

Attention to member, market needs is key to cooperative success

As member-driven businesses, cooperatives are constantly required to assess members' needs and to stay in tune with those needs. This requirement is also a fundamental step in organizing new cooperative business ventures. A lot of time and effort goes into identifying the mutual needs of prospective members and in determining activities that the cooperative will engage in to meet those needs. This provides a rationale for members to invest in the new venture.

The needs assessment is also an important—albeit more complicated—step for established cooperatives. Is there sufficient volume of purchases or marketing to justify continued use of assets at different locations? Are there new business services required that provide an opportunity for expansion into new areas, or to extend processing of raw commodities into more profitable uses that can return additional income to members?

This constant evaluation of member needs and the cooperative's ability to respond to them is a fundamental strength of cooperative enterprise. What other business is better able to determine those needs than a user-owned business?

Needs assessment is more complicated for established local and regional cooperatives due to the increasing diversity in the size of members' operations and the wide range of needs among different segments of the membership. A homogenous membership, with similar needs and sizes of operations, has generally been regarded as an underlying key to cooperative success.

With a diverse membership, cooper-

ative management and boards of directors must work harder to identify market segments that can be profitably served while still maintaining the common interest of the entire membership.

For instance, farm supply products and delivery needed by large commercial farmers differ significantly from

Cultural similarities among members and their community of interest can also be a determining factor for effective collective action.

those for small and part-time farmers. Similarly, the marketing needs of each segment of membership can differ markedly.

Cultural similarities among members and their community of interest can also be a determining factor for effective collective action. Such factors as national origins, religious beliefs, ethnicity and work ethics are each manifested in one way or another in the makeup of cooperatives in the United States and internationally.

Challenges posed by diverse memberships should be met and turned into strengths. Cooperatives are inherently positioned to be more sensitive to varying needs because they are focused on the business of serving those needs. Nothing in size, location or membership makeup detracts from that central purpose.

In addition, cooperatives have

demonstrated far more ability to adapt than they have been credited for.

Forthright, well thought-out responses to rapid and important changes in American agriculture—and society as a whole—will make farmer cooperation an ongoing, effective way for farmers to participate in the control, benefits and the contributions of agriculture.

Good examples of assessing member needs and business lines that can effectively meet those needs are found in the articles in this issue about local cooperatives in western Iowa, and the evolving cooperative marketing efforts of small minority farmers in north Florida and adjoining states. Each mirrors cultural attributes of producers in the communities involved, and the tastes, preferences and marketing requirements for serving various segments of the marketplace.

Another excellent contribution to this dialogue is also found in the Management Tip article, about standards required of cooperative directors to meet their responsibilities as stewards of members' interests and in overseeing operations of cooperatives.

As Cooperative Month is celebrated throughout the country in October, we are reminded of the significant role played by cooperatives in communities throughout rural America and the continuing opportunity for needs of farmers and rural residents to be met through effective forms of group action.

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October is National Cooperative Month, a time to recognize the nation's 48,000 cooperatives and their 120 million members. This magazine regularly features farmer, fishery, craft and utility cooperatives, but co-ops also provide Americans with housing, health care, groceries, hardware and banking services. To learn more about how your cooperative can promote National Cooperative Month, visit: www.coopmonth.coop. USDA Graphic by Steve Thompson



High Society

Sioux Center Farmers Co-op Society ties future to NW Iowa livestock industry



By Dan Campbell, editor

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S ioux County, Iowa, is a fertile, wall-to-wall sea of corn and soybeans. It's hard to imagine that with all those bountiful acres—which produce nearly 30 million bushels of corn and 9 million bushels of soybeans annually—the county would need to import grain from surrounding counties to help fuel its livestock industry. Yet, as Iowa's No. 1 county for both hogs and cattle (and also high in the ranks for poultry production), Sioux County must go outside its own borders to find enough corn to feed all those hungry snouts and muzzles.

According to USDA statistics, Sioux County sold nearly 1.6 million hogs and pigs in 1997, up from 873,000 in 1987. It also sold 243,000 beef cattle and calves in 1997 and 2.4 million broilers. All livestock sectors in the county will likely show strong growth since '97, when USDA completes its 2002 agricultural census.



Corn is loaded onto a conveyor belt that feeds the new ethanol plant at Sioux Center.



It comes as little surprise, then, that the primary strategic direction of the Sioux Center Farmers Cooperative Society has been to aggressively pursue the livestock feed market, with the goal of being the region's major producer and supplier of feed. In the process, it has taken a leading role in the effort to modernize the area's hog-production facilities.

This effort has received both praise and some criticism, since many of the new hog-production facilities have switched over to contract growing. Yet few will debate that the co-op's efforts have fueled growth in Sioux County's hog industry at a time when Iowa's hog production has remained relatively stagnant. Statewide, hog numbers the past 5 years have been holding fairly steady, in the range of 15 million to 15.5 million head.

'Progressively conservative' co-op

Like the town of Sioux Center, this co-op has remained profitable and growing at a time when a number of similar co-ops are struggling. Sioux Center Farmers Cooperative Society is projecting sales of about \$130 million this year, says co-op Manger Ken Ehrp. During the past 11 years, the co-op

has averaged about \$1.7 million in local earnings every year. "Currently, we have \$8 million in working capital, which is virtually unheard for a company of our size," he says.

Roger Kempers, co-op president, says the philosophy of the co-op and its members is "progressively conservative. We are always looking for new opportunities that can be pursued without taking on undue risk."

The cooperative is owned by 2,750 producers, about 500 of whom joined in March 2002 as the result of a merger with Siouland Cooperative, based in Sanborn. That merger increased the number of elevators in the co-op's local network to nine, and increased storage capacity from 9 million to 19 million bushels.

Member equity is being revolved back to owners in just 10 years. "Whether we can maintain that 10-year period is questionable," Ehrp says. "We're coming up to some big (redemption) years, and will likely slip a bit. We pay 30 percent cash each year for patronage."

The success of the co-op and the town of Sioux Center go hand-in-hand, Ehrp says. "This is a wonderful place to live and a wonderful place to do business."

Inset photos, from the left: Flanked by the Sioux Center "skyline," Farmers Co-op Society Manager Ken Ehrp (right) reviews operations with board president Roger Kempers (center) and director Marv Wynia.

Mechanics in the co-op's shop keep the fleet of modern agronomy gear in top condition.

Despite low grain and livestock prices, farmer Harlan Klassen (right) says he "feels blessed" to be able to farm with all four of his grown sons, including Darwin (center) and Dan.

The Farmers Co-op Society operates its own feedlot at Sioux Center.
USDA Photos by Dan Campbell



In addition to grain marketing (see sidebar, page 8), the co-op has a small galaxy of other businesses scattered about Sioux County. Across the parking lot from the Sioux Center elevator complex is the co-op's agronomy office and a fleet of modern, satellite-guided applicators. There's also a large repair shop where, on this day, two Terra-Gator applicator rigs are being tuned up. Also nearby is the co-op-owned

hardware store, which is brimming with home appliances, paints, tools, lawn mowers and more.

The co-op has operated a lumberyard in Sioux Center since the late 1970s, when about 100 new homes were being built each year around town. Construction has currently slowed to 15-20 new homes per year, and Ehrp says it's becoming more of a challenge to maintain profits from the lumberyard.

Scattered throughout the Sioux County region are thousands of modern hog barns, which Farmers Co-op Society not only supplies with feed, but which it also helps to build and finance for members.

A few miles outside of town is the co-op's 12,000-head cattle confinement feedlot, which usually operates at full capacity. Members own the cattle, but the co-op charges for feed and its deliv-

The right stuff: Ag-based, but diverse economy helps Sioux County thrive

By Dan Campbell, Editor

Something right is going on in Sioux County, Iowa. While many rural Midwest communities are sliding into oblivion as their stores close and their schools and churches migrate away with their young people, this northwest Iowa county's two largest towns—Sioux Center and Orange City—have growing populations and are adding new businesses and services.

Signs of progress abound in Sioux Center, population 6,500. It is home to a fully developed, 120-acre industrial park, the new 100,000-square-foot Centre Mall and excellent public and private schools and a 4-year college. It even has a problem many rural towns would love to share: a tight housing market.

The most visible manifestation of its thriving business sector is a \$15-million Pella window assembly plant, which opened about 2 years ago on the northern edge of town. The plant employs about 500 workers. It has been a boon not only to Sioux Center, but the entire region, with workers commuting from 90 different zip codes.

Among other ag-related employers here is Sioux Automation, which builds livestock feed wagons and other farm equipment, Sioux Preme Pack hog processing and Trans Ova Genetics, which performs beef and dairy cattle embryo transfers either in its clinic or on farms anywhere in the nation.

The town's ability to attract new businesses boils down to its people, a favorable business environment and amenities that offer a high quality of life, says Mayor Dale Den Herder, a fourth generation resident. His Dutch ancestors first homesteaded here in 1872, living in a sod hut even before Sioux Center was founded in 1891. He, like others, attributes much of Sioux Center's success to an old-fashioned work ethic, a willingness to try new things, nurturing families and a deep spiritual faith that, together, forge a strong sense of community.

Between 1990 and 2000, Sioux Center's population rose 18 percent. "That bucks the trend you will see in most rural areas," Den Herder notes. Jobs, of course, are the key to a stable or growing population. Thirty years ago the city had only 100 manufacturing jobs. Today, it has more than 2,300.

He also has high praise for the Farmers Co-op Society, not only for being "a strong friend of farmers that has helped to modernize the region's livestock industry, but for also being a leader in promoting our community."

Den Herder is also the president of American State Bank, which has a \$250 million loan portfolio that reflects the diversification occurring in the economy here. A decade or so ago, ag accounted for about 70 percent of those loans, but that has since dipped to about 40 percent.

While Sioux Center, Orange City and some other area towns are thriving, some other rural towns in the region are struggling just to hold even, and others are seeing their vitality slowly slip away.

"You don't have to travel too far to find a lot of hurt going on," says Den Herder. "We could be looked upon as something of an island of prosperity."

Motivated workforce

The biggest factor in feeding that prosperity is a "motivated, educated workforce—people who take pride in what they do," says Paul Clousing, assistant city manager and director of the Sioux Center Economic Development Corporation. The available labor pool is larger than is readily apparent from the rural landscape. While there are no large cities—Sioux Center is the



ery. The co-op also offers brokerage service to sell cattle for members and even offers them financing at the feedlot. It has about \$8.5 million currently loaned out to cattle producers.

“They pay \$150 per head up front, and we loan them the balance,” Ehrp says. “When the cattle are sold, our name is the only one on the check from the processor. We take out our money for feed, and the producer gets the bal-

ance—so we’re always assured of getting paid.” The primary cattle market is the packing plant in Sioux City, Iowa.

“It’s very tough to make money on cattle these days,” Ehrp says while driving past pens filled with fat steers nosing in the feed troughs. “Feeder costs are just too high compared to what they earn when they sell. You buy feeder cattle and hope prices (for fed cattle) go up so you can lock in a profit.”

Near the cattle feedlot is a new ethanol plant, operated by a sister co-op—Siouxland Energy and Livestock—which Sioux Center Co-op Society helped launch. The 14-million-gallon ethanol plant had initial start-up difficulties with equipment, but plant manager Bernie Punt says most of those problems have been resolved, and the ethanol plant is now operating at about 85 percent capacity. It will consume about 5.3



Clockwise from the top:

Work nears completion on the new student center at Dordt College in Sioux Center.

At Med Tec in Orange City, Bryan Kooi examines a mask used to stabilize the head of a patient receiving radiation treatment.

The new Theater Arts Center rises on the campus of Northwest College in Orange City.

Windows, such as the one displayed here by Dale Zevenbergen, are built and shipped within 7 days of order from the Pella window plant in Sioux Center.

USDA photos by Dan Campbell



largest city in a six-county region—there are more people tucked away in all those little towns and farms than one might think. About 100,000 people live within a 30-mile radius of the Sioux Center, Clousing notes.

“Bio technology is the newest wrinkle here,” Clousing says, adding that the town now has three or four bio-tech businesses that employ about 200 workers.

Sioux Pharm Inc. is a bio-tech firm that extracts chondroitin sulfate from bovine tracheas, then purifies the product into pills, called Chondropure, which brings relief to arthritis sufferers. Dr. Allan Kramer, the compa-

ny president, says Sioux Pharm is the nation’s largest producer of this medicine.

He employs 25 workers, and says a business owner would be hard pressed to find a better labor pool than in northwest Iowa. He also gives Sioux Center strong marks for its “pro-business” orientation and its good highway and rail system. The state of Iowa was helpful to him in providing grants for value-added business development, Kramer says, and the local livestock industry naturally makes for a good source of raw product for the company.

A thriving college

Dordt College, a 1,400-student college affiliated with the Christian Reformed Church, attracts students from 36 states, six Canadian provinces and nine foreign countries. The most recent addition to the campus is a \$12.5 million Campus Center building, slated to open this month, that will house student services offices, the business department, a bowling alley and a snack bar.

The college boasts two new dormitories and a fairly new recreation center, which features an indoor track. It also operates a research farm where students can get hands-on experience in crop and livestock science.

Sioux Center’s motto, “progress through cooperation,” is certainly true of the relationship of the town and college, says Clousing. The college, local schools and town have joined forces to put up much of the \$9.1 million needed to replace the city’s aging community swimming pool with a state-of-the-art pool complex, called the All-Seasons Center. The state of Iowa and local phone company also contributed needed funds.

The pool complex will feature both indoor and outdoor pools, including a “plunge pool” with tall slides, an “aquatic family fun park” with other water amusements and a six-lane lap pool. The development will also include an ice rink that will become the home of the Dordt College hockey team, the Blades. It is the type of recreational facility rarely found in a town of this size, and one which boosts the quality of life that

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Co-op's grain marketer strives to reduce producer risk exposure

The phone rings, and John Hansen answers it while leafing through pages of grain market data on his desk. More grain numbers flicker on his computer monitor. Grain prices have been gyrating more than normal lately because of heat and drought in many states, creating what Hansen calls "a weather scare."

"Hello John, is this a good time to sell?" asks the farmer on the other end. Minutes later, it rings again, but this time the farmer calling is seeking advice on when to buy grain for his hogs. No sooner does that conversation end than it rings again, and Hansen is working out the details for shipping dairy cattle feed from his employer—the Sioux Center Farmers Cooperative Society—all the way to Alaska, a trip which involves transport by hydro-train (putting railcars on ships in Seattle).

Tucked away though he may be in a small, cluttered office in northwest Iowa, Hansen sees the world of grain through his computer.

"I watch the market all day, and I study it," Hansen says. "I not only track grain on a cash basis, but the futures market as well. I try to put it all together and present it in a systematic way that the producer can understand."

Yes, it is complicated, he admits. "But the secret is it that doesn't have to be as complicated as some make it out to be." His modus operandi: study the market, follow the trends and patterns, then make an informed decision.

So how is the grain market looking, John?

"Depends," he says with a good-natured smile. "Are you buying or selling? We do a lot of both here, so it's all a matter of perspective." A spike in corn prices will bring joy to the heart of a grain farmer who is selling, but for a hog producer who is buying feed, it naturally has the opposite effect.

Most local grain co-ops do far more selling than buying, but Sioux Center does both in near-equal measure. The co-op also

does pooled marketing for members who so desire.

"It takes a unique grain merchandiser to wear both hats like that, and John does a phenomenal job for us," says his boss, co-op Manager Ken Ehrp, who himself earns plaudits from his directors for helping the co-op thrive. "The producers trust John to give them good advice, and you can't put a price tag on that."

Hansen, a former grain merchandiser for ADM who has been with the Sioux Center Co-op Society for 5 years, says, "People think I like to see grain markets



"I think all producers should take mandatory classes in grain marketing," says John Hansen, grain manager for the Farmers Co-op Society in Sioux Center.

million bushels of corn annually.

A closed, new-generation co-op, Siouxland Energy has 410 members, each of whom were required to pur-

chase a minimum of two equity shares. Each equity share gives a member delivery rights to 2,500 bushels of corn. Total cost of the plant was about \$18.5 million. Sioux Center Co-op Society is also a member and a major supplier of corn to the plant.

Feed mill retrofit increases efficiency

In support of the goal of being the primary feed supplier for the region's livestock industry, the Farmers Co-op Society 3 years ago spent \$3.5 million to retrofit its feed mill. On any given day, Sioux Center moves 1,200 tons of feed. With \$35 million in sales annually, feed is by far Sioux Center's largest farm supply sale item. By compari-

son, agronomy brings in \$13 million and lumber \$4 million.

Over a 12-month period, the co-op handles about 20 million bushels of corn and 7 million bushels of soybeans. It can load 54 railcars at a time on the Burlington Northern Railway

Farmers Co-op Society has maintained its high level of profitability through years of major investments on assets—including expanding grain storage, the feed mill retrofit, and greatly expanding its fleet of trucks and applicators. "We've spent a lot of money, but we've made a lot of money," Ehrp says. "We are currently about 84 percent (debt-to-equity) leveraged, which is about as high as we want to get." The debt ratio rose as a result of major expenditures on growth and renovation



Customers get quality service and merchandise in the co-op's hardware and appliance store in Sioux Center.

high. No, I don't. But I don't like to see them low either. I just need to be able to trade. I am set up to trade and make money by reducing my risk by hedging and trading the basis to make money off of it."

