A survey was recently distributed to learn more about how cooperatives select and nominate candidates for their boards. It listed some of the common procedures and provided blank space for “other” methods to be described. Several cooperatives described additional procedures or sent copies of policy statements related to these matters. Responses were received from 433 cooperatives. A summary of

these alternatives and their potential strengths and weaknesses may offer ideas to consider when reviewing your co-op's nomination practices.

Nominating committee

The survey showed that a nominating committee is by far the most widely used vehicle for selecting candidates. This method was used by 374 cooperatives, or 86 percent of the respondents, but most also use other procedures. A nominating committee is responsible for finding the best available candidates from a cooperative's membership and is often involved in other preparations for an election. For example, nominating committees must prepare the ballot, which includes their nominations and all others nominated by valid methods.

The strength of a nominating committee depends on the extent of deliberation and study that go into its



Whether overseeing the business affairs of a local farm supply cooperative (above) or a multi-state regional, success means having a good board of directors. That requires a well-planned nominating process. Photo by Sandi White, courtesy Tennessee Farmers Cooperative

choices. Both directors and other members can share valuable insight about the membership when serving on a nominating committee. Out of 376 cooperatives reporting on nominating committee composition, 163 (43 percent) use only non-director members on the committee. Another 131 (35 percent) use a mix of directors and non-directors, while 82 (22 percent) have only directors on the nominating committee.

A director-only nominating committee can operate without conflicts of interest when there are board vacancies or when elections are staggered so that there are always some directors who are not running. However, a potential weakness of the board's involvement is that nominating committees may not be formed when elections involve incumbent directors.

About two-thirds of the cooperatives reported that they do not have a policy requiring that elections be contested, thus often allowing incumbents to run unopposed. Although many cooperatives reported difficulty finding members willing to challenge popular incumbents, nominating committees perform better if they are actively searching and recruiting candidates for all elections.

Directors, as well as managers, have experience in knowing what capabilities are most needed on their board. Managers often work in an advisory capacity with the nominating committees. Directors have an appreciation for certain attributes candidates would bring to the board. For those cooperatives which disallow directors on the nominating committee, information sharing between board and committee can contribute to better candidate selections.

Determining who serves on the nominating committee is often another way for directors to exercise influence. Most non-directors are appointed to the committee by directors.

Advantages of director influence on candidate selection may become a weakness if applied without checks and balances. Selecting for positive traits, such as a team player, may unintention-

Methods for selecting and recruiting candidates for directors

- Nominating committee
 - Composed of different combinations of non-director members and directors
 - Board appointments of non-director members of committee
 - At-large or district elections of non-director members of committee
- Nominations from the floor of annual or district meetings
- Recruitment by directors
- Member caucus at annual or district meetings
- Nominations by mail
- Ballot write-ins
- Nomination by application
- Associate board

ally screen out “devil’s advocate”-type directors—those who contribute by questioning the status quo and who may offer valuable new ideas. Another possible weakness of director control over candidate selection might occur if members feel they have no real influence on the process of who can be elected to the board.

These kinds of weaknesses have inspired a manager of one rural electric cooperative to recommend “good riddance” to the nominating committee.¹ Yet, there are ways to capture potential strengths and minimize perceived weaknesses of nominating committees. For example, to address concerns by members of too much director control over candidate selection, nominating committees can be elected rather than appointed. At least 20 cooperatives reported holding elections during their annual meeting to select the nominating committee.

Several cooperatives issue a formal request for volunteers for the committee, and a couple reported using a random selection procedure to solicit non-director volunteers to serve. The purpose of these efforts is to find ways to get more members involved in the process of candidate selection.

Nominations from the floor

Nominating committees didn’t become the most widely used proce-

cedure for selecting candidates until the latter part of the 20th century. A similar survey was last conducted by Cooperative Services in 1949.² At that time, only 19 percent of 962 respondent cooperatives used nominating committees, while nominations-from-the-floor during annual or district meetings were used by 64 percent of co-ops (which has now fallen to 36 percent).

The strength of floor nominations is in having increased member access to the candidate selection process. Its impact is likely to be greatest in cooperatives that report having no nominating committees, or which only occasionally use them, as was the case for 39 cooperatives.

Weaknesses of nominations-from-the-floor mirror the strengths of nominating committees. There is potential for too much spontaneity or lack of study and deliberation about potential candidates. But in those cases where members at annual or district meetings have substantial familiarity with one another, nominations from the floor are unlikely to result in neglect of the best candidates.

The shift over time from nominations-from-the-floor to nominating committees as the most commonly used procedure may reflect the increasing complexity of business faced by cooperative boards. More cooperatives have responded to this complexity by

reducing their use of spontaneous procedures for selecting candidates.

Recruitment by directors

Candidate recruitment by directors is widely reported. Although 157 cooperatives reported such recruitment, some of it overlaps with the work of nominating committees that include directors. However, recruitment by directors is a distinctive procedure for candidate selection when nominating committees are not used by a co-op, or when they are exclusively composed of non-directors. These conditions apply to 45 cooperatives in the survey.

Member caucus

Member caucuses (usually held during annual or district meetings) can engage much broader participation in the nomination process than do nominating committees. In contrast to nominations-from-the-floor, more time is allotted for group deliberation. Although not listed as an option in the survey, three cooperatives reported using caucuses.

Usually, cooperatives do not have both member caucuses and nominating committees. While most cooperatives use the latter procedure, it should be noted that caucuses are used by some relatively large membership cooperatives, so that a fairly substantial number of farmers participate in this method of candidate selection.

Nominations by mail

A cooperative's entire membership can function as a virtual nominating committee by soliciting nominations by mail, or via a newsletter. The mechanics of this procedure vary, but, as an example, one cooperative mails a response card to each member to make a nomination. All nominees listed on the returned response cards are put on the ballot. Ballots are then mailed to members. In the event of a tie, a run-off election is held. The procedure is applied in each of the cooperative's 22 districts.

The strengths of nominations by

mail are not only in having all members involved, but also in the opportunity for individuals to make nominations without the pressures for group consensus that prevail in meetings. A potential weakness for this procedure is that it misses the benefits of group discussion about potential nominees. But familiarity with potential nominees that often exists in membership districts enables a nomination-by-mail procedure to work well. Another potential weakness is plurality voting, where a candidate might lose when running against two or more contenders but would win in a one-on-one election against those same candidates.

Ballot write-ins

Provision is often made for writing-in candidates on ballots when members are dissatisfied with the official list of

In short, a nominating committee can operate as if it were an office of human resources.

nominees. Ballot write-ins can be regarded as more of a membership right than a candidate selection procedure. It recognizes the right to vote for who you want to, rather than being limited to the official nominees. It's applicable when using paper or other forms of a written ballot that are distributed by mail or at annual meetings.

Ballot write-ins are often disallowed when any number of nominations from the floor are included in the vote. The nominations-by-mail procedure does not accept ballot write-ins because members had their opportunity to nominate on the response card. Nevertheless, many cooperatives have bylaws that authorize ballot write-ins. Out of the survey response by 433 cooperatives, 52 reported frequent use and 132 have occasional use of write-in candidates on the ballot.

Nomination by application

Cooperatives generally prefer an open process of candidate selection, in the sense of not limiting any member from running for the board. Similar to the procedures of nominations from the floor and ballot write-ins, a member can be nominated without having major name-recognition among the membership, and may even get on the ballot primarily by self-selection. An applicant usually must submit pertinent information to the cooperative or nominating committee several weeks before the election.

In some cases, a signed petition by a specific threshold number of members is required. Its advantage over nominations-from-the-floor and ballot write-ins is that cooperatives often distribute a "bio" on each candidate so that members can use this information to help them decide whom to vote for. Frequent use of nomination by application was reported by 26 cooperatives, while 105 reported occasional use.

