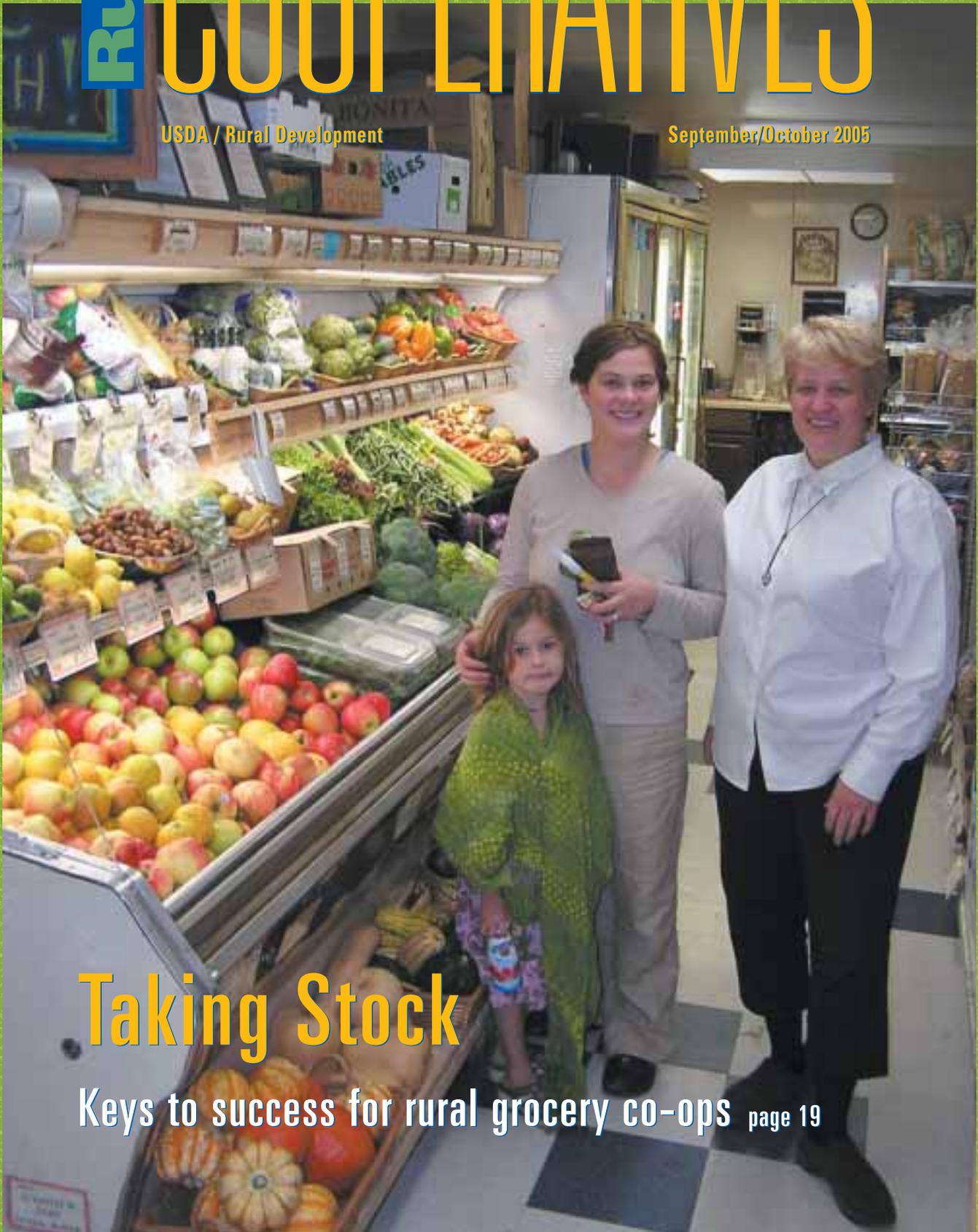


# Rural COOPERATIVES

USDA / Rural Development

September/October 2005



## Taking Stock

Keys to success for rural grocery co-ops page 19

## Shelter from the Storm

A fishing boat tossed a quarter mile inland and deposited on the roof of a collapsed home. Mile



after mile, block upon block, of houses and commercial buildings transformed into splinters and rubble. Beautiful coastal cities like Biloxi and rural towns looking like they've been the targets of wartime saturation bombing. The great city of New Orleans turned into a fish-bowl. Scenes so terrible that they seem almost surreal.