Risk Management 101

"I treat my job as a risk management service to our producers," says Hansen. "I strive to reduce their risk, not increase it. When markets go up, like this," he says, gesturing toward his computer, "I work with my feed customers to help them cover their costs in the most economical way."

Too many farmers don't want to sell grain before they harvest it, which is a mistake, he says. "You need to sit down and do some homework in advance of harvest. Figure out your 10-year production average, then take your worst and best years and throw them out. Come up with a good average. Then get a percentage of your crop to market on a favorable trend. If it's going up, market a percentage of your crop on it; if the market is going down, you need to market a higher percentage before it drops even more. It's an average-trend game that you play."

But it's a sad fact of farming life that 80 percent of producers sell their grain in the bottom half of the market, Hansen says. "My objective is to get them to sell more on the right side of the market."

Grain markets, he says, can be a bit like car with an engine in need of a tune-up. "They get out of synch—they're too high or too low for a few days—and you need to take advantage of that. When they are too high, you need to get aggressive and sell into the market.

When they are too low, you need to step up and get that grain bought for your livestock."

Marketing itself, Hansen says, is simple. "Gathering the information to make the right decision, that's the hard part. It's a lot like school work: you study a lot of information, then get tested. My test scores come in once a month, and I get graded on whether we lost or made money." In baseball terms, Hansen says it's those who hit for consistent average who do best, not the guys who swing for the fence every time up. "Those always looking for home runs tend to lose in this game."

Sioux Center's grain customers include the multinationals—Cargill, ADM, Bungee, and others—and regional grain buyers, such as Schouler Grain in Omaha and Agri-Grain Marketing in Des Moines. "But my biggest customers are local livestock people around here; about 80 to 85 percent of our grain stays local. That's the flip of most areas, where they probably ship out 85 percent of their grain."

That ability to keep grain at home is Sioux County's primary value-added ag system, he says. "Those dollars keeps turning over here."

The biggest mistake grain farmers make? "Lack of studying the market," Hansen says without even a pause. "I think all producers should take mandatory classes in grain marketing. You must study to make a better business decision, just like we have to do here. Don't spend all your time on your tractor—study the markets. Figure out a plan months ahead of harvest. The mind set of 'I'm not going to sell until the banker tells me to' is a poor way of marketing." ■

—By Dan Campbell

of facilities. "Our goal is to get that down to the mid-to-low 60s. That gives us opportunity so that if we see something come along that we want to write a check for, the bank will OK it."

The co-op adheres to a very strict policy on accounts receivable, and has had "a tremendously good record in that area over the years," Ehrp says. "We're seeing that change a little because of (low) livestock and grain prices, which will make accounts receivable a challenge in the near future." He credits his board for having "great insight 15 years ago when it set a very strict credit policy, which I have enforced." Some co-ops have a tendency to get lax on their collections, to the detriment of the co-op, he notes.

Merger yields benefits

The possibility of Sioux Center merging with Siouxland first surfaced several years ago, Kempers says. "At that time there wasn't sufficient interest. But at least we opened some communications channels that were still there when the opportunity came."

As with any merger of cooperatives, it was a long process involving many producer meetings, most of them very well attended. "Financial statements showing how we looked separately vs. how we looked together were reviewed very carefully," he says.

Marv Wynia, another director, says overall efficiency of both cooperatives has been much improved by the merger. "Now we can share trucks, Terragators and other equipment and make

sure they are used more efficiently."

"We went from one rail line to three, which gives us the opportunity to work for better bids. We also have a wider area to draw corn from—and with our feed business, we need a lot of corn," says Kempers.

Many farmers own trucks with enough capacity to make it worthwhile to haul it further for a better price. "It's nothing for some farmers to haul their grain 30 or 40 miles to get a better price. So we're pulling corn from quite a way now," he adds.

Following the merger, Sioux Center sold its petroleum division to Co-op Gas and Oil, the local fuel co-op in Sioux Center. Membership among the two co-ops overlapped quite heavily, and Ehrp says his board decided the

competition was not beneficial. Not only is the merged fuel co-op more efficient, but the sale also reduced Sioux Center's long-term debt. "That gives us a chance to look for additional opportunities out there and helps them grow," Ehrp says.

Was there concern that Sioux Center could be taking on any liabilities of Siouxland?

"Even though the other co-op was

faced with some financial challenges, we could see that its fixed assets were in good shape and had been well taken care of," Wynia says. "All of their elevators were in top shape. That was big part of the decision for us, and why we saw so much potential from the merger."

"We looked at it conservatively," Kempers adds. "Ken (Ehrp) helped us assess the opportunity and how it would fit financially into the total

scope of the company. That is one of his real strengths, showing you clearly how all the pieces fit together and how we would look as one cooperative."

Ehrp knows the board well enough, Kempers says, "that if he comes to us with a recommendation, he has already anticipated many of the questions he knows we will ask. It helps that he has done the needed research in advance."

"If you have a manager who gives

Midwest Farmers Co-op members benefitting from new rail terminal

Until recently, it wasn't unusual to see 2-to-3 million bushels of grain piled up on the ground around the Midwest Farmers Cooperative railcar-loading terminal outside Alton, Iowa. But in April 2001, the tarp covering 2 million bushels of corn blew off in a storm, and then the skies opened up, dumping more than six inches of rain on the exposed grain.

Co-op Manager Ellis "Skip" Hein still recalls that nightmare vividly. "All you can do in a situation like that is ship it as fast as you can," he says. "We were fortunate that we handle enough grain volume at this location that we could blend the quality to No. 2 corn. We dodged a bullet, but it made us realize that we didn't want to be put in that position again."

So the 1.1-million bushel vertical elevator at the terminal, originally built in 1997-98, was expanded with an additional 4.1-million bushel, automated flat storage facility. The co-op's board agreed to invest \$7.7 million for the original terminal and \$2.8 million for the expansion, which were both completed on time and under budget. "Start-up was virtually flawless, which amazed everyone for a facility of this size. It only required some minor tweaking," Hein says.

Despite the mammoth size of the facility, the loading operation is so automated that it can be operated by a single worker on the outside. The diesel locomotive that pulls the hopper cars into place is operated by remote control, eliminating the need for at least one additional worker at the terminal. The terminal can load a 90-100 car train (with each jumbo hopper car holding 4,000 bushels) in just 10-12 hours. The co-op loads 35-to-40 unit trains annually, and trucks several million more

bushels each year to area grain processors, including soybeans sent to AGP and corn shipped through Midwest's feed-manufacturing operations.

Need for new terminal fuels co-op merger

Midwest, with 9 branches and 13 locations, was formed in 1997 when Sheldon Farmers Co-op merged its three locations with Alton-Orange City Cooperative's five locations. The co-op expanded again in 1999 when Sutherland Farmers Cooperative joined it.

Clockwise from top:

Up on the roof – Tony Jungers does a rooftop inspection at the new Midwest Farmers Co-op rail terminal at Alton, Iowa.

Midwest Agronomy Manager Larry Den Hartog and his crew are using this high-tech applicator bar to inject manure-fertilizer into the soil.

Another load of corn is delivered to Midwest's Alton rail terminal, under the eye of Manager Skip Hein.

USDA photos by Dan Campbell



the board the kind of information it needs to make good decisions, it makes your job as a director very enjoyable, and I have enjoyed my seven years on this board,” Wynia adds. “I recommend board service to any co-op member asked to jump in and who is willing to work hard, make tough decisions and not arrive with a personal agenda.”

An example of one of those tough decisions, Wynia says, was when the

Sioux Center board decided to close down its other lumberyard in the community of Ireton a few years ago.

“I live close by, and while nobody ever tore into me, when I would go into town people would ask why we closed it and would say how disappointed they were,” Wynia recalls. “It was hard for some people because we took away their lumberyard, and it no doubt had benefitted people there. But

the operation just wasn’t profitable. We had to weigh that against keeping it open strictly as a service to the community.” While keeping it open would have been popular among the people in Ireton, Wynia said it wouldn’t have been best for the co-op.

With co-op trucks going back and forth to Ireton daily, the co-op is still able to make deliveries of lumber supplies from the Sioux Center store, Kem-

Today, Midwest has 2,300 class-A producer members within its 70-mile long, 50-mile wide trade territory. Last year, it had \$78 million in sales. In addition to its grain and farm supply businesses, the co-op also provides agronomy services, petroleum products, and operates its own lumberyard, custom cattle feedlot and a dairy heifer replacement program. It also has an over-the-road trucking operation that hauls for Farmland Foods, Land O’ Lakes, Sara Lee and others.

Prior to the 1997 merger, the Sheldon and Alton-Orange City co-ops were “truck houses that only had access to 25-railcar loadout terminals,” says Hein, as he watches corn-laden trucks pull onto the scales of the Alton terminal, where a hydraulic sampling arm lowers into each hopper brimming with Iowa gold. But 25-car terminals no longer cut it. “They just aren’t competitive in today’s business environment,” Hein says. The railroads say they can’t make a profit from short trains, “and it is the rail rates that are driving this type of expansion.”

The need for a larger rail-loading terminal was the primary issue that drove the 1997 merger. “Neither co-op had the resources to build something like this on its own, even though both were strong co-ops,” Hein says. “Together, however, we were able to combine resources and meet a crucial need.” Indeed, the co-ops were strong enough that they used working capital to finance about 25 percent of the terminal, with a loan from CoBank providing the rest.

“Many times in mergers, you see one strong company absorb a weaker one, which can ultimately weaken the stronger company. If companies recognize opportunities when both are strong, it works out much better,” says Hein, who has been with the co-op since 1997, prior to which he managed a multi-branch grain and farm supply facility for Land O’ Lakes in Minnesota. After mergers, Hein says, co-ops should “make adjustments in operations as well as with the balance sheets and valuation of assets so that the surviving company remains strong.”

The new rail terminal gives co-op members much-improved access to a greater variety of markets, Hein

says, which means better prices. The co-op now has the option of shipping to the Pacific Northwest or Southwest livestock feeding markets, as well as the Gulf ports and Mexico. This has helped add 6 to 10 cents per bushel for members, he estimates. “So this facility is very much adding value for our members, who also earn equity by doing business with their cooperative.”

Raising heifers

Another innovative way Midwest is providing service to members with dairies is through a heifer-replacement program. The co-op takes calves at just a few days old and raises them in “a strict bio-security environment,” where they remain for eight weeks. The calves are then moved to two other places for an additional 8 weeks. After that, they go to a heifer finisher, where they are raised to a mature weight. Midwest then returns the heifers to members’ farms. In less than 2 years, the business—owned by Midwest and its partners in a four-way limited liability corporation—has grown to about 6,000 cows and 4,100 calves.

Hein lives in Alton, less than a mile from the new terminal. Alton has seen some decline in its commercial sector over the past 20 years, but it is now taking important steps to encourage growth again, says Hein, who is a member of the city council and whose wife is the town’s economic development director. There is a new campground that just opened on the north edge of town, a new 43-acre industrial park, and a new 25-acre housing development on the west end of town. Funds are also being raised for a new library and museum.

Midwest Co-op’s board encourages all co-op employees to be active in the civic life of their communities. Co-op officers and staff are “active on fire and rescue teams, chambers, churches, you name it,” says Hein. “Our philosophy is: if you are going to live in a community, be a part of it.” And since Midwest is often the largest employer and tax payer in the communities where it operates, it has a vested interest in seeing the towns thrive, and vice versa.

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pers notes, which has helped limit the inconvenience caused by the closure.

Wynia says it seems to be getting harder to get people to run for the board. "I think some may feel intimidated by the growing size of the co-op. We always find good candidates, but it seems to take more phone calls every year."

Is the co-op done merging?

"I think there will be further mergers in the future," Ehrp says. "This co-op has the type of balance sheet and resources that others, over time, will say 'that's a company we would like to do business with and maybe be a part of.' Some of the other local co-ops are stretched a little thin. With a short crop, and margins becoming thinner while expenses go up, it means turning a net profit is becoming quite an issue out here."

Not only does he foresee more co-op consolidation, he also sees no end to consolidation of farms. "With margins being squeezed ever harder, it will force greater efficiencies from producers. It's the same for all businesses. So yes, it will continue to create larger farming operations—I don't see that stopping; it's just a matter of the pace at which it will occur."

Prospects dimming for grain-only family farms

There is broad agreement among farmers and lenders in this area that the long-term outlook for family farmers earning good margins from grain alone are rapidly diminishing. The best odds for a farmer's future success is to diversify with livestock, ethanol or to find some other way to add value to grain. Growing grain alone, in anything other than in ever-increasing volumes, is not going to pay the bills, they say.

Regarding the controversy over the return to more traditional (i.e., higher) crop subsidies in the new farm bill, many here see it as a "damned if you do, damned if you don't" scenario.

"Today's grain farmer cannot live without the program payments he gets from Uncle Sam," Ehrp says. "My biggest concern is how much longer

urban people will allow the 2 percent on the nation's people who farm to continue to be subsidized as heavily as we are now." If grain subsidies are slashed at some point, it will have a "devastating impact on land prices," Ehrp continues.

"I look at government farm payments as essentially a pass through," says Jim Plagge, president of Northwestern State Bank in Orange City, another one of the area's thriving rural communities, about 10 miles southeast of Sioux Center.

"Producers take in more money from the government subsidies, but they pass



The Tri-State Livestock Auction in Sioux Center provides a local market for independent hog producers. "There is no substitute for active bidding" to maximize prices, says manager Ronald Jordan. But many in this area have switched to contract growing.

most of it on to their landlords or suppliers." That's because the costs of supplies and rents seem to move up in tandem with subsidies, he says.

Crop program payments seem to be accelerating the rate at which farms are consolidating, Plagge says. It works like this: "If a 160-acre parcel comes on the market for rent, a large producer—farming maybe 2,000 or 3,000 acres—may take it, figuring the high cost won't have much impact on his average," Plagge says. "But for a little guy farming 200 or 300 acres, it would be a huge relative risk. So it does seem to be making the big bigger, which is the opposite of what it is supposed to do.

"Corn prices never get any better because the supply keeps going up. Yet we can't be critical of the farm bill, because it's what is keeping many of our borrowers going," Plagge continues. "Without it, land prices would fall, and farmers who own land would suf-

fer." On the other hand, a farmer who rents most of his land would likely see drops in his rent.

Plagge also sees it as a given that farm numbers will continue to shrink, which he says hurts the retail base of the communities, schools, etc. It is an ongoing war of attrition, and those communities that will win—or at least survive it—are those that best diversify their economic base with value-added agricultural businesses and non-ag businesses—as Orange City and Sioux Center are doing.

"As a bank, our total loans outstanding may not change that much, because someone will still be farming the land—although we'll have fewer, bigger accounts." The bank's portfolio is about 50 percent agricultural loans. Plagge says his bank is coping with a slow down in the expansion of hog barn construction, which peaked about five years ago, but has since dipped due to stricter environmental regulations.

Orange City, he says, will continue to look to agriculture as the engine that drives the region's economy, even while it hedges its bets by diversifying its economy. Likewise, farmers who will be in the best position for the long haul are those who diversify with livestock, Plagge says.

Hog industry changing

The hog industry around the Sioux County area has been going through a major transition as more producers replace traditional, outdoor hog-rearing facilities with enclosed hog barns. Many of these new facilities are growing hogs under contract for large livestock integrators. Farmers typically own these hog buildings, but the livestock integrator usually owns the hogs and calls the shots in how they are raised, including when they will be sent to market.

As in other parts of the country where this transition has occurred, this trend toward contract hog production has not been without controversy. However, Sioux Center co-op leaders saw the change in the hog industry as an on-rushing train that the co-op and its members would either have to board

or get run over by. Given that choice, they decided to hop on board, and so far they feel it has been a success for both the co-op and its members.

Since Sioux Center Co-op launched the hog barn building program, Ehrp estimates it has put up as many as 70,000 hog spaces in one year, or about 7,000 buildings (averaging 1,000 head each). This year he expects the co-op will put up about 30,000 more hog spaces. But the construction rate is slowing, due both to tougher environmental regulations and the fact that many of the older outdoor facilities have now been converted to confinement barns.

Kempers says the co-op's building contractor provides farmers with a turn-key hog operation. The co-op supplies the feed and lines up the farmer with an integrator.

"The farmer and integrator get together, and, if things work out, they usually enter into a 10-year contract," Ehrp says. At the end of 10-years, the building is paid for. The farmer then has the option to produce hogs on his own or enter into a new contract with an integrator. "So far the hog buildings have retained their value very well," Ehrp says.

"It was controversial in the beginning," says board member Wynia. "We had a lot of individual, family producers raising hogs on their own farms, and they saw the co-op as going into direct competition with them. At the same time, we realized the swine industry was changing, and we couldn't stop it."