Associate board

An associate board is a practical method for developing quality candidates for directors. These members are usually young farmers who stand out as good prospects and are either appointed by directors or can apply to be confirmed by membership vote. Associate boards participate in selected meetings of the board and may have special committee assignments, with the primary objective being that they gain experience for becoming future directors. As a recruiting procedure, this has some similarities with candidate recruitment by directors, as well as being a member education program.

Although the survey did not specify associate boards as a candidate selection procedure, 17 cooperatives reported having this type of program, which suggests that it is relatively popular. A possible limitation is in having to make choices in the present about directors for the future, in contrast to a search procedure just prior

to an election. But it is an effective way to develop a competent board and to boost newly elected directors along the learning curve faster than would normally occur.

Searching for candidates

Procedures for selecting cooperative director candidates are not often scrutinized and changed. There has been a gradual shift to procedures with more deliberation and study of potential candidates and slightly less reliance on spontaneous methods of selection. This change is indicated by the rise of the nominating committee and the decreased use of nominations from the floor that occurred between 1949 and 2003.

Increased use of nominating committees reflects efforts to address some of the problems that many cooperatives have encountered in finding members who have an aptitude for serving and who are willing to serve. Many survey participants reported the latter consideration as a major problem. When substantially large numbers of members are reluctant to serve, there is need for more advanced planning to search for potential candidates and to hold discussions about the benefits of serving on the board.

Candidate recruitment by directors

outside of nominating committee work has also been driven by the need to find “willing and able” candidates. In addi-

There has been a gradual shift to procedures with more deliberation and study of potential candidates.

tion, associate boards address these problems more head-on than the more spontaneous methods of candidate selection.

The weaknesses of nominating committees are less in their design than in their execution, particularly when their search process is too narrow. The committee should not limit its considerations to a circle of friends or be satisfied when it has found a “willing and able” candidate, but must build a database of capable candidates. This exercise ought to be carried out, not only for board vacancies, but also to find challengers to the incumbent directors. Nominating committees could survey the membership for suggested candidates, as well as asking for information about members’ relevant

skills for serving on the board. In short, a nominating committee can operate as if it were an office of human resources.

Candidate selection procedures in cooperatives will continue to be driven by demand for skilled leadership in carrying out the increasingly challenging tasks of fiduciary duties and long-range planning. Furthermore, difficult issues of business ethics accompany the growing financial complexity of today’s cooperatives. In the wake of recent corporate financial scandals, business ethics are receiving more emphasis overall. In fact, investor-owned firms are being urged to apply democratic principles to reform their director candidate selection procedures. Good advice that has long been followed by cooperatives. ■

¹ Avram Patt, “Here’s a Novel Concept: Get Rid of Your Nominating Committee,” *Cooperative Business Journal*, NCBA, Aug/Sep 2002.

² Nelda Griffen, H. N. Weigandt and K. B. Gardner, *Selecting and Electing Directors of Farmers’ Cooperatives*. USDA/Farmer Cooperative Service, General Report #14, 1955. (Note—the survey was taken in 1949, but the report was not published until 1955).

‘CHS Inc.’ now official name

In an effort to ease confusion and simplify its corporate name, Cenex Harvest States will henceforth be recognized as CHS Inc. In a vote of the membership, 87 percent favored the legal name change, which only required a majority for passage. About half of the cooperative members and producers in 27 states cast ballots.

Meanwhile, CHS is shifting its Tex-Mex food business in January to a new location in Fort Worth, Texas, which will be a more automated facility. The cooperative purchased Rodriguez Foods two years ago and will shift its tortilla and chip production to the new site. The company also makes tamales, burritos and enchiladas and supplies Texas prisons, the U.S. military and restaurant chains. CHS plans to invest \$15 million in the 100,000-square-foot facility at Fort Worth and move 15 million pounds of annual production there from Minnesota. ■

Seeking the best Director leadership: what does it take?

By **Jim Wadsworth, Program Leader, Education and Member Relations**
USDA Rural Development

The Greek philosopher Diogenes is said to have walked city streets, lantern in hand, looking for an honest man. While honesty is one quality cooperatives should seek in their leaders, there are many others.

As the statement at right implies, cooperatives need strong leadership to meet present and future challenges. But serious questions arise. What does leadership mean for a cooperative? What makes an effective cooperative leader? Precisely what skills or traits are required? What type of people fulfill this need?

There are many definitions for cooperative leadership. These may include: having the ability to lead the board of directors toward sound decisions; being loyal to the cooperative and inspiring loyalty in others; being unselfish and trustworthy; having courage to take on hard problems and the integrity to stand by decisions; understanding and upholding cooperative principles and concepts.

But do these definitions go far enough to enable members and directors to successfully identify and choose future leaders? To a degree. But other leader characteristics should also be considered.

Many would agree that effective leaders often have important personality traits that are intangible, or that lie below the surface. Indeed, there's often something inexplicable that makes some people leaders. The strength of their personality—be it charm or stature (i.e., they connect to people and carry themselves well)—in itself makes them effective leaders. These people usually stand out from the crowd. They possess traits that are difficult to learn, since they often come naturally to such people. There may be some who try to “act out” these traits, but they are usually seen as just that: as actors.

However, certain leadership traits, behaviors and methods can be learned or acquired through experience, education, training and self-study. The following are traits commonly found among effective leaders.

Enthusiasm—Does the person show consistent enthusiasm toward the cooperative, people and life in general? Is the person positive and upbeat when challenged with difficult circum-



“Little positive can happen for cooperatives unless they have leadership able to meet the challenges of the 21st century. Skills required to lead cooperatives must be identified and developed in directors and managers.”

—Excerpted from *“Agricultural Cooperatives in the 21st Century”*
(RBS Cooperative Information Report 60, pg. 17).

stances and issues? An effective leader confronts business and life with enthusiasm, isn't a pessimist or a complainer. These people are willing to take on tough issues with the same enthusiasm that they display going about their everyday lives.

Listening ability—A leader listens to people and hears what they have to say. The listening is sincere and patient and shows respect for different opinions. A good listener listens to learn, rather than listens only to await a chance to talk. This trait inspires trust and confidence.

Think before speaking—Effective leaders are those who have the ability to think things through before constructing their words and phrases. Speaking very quickly or off the cuff works for some people, but others often find themselves saying things they didn't actually mean or intend to say. Leaders need to have the ability to analyze information, and then form logical conclusions before articulating their thoughts.

Stubbornness vs. flexibility—Leaders often learn when to stick to their guns and when to be more flexible. This usually takes experience, because every situation is different. Effective leaders are those who have learned when to stay the course in their opinions and decisions and when to be flexible. Leaders must be careful not to be indecisive, stubborn or

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Cooperative exports decline in 2001; bulk sales fall but continue to dominate sector

By Tracey L. Kennedy,
Agricultural Economist
USDA Rural Development

Editor's note: USDA's Rural Business-Cooperative Service began an annual survey of cooperative involvement in international markets in 1997. Prior to then, cooperative exports and imports were measured at five-year intervals. An overview of survey findings for 2001 is presented here.



Agricultural exports by U.S. cooperatives in 2001 dropped by more than 13 percent, to \$5.07 billion, from 2000, but

still topped 1998 and 1999, when the global currency and financial crises still plagued world markets. A 25-percent decrease in sales of bulk commodities in 2001 was wholly responsible for the overall decline.