At press deadline for this publication (Sept. 8), the nation is only beginning to gauge the terrible toll of Hurricane Katrina. The death toll is already several hundred and could go much higher as the flood waters drop and rescue workers begin the grim task of sifting through the wreckage. And with property damage expected to exceed \$100 billion, this will easily go down as the worst natural disaster in the nation's history.

The storm created a tidal wave of homeless evacuees unlike anything our nation has ever before experienced – hundreds of thousands of people needing shelter, food and the other necessities of life as they await determination of when, and if, they will ever be able to return to their homes.

USDA Rural Development is playing a major role in finding living quarters for storm victims. Some 30,000 unoccupied apartments in USDA-financed multi-family housing developments (and nearly 200 single-family homes) across the nation were identified within days of the storm, and are being made available to shelter the victims.

Rural Development has waived security deposits and offered rent abate-

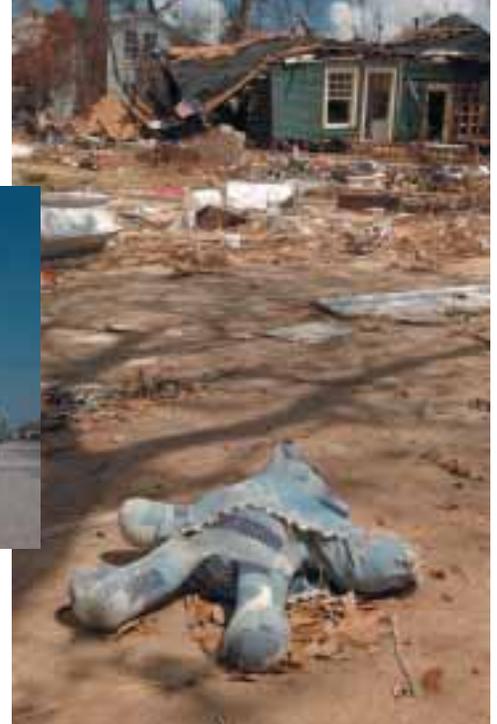
ments for up to 90 days to help victims and has fronted security deposits for utilities. In the most heavily storm-impacted areas, USDA Rural Development instituted a 180-day halt on mortgage payments for more than 14,000 housing customers.

Rural Development is also taking the lead in coordinating available housing from other federal agencies, including Housing and Urban Development (HUD) and the Veteran's Administration.

In disaster relief centers across the impacted area, volunteers from USDA Rural Development field offices are staffing the desks to handle assistance requests. Likewise, our rural utilities programs staff is going all out to provide supplemental financing and technical help for repairs of electric, telecommunications and water systems.

Other USDA agencies are likewise involved in more ways than can be addressed in this column. To cite just one, the USDA Forest Service has 11 management/logistics teams and 37 labor crews of 20 people each undertaking 30 assignments at a cost of \$28 million in storm-hit communities along the Gulf Coast.

America's cooperatives are also sending aid in many forms. As they have in so many other hurricanes in recent years, rural electric co-ops are sending repair crews to help get the lights back on. Five electric crews from Walton Electric Membership Corporation (EMC) in Georgia were dispatched to southwest Mississippi



USDA Photos by Bob Nichols

just a day after the hurricane hit. A few days later, it sent more crews to an even harder-hit co-op, the Pearl River Valley Electric Power Association in Columbia, Miss. When not working, crew members were sleeping in a church there — the only shelter available.

The Cooperative Development Foundation quickly launched the Katrina Cooperative Recovery Fund, which will direct contributions specifically to individuals and cooperative businesses in the rural areas of the three hurricane-ravaged states. See Newsline (page 35) for more on this effort.

One good bit of news for farmer co-ops at press deadline is that Port of New Orleans authorities believe shipping operations may be restored to a semblance of normality much sooner than had initially been anticipated. One can almost hear an audible sigh of relief throughout the nation's heartland from farmers and co-ops who depend on the Mississippi River network and the Port of New Orleans for shipping their crops.

This recovery effort will last for years to come. Whatever it takes, there should be no doubt that USDA Rural Development and the nation's cooperatives will do their part to help mend a land, and lives, broken by nature's fury.