Packers and the public are demanding more uniform, lean pork, "which is harder to produce under the old production system, with so many different types of farrowing operations and genetic lines," says Kempers. "Under this system, there are fewer variables."

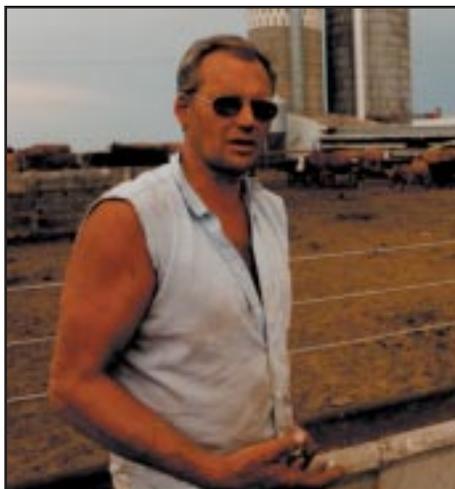
The new hog production system has also helped the co-op increase its efficiency as a feed producer, Wynia says. "Now we have a nine-phase feeding program for hogs, and it's easier to mix only nine rations of feed as opposed to 100."

Some producers, including Kempers, did not wish to make the conversion to contract production, and

phased out of hog production. Until a few years ago, he had a 160-head, farrow-to-finish operation on his farm. "But I had to make a decision to fix up my facility or get out, and I decided the return on labor was not what I wanted (from contract growing), so I got out."

He continues to grow crops and works part-time job as Christian education director for his church, which Kempers says works well with farming, since it allows him more free time in summer when the farm demands are greatest.

Wynia had a similar decision to



Mark Van Roekel, who farms near Orange City, is not one to put all of his eggs in one basket. In addition to crops, his diversified farm includes hogs, cattle and goats.

make for his 100-head dairy. Faced with the need to modernize and expand the dairy, Wynia instead closed the dairy 4 years ago. He and his brother now focus on growing corn and soybeans, but still raise about 100 dairy replacement heifers each year.

Part of the reason the co-op started its new hog system was in response to requests from young farmers who were desperately seeking help to get into, or stay, in farming, Ehrp says. "We've had so many young producers come to us in the past 8-9 years and say, 'can you help me stay on the farm?' We felt this was the most viable option for many."

But what about fears that hog producers are going down the same route as poultry producers, and will wind up as low-paid, piece-wage laborers working for integrators?

"Absolutely, those fears do exist. We are seeing the hog industry head in the same direction as the poultry industry," Ehrp says. "The big players are getting bigger, and the small producers are saying 'I can't compete any more,' and are getting out. It's sad. We certainly don't promote it, but it is the trend and it's hard to buck it. Even the cattle industry is now beginning to head in the same direction."

In the past, it was those periodic \$60-price spikes that made hogs the mortgage payers, Ehrp says. "But those days are probably gone. There's just too many hogs out there and the barns are always full," he says, noting that the tremendous growth in hog production recently in places such as Colorado and Oklahoma has also swelled the pipeline.

Making the change

Harlan Klassen and his four sons, ages 28 to 40, grow 5,000 acres of corn and soybeans near the town of Little Rock, in Lyon County, north of Sioux County. In addition to all that cropland, his sons earn supplemental income doing jobs such as driving a truck for the co-op and working as mechanics. But they also have diversified into livestock.

The two oldest brothers, Dan and Darwin, are partners in a 200-head herd of registered Angus/Limousine cattle. The younger brothers, Brad and Rick, have enrolled in Sioux Center's hog program, and are now raising 2,400 hogs in two enclosed barns. Their integrator delivers the pigs at 40 to 50 pounds, and the brothers feed them until they weigh 220 to 280 pounds.

Brad says the labor commitment is reasonable, leaving him plenty of time for his other farming and off-farm work. The big attraction of this system is that the farmer knows how much he will make at a time when so many producers are losing money on hogs. "This way, you are guaranteed a return for your labor," he says.

At one time, the Klassens raised their own hogs, but they saw little future in anything other than contract growing. "Raising hogs (independently)

on family farms is dying around here,” Harlan says.

Unlike Sioux Center and Orange City, you see plenty of shuttered storefronts in the nearby town of Little Rock. “Our town is slowly slipping away,” Harlan says, ticking off the businesses that have closed in recent years. “We had a feed store, a butcher shop, another grocery store—they’re all gone now. We had three or four cafes, but only one now. And we lost our high school 10 years ago in a sharing agreement with another community.” As editor of the town’s newspaper for 24 years, his wife, Virginia, has closely monitored the town’s fortunes.

Despite the town’s struggle and low grain and livestock prices, Harlan says he “feels blessed” to be doing something he loves as much as farming, and that all four of his sons have been able to go into the business with him. “And I’ve got the four best daughters-in-law on earth,” he adds.

“I’ll never leave here,” he says while offering some hay to his Paint ponies. But Harlan does admit feeling a bit envious of Sioux Center’s success. Informed that Sioux Center got a good rainfall the night before while his farm got just a trace, Harlan says “Gee, they even get all the rain. Sioux Center is just a garden spot—there’s no other way to look at it.”

Still independent

Mark Van Roekel, another board member of Sioux Center Farmers Co-op Society, farms near Orange City and is still operating as an independent hog producer. He has a highly diversified livestock and crops farm, and prizes his independence too much to contemplate the switch to contract growing.

“I’m too independent to be a contract grower—I’m just not ready for it yet,” Van Roekel says.

He has a 1,200-pig nursery as well as two hog finishing barns with 1,200 head each. He also raises 300 fed cattle, 300 nanny goats and grows 350 acres of crops.

None of the markets—livestock or

crops—look good these days, he says as he brushes away some hungry goats intent on nibbling his feet. “This is the worst year I’ve had—the hog market has been poor and the cattle market—which looked good until April—has also been going downhill.”

Van Roekel has a hog marketing contract with Farmland Industries, which has a premium matrix that pays a lump sum based on a feed conversion tables and quality grading. Under the contract, Farmland must approve the feed source—which in his case is Sioux Center.

Despite the disappointing prices, Van Roekel, like Klassen, loves life in northwest Iowa. “Life can’t be much better than it is here,” he says. He moved away as a young man to farm near Fort Dodge, Iowa, but returned to Orange City about 14 years ago. “This is where I was born and raised; it’s where our religious faith is based and it’s where we decided we wanted to live and raise our kids,” says Van Roekel, who is also a director on his rural water district board.

A local marketing outlet in Sioux Center for independent hog producers is the Tri-State Livestock Auction. Manager/owner Ronald Jordan says business volume has been building since he bought the auction about 6 years ago. Indeed, he says the 2,000-to-3,000 hogs he auctions each week is up sharply from when he bought the auction. A typical producer selling at the auction yard has “maybe 40 head to sell, but we get some larger ones too, with 200 to 300 head.”

Not surprisingly, he takes a dim view of contract growing. “The trend toward contract growing is killing the market,” Jordan says. “There is no substitute for competitive bidding” to maximize prices, he says.

Jordan says he’s had success expanding the scope of bidders to include several packers in Mexico and states as far away as Louisiana, Texas and the West Coast. This increase in the yards’ marketing sphere is helping sellers earn \$3-\$4 a head more than others are earning, Jordan says.

New laws slowing industry growth

Whether independent or contract growing, one thing all hog producers are concerned about is how the industry will be impacted by Iowa’s new environmental laws, enacted primarily to limit smells associated with hog production.

“Last winter, I told my board I thought we would build 70 hog buildings this year,” Ehrp says. “But because of changes in environmental laws, I think it will be closer to 30. More planning and time is required up front now before you can build, and distance buffers are greater. It will eliminate a lot of hog building construction.”

Ehrp says many producers are now “gun shy” about putting up hog building because of fear of potential lawsuits that can pit neighbor vs. neighbor. Ironically, Ehrp says the new enclosed hog barns, which have waste lagoons under the barn, generate far less smell than outdoor lagoons.

“This community is supportive of ag—to a point,” Ehrp says. “But when the wind is from the west, the town smells the odor from the co-op’s cattle feedlot, and that can be an issue with the younger generation moving in. They are not as tolerant of the smells as the older generation.

“They need to remember that Sioux County is a livestock county—it is why we are so successful. We have to accept a certain amount of smell and live with it.”

Ehrp recalls the complaints the city started getting after one new hog barn was erected. “Trouble is, no hogs had even been delivered to it yet. People were apparently smelling a nearby city water treatment plant,” Ehrp says, shaking his head. “Sometimes the perception is far worse than the reality.”

Could it drive more of the industry overseas? “If we don’t change some legislation (environmental and anti-packer livestock ownership laws), it sure could. If they make it tough enough on our industry, South America and Mexico sure want our business—and there has already been much expansion of the hog industry there. Some day we may wake up and say, ‘what did we do here?’” ■



Co-op directors held to high standards

By James Baarda

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Editor's note: In the last issue we examined the circle of seven responsibilities that all directors have. This second article in a series of three discusses standards of conduct applied to directors and the sources of legal liability imposed on directors when they don't meet the standards. It concludes with a discussion of protections for individual directors against personal liability. Just as responsibilities can be divided into seven distinct, yet related, items, standards of conduct, liabilities and responses can be viewed in seven steps.

1.

Directors' roles in perspective

A number of responsibilities are imposed on a cooperative board of directors, but where do individual directors fit in? Four perspectives of directors' roles help identify board and individual director responsibilities. Starting with the broadest perspective and narrowing the view to the individual director gives the following breakdown.

The cooperative is a business organization, almost always a corporation. All of the substantial rules governing cooperative directors come from corporate law.

The cooperative is a very special kind of corporation. Cooperatives operate according to appropriate cooperative rules or principles. These unique cooperative attributes define cooperatives' unique objectives, they require specialized income distribution and financing techniques, they impose

The Circle of Seven Responsibilities

(As described in the previous article in this series, see July-August 2002 issue, page 30.)

Directors:

1. Represent members
2. Establish cooperative policies
3. Hire and supervise management
4. Oversee acquisition and preservation of cooperative assets
5. Preserve the cooperative character of the organization
6. Assess the cooperative's performance
7. Inform members

unusual decisions on the board of directors and they give cooperative directors "something else to think about."

Narrowing the perspective further, the board of directors acts as a body. The power to act on behalf of the cooperative is given to the board of directors as a body, not to individual directors. No special power is given to an individual board member to act officially. As an individual, a board member has no greater authority than an ordinary cooperative member. The board derives its authority from the incorporation statutes, articles of incorporation, bylaws, and the members. These all identify the board of directors as the governing body.

This perspective further defines an individual director's participation in the cooperative. Decisions are board of director decisions, so an individual

director must be able to work effectively within the dynamics of the board to influence board decisions. The board as a whole will be effective only if procedures, committee structures and interaction is conducive to good decision-making. If a director objects to a decision, it is imperative that a negative vote be recorded, otherwise the director will be held to have agreed with the decision.

Responsibilities, standards of conduct and possible liabilities fall on board members as individuals. If the standards of conduct are not met, individual directors may be liable to shareholders and members, to the cooperative, to creditors, to patrons and to the public through civil or criminal laws. What are the standards of conduct by which directors are measured?

2. Standards of conduct

Standards of conduct for corporate directors have been developed over many years by judicial decisions and legislative action. Although cooperative directors face numerous special problems, no separate set of standards has ever been developed for cooperative directors. Therefore, corporate rules generally apply to cooperative directors.

Standards applicable to cooperative directors (as is the case with corporate directors) are usually divided into three "duties." These are summaries of many decisions and statutes and are stated in general terms in this article. The three duties are "duty of obedience," "duty of care" and "duty of loyalty."

3. Duty of obedience

The term "duty of obedience" sounds odd but is logical when

explained. The duty means first that directors must perform their roles in conformity with the statutes and terms of the cooperative's documented requirements for the directors. The authority given to the board of directors is defined, as is the purpose of the cooperative. Acts beyond those limits are "ultra vires" and are not authorized.

Neither may the board make decisions that are either themselves illegal or that will cause the cooperative to do something illegal. The duty of obedience also implies that the board should mandate necessary records and record-keeping, internal procedures, policies and compliance programs, then supervise the process to the extent necessary to protect the cooperative from illegal or improper actions.

4. Duty of care

The duty of care, also called the duty of diligence, has developed in judicial decisions but is also found in many corporate statutes. Statutes typically describe the duty of care in three parts: good faith, prudence and judgment.

Directors are required to act in good faith in all circumstances. Directors must also exercise care that an ordinary person in a like position would in similar situations. Finally, a director must make decisions for the cooperative in a manner that he or she reasonably believes to be in the best interests of the cooperative. Directors have the highest obligation to the cooperative and stand in a relationship of trust—a fiduciary relationship. Good faith, conscientious care and best judgments are expected of each and every director.

Do corporate statutes apply to cooperative directors?

Generally yes, for two reasons. Cooperative incorporation statutes usually state that corporate law applies to cooperatives unless corporate law conflicts. Cooperatives are incorporated bodies that have all of the basic characteristics of corporations; directors' roles, duties and responsibilities are no exception.

Diligence and care raise two particular challenges for cooperative directors. Directors may fail in their duty if the board does not adequately supervise management. The board must devise some way to be sure that management and employees conduct themselves in the cooperative's affairs in an ethical and legal manner. The board also establishes the cooperative's strategic direction and evaluates management's progress toward the cooperative's goals. In addition to selecting top management (usually the manager or CEO), the board's duty of diligence requires that the board evaluate management's performance, establish succession plans and, if necessary, dismiss top management.

Often, questions about a director's performance revolve around what the director knows. Generally, ignorance does not excuse a director from liability. Directors must know what they are doing or they cannot satisfy their duty of care.

The knowledge requirement is usually divided into two important parts. Directors will be held accountable for *what they know* and *what they should know*. A director who is actually ignorant of a fact is not excused if the law requires that the fact *should have been known* by the director.

How is a director to gain this knowledge? Directors are sometimes said to have a duty to inquire about facts which are required for them to carry out all of their responsibilities. Directors have a right to inspect all books and records.

They have the additional duty to understand the financial condition of the cooperative and its business operations. Directors are presumed to know what is in the cooperative's books and records. As a general statement, directors will be charged with knowledge of *what it is their duty to know*.

5. Duty of loyalty

Loyalty is perhaps the most troublesome area of liability in corporate law, including cooperative law. It is troublesome because it is not well understood, and the presence of disloyalty or conflicts of interest is devastating to a director's personal position of trust in the cooperative. As has been mentioned, directors occupy a position of highest trust and confidence upon which the cooperative and the entire membership relies. That position must be protected in any action taken and in any decisions made.

Several kinds of behavior are prohibited by the duty of loyalty. Self-dealing, where the director makes a special profit by doing business with the cooperative, is a breach of the duty of loyalty.

Conflicts of interest

Conflicts of interest involving directors are unavoidable and can have serious consequences if not handled properly by the board and the cooperative. This topic will be further examined in the third part of this series.

As discussed in the previous article, directors of cooperatives are placed almost automatically in a position of dealing with the cooperative. This is not a problem if handled properly. In fact, a common statutory provision describes permissible situations. A typical provision states "No director, during the term of his office, shall be a party to a contract for profit with the association differing in any way from the business relations accorded a regular member or holders of common stock of the association or others, or differing from terms generally current in that district." Conflicts of interest situations always pose special challenges.

The duty of loyalty imposes other restrictions on directors. A director will violate the duty of loyalty by dealing with someone directly who could have otherwise dealt with the cooperative. This is called "appropriating the cooperative's opportunity." Loyalty also requires the highest degree of honesty and fair dealing with the cooperative and on the cooperative's behalf.

Directors are often in a position where they could violate the final aspect of the duty of loyalty: that of confidentiality. Directors are privy to information about the cooperative that may not be public. This is particularly the case where directors have access to information about the affairs of other members of the cooperative. Directors are under strict prohibitions about either divulging confidential information to anyone else or using it for their own benefit regardless of the harm to the cooperative.

Generally, a violation of the duty of loyalty, typically in situations referred to as conflicts of interest, is the quickest and surest way to make a director liable for wrongdoing.

6. The business judgment rule

Directors constantly exercise judgment on behalf of the cooperative, and sometimes that judgment does not lead to the best outcomes for the cooperative. Unexpected events can turn a good plan bad. Or directors may simply make a mistake in judgment. What happens when directors' actions lead to losses or other detriment to the cooperative?

Normally, courts will not interfere with the internal operations of a business to replace the judgments of the directors with the court's own judgment on business matters after the fact. The *business judgment rule* says that, absent fraud or self-dealing, business judgments made by directors will not be overturned by the courts and will not lead to director liability. Directors do not and cannot guarantee the success of the cooperative or each decision made.