The total for all U.S. agricultural

Figure 1—Agricultural exports by U.S. cooperatives 1997-2001



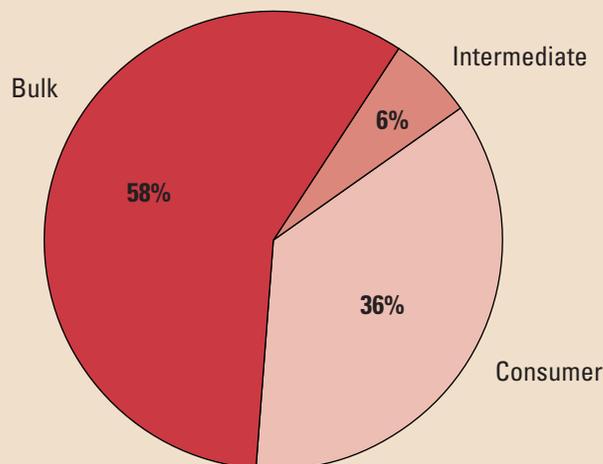
exports was \$53.6 billion, an increase of almost 5 percent from 2000. While trends in U.S. trade continue to point to the increased importance of consumer-related products relative to bulk commodities, exports by U.S. cooperatives

remain concentrated in bulk products. Of the total for cooperatives in 2001, \$2.96 billion, or 58 percent, consisted of bulk commodities (mainly grains, oilseeds and cotton). Bulk sales account for about 35 percent of all U.S. agricultural exports.

Consumer-oriented or high-value products (meats, dairy products, tree nuts and fresh and processed fruits and vegetables) accounted for \$1.81 billion, or 36 percent, of total exports by cooperatives, compared to 42 percent for all U.S. exports.

Intermediate products (ingredients and partially processed products, such as flours, meals, oils, prepared feeds and animal byproducts) accounted for \$290 million, or 6 percent, of cooperative exports, compared to 23 percent for all U.S. ag exports (figure 2). Cooperatives also reported \$61 million of exports of non-agricultural products (farm production supplies and fisheries products) in 2001.

Figure 2—Cooperative exports by category 2001



Sales concentrated among few, large co-ops

Among the 81 cooperatives reporting to USDA on their export sales in 2001, exports continued to be concentrated among a few of the largest cooperatives. Just six cooperatives—each having sales of greater than \$100 million—were responsible for 73.5 percent of all exports by cooperatives. Those six cooperatives represented a range of agricultural products and geographic areas. The magnitude of exports among individual cooperatives continues to be diverse, ranging from less than \$10,000 to almost \$2 billion.

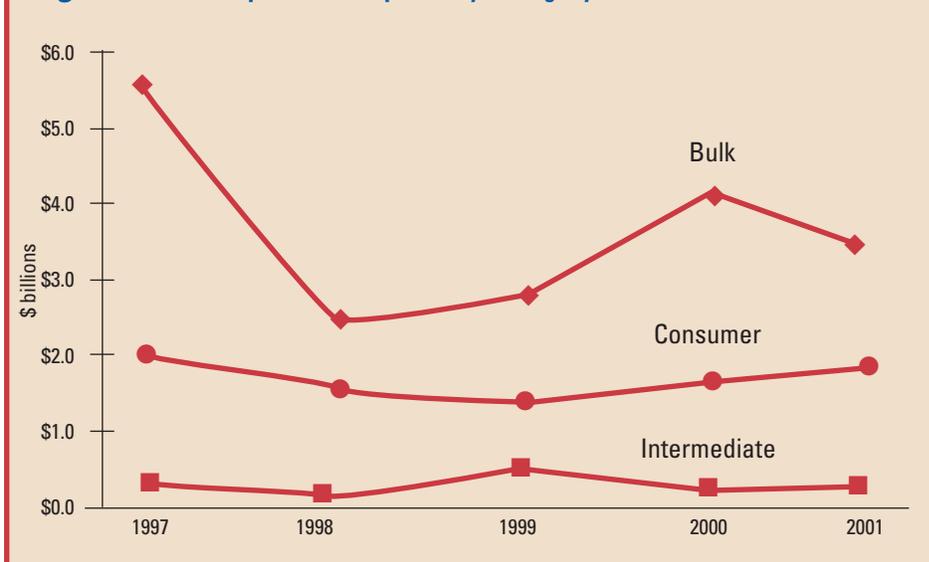
Co-op share of U.S. exports

Cooperatives' overall share of U.S. agricultural exports for 2001 was approximately 9.4 percent, down from 11.4 percent in 2000. The co-op share for bulk commodities was 15.7 percent, down from 21.5 percent the previous year, while exports of consumer-oriented products accounted for 8 percent of U.S. consumer exports, up slightly from 7.5 percent in 2000. Intermediate product exports from cooperatives had a 2.4-percent share, up slightly from 2.1 percent.

Broad recovery while market shifts continue

Exports by cooperatives showed improvement across two of three major product categories in 2001 (figure 3). Bulk commodity sales continue to be volatile, falling by more than 25 percent

Figure 3—Cooperative exports by category 1997-2001



in 2001 after recent showings of both sharp decreases (54 percent in 1998) and increases (47 percent in 2000).

A sharp decline in cooperative sales of wheat in Asian markets was responsible for the drop in 2001, while other bulk products, such as cotton and coarse grains, showed significant gains. U.S. exports of bulk commodities showed much more modest change over the same period.

Consumer-oriented products continued to gain ground, following on a percent increase in 2000 with a gain of almost 12 percent, to \$1.8 billion, in 2001. In contrast, U.S. sales of consumer-related exports rose just 3.6 percent in 2001. Gains in meats, dairy

products and tree nuts drove cooperatives' increase, while fruit and vegetable products fell off slightly.

Intermediate products, which had shown significant volatility in the late 1990s, recovered from a 50-percent decline in 2000 with a 23-percent increase, to \$290 million, in 2001. This was mainly on the strength of increases in prepared feeds and oilseed meals. U.S. sales of the same commodities have shown modest increases in the past two years.

Asia, Latin America still top markets

Asia continued as the most important regional destination for cooperative exports in 2001, accounting for 37 percent, or \$1.95 billion, of co-op exports. But that was down from \$2.46 billion, or 41.5 percent, of the total in 2000. Latin America's emergence (primarily Mexico) as a primary market continued in 2001, taking in \$1.36 billion (26 percent) worth of cooperative exports. That compares to \$1.41 billion, or 23.6 percent, the previous year.

European destinations recovered somewhat in 2001, accounting for \$628 million, 12 percent, of cooperative exports. That compares to \$532.4 million, 8.9 percent, in 2000. African markets lost some ground in 2001, with \$401 million in export sales there compared to \$600.7 million in 2000, a drop from 10.2 percent to 8 percent. ■

Figure 4—Cooperative exports by destination, 2001





Barr interim NCFC president

Terry Barr, vice president and chief economist for the National Council of Farmer Cooperatives in Washington, D.C., is serving as interim president with the departure of President David Graves on Oct. 31. The selection of Barr, who has been with the council for nearly 20 years, was announced by Board Chairman Jack Gherty. Meanwhile a search committee has been formed to recruit and screen candidates for the executive post, but no timetable has been set for that decision. Graves, who had served as NCFC president since 1997, departed to pursue other business interests. He will continue to advise and counsel during the transition period.

Scholarships available for CCA Institute at Louisville

The Cooperative Communicators Association (CCA) is again offering an expense-paid trip for a pair of college students who are studying journalism to attend CCA's annual institute next June in Louisville, Ky. Applications are available from CCA's website: www.communicators.coop. Deadline is Dec. 1. The two interns selected will assist with CCA communication activities, working from remote sites via the Internet for five-month internships, running from January through May. They may be eligible for college credit from their participation. The internships are funded by a grant from The Cooperative Foundation.