— Dan Campbell, Editor

# Rural COOPERATIVES

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*Viroqua Food Co-op General Manager Jan Rasikas, right, in the old store with an employee and her daughter. The co-op recently moved to a much larger store. Story on page 19. Photo by Greg Lawless, courtesy University of Wisconsin*



# Running on Empty?

*'Great ethanol debate' waged at NCGA forum*

*Illustration by Stephen Thompson*

**By Stephen Thompson**  
Assistant Editor

**D**oes making ethanol consume more energy than it produces? Will ethanol be a key component in helping the nation reduce its voracious appetite for foreign oil, or just be a bit player on the energy front?

That's been the subject of an intense debate for years, and two panels of experts squared off recently to try to settle the question. The experts presented starkly differing views during "Ethanol Energy Balance," an open forum held Aug. 23 at the National Press Club in Washington, D.C., sponsored by the National Corn Growers Association (NCGA).

Dr. David Pimentel, a professor emeritus of entomology at Cornell University, and Dr. Tad W. Patzek, an associate professor of chemical engineering at the University of California-Berkeley, argued that ethanol production from corn is a net energy loser and contributes to global warming. They also say it could never provide more than a tiny portion of the nation's fuel needs.

Dr. Bruce Dale of Michigan State University and Dr. John Sheehan of the National Renewable Energy Lab countered that Pimentel and Patzek are running on empty, and that their



conclusions are based on faulty data.

Patzek and Pimentel's conclusions have received some notoriety in the media, leading some ethanol advocates to accuse them of "duping" the public. The resulting controversy encouraged the NCGA to hold the forum and, later the same day, a follow-up seminar: "Renewable Energy: Dynamic Possibilities," during which the emphasis was more on the potential of ethanol and biodiesel.

## **Energy consumed vs. yield**

The disagreement centers on the amount of total energy inputs required

to produce ethanol. These inputs include: the fuel to power machinery needed to grow and harvest the feedstock, such as corn; the petroleum used in manufacturing the required fertilizers, pesticides and herbicides for the feedstock; the energy expended to transport the feedstock to the processor, and the energy used by the ethanol processing plant.

Pimentel has argued for many years that the total energy inputs, when added up, make ethanol a "net energy loser," and that relying on ethanol as a fuel source would cause significant environmental impacts.

In a paper he published in 1998, *Energy and Dollar Costs of Ethanol Production with Corn*, he says:

“Assuming a net production of 50 gallons of fuel per acre of corn, and assuming that all cars in the United States were fueled with ethanol, a total of approximately 2 billion acres of cropland would be required to provide the corn feedstock. This amount of acreage is more than five times all the cropland that is actually and potentially available for all crops in the future in the United States.”

Pimentel spoke to a largely pro-ethanol crowd of corn producers and their representatives. Ethanol, he said, is not a true renewable energy source, because it requires more energy in its production than is extracted from the finished product. According to his calculations, ethanol takes about 1.15 BTUs (British Thermal Units) of input for every 1 BTU of output.

Other reasons ethanol production is undesirable, said Pimentel, include the environmental impact of corn production. “Corn production causes more soil erosion than any other crop.” He added that growing corn also requires more insecticide, herbicide, and nitrogen fertilizer than most other crops,

with the result that corn production in the United States causes \$45 billion in environmental and other damage each year. He said it requires 1,725 gallons of water to produce 1 gallon of ethanol.

Pimentel also claimed that, with more than 3 billion malnourished people in the world, burning corn for energy poses serious ethical questions.

Pimentel advocated using other fossil fuels to replace petroleum. “We can use coal to make diesel and gasoline,” he said, at an energy cost of 2 BTUs to produce 1 BTU of fuel.

Patzek told the audience that simply keeping U.S. car tires properly inflated would save more petroleum than ethanol production. “Each year the U.S. uses more energy than our vegetation can sequester as biomass,” Patzek argued. He said that in 2003, the United States used 105 times more energy than was required to feed the population, and biomass as a source of energy in the United States is heavily subsidized by petroleum.

According to Patzek, the amount of ethanol energy that can be extracted from 1 square meter of land is “tiny” — about one-tenth of 1 watt — compared with energy available from other sources. “A wind turbine generates 1

watt per square meter, which can be converted to mechanical work almost perfectly,” he said. “A photovoltaic cell generates between 10 and 20 watts per square meter. Thus, wind turbines and photovoltaic cells are 20 to 100 times more efficient in delivering mechanical work than corn ethanol.”