Courts have generally given three reasons for the business judgment rule. Few members would be willing to serve as cooperative directors if they faced personal liability for good faith errors in judgments that results in harm to the cooperative. Courts also recognize that courts themselves are ill-equipped to make business judgments for directors and that second-guessing board decisions is not an efficient way to monitor directors. Finally, a cooperative cannot be managed efficiently if directors are not given wide

Implementing exercise

Establish a schedule to consider—at board meetings or ancillary meetings—each of the standards of conduct imposed on directors. Systematically consider each standard and its requirements. At each meeting, thoroughly examine one of the standards outlined in this article.

- What specifically does the board currently do to meet the standard?
- What are board's weaknesses regarding the standard?
- Does each director have the skill, interest and time to consider and respond to the standard's requirements?
- Does the board have the knowledge and information necessary to meet the standards?
- What specific steps can be taken to make the board meet every standard?
- Is there consensus on the board's performance?
- Would members agree with the board's self-assessment?

Even more than the board's responsibilities, the standards are personal to each director. Each director should individually address the issue and propose his or her own solution to problems perceived about the standard of conduct under discussion. These sessions may be more effective if management is not present.

The board should also consider the mechanisms the cooperative has in place to protect directors, such as indemnification provisions and D & O insurance. Assessment of state law applicable to the cooperative and directors will be part of the analysis.

latitude in law to handle the cooperative's affairs.

It is important to understand the limits of the business judgment rule. Courts usually say that the authority of directors is absolute when they act within the law, and questions of policy and internal management are—in the absence of nonfeasance, misfeasance or malfeasance—left wholly to their discretion. The rule is not a protection if the offending action was an abuse of the board's discretion, was tainted with board member conflicts of interest or was a result of the directors' abdication of their duties to the cooperative. Courts will step in and hold directors liable for their actions when directors are guilty of willful abuse of their discretionary powers, or bad faith, or of neglected duty, or of perversion of the purposes of the corporation, or when fraud or breach of trust is involved. Otherwise, directors are not personally liable for mistakes while exercising their informed, best judgment.

7. Minimizing risk

An easy but inadequate suggestion for avoiding problems as a cooperative

director is to understand and appreciate the responsibilities listed in the first article in this series, know and adhere to all standards of conduct in this article and make no mistakes that may be detrimental to the cooperative. The first two suggestions are in the control of each director and are, in fact, the best defenses to legal challenges to director performance.

Protection is best when a proactive attitude is adopted by each director to know the responsibilities and standards, understand what it means for the director's performance and identify particularly sensitive issues in the cooperative, for the board of directors and regarding the director's own personal performance.

Directors may also give attention to several other actions and practices that are beneficial to their performance. Board structure, proper use of committees, effective board discussions and leadership, flows of information from management to the board and good board-management relations can avoid a number of problems. Directors may rely on experts, advisors, employees,

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Taking it to the next level

Success of small Florida vegetable co-op leads to a network of similar cooperatives



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Editor's Note: The early achievements of the New North Florida Cooperative were featured in the July/August 1999 Rural Cooperatives. This article reports on the progress of the past 3 years, and how the cooperative has expanded the business beyond its initial scope

New North Florida Cooperative (NNFC) is a new-generation cooperative formed by small-scale vegetable and fruit farmers in the Florida Panhandle to create and expand marketing and processing opportunities for its members. NNFC members say that when they farmed individually, they were “price takers.” The cooperative has enabled them to become “price makers” by taking greater control of their products and providing member-growers with bargaining power in the marketplace.

“Having a market, knowing where your products are going and when you need to harvest makes farming a lot easier,” says Spencer Lewis, an NNFC member. “Working with the co-op saves me a lot of time compared to selling along the road, and it eliminates wasted crops in the field.”

From its initial success helping members sell collard greens and other crops to a local school district, this Florida cooperative has now expanded its scope of operations to 15 school districts in three states, added product lines and increased the level of value-added preparation and packaging. It has also created a network of similar cooperatives in its region which are working together to expand value-added processing and marketing opportunities for small-scale farmers.

The cooperative recently built a structure to house its office and a classroom. A phone, fax, computer and answering machine located in a central office enables NNFC to easily communicate with its members and customers. Eleasa Varner, NNFC’s office manager, notes, “Keeping files and records organized and secure in a central office has really helped with payments, bills and finances.”

Putting customers first

The co-op management team made its first food service industry sale to J’Amy Petersen, food service director of the Gadsden County, Fla., School District. The presentation demonstrated the co-op’s professionalism, courtesy, seri-



From the top:

Collard greens thrive in the soil of northern Florida.

NNFC member Spencer Lewis harvests and loads greens in plenty of time to meet the deadline for a scheduled delivery.

Greens are washed and chopped at the co-op’s packing house.

Photos by Dan Schofer, courtesy USDA/AMS

ousness of purpose and accountability. It also stressed that the co-op is as a Department of Defense-certified vendor.

After its presentation, the co-op management team carefully listened to Petersen discuss the school district's needs. The cooperative then arranged to deliver free samples to Gadsden County schools to demonstrate product quality and the co-op's dependability. At that time, the cooperative did not have any processing equipment, so the participating farmers washed, chopped and bagged the collard greens by hand.

The next day the deliveries were made on time. Petersen and her cafeteria managers were happy with the quality and freshness of the products and the timeliness of the deliveries. NNFC has been providing fresh collard greens to Gadsden County schools consistently ever since.

"The fresh peas and greens have really improved the meals we serve to the children," says Mitchell Williams, a cafeteria manager in Gadsden County. "The children love the fresh vegetables. I enjoy working with the co-op and look forward to working with them in the years to come."

Expanding to more schools

NNFC has kept Gadsden County as an important customer and expanded its market to schools in other areas, including Jackson County and Albany County, Ga. Regularly servicing several school districts has helped the cooperative to acquire capital, invest profits in equipment and necessary infrastructure and develop a small amount of working capital. The cooperative applied for, and received, two small loans from the Jackson County Development Council (JCDC) to purchase refrigerated storage and a small processing machine. JCDC is a community-based, nonprofit organization established to increase local economic opportunity in Jackson County (a designated Empowerment Zone).

Ever since the cooperative formed, JCDC has been helping it acquire capital and develop a good credit history. By making its loan payments on a regular basis, the cooperative has established the foundation of a good credit history.

Profits from consistent sales have been invested in processing buildings and gradual improvements in transportation. The improvements from the acquired capital and invested profits greatly increased the amounts of product that could be processed, stored and delivered. This experience has created the groundwork for larger scale deliveries in the future.

It was important to develop a working capital fund to cover bills due between harvest and the receipt of payment from customers. Early on, the co-op established a policy of paying the farmer for the harvested produce at the time products were picked up for processing.

Schools as customers

Over the past 2 years, NNFC has delivered produce to 15 school districts in the region (table 1, page 23). Some of the school districts have been steady customers for years, while other sales were "pilot projects" consisting of one- or two-time sales to new school districts to demonstrate the co-op's quality and delivery standards. Building on these initial deliveries, NNFC plans to develop strong, sustainable business relationships with those "pilot" school districts as well.

Diversifying to military markets

NNFC has experimented with diversifying its initial customer base. The cooperative delivered muscadine grapes to the Defense Subsistence Office (DSO) of the Department of Defense (DoD) in Jacksonville, Fla., in September 2000 for distribution through military base commissaries. This office provides fresh produce to over 30 military bases, from South Carolina to the Caribbean. It also provides fruit and vegetables to over 2,200 schools.



Processed collard greens are bagged and loaded into a co-op truck for delivery to one of the 15 school districts in three states currently being served by the cooperative.

NNFC had previously worked with the DSO to become a certified vendor, so there was already an existing relationship. This breakthrough sale to DoD was a first for the cooperative, and has opened the door to future sales. The sale helped cooperative leaders realize that they needed to investigate other produce varieties in order to supply the DoD and help boost profits.

Pilot retail sales

Retail grocery sales are also another market channel that the cooperative has pursued. Between 1998 and 2001, NNFC sold value-added collard greens to local Winn Dixie and Grocery Outlet stores. Leafy greens were very popular with customers because of their freshness and convenience. Store produce managers were happy with the cooperative because of the freshness and consumer acceptance.

During the summer of 2001, one store sold 200 bags of NNFC greens per week. Nevertheless, logistics and fluctuating demand made this market difficult to sustain.

While NNFC is not supplying any retail grocery stores this year, the sales provided valuable experience and increased cash flow. In 2002, the cooperative is focusing on schools, its primary market.

Product lines

The cooperative's main product remains collard greens, which are offered through two separate lines: a fine cut and a country cut. The cooperative also recently began selling peas to schools. Pea lines available to schools are: black-eyed, purple hull, butter, cream #4 and cream #8. The cooperative is planning on expanding the amounts and variety of peas sold to schools this fall.

NNFC is looking to sell a french fry cut of sweet potato, supplied by the Sweet Potato Growers Association in

Mississippi. It has also grown Habanero peppers, which were sold in bulk to a regional hot-sauce company.

The cooperative has experimented with the strawberry market, selling fruit to schools both for breakfasts and lunch deserts. The perishability and market pressures on prices hurt the profitability of the co-op's strawberry trade, so it has discontinued strawberry production and sales.



Dan Schofer of USDA's Ag Marketing Service, who is providing technical assistance to the New North Florida Cooperative, discusses delivery needs with school cafeteria manager Mitchell Williams in Gadsden County, Fla.

The co-op also supplied blackberries for use in desserts, such as cobblers and pies. But blackberries are harvested mid-summer, creating perishability problems, so the cooperative has discontinued production.

The cooperative has worked closely with Dr. Kathleen Colverson, southeast program manager for Heifer International. Colverson says, "Based on my years of experience in working with limited-resource farmers, I am excited about NNFC's progress. This type of marketing approach can easily be duplicated by other groups of farmers."

The cooperative is currently raising goats for meat. There have been some sales of ground chevron (goat meat) to school districts and additional sales are planned for the fall.

Value-added processing

NNFC adds value to its leafy greens by washing, chopping, bagging and weighing them. The country cut is a larger, home-style cut while the fine cut consists of 1/4-inch squares.

Through careful attention in the processing stage, the cooperative assures consistent quality and volumes of its final products. It realized early on that it had to differentiate itself and its products from other suppliers. NNFC chose fresh, leafy greens because there was an undeveloped market niche locally and in schools for them.

Fresh was the only option because the frozen and canned greens markets were already filled by established companies. Washed, cut and "ready-for-the-pot" features not only provided convenience, but also differentiated NNFC's products from other product lines.

Value-added processing has given NNFC access to markets that would be unavailable with raw products, such as bunches of whole greens. Cafeteria managers and workers do not have the time to wash

and chop greens to serve hundreds of children. The convenience of NNFC's greens save cafeteria managers and workers a great deal of time.

NNFC's value-added processing, combined with the co-op's bargaining power, allows the cooperative to set a selling price that is fair to customers and, at the same time, provides a reasonable return to its members. This stands in contrast to individual farmers selling bunched greens straight from the field.

The flip side of value-added processing is that NNFC has had to spend much time and effort acquiring necessary capital, purchasing or leasing equipment, maintaining and repairing the equipment and closely monitoring its quality standards.

Packaging a key factor

The cooperative felt it was important to develop quality packaging to maintain the quality and freshness of its produce. Packaging also provides convenience and improved product appearance for customers.

Plastic bags holding 1, 1½, 2 and 3 pounds of leafy greens were selected.

The NNFC logo is clearly displayed on the front. Nutritional facts, recipes, contact information and a UPC code are located on the back of the package.

Transportation and logistics

Transportation has improved as the cooperative expanded its sales and marketing area. The cooperative now uses

several refrigerated trucks for deliveries. These trucks improve product handling and enable larger orders to be filled more efficiently. They have also helped the cooperative dramatically increase its marketing area to include schools in other states.

The management team and truck drivers are constantly challenged by the

USDA lends co-op support with Rural Business Enterprise Grant

The Jackson County Development Council Inc. (JCDC) presented NNFC with a USDA Rural Business Enterprise Grant (RBEG) check for \$327,863 on Aug. 8, 2001. JCDC wrote the grant proposal and was responsible for its administration. The funds were used to improve infrastructure and provide working capital for NNFC.

"Sometimes it's hard to pull yourself up by your bootstraps when you don't have a pair of boots," Chuck Clemons, USDA Rural Development state director for Florida, told the crowd at the check presentation ceremony. "I am hoping that today, by delivering this check, we can provide our small, economically disadvantaged farmers with some big-sized boots in the form of equipment and operating capital so that this goal can be achieved." Lunch served at the event included NNFC's fresh collard greens.

NNFC used the funds from USDA Rural Development and JCDC to purchase four refrigerated trucks, which, along with two vehicles previously purchased, give the co-op a small fleet of refrigerated trucks. These vehicles are essential for the success of both the cooperative and the Small Farmer Distribution Network. The fleet of trucks will help expand marketing opportunities, both geographically and in volume.

The USDA RBEG program helps public bodies and private, nonprofit corporations finance and facilitate the development of small and emerging private business enterprise in rural communities of fewer than 50,000 people. Grants may be used to establish a revolving loan fund to provide "gap" financing to small and

emerging businesses, to purchase or lease equipment and machinery, for technical assistance, such as marketing and feasibility studies, and training for rural entrepreneurs.

The small business being assisted must have less than \$1 million in gross revenues and fewer than 50

new employees. The Rural Business-Cooperative Service's Specialty Lenders Division, administered through USDA Rural Development, has a number of flexible financial tools to assist small and emerging rural businesses. If you're interested in learning more about how USDA can assist rural businesses or cooperatives, contact the USDA Rural Development State Office serving your community, or visit: www.rurdev.usda.gov.

Several other government agencies and organizations have also helped NNFC improve its opera-

tions. USDA's Natural Resources Conservation Service has provided outreach to the co-op since its inception for production and organization structure. USDA's Agricultural Marketing Service provided technical assistance in postharvest handling and marketing. The West Florida Resource Conservation and Development Council facilitated cooperative agreements with USDA/AMS.

The Florida State Bureau of Farmers Markets provided the cooperative—through the Agriculture Venture Services Program—with lease incentives, assistance with equipment needs and business plan development. Heifer International assisted NNFC with goat production and agricultural trials. ■



Members of the New North Florida Cooperative receive a ceremonial check for \$327,000 from USDA Rural Development. The money is being used for infrastructure improvements in the co-op's vegetable and fruit processing and delivery operations, and for working capital.

A commitment to members

The New North Florida Cooperative (NNFC) is committed to member training and education, in keeping with its mission and vision statements (below) to provide members with skills in: market development; education; processing and packaging; transportation; leadership development; management; acquiring capital; billing and payments; finance; quality standards; planning and communications.

Mission statement: The New North Florida Cooperative provides fresh, healthy agricultural products at a fair price to local school lunch and breakfast programs. The cooperative is responsible for the marketing, handling, processing and delivery services of agricultural products produced by participating local small farm operators. The cooperative will meet the needs of local

small farm operators by facilitating the flow of profit from the value-added business operation to and within the local community.

Vision Statement: The New North Florida Cooperative will be a service cooperative providing education, marketing, and technology transfer in order to provide a competitive edge for small farmers in the northern Florida region. The income generated from the value-added business will flow to, and within, the local community. The cooperative's primary business will be targeted to providing fresh, healthy agricultural products to local school districts throughout the area. The cooperative will also develop additional fruit and vegetable lines that will be produced and sold as additional sources of revenue. ■

logistics of deliveries. Schools in rural areas are distributed over a wide area. Delivering with one eye on the map and the other on a clock is crucial.

Serving larger school districts in metropolitan areas can also require careful logistical planning for deliveries. For example, the cooperative delivered greens to 56 schools in Jefferson County, Ala., in the spring of 2001. In the planning stage, an average delivery and travel time of 30 minutes for each school was assumed. The total delivery time would be 28 hours, which would correspond to 3½ working days for one driver and truck.

The decision was made to coordinate the deliveries using two vehicles, mobile phones and predetermined meeting locations. Using this method, the deliveries were completed in two days. This situation demonstrates the difficulties that logistics can present.

Educating other farmers

NNFC works to assist other small farmers in the community and region as well as its own members. It teaches new production and farm-business practices in its classroom. NNFC also often hosts groups of farmers or cooperative members from other states.

Members of NNFC candidly discuss their successes and learning experiences with visitors. NNFC also advises individual farmers through informal channels. The cooperative has been

very active in agricultural marketing conferences. Members have described their success and learning experiences to audiences in Florida, Georgia, Alabama, Mississippi, Tennessee, Missouri and California. NNFC views this outreach as an important responsibility to the small and limited-resource farmer community.

The Small Farmer Distribution Network

The NNFC is now collaborating with other limited-resource, minority cooperatives in developing the Small Farmer Distribution Network. The network will provide marketing, education, processing and transportation assistance to other cooperatives in the region. This should result in larger amounts and a wider variety of products available to schools. The network should also increase the sales area for each participating cooperative.