Former NMPF Exec. Pat Healy dies; backed Dairy Promo Act

Patrick B. Healy, president of the

National Milk Producers Federation at Arlington, Va., from 1969 to 1985, died of cancer Sept. 12. He joined NMPF in 1954 after several years with USDA's dairy division. During his NMPF tenure, he successfully lobbied for significant increases in dairy price support loans and also backed creation of the National Dairy Promotion Act of 1983 (first national dairy commodity checkoff).

\$119 billion in '02 sales notched by top 100 co-ops

The nation's 100 largest cooperatives—representing the agriculture, finance, housing, energy and hardware sectors—reported \$119 billion in sales in 2002, according to National Cooperative Bank (NCB).

Agriculture co-ops dominate the list, with 41 farmer-owned co-ops accounting for about half of the revenue.

The report is an important indicator of the cooperative business activity across the country, says Charles Snyder, president and chief executive officer of the Washington, D.C.-based bank. The 100 cooperatives showed earnings of \$346 million, up \$50 million from 2001. The entire report is available on the Web at: www.co-op100.coop, or by calling (202) 336-7665.

Topping the list was CHS Cooperatives, the St. Paul-based agricultural and food cooperative. The next highest ranked ag co-ops on the list (in descending order) were: Farmland Industries, Dairy Farmers of America, Land O' Lakes, California Dairies Inc.,

Gold Kist, Ag Processing Inc., Southern States Cooperative, West Farm Foods, Staplcotn, GROWMARK Inc. and Foremost Farms USA.

"When I look at the revenues reflected in this year's NCB Co-op 100 list for agriculture and other cooperative sectors, I'm extremely impressed," Snyder said. "For more than 100 years, America's cooperatives have not only survived, but flourished—prevailing through adversity and economic downturns, bringing fiscal stability and prosperity to millions of people."

Snyder said the role of co-ops becomes more important as more traditional companies face loss of business revenue and corporate cut-

backs. "Rather than being owned by outside investors, cooperatives look inward toward their members, those who use and benefit from the goods and services provided. The focus of cooperatives is to maximize economic returns for

members, not top-ranking executives or distant investors," he said.

"Cooperatives have never been more pertinent. Americans are demanding consistent and secure businesses connected in a real way to their communities—and cooperatives offer that dependability to thousands across the nation each day."



Alto turns dry milk into cheese for hungry

For the first time since the 1980s, the federal government is including cheese in its emergency food assistance program and a Wisconsin dairy cooperative

is involved in the pilot program. Alto Dairy at Waupun recently received a truckload of nonfat dry milk (NFDM) from USDA's Food and Nutrition Service and converted it into Mozzarella cheese for use in the Hunger Task Force food program. This was the first time government stocks were used in such an exchange. The 20,000 pounds of Mozzarella cheese, enough to top 40,000 pizzas, were designated for use by emergency feeding organizations in Milwaukee.



Alto Dairy CEO Rich Scheuerman and Sherrie Tussler complete a ceremonial trade of milk powder for cheese as part of Alto's involvement in anti-hunger efforts in Milwaukee.

"It sounds simple, but this unprecedented exchange took years of commitment from our state and federal government officials at USDA and the Department of Health and Family Services, Alto Dairy and our team at Hunger Task Force," said Sherrie Tussler, executive director of the task force. "This partnership allows us to work with a Wisconsin cheese manufacturer to turn an unpopular dairy product into fresh food for distribution to thousands of men, women and chil-

dren who rely on us each month."

The task force will distribute the pilot cheese to 28 Milwaukee-area food pantries that serve an average of 20,000 people each month. Alto CEO Rich Scheuerman said he was pleased "to work with the task force in this pilot program to help feed the hungry. I can't think of a better way for Alto, its employees and farmer-owners to help feed the hungry in Wisconsin."

Agronomy, seed expansions boost GROWMARK sales

Illinois-based GROWMARK expanded its operating territory and posted improved sales and earnings for fiscal 2003. Speaking at the regional cop's annual meeting in Chicago, Vice President for Finance Jeff Goldberg reported pre-tax earnings of \$26 million from sales of \$1.7 billion, both up from 2002. Local member cooperatives will share in patronage of \$18.3 million.

Chief Executive Officer Don Davis-

son said the cooperative had a good year, but must continue to improve in areas such as fertilizer management. Davisson is also board chairman of CF Industries, an inter-regional fertilizer manufacturing and distributing cooperative owned by GROWMARK and a number of other regional cooperatives. Davisson said increasing prices of natural gas were driving up costs for making nitrogen fertilizer applied as anhydrous ammonia.

To reach future growth goals, he said, GROWMARK must increase volume and market share and continue offering new products and services. Part of the current gain stems from increased sales and broadening of its seed lines to complement the FS brands. Expanding into the Northeast, via purchasing 40 agronomy outlets and seed assets from Agway, provided a substantial boost in this area.

Southern States lowers debt, weighs further asset sales

Staggered by three years of losses, due largely to a stagnant agricultural market, poor growing seasons, increased imports and low farm prices, Southern States Cooperative (SSC),

Survey continued from page 16

nities and help farmers succeed;

■ 64 percent said that food products produced by farmer-owned cooperatives were of higher quality than those produced by other types of companies.

"The survey demonstrates that consumers know cooperatives by their reputations for quality service and products," Hazen said. "And those who are already members of cooperatives have an even stronger loyalty to, and preference for them. Regardless of how you measure it," Hazen said, "in terms of cost savings, value or satisfaction, consumers can get more for their money from cooperatives."

The challenge, he said, "is in raising consumer awareness of, and access to, cooperatives and to make more information about cooperatives available to consumers."

When asked how familiar they were with the details of cooperative organization and philosophy, 47 percent said they were familiar with cooperatives, 30 percent were not very familiar and 22 percent were not familiar at all. Familiarity was higher among men in the 45 to 64 age range and among adults in households earning more than \$35,000 annually.

When asked to rate cooperatives for 10 possible business attributes, cooperatives outscored investor-owned companies on eight of ten attributes—and by wide margins in some cases.

■ 81 percent said cooperatives can be counted on to meet customer's needs

■ 79 percent said cooperatives were committed to providing the highest quality of service to their customers

■ 78 percent said cooperatives are

committed to, and involved in, their communities

Cooperatives in the United States serve 120 million members and operate in nearly every industry. They range in size from those listed among the Fortune 500 companies to single, small local storefronts. About 30 percent of farm products in the U.S. are marketed through 3,200 farmer-owned cooperatives. More than 30 cooperatives have annual revenue of more than \$1 billion, while the top 100 co-ops generate combined revenue of about \$120 billion.

Electricity is provided to 36 million people by about 1,000 rural electric cooperatives which own and maintain nearly half of the electrical distribution lines in the nation and cover 75 percent of the land mass. ■

Richmond, Va., is regaining its financial footing by rapidly cutting its debts. SSC has reduced its debtload by 62 percent in 21 months and hopes to see a profit for fiscal 2004.

SSC executives have denied the firm was headed for bankruptcy, although it has had unsolicited offers for parts of the cooperative's assets. The co-op lost \$14.8 million in fiscal 2001 and \$68.2 million in 2002. The co-op expects a much smaller loss for 2003.

CEO Tom Scribner indicated sales of assets to further reduce debt would be made by the board later this year. SSC has closed cotton gins in Georgia and South Carolina and shut 21 unprofitable stores across its 23-state trade territory. It has also signed a long-term lease of its grain facilities to Perdue Farms, closed its trucking business in favor of a transportation deal with Overnite Transportation, sold its Wetsel seed and agronomy supply subsidiary and shifted its credit business to

John Deere Credit's Farm Plan. Currently, only three of SSC's 140 stores are losing money vs. 70 two years ago.