The cooperatives participating in the network are:

- New North Florida Cooperative
- Central Arkansas Processing Company (CAAPCO)
- Sweet Potato Growers Association (Mississippi, Arkansas and Louisiana)
- Flint River Vegetable Cooperative (Georgia)
- Coastal Georgia Farmers Cooperative

- Tri-County Cooperative (Florida)
- Perry County Farmers Cooperative (Alabama)

Each cooperative will produce and deliver greens, peas and sweet potatoes to schools in its own region. The cooperatives will specialize in their own products and lines, but will also market products from other cooperatives in the network.

The network should greatly increase the sales volume for each cooperative. Waddell Sanders, president of the Sweet Potato Growers Association in Mound Bayou, Miss., says: "The NNFC and the Small Farmer Distribution Network are godsend. We have been having difficulties in marketing for years. NNFC and the network have helped us establish marketing opportunities here in Mississippi. Their real-world experiences have helped us overcome our marketing difficulties."

The network should also make food service directors' jobs easier by providing a central contact for several varieties of healthy, fresh produce grown by small farmers. The NNFC will coordinate marketing, production, quality standards, transportation and distribution logistics.

The network met with the Mississippi Department of Agriculture and the Mississippi State Food Service purchasing director in June to discuss sales of fresh produce and value-added prod-

ucts to 20 Mississippi school districts this fall. The state has been very supportive of supplying fresh, local produce to schools. Mississippi is working with the network to facilitate sales and, hopefully, develop a long-term business partnership.

The Mississippi Department of Agriculture has also been working with the Sweet Potato Growers Association to develop value-added sweet potato products that will fill an important, nutritional niche in local schools. The Rural Business-Cooperative Service of USDA Rural Development has also provided technical assistance to the co-op.

The network met with the Arkansas state food director last spring, and sales are planned for the fall in about 15 counties, including the Dollar Way, Little Rock and Pine Bluff school districts. In Florida this fall, the network plans to expand its market by adding Palm Beach and Santa Rosa County School Districts to its existing customer base. The network will be selling fresh produce to almost 50 school districts on a regular basis in the fall of 2002.

Postharvest handling

Providing fresh, healthful produce to local schools requires special postharvest handling practices and equipment to ensure the highest possible quality. The produce should look healthy and have a good color. Texture is also important. Produce should be crisp, crunchy and firm. Fresh produce is sweeter and has a better taste.

This is very important to school food service directors, because they provide these products to children, who can be very demanding customers. The cooperative has always focused on postharvest handling equipment as an important step in meeting customer needs and expectations.

Proper postharvest handling starts in the fields. In high field temperatures, refrigeration is crucial to peas and leafy greens. Limited-resource farmers providing fresh produce to the cooperative observe that having the trucks in the field at harvest is crucial to quality and shelf life.

Leafy greens and peas are harvested and immediately placed in trucks to remove field heat. The truck then transports a load of peas for shelling, then delivers them to local schools.

Refrigerated trucks have greatly increased the market potential for the cooperative. By regulating temperatures in trucks, the cooperative has increased its delivery area and still maintains high-quality products. The refrigeration and holding capacity of these trucks have also enabled the cooperative to make larger deliveries to suburban and urban schools.

After buying fresh collard greens from the cooperative, many schools asked about the availability of fresh peas and beans. But the farmers could not economically harvest peas by hand and still meet the

school districts' price limitations. The solution was to lower harvesting costs and increase harvesting capacity with a mechanical, self-propelled pea harvester.

This purchase was made possible with a loan through JCDC. The self-propelled pea harvester meant peas were arriving much faster and in greater volume, but created a time-consuming bottleneck in the pea-shelling area. So the co-op used another loan from JCDC to purchase a pea-shelling line, which cleared the bottleneck. Through increased crop volume and reduced labor costs, the cooperative is meeting price requirements of the schools.

The harvester and pea-shelling line will also provide service to other cooperatives. Sharing these resources should pave the way for more sales and improve profits for member cooperatives, also benefitting the rural communities where they are located.

Much accomplished in a short time period

NNFC has accomplished much in only 5 years. It started with a group of farmers cutting greens by hand on cold nights for next-day delivery. Break-through sales led to long-term business relationships and additional sales to other schools.

The co-op's profits were re-invested into infrastructure to improve processing, refrigeration, storage and transportation. By providing quality products, on-time deliveries with professional courtesy, NNFC developed a reputation as a dependable vendor of fresh fruits and vegetables to schools.

Bringing in other small farmer cooperatives into the Small Farmer Distribution Network will economically benefit the NNFC as well as other small farmers looking for profitable, sustainable marketing opportunities.

The NNFC and other participating cooperatives in the Small Farmer Distribution Network are looking forward to a busy fall. New school districts, expanding markets into new states, additional product lines, expanded

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Table 1—School Districts and Meal Counts Serviced by NNFC, 2000-2002

School Districts	Students Served Lunch
(Florida)	
Gadsden	7,000
Broward	230,000
Jackson	7,000
Leon	31,000
Bay	25,000
Hamilton	3,500
(Georgia)	
Dougherty	17,000
Tift	7,000
(Alabama)	
Jefferson	40,000
Opelika City	4,000
Enterprise City	5,800
Auburn City	4,000
Tuscaloosa City	10,000
Montgomery	34,000
Dothan City	10,000

Legg sees vital role for utility co-ops in rural America's future

By Steve Thompson

USDA Rural Development

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Hilda Gay Legg, Administrator of USDA Rural Development's Rural Utilities Service (RUS), has worked in a number of capacities to promote development in rural areas. A native of rural Adair County, Ky., she served as executive director and CEO of the Center for Rural Development in Somerset, Ky., from 1994 until her appointment as RUS administrator in October 2001. In that position, she helped develop and implement a broadband telecommunications program in rural communities throughout southern and eastern Kentucky.

From 1990 to 1993, Legg served as alternate federal co-chairman for the Appalachian Regional Commission in Washington, D.C. There she represented and promoted economic policies and assisted in the management of a \$190 million budget for job creation, building infrastructure, education and workforce training, as well as research programs for economic development.

Legg has also served as a field representative for Kentucky Senator Mitch McConnell, as acting executive director of the National Council on the Handicapped and as the director of admissions for Lindsey Wilson College in Columbia, Ky.

Legg believes that access to high-speed, broadband communications service is vital to the future growth and prosperity of rural America. She talked

with "Rural Cooperatives" magazine about the promise of broadband and the challenge of promoting rural economic development in the 21st Century.

Rural Cooperatives: It has been estimated that the cost of providing rural America with broadband communications would be in the neighborhood of \$14 billion. Can we afford that cost?

Legg: I think a better question is, can we afford not to have broadband in rural America. Rural communities will always face a big challenge in competing economically with urban areas. They need to have competitive infrastructure both to attract companies from outside and to encourage the development of locally-owned businesses. And that leads us to what I call the Three "A's" of technology:

1. Communities have to be *aware* of what new technology, such as high-speed internet connections, can do for them.
2. They have to have *access* to it. And that leads to:
3. Application—*applying* the technology constructively.

My job at the Center for Rural Development was dealing with the first two requirements. We established and managed 40 World Wide Web conference sites in eastern Kentucky, in small towns and villages of 1,000 to 5,000 people, occasionally more. The sites offered high-speed, interactive video conferencing and community-access computers to all comers.

The way the sites were used gave us a glimpse of the possibilities this technology offers people living in rural areas. In one town, we had an elderly gentleman who would bicycle



RUS Administrator Hilda Gay Legg

over from his home every day and spend an hour or so surfing the Web. Another user was a lady who used the computers to communicate through e-mail with her grandson in the army overseas. A local hospital rented the video-conferencing facility to hold management meetings with its sister hospital in another part of the state. And a life-insurance agent used the conferencing services to simultaneously keep in touch with her district office in Lexington and her corporate office in Colorado.

This is only the tip of the iceberg, because rural people may not yet be aware of what this technology offers them in their private lives and in making their living. I think it will take a little time, but I have no doubt that in the future the way we do business will depend on broadband.

That brings up the question: just what does broadband offer rural areas? Can it help them entice a corporation to bring in jobs?

The thing to remember is that before corporations decide to locate in a rural area, they're going to make sure they have access to the same kind of infrastructure and services they can get in an urban area, not just for doing business, but also for the sake of their employees. That includes fast computer communications, and, just as important, the other resources to which broadband gives access, that otherwise might not be available outside the cities.

Bringing a big corporate facility to your rural area can be important. In Kentucky, we've made big efforts using tools such as tax credits to bring in big facilities, like a Toyota assembly plant to Georgetown. So broadband isn't the only reason any company will want to locate to your area: they're going to look at the whole package.

But we've also had successes because of access. For example, Amazon.com has a communications center coming to Campbellsville, where infrastructure in place was a big factor.

We have to remember that small operations, such as call centers and local small businesses are important, too. Four or five jobs added to an existing business because of expansion does not seem like a big deal. But in the long run, this type of growth is more sustainable and may be more realistic to building the community than hitting the home run, like the Toyota plant or Amazon.com.

By connecting people and computers in different locations, the new technology has the potential to help rural businesses achieve economies of scale that allow them to compete on an equal footing with businesses located in the cities. And it also offers incentives to people who might want to return home after living in the city. They're going to want the conveniences and advantages they've gotten used to, from not having to depend on a slow dial-up connection, to convenient banking—all sorts of things broadband makes possible.

A good case in point is telemedicine and distance learning, which use video

conferencing to put medical specialists in remote clinics and operating rooms, and teachers in specialized subjects in remote classrooms. Using these technologies you can have access to the same level of medical care and the same education curriculum you could find in the city.

RUS is actively promoting its new Distance Learning/Telemedicine (DLT) program, but it has met resistance in some areas. Would you care to comment?

We're making loans, but not as many as we'd like. I think it's going to take time for the telemedicine technology to be fully accepted, and there are a number of reasons. The first is that the clinics that can most use telemedicine are the ones that are in the most remote, least-developed areas. Unfortunately, they're also often the ones with the least ability to pay the costs of installation and hook-up.

There's also a cultural problem. People just don't want remote doctors; they're used to dealing with a physician face-to-face, and they'd rather travel miles out of their way than to be examined over a remote hook-up. It will take awhile to get used to this new technology, just as it took awhile to get used to the telephone and other innovations.

There are other problems, too, such as: when you have a remote doctor and a doctor on the spot both helping a patient, which one does the billing? How is the fee split? We have no precedents yet for those issues, and they'll have to be worked out.

Distance learning presents some special problems, too. For instance, we have a college in rural Kentucky that's linked to one in southern Tennessee and a tribal college out West. They share a language teacher, but the colleges are located in the jurisdictions of different accrediting bodies. So how do they resolve the accreditation issue? New technology always poses challenges to existing systems, and the people who are in charge of those systems aren't used to it and need to learn how to deal with it.

When you get enough colleges demanding the resolution of the accreditation issue, it will get resolved, and the

other problems will, too. The culture has to change to adapt itself to new technology, but it takes time. In the meantime, we often have to go out of our way to find the most isolated, hungriest doctor to get someone who is willing to take the risk of adopting the new technology.

In an emergency, the DLT technology really proves its worth. A rural clinic with a surgeon who isn't experienced in a specific type of surgery could—with a telemedicine set-up—be guided through a surgical process by a specialist at a large hospital.

The great thing about this technology is that, in a situation like that, the camera provides a sharp, close-up view for the remote physician that is actually superior to what the doctor on the spot can get using his own unaided vision. For all practical purposes the remote doctor is right at his elbow, guiding him through the procedure.

As long as we're talking about development in rural areas, what do you think utility co-ops can do to encourage economic growth in the areas they serve?

There's a lot utility co-ops can do, and many of them are playing important roles in improving the quality of life for their members. For instance, many co-ops maintain local community centers. Putting conference centers in those facilities is one example of what they can do.

But more important is that co-ops should be leaders in their communities. They need to recognize, as many do, that their obligations to their members do not end with simply providing utility service, whether it's telecommunications, power or water and waste disposal. They need to work actively to grow their local economies. They need to embrace change. They need to be part of the active recruitment of businesses, and to share their business and financial expertise with their members and potential members. The revolving loan funds and business incubators that many rural utilities co-ops are setting up are good examples of this approach.

Utility co-ops, by their very nature,

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Still raising cane

George Wedgworth is a 40-year veteran of Florida's sugar wars

By Susan Salisbury,
Palm Beach Post Staff Writer

Editor's Note: This article is reprinted courtesy the Palm Beach Post

George Wedgworth relishes talking about the time he decided to have a little fun with environmentalists who have opposed the powerful sugar industry in the Glades for decades.

"I told them when the muck is all gone, we will build condos. They'll be gated communities, and we will name them after you. I said it with a straight face. Then I see Charles Lee quoted in the newspaper saying, 'We've got to stop this development.'

"I did it to aggravate him," says Wedgworth, 73, who founded and heads the Sugar Cane Growers Cooperative of Florida. He succeeded. Lee, executive vice president of the Audubon Society of Florida, takes the idea seriously even today. "I'm not sure I agree with George Wedgworth on many things, but on the question of urban development being worse than growing sugar, we would agree on that," he said recently.

Wedgworth can't be blamed for trying to bring some levity to the battles he's fought as chief executive and president of the 54-grower cooperative he began in July 1960.

As its chief, he has been on the front lines of the industry's biggest political, environmental, economic and labor-related battles. Throughout, the co-op has been a stable group, with five of its original board members still serving today.

The co-op's first year, 1962-63, saw production of 77,617 tons of sugar from 21,649 acres. Last season, it produced 373,895 tons from 75,558 acres, about 20 percent of Florida's sugar production. Over that same period, the

co-op's annual revenue from sugar and molasses sales has grown to more than \$150 million.

The co-op marked its 40th crop year in April.

"I'm a great believer in teamwork. One person can't do it all," Wedgworth says. "It has to be a team whether it's a cooperative or a company."

Wedgworth's perspective is unique among the heads of Florida's three sugar firms. Unlike the bosses at West Palm Beach-based Florida Crystals Corp. and Clewiston-based U.S. Sugar Corp., Wedgworth grew up in the Glades. He was born in Starkeville, Miss., and his family moved to Belle Glade in 1930, when George was two and his father, Herman, became a plant pathologist at the University of Florida's agricultural center.

Within two years, Herman Wedgworth quit his \$1,800-a-year job and started his own vegetable farm.

It's an upbringing that George Wedgworth, a 1946 graduate of Belle Glade High School, has never moved away from, despite his success and wealth. He won't disclose his income, but says, "I'm paid way too much."

With labor and trade acumen second to none in the industry, Wedgworth still prefers the simpler lifestyle of an old Florida farmer over that of a sugar magnate. He only recently traded in his early '90s Oldsmobile for a new Buick.

Wedgworth and his wife, Peggy, who met in the ninth grade, live in Belle Glade in the one-story concrete block house George's mother, Ruth, built in 1941. The white, five-bedroom house faces two-lane East Canal Street and overlooks the sugar cane fields and smokestacks of the co-op's sugar mill.

Wedgworth lived away from the Glades only when he and Peggy attended what was then called Michigan State College, now

Michigan State University. He graduated with honors in 1950 with a degree in agricultural engineering.

"I just don't know any different. I'm within five minutes of



George Wedgworth, president and CEO of Sugar Cane Growers Cooperative of Florida, and the co-op's 54 other growers produced 373,895 tons of sugar last season, compared with 77,617 tons in its first season, 1962-63. Since the co-op began operating, sugar has replaced winter vegetables as the region's top cash crop. Photo by Scott Wiseman, courtesy Palm Beach Post

my office. I've never had the desire to go anywhere else," says Wedgworth, the father of four grown children—two sons and two daughters. He and his wife have 11 grandchildren.

Geography hasn't hampered his success

Instead, he and his family, owners of Wedgworth's Inc., the state's largest fertilizer company, with 150,000 tons of "Big W" brand production a year, and Wedgworth Farms Inc., a 5,000-acre sugar cane farm, have made their livelihood from the muck, the rich black soil of the Glades.

Wedgworth's youngest son, Dennis, a Duke University graduate, runs the family businesses. The elder Wedgworth sees to business at the co-op, Belle Glade's largest employer, with 900 employees.

True to his philosophy on teamwork, Wedgworth has done two multimillion-dollar deals with rival Florida Crystals, owned by the Fanjul family of Palm Beach.

Florida Crystals and the co-op last year bought the company that makes Domino Sugar and its three refineries for \$205 million. That followed a 1998 partnership in which they bought Refined Sugars Inc., a Yonkers, N.Y., refinery, for a reported \$65 million.

"They have a higher profile than we do politically," Wedgworth says of the Fanjuls, "but (the co-op and the family) got a lot in common with sugar."

Wedgworth, with a reputation for being feisty and thorough, believes in dealing with controversy head-on, whether the issue is phosphorus levels in Lake Okeechobee or ash residue from burning cane fields before harvesting.

"He likes getting to the bottom of things," says Belle Glade grower Rick Roth, 49, a co-op board member whose family has known the Wedgworths for decades. "He's been a true visionary who takes time to understand how all the pieces fit together."

Dalton Yancey, executive vice president of the Florida Sugar Cane League, the industry's longtime Washington lobbyist, echoed those sentiments.