Florida sugar co-op closes jointly owned refinery

A Brooklyn, N.Y., sugar refinery owned in part by a Florida sugar cooperative will be closed in January due to excessive capacity in the industry. The former Domino plant was one of three purchased by Belle Glade-based Sugar Cane Growers and Florida Crystals Corp. more than two years ago for \$180 million. They formed an umbrella organization, The American Sugar Refining Co.

Some products will still be packaged at Brooklyn, but with a sharply reduced staff. The plant had been operating at less than half of its refining capacity. A cooperative spokesperson indicated this plant had been a drain on the system. It is the 15th sugar refinery closed in the past 23 years.

FDA clears lactoferin use for co-op's beef products

Months after a similar clearance by the U.S. Department of Agriculture, the Food and Drug Administration has concurred with scientific data indicating use of lactoferin, a milk derivative, is safe even for people allergic to milk. The spray is applied to beef products. The USDA finding was sought by ALF Ventures, a partnership between Farmland National Beef and its successor owner, the U.S. Premium Beef cooperative, and Dutch-based DMV International. DMV, one of the largest producers of lactoferin worldwide, is part of Dutch-based Campina. The endorsement provides the product with "generally recognized as safe" status.

Court confirms tax on co-op's fertilizer

Fertilizer stored by Cooperative Agronomy Services (CAS) of Groton, S.D., is subject to sales tax, the South

Top 100 Coops *continued from page 19*

Total assets for fruit/vegetable cooperatives dropped 8.2 percent, with both current- and long-term assets falling. Current assets declined 5.4 percent, to \$1.6 billion, while non-current assets were down 11.4 percent, to \$1.3 billion. Liabilities fell 6.5 percent, to \$2.2 billion.

Current liabilities fell 9.9 percent and long-term liabilities fell 3.7 percent, to \$935 million and \$1.2 billion respectively. Equity for fruit/vegetable co-ops fell to its lowest level in the last 10 years, at \$777 million, a 13-percent decline.

Supply, grain co-ops expand asset base

Farm supply cooperatives were one of the few commodity groups showing an expanded asset base. Total assets grew 3.8 percent, to \$2.6 billion. The growth was due to expanded current asset levels, which grew 13 percent, to \$1.4 billion. However, the growth was due to higher debt levels. Current liabilities grew 3.1 percent, to \$959 mil-

lion, while long-term liabilities grew at a 24.4 percent rate, ending 2002 at \$647 million. Equity fell 5.6 percent, to \$1 billion.

Grain cooperatives also ended 2002 with a higher asset level. Both current and long-term assets grew, with net assets growing 9.6 percent, to \$2.6 billion. Current assets increased 11.9 percent while non-current assets grew 7.1 percent, to \$1.4 billion and \$1.2 billion, respectively.

Grain cooperatives used both borrowed funds and member equity to fund the asset expansion. Total liabilities grew 12.2 percent, to \$1.5 billion, while member equity grew 6.6 percent, to \$1 billion.

Poultry/livestock cooperatives saw assets drop by 11 percent, to \$894 million. Current assets were 14.5 percent lower and non-current assets were 23.3 percent lower. Liabilities, both current and long-term, were down 16.1 percent, to \$606 million. Current liabilities were 28.9 percent lower and long-term liabilities were

1.9 percent lower. With higher margins, poultry/livestock cooperatives were able to add equity to their balance sheets. Member equity was up 2.3 percent, to \$285 million.

Assets grew at a modest 1.4 percent for rice cooperatives in 2002, to \$478 million. Growth in both current and non-current assets fueled the increase. This expansion was solely due to member investment. Total liabilities shrank 4.1 percent, to \$214 million, with long-term debt being the main contributor to this reduction. Member equity grew at 6.3 percent, to \$264 million.

Sugar cooperative assets fell by 1.5 percent, to \$4.5 billion. Most of the decline was in current assets, which fell 4 percent, to \$397 million. Although there was a slight increase of 0.8 percent in long-term debt, to \$465 million, total liabilities fell 2.9 percent, to \$801 million. Member equity grew 5 percent, reaching \$459 million, the highest level of the past 10 years. ■

Dakota Supreme Court has ruled, siding with the South Dakota Revenue Department. The cooperative is owned by and serves about a dozen local cooperatives in the Dakotas.

The court contended the storage fees were taxable because CAS was not an auxiliary of the local cooperatives and the \$6-per-ton storage fee was a separate transaction from the eventual sale of fertilizer by the locals to their farmer mem-

bers. The court said the storage was not a tax-exempt agricultural service, noting CAS was not involved in applying the fertilizer or in planting, cultivating and protecting crops. The cooperative contended the storage and sale were a single transaction and tax exempt.

Bargaining co-ops name new leaders

Leadership changes were recently made at the helm of three cooperative

bargaining associations. Ronald Schuler, retired manager of the California Canning Peach Association, has agreed to serve as interim chief operating officer for California Tomato Growers Association (CTGA) until the board finds a permanent successor to John Welty, who recently resigned. Schuler is a past chairman of the National Council of Farmer Cooperatives and a director of the California Agriculture Bargaining

Tull's Anderson says co-ops not just 'living in the past'

Even after 35 years as leader of the British rock band Jethro Tull, Ian Anderson is not too old to rock'n'roll, and he's definitely not too old to farm. When he's not playing flute and singing with Tull or performing as a solo artist, Anderson often occupies himself back home with his farming interests.

For many years, Anderson's salmon farm in Scotland was Britain's largest. That's right, Aqualung does aquaculture. Although he recently sold that operation, he and his wife continue to farm a variety of crops in England. As a result, the Andersons have developed a strong appreciation for the role of cooperatives in helping farmers.

"Co-ops have been a fact of life for us for probably 20 years," Anderson says. "They not only help in selling [our crops], but also in buying raw materials, animal feeds, diesel fuel or whatever. From an economic point of view, co-ops are a necessity—they help us get the kind of buying and selling clout that comes from a combined level of production or purchase," says Anderson, who has written songs such as "Farm on the Freeway" and "Heavy Horses" that focus on agriculture and changing rural life.

When touring America, as he is currently (a solo tour which extends through November), Anderson and his wife usually drive themselves from city to city and enjoy exploring our nation's vast, diverse agricultural landscape along the way.

"When we travel around America, we are always looking out the window, saying 'what the heck was that growing in that field over there?' Or, 'what was that 1,000 acres over there planted in?' We're always interested in what is growing where and why, and what it's worth and to whom."

Agricultural issues are changing rapidly, "not just in America or the UK, but throughout the planet," Anderson

says. "Throw in a bit of global warming on top of everything else, and boy, are we farmers—I say 'we,' but I don't depend on farming for a living—in a state of flux."

Farming in Britain is no longer the quaint world pictured in James Herriott's "All Creatures, Great and

Small" books. "There's even some panic among farmers there. Suicide among farmers in my country is at one of the highest levels [for any occupational group]," says Anderson.

"I guess that may apply in the U.S. for the same reasons—people who have grown up with a multi-generational and cultural lifestyle that is threatened by forces that they don't always understand and which they have no possibility of input or control over. And that really tears a man apart in a way that us folks who play music for a living, or who work in a bank or in construction, don't understand. That strange and passionate, vital sense of involvement that some people have with the land of

their birth, the land of their fathers and land of opportunity, as it must have once been.

"I can feel that when I drive through the heartland of America, just as I do when driving through the English countryside. There are people who are wringing their hands and saying, "I just don't know how I am going to get through tomorrow."