He said Wedgworth reads everything that comes his way and never backs down. "If I am going to be in a fight at the end of an alley, I want George Wedgworth in that alley with me. He will fight and has a reputation for getting things done."

Even the Audubon's Lee concedes: "George has been the grand old spokesman for sugar and agriculture in the Everglades Agricultural Area for a long time. He is respected in that industry, and is a tenacious advocate for his industry."

Haunted by childhood tragedy

Wedgworth's early years were marked by tragedy. He still is haunted by a day in 1938.

"I was with my father when he got killed. He was at the (vegetable) packing house and a crane was lifting a 10-ton ice machine. My cousin and I were playing in the packing house. I heard the accident. I remember seeing him under those beams," George says, choking up.

"My mother stepped right in to run the (family's thriving vegetable farm). She was keeping the books already," Wedgworth recalls. "Her kids were 5, 10 and 15 when he died. She didn't come home until 9 or 10 o'clock at night."

Wedgworth says his parents had a profound influence on him. Their drive became his—and showed itself when he was a youngster in 4-H. He started with six cows and had a herd of 26 by high school.

His parents, Wedgworth says, "came here from Michigan State College (where Herman was an associate professor) with nothing but the shirts on their backs. They both came from meager backgrounds, and they thrived on a challenge."

Wedgworth does, too. He and farm manager Vernie Boots, a mechanic, built the first mobile celery harvesting unit in 1950. The machine, no longer in use, allowed picking and packing to be done in the field, saving time and money.

Wedgworth also founded the Florida Celery Exchange in the 1950s. The cooperative put an end to growers selling



The Wedgworth Packing Plant, circa 1932-33, from the scrap-book of Herman Wedgworth, George's father.
Photo courtesy of the Wedgworth family

against each other.

"I found that we could grow beautiful, beautiful celery, and then the salesmen would give it away. My mother said, 'Well, if you are going to be critical of our sales methods, I am going to put you in charge of it.'"

The exchange soon was born. But celery, like other vegetables, is a fragile crop. When the U.S. government decided it no longer wanted to be dependent on sugar from Cuba following Fidel Castro's takeover, Wedgworth saw an opportunity to move into growing the more stable commodity.

In 1960, he called 16 Glades vegetable growers about forming a sugar cooperative. With 52 growers on board initially, the Glades Sugar House broke ground in October 1961.

"George is one of the first people who started the movement in the 1960s to expand the industry beyond just U.S. Sugar and (the Fanjul family's) Okeelanta, which existed at that time," said Jim Terrill, executive vice president of U.S. Sugar Corp. "He's a pioneer."

The big switch to sugar cane

By the end of the decade, Wedgworth Farms, as well as many other former vegetable growers, had switched to growing nothing but sugar cane.

Sugar growers shared some hot political issues with the rest of agriculture. A big issue was the poor working and living

conditions of migrant laborers, including cane cutters, the so-called guest workers from the British West Indies, mostly Jamaica. In 1970, Wedgworth testified before the U.S. Senate subcommittee on migratory labor on behalf of Florida vegetable and sugar cane growers to counter some of the charges against the industry. In that testimony, he ripped into newscaster Chet Huntley's report titled "Migrant—An NBC White Paper," saying it was filled with "inaccuracies and bias."

The "Palm Beach Post-Times" ran the complete text of Wedgworth's testimony. He was quoted as saying: "I feel that there was much 'sneaky journalism' involved in the film, which took exceptional circumstance or incident—many times out of context—and implied that Florida was 'rampant with conditions bordering on slavery and racism' and that no one in Florida was making any constructive effort to help the migrant. These accusations and innuendoes are just not so."

By the late '70s, the sugar industry began harvesting mechanically. The co-op had totally mechanized its harvest by the 1991-92 crop, ending the need for the hand-cutting of cane—and saving \$10 million a year. But disputes over labor contracts from the 1980s continue to this day.

The sugar industry's burning of cane fields, a part of the harvesting process to clear away debris, also has been controversial. In the 1960s, the American Lung Association alleged that the ash and smoke from the burning was killing people.

Wedgworth remembers the day in 1968 when he received a letter signed by then-Gov. Claude Kirk saying the industry must "cease and desist" from burning cane fields.

"Nat Reed was head of the state Department of Pollution," Wedgworth said. "I called him and said, 'Mr. Reed . . . it would shut us down and put over 25,000 people out of work. We're going to find the best people we can to tell us what we're doing. If we're doing something wrong, we'll correct it.'"

Out of that came a burn permit process regulated by the state's Forestry Department and a network of 37 air samplers in Palm Beach, Hendry and Broward Counties that still operates today, measuring particles.

"We're still burning," Wedgworth says. "We had to change some of our techniques. But we're still burning."

More environmental issues

Today, environmental issues loom the largest for sugar growers. The \$8 billion Everglades Restoration Project, aimed at meeting the water-related needs of the region for the next 50 years and restoring the Everglades, was signed by then-President Clinton in December 2000.

Before that, Wedgworth and about 20 other agricultural

leaders—and environmentalists, including Reed of Hobe Sound—had signed a letter asking Congress to include Everglades restoration in the Water Resource and Development Act of 2000.

"We were very pleased . . . that we got a document with my signature on it along with Nat Reed's," Wedgworth says. "If we had continued to throw darts at each other, nothing would get done. It was a great day."

Wedgworth said that was shattered, however, when environmental groups began raising questions about the restoration project right after the agreement was signed.

"Now I am afraid they're not satisfied," Wedgworth says. He said the sugar industry has its own questions about how

water storage and recovery wells will work and is waiting for engineers and water managers to conduct pilot projects.

Wedgworth doesn't expect to be around to see the end of conflict and controversy in the sugar industry, but considers it part of the business. In 1996, the industry fought a proposed penny-a-pound tax on sugar that voters defeated. Environmental groups pushed for the tax to pay for Everglades cleanup. The \$35 million campaign was costly for both sides.

"It was unfortunate that the environmental groups attacked the

industry when we could have accomplished a lot more for the Everglades if we could have sat down across the table to try to determine what's good for the Everglades," he says.

"We have always had our doors wide open for those discussions," he adds. "They're the ones who attacked the industry with a referendum that could have damaged our company to the extent we would not still be here if it had passed.

"The way to help the Everglades is to stay out of fighting each other, and roll up our sleeves and do something that is good for the Everglades."

When he's not fighting the industry's battles, Wedgworth and his wife—who considers herself his polar opposite because of her more laid-back personality—like to escape to their ranch in Okeechobee County on the weekends.

"Last weekend he put up 25 birdhouses for bluebirds. He plays tennis and he relaxes more up there," says Peggy Wedgworth. "He's got his computers, and he checks his e-mail. He drives the tractor and mows the pastures."

The seemingly tireless Wedgworth recovered well from open-heart surgery in 1978 and doesn't plan to retire.

Peggy expects him to continue his 50-hours-plus work weeks.

"I think he was motivated by his mother. He saw how she worked and kept everything going. Right now with the sugar mill, he loves what he's doing. That makes a lot of difference." ■



A worker sprays beans on the Wedgworth farm in the 1930s. Much of the land is now planted in sugar cane.
Photo courtesy of the Wedgworth family



Pacific Coast Producers moves tomato operation

Tomato growers around Woodland, Calif., are getting a boost this year with the opening of a newly refurbished processing plant, purchased earlier by Pacific Coast Producers (PCP) from Del Monte. The 40-acre operation had been closed during the 2001 season. In moving its entire tomato processing operation from Lodi to Woodland, PCP significantly will cut its transportation costs. "All of our growers are now within a 20-mile radius of Woodland," said President Larry Clay. He called the move "a great opportunity for the cooperative."

Tonnage is expected to climb from 350,000 tons a year to 510,000 tons. PCP is the third largest processor and marketer of canned peaches, pears, apricot and fruit cocktail mix nationwide and the leading supplier of canned tomato products.

WestFarm Foods expands

A major dairy plant expansion came on line this summer at WestFarm



The West Foods plant in Jerome, Idaho, can now process 3.3 million pounds of milk into powder daily. Photo courtesy WestFarm Foods

Foods' plant at Jerome, Idaho. The addition to the original condensing plant will allow it to process 3.3 million pounds of milk into powder every day. The expansion of the original condensing plant was an outgrowth of the 1998 corporate strategy to become a low-cost processor of selected finished dairy products.

The \$40.2 million project will open capacity at existing plants to process milk from the Treasure Valley and eastern Washington state, where the supply is expected to grow an additional 1.5 million pounds per day in coming years. The company's aim was to increase its presence in Idaho, a state where milk production has been climbing from 6 to 12 percent annually.

USDA co-op statistician Charles Kraenzle dies

Charles A. Kraenzle, who was responsible for compiling USDA's annual cooperative statistics report and a number of articles each year for this publication, died Aug. 14 at his home in Annandale, Va. Kraenzle, 61, was awarded USDA's prestigious "Superior Service" award in 2000 for his contributions to America's cooperative sector.

"The number of co-ops and members in the nation, their share of various commodity markets and every thing else one could wish to know about America's farmer cooperatives were compiled and reported by Charlie and his staff," said Randall Torgerson, deputy administrator of USDA's Rural-Business

Cooperative Service. "He will be sorely missed not only here at USDA, but by the nation's cooperative community."

Kraenzle had directed USDA's cooperative statistics and technical services staff since 1988. As director of USDA Agricultural Cooperative Service's cooperative management division earlier in the 1980s, Kraenzle was responsible for supervising research and other work related to farmer cooperative finance strategies, management and operations, policy, statistics and automated data processing.

He began his career as an agricultural economist with USDA's Farmer Cooperative Service—the forerunner of today's USDA/RBS Cooperative Services program—in 1973. Kraenzle earned his masters degree in agricultural economics at the University of Missouri and a doctorate at the University of Connecticut.

Earlier, in partnership with his brother, he had a 700-acre grain and livestock farm in Ste. Genevieve, Mo. Kraenzle served on the board of local cooperatives associated with Missouri Farmers Association and MFA Oil Co.

Kraenzle authored or co-authored numerous publications and articles related to agricultural cooperatives, including reports on grain marketing, problems and issues facing farmer cooperatives and cooperative use of subsidiaries. In 1980, he coauthored the book, "Survival Strategies for Agri-



Charles Kraenzle

cultural Cooperatives,” published by Iowa State University.

Eldon Eversull is serving as acting director of the Cooperative Services statistics staff until a permanent replacement is named.

Iowans form beef co-op

Iowa cattle producers, with the help of low-interest loans from the state to finance equity stock purchases, have formed Iowa Quality Beef Supply Network, a new cooperative. The Iowa Cattleman's Association promoted the effort. The co-op plans to raise \$7.5 million to renovate and operate a beef slaughtering plant at Tama, in eastern Iowa. The state has set aside \$10 million for producers to use up to \$250,000 per investor for 5 years. Plans call for American Foods of Green Bay, Wis., the nation's ninth largest meat packer, to manage the plant and maintain a 25 percent ownership interest.

The plant, scheduled to open this winter, is expected to employ 400 people and slaughter 300,000 cattle annually. Organizers plan to slaughter fed cattle, Holstein steers and cows at the plant and produce specialty beef for Jewish and Muslim markets. The cooperative of 980 producers won the right in bankruptcy court to lease the plant from the city.

Pro Fac sells majority interest in AgriLink

Nearly 90 percent of the 500 grower-members of Pro Fac Cooperative, Rochester, N.Y., have voted to sell their controlling interest in AgriLink Foods, a frozen-vegetable processing and marketing subsidiary, in exchange for a \$175 million equity investment by Vestar Capital Partners. Members will still have a minority interest—reportedly about 42 percent—in AgriLink. The company will be known as Vestar/AgriLink Holdings LLC, an affiliate of the Vestar financing company of New York.

In September, Pro-Fac paid a 43 percent dividend for its fourth quarter to shareholders of its class-A preferred stock. Payment had been delayed pend-

ing the Vestar deal. AgriLink also secured \$470 million in new syndication financing from more than 40 institutions for use in reducing existing bank indebtedness.

LOL expands marketings in Mitsui, Dean ventures

In a pair of joint ventures this summer, Minnesota-based Land O' Lakes (LOL) significantly expanded its potential dairy product marketings on both the national and international scenes. The most recent move was to expand an alliance and licensing arrangement with Dean Foods, Dallas, Texas. Dean, through its Morningstar Foods subsidiary, will use the LOL brand name nationally on a broad range of value-added milk and cultured dairy products.

The first product launched under the new venture is LOL's Dairy Ease, a lactose-free milk.

The venture supercedes an earlier dairy marketing alliance between the two firms. Jack Gherty, LOL president, said the cooperative would benefit from Dean's national brand-based product development and expertise. The arrangement grants perpetual, royalty-bearing national licensing rights of the LOL brand directly to Dean Foods and includes additional value-added products, such as milks, aseptic products, infant formulas and soy products.

On the western front, LOL and Mitsui & Co. Ltd., one of Japan's top trading companies, have opened Cheese & Protein International, a \$150 million

cheese and dairy plant joint venture at Tulare, Calif. The business can process 3 million pounds of milk a day. Tulare County's milk was valued at \$1.1 billion last year, the first Golden State county with a billion-dollar commodity.

The 450,000-square-foot plant, with its staff of 120 employees, had been operating for a couple months before the July grand opening. The plant will initially produce 120 million pounds of mozzarella cheese and 75 million pounds of whey solids used as thickening and foaming additives in food products, including infant formula, nutritional drinks and ice cream. In the second phase, to be completed in 2004, production will double to 240 million pounds of cheese and 150 million pounds of whey. LOL's mozzarella operation at Gustine, Calif., acquired in 2000 from the Beatrice Group, has seen staff scaled back from 143 to about 100. The operation may be shut down later this fall, and the building sold or leased because of the new Tulare operation.

Deegan, Solberg, other co-op leaders win honors

Michael Deegan, chief executive officer for ACADI/VOCA, the development arm of the National Council of Farmer Cooperatives in Washington, D.C., is recipient of the distinguished service award from the Association for International Agriculture and Rural Development. He was cited for building “a strong, more efficient organization that is highly respected in the international agricultural development community.” Deegan has been credited



Land O' Lakes and Mitsui & Co. of Japan have opened this \$150 million dairy processing plant in Tulare, Calif., which they will operate under a joint venture called Cheese & Protein International. Photo courtesy Land O' Lakes



ACDI/VOCA's Michael Deegan

with engendering appreciation between developers and policy makers for the important role of agriculture in economic development. He says agriculture is a key

engine of growth in most developing countries.

In ACDI/VOCA's most recent annual report, Deegan says the organization "broke new ground with endeavors that are shaping the way economies and societies are advancing." Among the 60 projects in more than 40 developing countries last year were community development efforts in Bolivia and Serbia, rehabilitating a former war zone near Eritrea, reaching out to people with HIV/AIDS in Africa, conducting a feed subsidiary program to help farmers and herders cope with endemic water shortages in the West Bank and Gaza and launching a supplemental feeding program for Indonesian school children.

Other co-op leaders winning awards include:

- At GROWMARK, Bloomington, Ill., Jeff Solberg, vice president finance, was elected chairman of the Institute of Cooperative Financial Officers, which reviews and evaluates developments in corporate financing, taxation, auditing, accounting, information technology and financial derivatives as they apply to cooperatives.

- In Wisconsin, the Badger Chapter of the National Agri-Marketing Association has cited Don Storhoff, retired CEO of Foremost Farms at Baraboo, as the agribusiness leader of the year, its highest honor. During his career, Storhoff represented three dairy industry trade associations as well as members of his dairy marketing cooperative.

- Ohio State University has honored Herman Brubaker, chairman of Dairy Farmers of America, with its Dairy Sci-

ence Hall award. The Ohio dairyman was cited as one of the state's "greatest drivers, leaders and promoters in today's dairy industry."

- Ivan Strickler, Kansas dairyman and retired chairman of Mid-America Dairymen Inc., received the National Pedigreed Livestock Council's distin-

guished service award for more than 50 years as a dairy industry leader.

- Hugh Harris, executive secretary of the Virginia Council of Farmer Cooperatives and a retiree from Southern States Cooperative, has received the Outstanding Friend of Virginia Agriculture award.

Dorr to lead USDA Rural Development

Thomas C. Dorr, of Marcus, Iowa, has been appointed by President George W. Bush to be under secretary for USDA Rural Development. He was sworn into office by Agriculture Secretary Ann M. Veneman on Aug. 9.

"I am pleased with the president's decision to appoint Tom Dorr as under secretary of USDA Rural Development," Veneman said. "As a family farmer from Iowa, Tom brings more than 30 years of experience, understanding and knowledge of rural issues and values to this position. I have confidence that he will work tirelessly to advance the president's agenda by strengthening programs to help families and businesses in rural communities throughout America.

"Under Tom's leadership," Veneman continued, "USDA will work hard to implement the many aspects of the new farm bill that are aimed at enhancing rural development programs. And, there is no doubt that he will manage this agency with integrity, fairness and the ingenuity that is needed to strengthen rural development programs in the future."