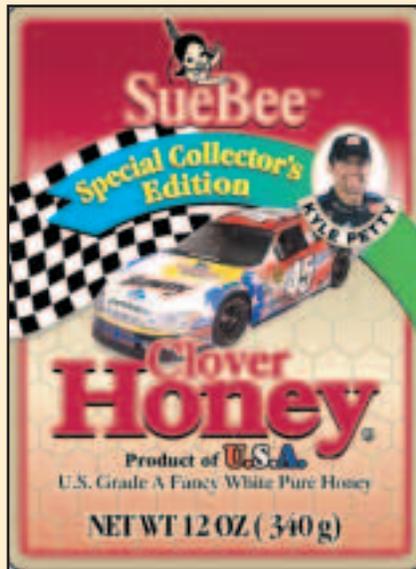
When interviewed this summer, the Andersons were feeling a bit of that pain themselves. "We just had maybe five weeks of drought here in the UK, followed by a torrential downpour in the last 24 hours. I haven't been out to look at our fields today, but I will lay my money that half of our winter corn is laying on its side right now. These are things that happen to farming folks."

But you would have to be 'thick as a brick' not to realize that co-ops can help farmers living through hard times and good. ■

— By Dan Campbell, Editor



The NASCAR racing circuit will be a little sweeter this year, with racing star Kyle Petty promoting Sue Bee honey with Sue Bee Honey logos on his racing car and with personal appearances at some marketing events. The Iowa-based co-op also will be featuring Petty on in-store promotional posters and on many of its product labels. ■



advisory committee. CTGA has been representing the interests of California tomato growers for more than 50 years. The cooperative has slated its annual meeting for Jan. 21 in Modesto.

At Michigan Processing Apple Growers, Dawn Drake, with 12 years' experience in the association, succeeds Tom Butler, who has retired. Jack Pressley, manager of the Malheur Potato Bargaining Association in Vale, Ore., died in September. His successor is yet to be named.

New Calcot CEO seeks return of stability

Calcot, Bakersfield, Calif., has turned to Robert Norris, 60, executive vice president since 1992, to permanently fill

Value Added *continued from page 20*

square-foot building with eight acres of grounds in Alva, Okla. The facility had previously housed a Wal-Mart store and had several features that fit the needs of VAP. These included climate control, open span sanitary design, loading docks and adequate utilities and services.

The property around the facility would allow for plant, warehouse and freezer expansion. The state-of-the-art, "high speed" baking equipment purchased for the plant is very specialized and incorporates the latest European bakery technology for frozen, self-rising dough. It is used in manufacturing flat and artisan bread products, which includes frozen, self-rising pizza crust—currently VAP's main product.

The decision to focus on pizza crust production has proven to be a good choice for the co-op. VAP is currently selling pizza crust to some of the nation's largest retailers of frozen pizza. In 2001, the co-op was awarded a \$500,000 Value-Added Producer Grant from USDA Rural Development. This grant was a working-capital grant that assisted them in branching out with other dough products and in processing and marketing some additional dough and bread products.

Expanding product line

VAP has produced and sold several different types of bread and dough products since that time. These include four varieties of baguettes, three flavors of Danish rolls and the dough for a puffed pastry. Two sizes of "crazy bread" (a bread that is used for dipping) are being produced and sold.

VAP's dough and bread product markets continue to grow, and it has the capability to produce almost any imaginable type of bread product. The newest addition to VAP's product line is a unique frozen cinnamon roll that can be microwaved. "Good" does not even come close to describing the product. It is incredible, and sweet!

The plant has its main line running at full capacity with pizza crust, while a pilot line (for orders of less than 1,000 pounds) is running full time for cinnamon rolls. They use this smaller production line also to develop new products. The main line has the capability to process 10,000 pounds of dough per hour.

VAP has 80 full-time employees, about 15 percent of whom are also producers in the cooperative. The amount of freight transportation has grown so

much that a trucking company was launched to handle it. It owns 12 trucks and 20 trailers and employs 15 full-time drivers. All this activity supports the vision of the cooperative in creating job opportunities in the area and supporting the small farmer.

Adapting to various situations in the marketplace has provided valuable experience for VAP. The co-op has successfully made necessary adjustments in labor, products and marketing efforts. The co-op is effectively managed and will continue to benefit producers while having a positive impact on the entire area.

The producers who launched the co-op say they made a very good initial choice in seeking out experts in the kind of food processing they wanted to do. Dunker, who served as a consultant to the project in the very early stages of the project, and his brother Harry, the co-op's operations manager, together have 60 years of experience in the baking industry and plant set up.

With accomplishments and strides achieved so far by the co-op, who knows what could happen next? Some co-op members say a pizza-topping plant and toppings-producer venture would be sweet! Stay tuned. ■



Calcot CEO Robert Norris

the CEO post he had been holding on an interim basis since June. Norris replaces former CEO David Farley, who exited earlier after only nine months with the cooperative.

Norris is only the seventh CEO in Calcot's 76-year history and the first Californian to hold the job. The board was "looking for someone who could bring stability back into the company and bring Calcot back to the stature it has held over the years." Norris says he is goal ori-

ented and could work with the staff and growers. Meanwhile, Farley has filed a wrongful termination lawsuit.

Asian imports force co-op to switch fish

Facing a tide of frozen catfish imports from China and Vietnam produced at half the domestic cost, the Illinois Fish Farmers Co-op at Pinckneyville has discontinued processing catfish at its Prairie Lands Seafood plant and cut its work force to a small, core group. Doug Wojcieszak, the co-op's executive director, says the cooperative will shift to more profitable fish: hybrid stripped bass, freshwater shrimp, largemouth bass and, potentially, perch, bluegill and

walleye. These fish require little or no processing and are destined for the local market or the live-haul and fresh markets.

The Illinois Department of Agriculture saw the new catfish co-op as a potentially important new avenue for southern Illinois agriculture. It contributed \$6 million to the venture and USDA provided a \$150,000 loan guaranteed by the city and a mortgage on the building.

The processing plant will be sold with the equipment. The cooperative plans to continue to deliver technical services to its members. When the cooperative started in 1999, the state had 12 fish and shrimp farms; now there are more than 60.

Director leadership *continued from page 25*

overly flexible. Rather, they should use a blend of those traits, depending on the situation. Consistency is key—those being led must come to understand and know the decision-making processes of their leaders.

Complete tasks—Leaders complete things when they're supposed to be done, or make sure that those responsible get it done. Leaders are prepared for action and are able to instill in others the need to be prepared. Completing work and projects in a timely manner creates respect and allows people to witness the ability and integrity of their leaders.

Take responsibility—"The buck stops here" is a slogan good leaders adopt. They are willing to take responsibility for negative events or occurrences that fall under their jurisdiction. They don't try to pass problems off on someone else, but take them on. They also know how to graciously take credit for success and—even more important—know how to give credit to others when it is due.

Thought provoking—A good leader is able to get others to think about things rather than just follow blindly. A leader involves people by provoking thoughts through challenges and by providing information. This trait often allows a leader to build relationships that will endure and create commitment needed to complete tasks.

Effective leaders will have many of the qualities or traits outlined here, and probably some others as well. Often, various traits compliment each other, giving the person even greater leadership stature and ability. If some traits are lacking, an effort should be made to improve in those areas.

Understanding and knowing what traits to look for while identifying perspective leaders is critical. In addition, it is also important to understand whether an identified leader will be a good fit in a specific situation. Even though a person may

be identified as a suitable leader, it does not necessarily mean that the person will thrive in all leadership roles.

Indeed, a person may be a tremendous leader in one situation, but not a good leader in a different situation, such as in a cooperative. These questions may need to be asked:

■ How well will the prospective leader fit into the situation given the circumstances? Will the leader be likely to succeed in the environment?

■ How well will he or she fit, given the other leaders and personalities involved?

■ Will the person be liked and accepted by the other cooperative players, be they members, directors or employees?

■ Does the situation seem to be one where the person will have an adequate opportunity to grow into the leadership position and thrive?

■ Does the person have the right educational background, experience and knowledge of cooperatives and business?

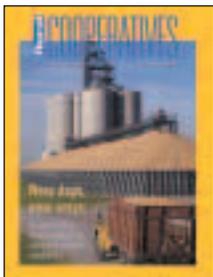
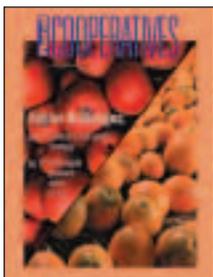
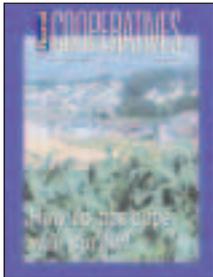
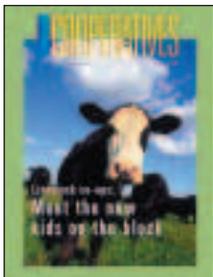
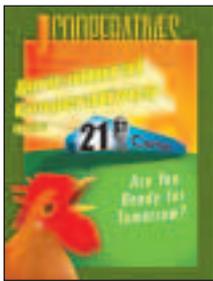
■ Is the person open minded about learning more about being an effective director? Will he/she be willing to be further educated, partake of training workshops and attend conferences, etc.?

■ Does the person have the vision, values and staying power necessary to fit the opportunities afforded by the cooperative?

These and other pertinent questions must be addressed when working to select quality leaders for cooperatives in the current competitive environment. Leader-quality people should be sought out, even though it may be a challenge to recruit them because they are often very busy and lack the extra time to take on additional responsibilities and leadership roles. Knowing the traits to look for and the questions to ask can help identify the best people to lead cooperative boards and cooperatives as we go forward into a challenging and competitive future. ■

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Barr interim NCFC president Scholarships available for CCA Institute at Louisville Former NMPF Exec. Pat Healy dies; backed Dairy Promo Act \$119 billion in '02 sales notched by top 100 co-ops Alto turns dry milk into cheese for hungry Agronomy, seed expansions boost GROWMARK sales Southern States lowers debt, weighs further asset sales Florida sugar co-op closes jointly owned refinery FDA clears lactoferin use for co-op's beef products Court confirms tax on co-op's fertilizer New Calcot CEO seeks return of stability Asian imports force co-op to switch fish 'CHS Inc.' now official name	Nov./Dec. 28	Dairy Merrills first Northeast dairy family to win national land conservation prize More than milk Dairylea's scope of farmer services moves beyond milk marketing NMPF scales back CWT milk supply-balancing plan Wisconsin's Westby, 'Little Creamery That Could,' marks 100th anniversary	July/Aug. 10 Sept./Oct. 14 July/Aug. 28 Sept./Oct. 20
Value-Added Corner Adversity to Advantage Pacific Coast Producers uses USDA grant to develop single-serve fruit bowl market Ag Marketing Resource Center helping producers develop value-added strategies 'No go' can be a good show Feasibility study advises co-ops not to pursue tortilla project Sweet smell of success Oklahoma wheat producers use USDA financing to launch frozen-dough bakery USDA's Value-Added Producer Grants invest millions in innovative ag businesses	Sept./Oct. 12 May/June 15 July/Aug. 20 Nov./Dec. 20 March/April 11	Education Back to School NICE marks 75th anniversary with return to campus as co-op youth education program GROWMARK certification program prepares directors for new challenges Meeting the challenge: co-ops in the 21st century Negotiating the crossroads of a new century Professor's idea blossoms into major co-op conference for college students Survey results: public shows strong preference for doing business with cooperatives The future of NICE USDA Outlook Conference to focus on critical challenges	Sept./Oct. 25 Sept./Oct. 27 Jan./Feb. 4 Jan./Feb. 7 July/Aug. 30 Nov./Dec. 14 Sept./Oct. 26 Jan./Feb. 13
Subjects Bargaining Apple industry study shows value of producer bargaining associations Bargaining is big for small business Resurgence seen in bargaining co-ops 'Tough bargaining' helps almond growers	Sept./Oct. 6 March/April 12 July/Aug. 19	Energy Catch the wind Co-op's giant windmills work with Mother Nature to provide power Frogs, snakes & kilowatts East Kentucky Power Co-op finds green in environmental program	March/April 4 Jan./Feb. 16
Communication/Education Adapting to change Educating members helps smooth transitions Annual Reports: How to read them and what they should tell you about your co-op Survey results: public shows strong preference for doing business with cooperatives Talking with pictures Photo experts offer tips on how to better tell your co-op story with strong photos Top co-op communicators honored in Madison	May/June 23 Jan./Feb. 10 Nov./Dec. 14 July/Aug. 22 Sept./Oct. 23	Environment AFT guide helps farmers and ranchers transfer land to the next generation Farming with 8.5 million neighbors Frogs, snakes & kilowatts East Kentucky Power Co-op finds green in environmental program Living with Sprawl As farms give way to subdivisions and traffic lights, America's rural cooperatives struggle to adjust Merrills first Northeast dairy family to win national land conservation prize Orange Empire bows to urban sprawl in Southern California USDA plays active role in farmland protection	July/Aug. 10 July/Aug. 7 Jan./Feb. 16 July/Aug. 4 July/Aug. 10 July/Aug. 8 July/Aug. 9
Consumer Co-ops Co-op development stages & timeline Co-op store part of Oneida Food Systems House calls In-home care givers form cooperative to provide vital service for elderly, disabled in rural Wisconsin	May/June 10 Jan./Feb. 28 May/June 9	Farm Supply, Agronomy & Service A shared harvest Machinery co-ops could help small, Upper Midwest dairy farms Battening Down the Hatches: Co-op security measures intensified in post-September 11 world Co-ops increase share of farm marketings;	March/April 24 May/June 4

share of farm supply sales dips slightly	May/June 19
Dismantling of Farmland continues; Smithfield buying pork business	Nov./Dec. 15
How does your local farm supply cooperative rate?	March/April 22
Large co-ops see growth in '01, reverse declining net margins	Jan./Feb. 20
Local co-ops' net income and sales climb in 2001	Jan./Feb. 31
Minnesota leads the nation in co-op business volume	Sept./Oct. 18
More than milk	
DairyLea's scope of farmer services moves beyond milk marketing	Sept./Oct. 14
Revenue, margins trend downward for nation's top 100 ag cooperatives	Nov./Dec. 17
Ursa Farmers Cooperative	
Ursa, Illinois	Jan./Feb. 25
What went wrong at Agway?	Jan./Feb. 15
Finance	
A shared harvest	
Machinery co-ops could help small, Upper Midwest dairy farms	March/April 24
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How to read them and what they should tell you about your co-op	Jan./Feb. 10
Dismantling of Farmland continues; Smithfield buying pork business	Nov./Dec. 15
Funding Business Development Centers	July/Aug. 18
How does your local farm supply cooperative rate?	March/April 22
Large co-ops see growth in '01, reverse declining net margins	Jan./Feb. 20
Meeting the challenge: co-ops in the 21st century	Jan./Feb. 4
Minnesota leads the nation in co-op business volume	Sept./Oct. 18
Negotiating the crossroads of a new century	Jan./Feb. 7
New days	
Co-ops, producers find many ways to prepare for the future	Nov./Dec. 4
Striking oil	
South Dakota Soybean Processors finds new ways to add value to crop	March/April 20
U.S. Premium Beef offers to buy Farmland share in processing business	July/Aug. 12
U.S. Premium Beef seals purchase of Farmland National Beef	Nov./Dec. 16
USDA's REDLG program	July/Aug. 17
What went wrong at Agway?	
Cornell professors describe how co-op's chickens came home to roost	Jan./Feb. 15
Fruits, Nuts	
Adversity to Advantage	
Pacific Coast Producers uses USDA grant to develop single-serve fruit bowl market	Sept./Oct. 12
Apple industry study shows value of producer bargaining associations	Sept./Oct. 6
New global strategy	
Year-round citrus demand has Sunkist tapping foreign market supplies	Sept./Oct. 4
'Tough bargaining' helps almond growers	July/Aug. 19
Grains & OilSeeds	
Cooperative Marketing Association Program:	
Another way grain co-ops can serve their members	Jan./Feb. 24
Facility closures always a tough decision for co-ops	March/April 17
Local co-ops' net income and sales climb in 2001	Jan./Feb. 31
'No go' can be a good show	
Feasibility study advises co-ops not to pursue tortilla project	July/Aug. 20
Sweet smell of success	
Oklahoma wheat producers use USDA financing to launch frozen-dough bakery	Nov./Dec. 20
Striking oil	
South Dakota Soybean Processors finds new ways to add value to crop	March/April 20
The 'closure' dilemma	
Conducting business in a way that helps keep both members and their co-op in business can be a challenge	March/April 15
Ursa Farmers Cooperative	
Ursa, Illinois	Jan./Feb. 25