Dorr has broad agricultural, financial and business experience. He has served as a member of the board of directors of the 7th District Federal Reserve Bank of Chicago, the Iowa Board of Regents from 1991-1997, and as a member and officer of the Iowa and National Corn Growers Associations. Prior to his current appointment, Dorr was president of a family business consisting of a corn and soybean farm, a state-licensed commercial grain elevator and warehouse, and two limited liability family owned companies which finish swine. He has hosted on his farm former Soviet Republic and Republic of China scientists, academicians, farmers and government officials.

Dorr graduated from Morningside College with a B.S. degree in business administration. He and his wife, Ann, have two children, Allison and Andrew.

As under secretary for rural development, Dorr oversees the Rural Business-Cooperative Service, Rural Housing Service and Rural Utilities Service, which together have \$14 billion in annual funding authority for loans, grants and technical assistance to develop rural housing, community facilities, utilities and businesses and cooperatives. Rural Development has an \$80 billion-portfolio of existing loans. It has over 7,000 employees located across the United States and in Puerto Rico, the Virgin Islands and the Western Pacific Trust territories. ■



Agriculture Secretary Ann Veneman, left, swears in Thomas C. Dorr as the new rural development under secretary. With Dorr is his wife, Ann. USDA Photo

Riceland buys Missouri mill

To serve members' increased acreage in Missouri, Riceland Foods of Stuttgart, Ark., plans to buy a rice storage and milling facility in New Madrid, Ark., from Louis Dreyfus Corp. Riceland President Richard Bell said the mill has access to major highway, river and rail transportation. "I expect Missouri, in time, will be the third-largest rice growing state in the South," Bell says. Rice acreage in southeast Missouri has doubled in the past 5 years and the added supply has severely strained Riceland's other marketing facilities in the region, he said.

The New Madrid facility, built in 1988 and updated with state-of-the-art milling equipment, would ease the situation at the cooperative facilities, particularly at harvest time. The facility is located within the New Madrid Port Authority, and Bell said Riceland plans

to bring more value-added business and employment to the port. Of the cooperative's 9,000 members, 700 farm in southeast Missouri.

Farmland suit nets \$17 million; reorganization plan shaping up

Although it's a far cry from the \$42 million in damages the cooperative sought from multiple sources, it appears chemical giant BASF Corp. will pay Farmland Industries more than \$17 million in damages, before legal fees and expenses, to settle a vitamin price-fixing lawsuit. The cooperative had purchased \$123.5 million in vitamins for use in animal feed products. Farmland's price-fixing suits against other vitamin makers and distributors continue.

Meanwhile, Farmland President and CEO Robert Terry said the cooperative is preparing a strategic reorganization plan for a September presentation to the

bankruptcy court and creditors. The coop hopes the reorganization plan will be approved in November. "It is designed to ensure Farmland emerges as a financially strong company for the benefit of all stakeholders," he said. The businesses involved in the bankruptcy have assets of about \$2 billion and liabilities of about \$1.5 billion. A third quarter deficit of \$189.5 million was driven by \$55.1 million in petroleum losses, due partly to refinery maintenance.

Terry, however, has been optimistic about improved earnings later this year in the Refrigerated Foods unit, which includes Farmland's beef and pork products. Similarly, he is anticipating profits from the nitrogen fertilizer business this fall after multi-year losses, caused by high natural gas prices and adverse weather.

Since filing for Chapter 11 bankruptcy protection May 31, Farmland has

The Right Stuff *continued from page 7*

helps attract families and young people to the area, Den Herder says.

Attracting Pella

The key to attracting the 263,000-square-foot Pella window plant was Sioux Center's "ability to put together an entire package," says Clousing. Pella needed not only a 50-acre parcel of land, but adequate access roads and a bypass route so that truck traffic from the plant would not impact downtown Sioux Center.

The development corporation and City of Sioux Center found a good site and were able to get grants from the Iowa Department of Transportation to help with the needed road work. Under Iowa's New Jobs and Income program, Sioux Center was also able to help Pella secure a partial income tax reduction for 10 years as another incentive to build within the state.

Of course, reliable, low-cost utility service is also a must for an industry of this size, and Sioux Center's municipal utility has a good reputation. It worked with the state to get grants that helped defray some of the costs of developing the plant site.

Once before, Sioux Center had been a finalist under consideration for a Pella plant, only to lose out on the final cut to

another community. So when Pella began looking to expand again, Sioux Center was already on the list, says Clousing.

The Pella plant, which makes architectural-series windows, does not begin assembling them until it receives an order, but then builds and ships them within seven days of

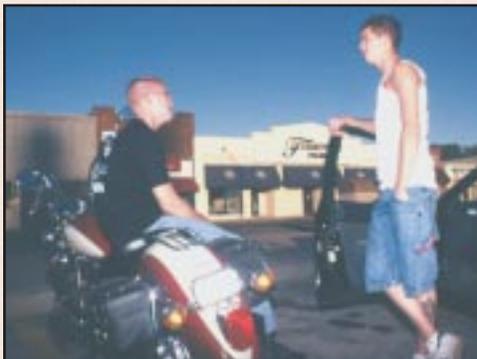
the order receipt, says Dale Zevenbergen, scheduling manager for the plant. The plant runs two shifts daily, but is perhaps somewhat unusual in that it runs a day and a graveyard shift, shutting down in the evening. That's a "family friendly" schedule the workers voted for so that parents could be home evenings with their children.

Orange City blooming

Like its annual Tulip Festival, which draws 100,000 people every spring, Orange City is also blooming. Located about 10 miles to the southeast of Sioux Center, the two towns have many similarities. They are about the same size, have a similar economic mix of industry—both ag and non-ag—and are home to emerging, high-tech busi-

nesses and thriving 4-year colleges. The people of both communities are primarily of Dutch ancestry

Major employers in Orange City include Diamond-Vogel Paints, Advanced Brands, a producer of boxed beef and



Just hanging out: On a mild summer night, Eric Kots, left, and Greg Schouten shoot the breeze in downtown Sioux Center. Despite saying that "there isn't that much to do here," both say they love life in northwest Iowa—especially compared to a recent sojourn in Chicago, where they found "too much noise and congestion."

closed 16 convenience stores in Arkansas, stopped production at several fertilizer plants due to the weak market, laid off more than 100 employees, terminated another 180 part-time and full-time employees, and is negotiating to sell a phosphate fertilizer operation.

The bankruptcy court allowed Farmland to borrow \$306 million to sustain its operations.

The cooperative owes about \$570 million to 20,000 individual bond holders, about \$340 million to secured creditors, such as banks, and another \$590 million to other unsecured creditors, such as vendors.

West Central opens Iowa's largest soydiesel plant

With an eye toward helping the nation wean its dependence on foreign oil, West Central Cooperative of Ralston, Iowa, has opened the nation's

largest soydiesel processing plant. The \$6 million facility, located next to the cooperative's soybean processing plant, will turn 10 million bushels of locally grown soybeans into 12 million gallons of soydiesel fuel for diesel markets across North America.

"People are recognizing that a soydiesel blend will extend the life of vehicle and machinery diesel engines and improve air quality at the same time," says Chief Executive Officer Jeff Stroburg.

More companies with fleet vehicles are being pushed by mandated environmental standards to use a diesel blend because it can reduce or eliminate the diesel odor. Initially, the West Central plant will use oil from its own processing plant, but as production expands it will buy soy oil from other processors in Iowa, which will help relieve the glut in the state,

Stroburg said. West Central's 18 grain elevators receive soybeans from up to 12 counties in western Iowa.

Adami heads livestock co-op

Wisconsin's Equity Cooperative Livestock Association has chosen its chief financial officer to be its new president and chief executive officer. The board earlier had turned to Charles Adami, its vice president of finance, to serve as interim CEO this spring when former President Gregory Beck resigned. Although Adami's tenure with the cooperative only started in 2000, he had 25 years prior experience in business, mostly in financial management, team building and business forecasting. He said the 80-year-old cooperative's financial stress was caused by reduced livestock volume amidst an ever-diminishing milk herd

pork products, American Identity, a maker of promotional products, and Northwestern College.

Med Tec is a local high-tech business that develops and manufactures radiation oncology equipment, used to position and stabilize cancer patients receiving radiation treatment. The company started in Dallas, Texas, in 1982, but relocated about 12 years ago to Orange City, the home town of founder Clayton Paul Korver. It has been expanding ever since, and today has a work force of 100 and growing.

Bryan Kooi, Med Tec's human resources manager, says the company attracts and keeps good workers with competitive wages and benefits and a comfortable, clean work environment where "having fun on the job is part of our corporate philosophy." The company also offers "family-friendly work schedules" that provide flexibility for employees to balance family and work commitments.

Its products are sold in 90 countries around the world. Foreign competition is stiff, so research and development is a big part of the work. Its special niche is oncology accessories, an example being a plastic mask that melts in warm water to the exact form of a patient's face, and is then used to stabilize the head during radiation treatments.

Even Med Tec's building and board room boast a high-tech look that has won plaudits for architect Larry Leslie, from nearby Alton.

Med Tec's owner decided to return to Orange City because of the good things about small-town America. "It's safe, with a very low crime rate, has good schools and affordable housing," Kooi notes. And the two colleges in

close proximity offer wonderful cultural events not typically found in a rural area. Other recreational amenities include a nearby 18-hole golf course and top-notch boating and fishing about one hour away at Lake Okoboji.

Northwestern College, affiliated with the Reformed Church in America, is home to about 1,200 students, who also come from all over the nation. Construction crews have been busy on the campus, recently putting the finishing touches on a new, \$6 million theater arts center. This will help bring more cultural attractions to the city.

James Plagge, president of Northwestern State Bank in Orange City, says both Northwestern College and Dordt College have remained true to their religious roots, while many other church-affiliated liberal arts colleges have severed their church connections. "As a result, a lot of those small colleges are now a dime a dozen, with little to differentiate themselves; many are suffering. But there are still a lot of students out there who want to attend a Christian college, and these two schools are thriving." He also noted that a sizable portion of the alumni are also pleased with the church's ongoing role with the colleges, and have been gracious with their support.

One thing Sioux County has been lacking is a movie theater, but that void was recently filled with a new, six-screen cinema in Orange City. Plagge's bank worked with USDA Rural Development on an \$850,000 Business and Industry Guaranteed loan to finance the theater, which he says is doing very well. "USDA was great to work with—we couldn't have done that package without them," Plagge says. ■

in its trade territory, packer concentration, increased operating costs and personnel changes. The cooperative's operating revenue dropped almost \$240,000, to \$11.9 million, while operating expenses climbed by \$500,000, to \$12.1 million. A sharp increase in patronage refunds of almost \$170,000 rescued cooperative members, but final net proceeds were down almost \$800,000, to \$42,559.

North Carolina craft cooperative thriving

After only six months in operation, the new Appalachian Heritage Crafters store in Murphy, N.C., may be setting a pattern for other rural areas in economic transition. When the community's primary manufacturer exited for Mexico, the all-volunteer cooperative was formed. Mur-

phy is nestled in the Appalachian Mountains in the southwestern corner of the state near Georgia and Tennessee. Crafters have been making everything from patchwork quilts and bark baskets to carved walking sticks and homemade jam. The store generated \$50,000 in profits in its first six months.

Bison co-op buys Denver food firm

With an eye toward boosting its meat sales in a glutted industry, the North American Bison Cooperative, New Rockford, N.D., has purchased Denver-based New West Foods, which sells bison meat in retail grocery stores. The bison cooperative, formed in 1993 by 350 producers in 19 states and four Canadian provinces, has focused primarily on the restaurant

and food service business, so merging the sales and marketing organizations with the Denver firm makes sense, says Dennis Sexhus, the cooperative's chief executive officer.

The co-op was the major supplier to New West Foods, formerly the Denver Buffalo Co. Retail labels from both firms will be used on bison meat products. While production still outpaces market development, Sexhus sees the industry returning to health in another year or so. The cooperative's sales this year are expected to reach \$25 million, or double the 2001 level.

Buffalo numbers have been climbing despite a glutted market for buffalo meat. The national buffalo herd numbers about 400,000, compared with only 50,000 a decade ago. While the cooperative provides half the

Midwest Farmers Co-op *continued from page 11*

Keeping current with technology

Keeping ahead of the technology curve is a big challenge for co-ops, and the new rail terminal with its computerized receiving and loading systems is only one way Midwest is doing so. All branches of the co-op are connected by fiber optic cable, "so accounting and internal communications are live at all times," Hein says. Midwest provides full brokerage service with licensed grain and livestock brokers on staff.

Midwest's agronomy division is also totally computerized, and it is developing a state-of-the-art manure-fertilizer spreading system. With northwest Iowa's huge hog and cattle population, there is plenty of manure, which makes excellent fertilizer and saves farmers big money on fertilizer bills.

But many producers don't have enough land to take all the manure generated by their livestock operations, and application is coming under increasingly strict environmental regulation to prevent problems with runoff and groundwater contamination. Hein says a manure management plan is required before most lenders will finance a new hog barn or dairy. This often involves getting an easement from neighboring farmers that agree to take the manure.

With so much manure readily available, it has cut into sales of commercial fertilizer, always a major source of income for local farm supply co-ops. Every 1,000-hog building provides enough manure to meet the phosphorous and potash fertilizer needs for 160 acres. Midwest Agronomy Manger Larry Den Hartog says just one of the huge new dairies moving into the area can take 2,500 acres of fertilizer sales away.

But Midwest is making the most of the situation by offering members variable-rate manure spreading service. The co-op has one computerized GPS manure unit, costing about \$347,000, which is equipped with a grass/alfalfa applicator bar, and has ordered a second unit from the Netherlands. These are being used in combination with global positioning system technology maps that show exactly where and how much fertilizer can be applied to a field.

Den Hartog designed a mobile holding tank unit that supplies the manure applicators. "The driver never even has to get out of the cab—it keeps the flow going," he says, noting that the co-op charges by the gallon applied. "We're the first co-op dealing with variable-rate manure application here, but Europe is way ahead of us in this technology—especially Holland," he says, where much of the best land is below sea level and must be managed very carefully. Den Hartog is planning a trip to Holland to study their manure-management techniques more closely.

The new applicator bars inject the manure several inches deep into the earth, getting it down to the roots of the plants for quicker intake, and making it less likely that there will be any problems with runoff. The co-op expects to apply 25 million gallons this fall, and hopes to do 30 million gallons next year.

Den Hartog says the co-op's board is very supportive of staying on top of new technologies. "They know we don't come to them on a whim; when we request a major purchase of new equipment, we've already worked out the budget, the hours and the supplies we'll need to make it pencil out." ■

— By Dan Campbell

nation's supply of buffalo meat, it has nearly 4 million pounds—the equivalent of a year's production—in its freezers. The U.S. Department of Agriculture recently agreed to buy \$10 million in buffalo meat for hospitals and prisons.

Agway selling insurance unit to Indiana Farm Bureau

Agway Inc., Syracuse, N.Y., has signed an agreement to sell Agway Insurance, its property and casualty

insurance company, for \$21 million to the Indiana Farm Bureau Insurance Co. Agway's wholly owned insurance subsidiary wrote more than \$30 million in premiums to more than 300 independent agencies in 10 New England and eastern states. Indiana Farm Bureau has 465 independent agents, nearly \$400 million premiums in force and serves more than 275,000 members. The deal requires approval by the New York Insurance Department.

Tillamook marketing effort targets Latino population

This spring, Tillamook County Creamery Association introduced cheese recipes using Monterey Jack and Cheddar cheese aimed at Latino families. The idea stemmed from a cheese recipe contest last year sponsored by the Oregon-based dairy cooperative. Tillamook used a registered dietician to guide development of the recipes for the Latino community and to show how to incorporate

Management Tip *continued from page 17*

and board committees, within certain limits. Reliance does not relieve directors of their responsibilities but does show care and diligence.

Reliance on others must, of course, be justified and cannot amount to abdication of responsibilities and duties. Director training is key to effective directorship. Effective training programs must go far beyond indoctrination by management about the cooperative's business from management's viewpoint.

Compliance programs can be helpful, and in some cases are necessary, to implement directors duties of care and management monitoring. Compliance programs are formalized internal programs to monitor certain types of behavior to be sure neither the cooperative nor employees violate some law or fail to take a required action. These programs are typically designed around legal requirements such as environmental issues, antitrust and securities laws, financing issues, or special problems that may be sensitive for a particular cooperative. To be effective, the board must insist on workable programs, must monitor their implementation and insist on full support by management at all levels. In some cases, a poor compliance program is more likely to cause problems than no program at all.

Legal audits are another technique directors may use to assist them in their duties. A legal audit can include review of the cooperative's legal struc-

ture and documents that govern the cooperative internally as well as its relationships with members and others, analysis of assets and liabilities, evaluation of potential claims against the cooperative, a thorough examination of procedures in place and recommendations for changes needed to address weaknesses.

Whatever action is taken, the overall attitude of directors should be active, positive, creative and dynamic. The great responsibilities imposed on cooperative directors and the associated potential for liability should not lead to a defensive posture.

Indemnification

Legal challenges to cooperative directors and litigation involving directors cannot always be avoided. The trauma of such actions against directors is significant. In one regard, the burdens can be relieved somewhat in most circumstances.

Legislation has been used in many states to allow a corporation (and presumably a cooperative) to indemnify directors who are subject to legal action that requires expenditures of sometimes substantial sums in defense. Indemnification in this context simply means that the cooperative pays for costs incurred by a director who is responding to legal actions for some act as a director.

In addition to authorizing indemnification and describing procedures for

indemnification, statutes usually establish standards of conduct permitting indemnification. A cooperative may not be permitted to indemnify a director where the director's conduct in question fails to meet certain standards of conduct. For example, directors who cause harm to the cooperative by self-dealing or fraud against the cooperative cannot demand indemnification when they are sued for such actions. When contemplating indemnification, a board considers not only the applicable statutory requirements and restrictions, but also determines under what circumstances the cooperative should or should not indemnify a director.

Insurance

Cooperatives can purchase insurance to protect the cooperative and its directors in case costs are incurred defending litigation against directors. Usually called D & O insurance because it covers both directors and officers, the insurance is often in the form of two policies. One covers directors to the extent the cooperative does not fully indemnify them for their costs. The other covers the cooperative itself for the indemnification made to directors.

As with nearly any insurance arrangement, each policy will be tailored to the needs of the cooperative. Terms will be negotiated that include: level of coverage, exclusions, claims or occurrences methods, deductibles and general claims procedures. ■

cheese into their diets to counter calcium deficiencies. Recipes were distributed to independent retail locations and to Catholic parishes in the Los Angeles area.

The 92-year-old cooperative is owned by about 150 dairy farmer families in Oregon's Tillamook County.

Farmland preservation honor comes with \$10,000

A Nov. 1 deadline has been set for farmer or rancher nominations for American Farmland Trust's annual \$10,000 Steward of the Land award. The award honors farmers who demonstrate exceptional on-farm stewardship and actively promote farmland protection policies across community lines. To obtain a nomination kit, call 202-331-7300, ext. 3044; e-mail gchen@farmland.org with your name and complete

address or access the trust's website at: <http://www.farmland.org/steward>. Grace Chen is award coordinator.

Bushel pasta co-op tries retail brand

Bushel 42 Pasta Co., a young pasta-making cooperative at Crosby, N.D., is experimenting with its own retail pasta brand. The cooperative, which opened earlier this year, plans to sell a small amount of lasagna under its own brand and logo in some West Coast retail stores, with a Bushel 42 macaroni and cheese product to follow soon. The cooperative, owned by 250 farmers in North Dakota and eastern Montana, drew interest from discount retail stores and drug stores after being featured in a trade magazine article. The firm makes specialty pasta items for food companies and food service providers.

The cooperative got a boost from USDA Rural Development in the form of an 80 percent guarantee of a \$2.8 million-loan to help the new cooperative buy machinery and equipment. The loan will help create another 35 jobs.

The company has become a local source of pride for the Divide County community of 1,000 residents. However, the cooperative has no plans for immediate widespread distribution of its products to grocery stores. Shelf space cost, or slotting fees, are an expensive part of developing a market brand, said Mark Gunter, sales and marketing manager. "It's the cost of doing business that has to be built into your program."

Forty-two pounds of pasta can be derived from a single bushel of wheat, hence the cooperative's trade name.

Hilda Gay Legg *continued from page 25*

have a lot to offer. Unlike political leadership, they're around for the long term, and they have a vital stake in the economic health of their service areas. They have lots of experience and expertise in finance and business, and often have the financial resources to invest in development projects. And I have to say that I have been very impressed by the dedication and professionalism of the co-op board members and managers I have met.

What direction would you like to see RUS and USDA Rural Development take?

I'd like to see RUS and Rural Development take a more synergistic approach to their mission. By that, I mean that their should be more coordination between the agencies to most effectively use our resources. At the state level, this is already happening, because the employees of the different agencies work next to each other under the same state director. But I think that at the national level, here in Washington, we need to work on building more team efforts.

For instance, if we're making a telecommunications loan in a certain

area, could we multiply its impact with a complementary project funded by a Rural Business Enterprise Grant, or perhaps a Rural Business-Cooperative Service loan? What about housing or community facilities loans—is there a way these might fit in? I think we should think about how the different agencies can collaborate, and perhaps set a goal of coordinating broadband loans and other assistance in ten separate rural areas. That would be a good start.

I also think we need to make sure our field people are well-educated in what the new technologies offer rural areas and how to best take advantage of it in the areas they serve. We need to offer them training that will equip them to embrace change and make it work for their customers.

But in the end, development in a rural area depends on the people who live and work there. It doesn't matter how much federal help you get; if you don't have local investment, local involvement and local leadership, you're not going to get results. Communities have to decide where they want to go, remembering that jobs are the key—everything else

follows. Do they want manufacturing? Do they want to go in another direction? What kind of advantages does your community have that can help you achieve your objectives? How do you use those advantages? People from outside can't make those decisions. That's where I think the leadership of co-ops, and not just utility co-ops, can make a big difference.

People have to remember, that development is an ongoing process, and rural areas are always going to have to work harder at it. Also, there are always going to be setbacks, due to market changes and the volatility of corporate business. When you go out to entice companies to locate in your community, or encourage local business start-ups and expansions, you're going to have a lot of disappointments. Your community leaders have to have tenacity, and the individual members of your community have to have a sense of power. They can't be passive; they can't count on someone else, whether it's a company or a government agency, to make it work. They have to take an active part in the development effort. ■

DFA, Dairylea solidify pact; Black Hills Milk to merge

Dairy Farmers of America (DFA), Kansas City, Mo., has expanded the scope of its joint venture relationship with Dairylea Inc., a dairy bargaining/service cooperative at Syracuse, N.Y. Dairylea has become DFA's first cooperative member by making an initial \$3 million investment in DFA and agreeing to future retain contributions. Two Dairylea members—Clyde Rutherford and Sandy Stauffer—have been placed on the DFA board, giving Dairylea a voice in DFA's policy and marketing decisions.

For the past several years, Dairylea has been operating Dairy Marketing Services, a marketing venture within DFA's Northeast Council. DFA markets Dairylea's 5.5 billion pounds of annual milk production. The latest action leaves the door open to a future merger.

Dairylea, which also offers nine other businesses services—including insurance and financial services—to its 2,000 dairy farmer members, has combined annual sales of close to \$1 billion.

In another action, the 43 members of Black Hills Milk Producers at Rapid City, S.D., agreed to merge with DFA. Black Hills Milk members produce 70 million pounds of milk annually. Manager Mike Paulsen will continue to provide marketing and member services. Bob Verhuizen, Black Hills chairman, was elected to a 2-year term on the DFA Central Area Council.

Gail Kring new cotton co-op CEO

Gail Kring, currently vice president of operations, will become the new

chief executive officer this fall for PYCO Industries Inc., a cotton processing cooperative based at Lubbock, Texas. Kring will succeed Wayne Martin, the current CEO, who will be retiring after almost a decade at the helm. Next year, Martin will complete 13 years on the CoBank board. PYCO is owned by cooperative cotton gins in Texas, Arkansas and Mississippi and has processing facilities at Lubbock and Greenwood, Miss.

Co-op increases security for anhydrous tanks

To thwart theft and increase community safety, Westland Co-op at Crawfordsville, Ind., has spent \$25,000 to install locks on its 500 anhydrous ammonia tanks. Phil Pirtle, risk coordinator for the cooperative, said it wanted to prevent any tampering or theft of anhydrous ammonia, which can be used to manufacture methamphetamines. The locks can only be opened with a key and can not be cut off.

CHS adds Fairmont crusher, expands grain businesses

A \$60 million soybean crushing plant, slated to open for the 2003 fall harvest, is under construction near Fairmont, Minn., by the Harvest States Division of CHS Cooperatives. When completed, it will double the crushing capacity of 110,000 bushels at CHS' plant in Mankato, Minn. The Fairmont plant will employ 38 people full-time.

Steve Burnet, CHS chairman, likened the expansion to planting seeds for a crop that will be harvested for multiple seasons. "The soybeans

producers deliver to the plant will begin a value-added journey through the cooperative," he said.

Meanwhile, CHS has purchased six local grain elevators in North Dakota from Cargill. They have been attached to area local cooperatives affiliated with CHS. Similarly, grain elevators at Denton and Geraldine, Mont., have been purchased by CHS from General Mills and will be managed by Central Montana Co-op, a CHS member local. It plans to negotiate with a nonprofit, short-line railroad at Denton to haul harvested grain this fall from the locals to the high-speed shuttle loader at Moccasin, Mont., which was built 2 years ago by CHS and United Grain Corp.

Harvest States Foods, part of CHS' Harvest States division, has broken ground for a new tortilla processing plant at Newton, N.C. The 10,000-square-foot facility will produce corn and flour tortillas and tortilla chips for eastern retail and food service customers. When completed next summer, the plant will employ 70 people and operate two shifts.

Co-op seminar set for Spokane

The 31st cooperative leadership seminar is slated for Spokane, Wash., Jan. 8-10, and sponsored by the Executive Institute for Northwest Cooperatives. The program features seminars for new directors, valuable tools for established cooperative directors and managers and networking with cooperative leaders from Idaho, Oregon, Washington, Montana, Utah and Alaska. For further information, call 208-888-0988.

Taking it to the next level *continued from page 23*

processing capabilities and increased production capacity can be expected to provide additional challenges, but with the chance for additional profits.

For more information on NNFC, please see the comprehensive report, "Innovative Marketing Opportunities

for Small Farmers: Local Schools as Customers" at www.ams.usda.gov/directmarketing/publications.htm under the section "Farm to School Publications." Also, available at the same site is the publication "How Local Farmers and School Food Service

Buyers Are Building Alliances." For a copy of USDA Rural Development's "How to Start a Cooperative," a step-by-step guide to launching a cooperative, visit: <http://www.rurdev.usda.gov/rbs/pub/cir7/cir7.pdf> <http://www.rurdev.usda.gov.andclick>. ■

USDA provides \$5 million in grants to foster co-op development in 19 states

Agriculture Secretary Ann M. Veneman awarded \$5 million in grants in August to promote cooperative development in 19 states, as part of the Bush administration's ongoing commitment to invest in, and bolster, jobs and economic development in rural America.

"Using cooperative ventures to bring new economic opportunities to rural areas is an important part of creating new jobs in rural America," said Veneman. "These grants will give rural residents the opportunity to expand and improve local businesses and economies."

The cooperative development grant program is administered through the Rural Business-Cooperative Service of USDA Rural Development. The grants were awarded on a competitive basis and are intended to foster rural cooperative development through projects that provide rural residents with education and technical assistance in areas of cooperative start-up, marketing and managing, and other self-help tools.

Grants were awarded to:

ALABAMA-Federation of Southern Cooperatives, \$299,365—To provide technical assistance, rural business development support and cooperative business training to cooperatives in the South.

ARKANSAS-Winrock International Institute for Ag Development, \$238,681—To expand jobs and income in rural Arkansas through cooperative development.

CALIFORNIA-University of California, \$299,530—To provide new and existing cooperative development assistance, and cooperative research and education.

COLORADO-Rocky Mountain Cooperative Development Center, \$298,740—To support and strengthen emerging and existing cooperatives throughout the region.

KANSAS-Kansas State University, \$300,000—To provide educational and technical assistance in the development of new agricultural cooperatives.

KENTUCKY-The Kentucky Center of Cooperative Development, \$269,500—To improve economic conditions in rural Kentucky by promoting new cooperatives and continuing efforts to improve existing farmer cooperatives.

MASSACHUSETTS-Cooperative Development Institute, \$297,618—To provide cooperative development activities targeting low-income and under-served communities in the Northeast.

MARYLAND-University of Maryland-Eastern Shore, \$289,500—To develop and enhance cooperative orga-

nizations, particularly female and minority-owned enterprises.

MINNESOTA-North Country Cooperative Foundation, \$294,000—To encourage information and expansion of cooperative housing enterprises that will help rural residents and communities increase opportunities for economic stability and prosperity.

MISSOURI-Family Farm Opportunity Center, \$173,385—To develop cooperative activity, which sustains and enhances rural communities.

MISSISSIPPI-Mississippi Association of Cooperatives, \$161,667—To provide technical assistance to existing cooperatives and pre-development assistance to start-up groups.

MONTANA-MSU-N/Montana Cooperative Development Center, \$291,652—To provide cooperative development, technical assistance, education and applied research in rural Montana.

NORTH DAKOTA-Dakota Cooperative Development Center, \$300,000—To provide technical assistance for the development of new-generation cooperatives in North Dakota.

NEBRASKA-Nebraska Cooperative Development Center, \$294,979—To provide technical assistance and education for enhancing long-term cooperative development capacity with a sustainable approach.

OHIO-Ohio Cooperative Development Center, \$294,976—To provide agriculture producers with information, training and marketing tools, and to assist in economic development and sustainability.

PENNSYLVANIA-Keystone Development Center, \$300,000—To provide technical and limited financial assistance in cooperative development in the Mid-Atlantic states.

SOUTH DAKOTA-Value-added Ag. Development Center Inc., \$100,000—To assist in the creation of value-added agriculture cooperative businesses in South Dakota.

TEXAS-The University of Texas-Pan American, \$232,460—To promote rural economic development and facilitate the creation and retention of jobs in rural South Texas through the development of rural cooperatives, value-added processing and rural business.

VIRGINIA-Southern States Cooperative Foundation, \$299,980—To assist farmers in the traditional, tobacco-dependent regions in developing innovative cooperative enterprises that take advantage of trends in the modern marketplace. ■

Calcot makes cotton payment

Members of Calcot, Bakersfield, Calif., received a 4-cent-per-pound progressive payment this summer, signaling a slight recovery in the cotton futures market. The market recently reached a historic-low price of 28 cents per pound. The installment was for 2001-02 San Joaquin Valley acala cotton. Chairman Tom Smith said the payment was tied to improved export sales due to lower value of the dollar and favorable timing.

Bothast heads ethanol center

A new, \$20 million corn-to-ethanol research center being built on the campus of the University of Southern Illinois at Edwardsville will be directed by Rodney Bothast. He had been research leader of USDA's fermentation biochemistry research unit at the National Center for Agricultural Utilization Research at Peoria, Ill. The new center is being financed by federal and state funds.

Bothast will supervise a staff of about 12. He hopes to attract and train graduate students to work in the ethanol center, the first in the public domain to explore ways to convert starch in corn into fuel for internal combustion engines.

Kansas gets first cotton gin

Southwest Kansas farmers looking for an alternative crop will have access to a new cotton gin this fall, thanks to the formation of Northwest Cotton Growers Inc. It is building a new \$3.5 million gin on a 46-acre site near the community of Moscow.

Five years ago, cotton as a cash crop was virtually unknown in the state. But about 45,000 acres of cotton were harvested last year. The cooperative's location will eliminate a transportation cost hurdle. The closest gin was hundreds of miles away.

The new gin will have the capacity to handle 60,000 bales of cotton. The ginned cotton will be hauled to Altus, Okla., where it will be warehoused and marketed by Plains Cotton Cooperative Association.

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Debts force closure of Heritage Tomato Co-op

Touted in 1999 as an economic model for other rural communities to emulate by former President Bill Clinton, the Hermitage (Ark.) Tomato Cooperative Association folded this summer under a \$9.5 million debt. Its tomato processing center, never put to use, along with other cooperative property and equipment, will be sold at auction Oct. 11 by Farmer's Bank of Hamburg, Ark.

NMPF monitors dairy imports

The National Milk Producers Federation is producing "Import Watch," a new quarterly on-line newsletter which will analyze the flow of imported dairy products into the United States and how they affect the domestic market. President Jerry Kozak noted that dairy imports have risen from 3.21 percent in 1995 to 5 percent in 2000. He said the newsletter was designed to help dairy farmers, processors and policymakers gain a better understanding of the relationship between dairy imports and the

domestic marketplace. It can be viewed at www.nmpf.org.

Changing Faces, focus of Mid-Atlantic Cooperators Event

"Cooperatives: Changing Faces" will be the theme of keynote remarks by Chuck Cruickshank, director of procurement, member services and transportation for Land O, Lakes at a conference Oct. 22-23 at Carlisle, Pa. The conference is sponsored by the Mid-Atlantic Alliance of Cooperatives. Also featured will be William Beckham, vice president and director of internal audit at AgFirst Farm Credit Bank, who will discuss business ethics for co-ops, leadership development and director liability. Wayne Figurelle of PennTAP will discuss technology and e-commerce opportunities for co-ops, while Leta Mach, education director for National Cooperative Business Association, will discuss the future of cooperatives and national trends. For more information, call (814) 238-2401, or e-mail info@maacooperatives.org



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