Governance	
Ask the right questions	
Members should probe reasons for co-op conversions, other major changes	May/June 20
Co-ops follow more than one path for nominating board candidates	Nov./Dec. 21
Seeking the best	
Director leadership: what does it take?	Nov./Dec. 25
Waving the red flag	
Survey examines correlation between ethical environment and fraud in co-ops	July/Aug. 13
Tune-up your meetings	
Periodic analysis is necessary to ensure that cooperative board meetings are efficient, effective and productive	May/June 26
Legislative and Legal	
AFT guide helps farmers and ranchers transfer land to the next generation	July/Aug. 10
Congressional hearing focuses on possible need for more flexible co-op business model	Nov./Dec. 9
Cooperative Marketing Association Program:	
Another way grain co-ops can serve their members	Jan./Feb. 24
Equity, tax issues prompt beef co-op to ponder switch	Nov./Dec. 12
Local co-ops' net income and sales climb in 2001	Jan./Feb. 31
NMPF scales back CWT milk supply-balancing plan	July/Aug. 28
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Waving the red flag	
Survey examines correlation between ethical environment and fraud in co-ops	July/Aug. 13
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Equity, tax issues prompt beef co-op to ponder switch	Nov./Dec. 12
Great Lakes Pork Co-op adjusts plan to seek alternative packing plant	May/June 8
Low-overhead approach taken by	
Dakota Lamb Growers Co-op	May/June 7
Natural beef anchors product line for co-op of Kansas family farms	May/June 5
Network difficulties	
Tales of two Iowa pork-producer networks show that bottom-up approach works best	March/April 18
New kids on the block	
Iowa beef co-op sees strategic partnership as best way to break into highly competitive retail beef market	May/June 4
U.S. Premium Beef offers to buy Farmland share in processing business	July/Aug. 12
U.S. Premium Beef seals purchase of Farmland National Beef	Nov./Dec. 16
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Educating members helps smooth transitions	May/June 23
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Negotiating the crossroads of a new century	Jan./Feb. 7
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Conducting business in a way that helps keep both members and their co-op in business can be a challenge	March/April 15
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Pacific Coast Producers uses USDA grant to develop single-serve fruit bowl market	Sept./Oct. 12
Bargaining is big for small business	
Resurgence seen in bargaining co-ops	March/April 12
Cooperative exports decline in 2001; bulk sales fall but continue to dominate sector	Nov./Dec. 26
Cooperative Marketing Association Program:	
Another way grain co-ops can serve their members	Jan./Feb. 24
Co-ops increase share of farm marketings; share of farm supply sales dips slightly	May/June 19
Dismantling of Farmland continues; Smithfield	

buying pork business	Nov./Dec. 15
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Low-overhead approach taken by Dakota Lamb Growers Co-op	May/June 7
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Dairylea's scope of farmer services moves beyond milk marketing	Sept./Oct. 14
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Wisconsin's Westby, 'Little Creamery That Could,' marks 100th anniversary	Sept./Oct. 20
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The 'closure' dilemma	
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Leadership development programs key to more women winning seats on co-op boards	May/June 13
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Ag Marketing Resource Center helping producers develop value-added strategies	May/June 15
Farming with 8.5 million neighbors	July/Aug. 7
\$44-million push for new geographic technology	May/June 25
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In-home care gives form cooperative to provide vital service for elderly, disabled in rural Wisconsin	May/June 9
Living with Sprawl	
As farms give way to subdivisions and traffic lights, America's rural cooperatives struggle to adjust	July/Aug. 4
More than a power source	
Brunswick Electric typifies commitment of cooperatives to support rural communities	July/Aug. 15
No mountain too high	
Rural broadband service helping to save lives of isolated patients	May/June 22
Oneida grocery co-op boosts community; helps keep more money on reservation	Jan./Feb. 26
Orange Empire bows to urban sprawl in Southern California	July/Aug. 8
Southern hospitality	
Walton Electric Co-op makes a positive difference for Georgia	Sept./Oct. 8
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USDA providing \$1.4 billion to expand rural broadband	May/June 24
USDA's REDLG program	July/Aug. 17
USDA's Value-Added Producer Grants invest millions in innovative ag businesses	March/April 11

Statistics

Revenue, margins tend downward for nation's top 100 ag cooperatives	Nov./Dec. 17
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Catch the wind	
Co-op's giant windmills work with Mother Nature to provide power	March/April 4
\$44-million push for new geographic technology	May/June 25
Meeting the challenge: co-ops in the 21st century	Jan./Feb. 4
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Rural broadband service helping to save lives of isolated patients	May/June 22
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Trade

Cooperative exports decline in 2001; bulk sales fall but continue to dominate sector	Nov./Dec. 26
New global strategy	
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Utility Co-ops

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East Kentucky Power Co-op finds green in environmental program	Jan./Feb. 16
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Walton Electric Co-op makes a positive difference for Georgia	Sept./Oct. 8
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Pacific Coast Producers uses USDA grant to develop single-serve fruit bowl market	Sept./Oct. 12
Ag Marketing Resource Center helping producers develop value-added strategies	May/June 15
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Oklahoma wheat producers use USDA financing to launch frozen-dough bakery	Nov./Dec. 20
The Greene Bean Project: Growers' field of dreams is edible beans	May/June 16
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Vegetables

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Stuff

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RBS Research Report 198

Alternative Milk Price Series: Information for Cooperatives

Compares prices generated by the Chicago Mercantile Exchange spot and futures markets with Federal Milk Market Order Class I base, Class III, and Class IV prices. (\$5.00)

RBS Research Report 196

Measuring the Economic Impact of Cooperatives: Results from Wisconsin

Wisconsin cooperatives support nearly 30,000 full-time jobs and generate almost \$1 billion in total income, with agricultural co-ops contributing the lion's share. This report analyzes the financial data of almost 800 cooperatives, both agricultural and non-agricultural. (\$5.00)

RBS Research Report 199

Financial Profile of the 100 Largest Agricultural Cooperatives, 2001

While mergers and acquisitions dominated the ag co-op scene in the '90s, joint ventures and limited-liability companies were the focus of activity among the largest co-ops at the start of the new millennium. Read about the new trends, challenges, and opportunities. (\$5.00)

RBS Cooperative Information Report 11

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

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



RBS Service Report 61

Farmer Cooperative Statistics, 2001

Cooperative income rose 6.3 percent in 2001 from the previous year, but the number of cooperatives declined 3.5 percent and cooperative memberships dropped 1.7 percent. Here is all the statistical information on cooperatives in the U.S., in one handy package. (\$5.00)

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