Patzek showed a graph comparing projected petroleum consumption and ethanol production in 2012. “Anhydrous ethanol replaces 1.5 percent of petroleum in 2004,” he said, “and will replace another 1 percent in 2012” — far too little to make an impact on U.S. petroleum consumption.

### Ethanol advocates' response

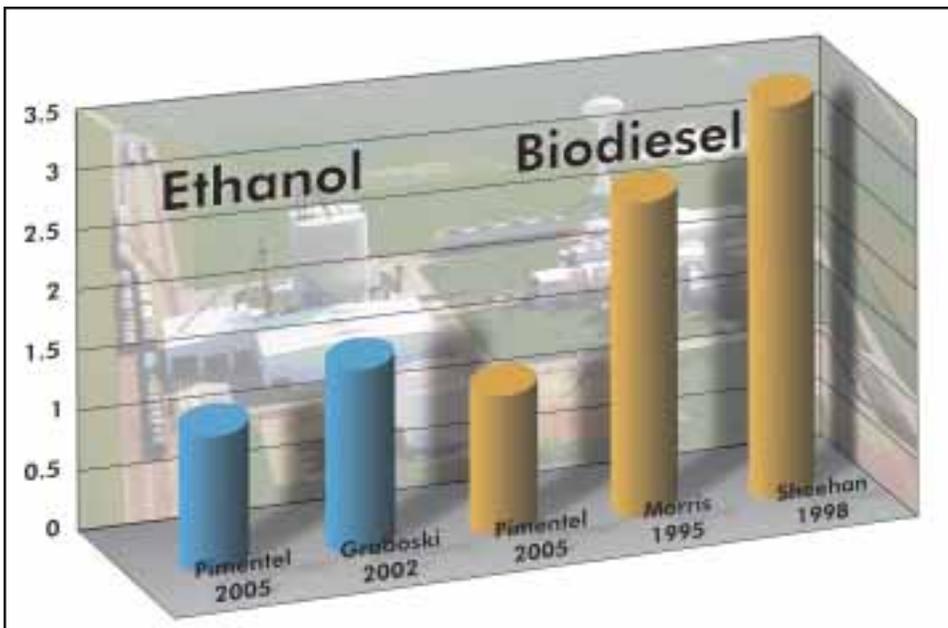
John Sheehan countered that ethanol's return on fossil energy investment is positive. Peer-reviewed Department of Energy and USDA research, he said, shows that producing 1 unit of ethanol energy from corn requires only 0.75 of an equivalent unit of petroleum energy, for a net gain of 25 percent. Using switchgrass for ethanol production results in even higher energy gains: up to 72 percent.

“Pimentel's methodology assumes inputs that are too high,” Sheehan said.

“No one is saying that biofuels will replace petroleum,” said Sheehan, but



*Critics say ethanol diverts too much corn from human consumption; but proponents note that the nation is running up record corn surpluses. USDA/ARS Photo*



*Net energy ratios of ethanol and biodiesel, as determined by different researchers. A ratio of 1 means that the same amount of energy is used to produce the fuel as is extracted from the final product. A ratio higher than 1 means a surplus of energy. In both cases, David Pimentel's findings are substantially lower than those of other researchers.  
Data: David Morris/Institute for Local Self Reliance; Graphic by Stephen Thompson.*

he added that the value of biofuels in reducing the U.S. dependence on foreign oil is “critical.”

Bruce Dale not only disputed the Pimentel data, he also attacked the very premise of Pimentel’s argument: that the net energy balance of a fuel is a valid yardstick of its usefulness. “I come to bury ‘net energy,’ not to praise it,” he said, referring to the Pimentel’s cost/benefit formula.

Dale called net energy a “convenient fiction, an academic toy” that “doesn’t relate to the real world.” The reason, he said, is that it doesn’t address the quality of various forms of energy — treating solar, natural gas, coal, petroleum, etc., as equal. “But all energy is *not* created equal,” he declared, arguing that the quality of energy — that is, its readiness to be converted into the required work or service — is a vital factor in determining its value.

“We do not need energy per se,” said Dale. “We need the services energy provides,” including electrically-powered equipment and appliances, heat and transportation. The U.S. has lots of coal and natural gas,” he said,

“But they don’t work in the gas tank. They have the wrong energy quality.” Solutions, he said, “will require making comparisons and choices between real alternatives.”

Dale gave an example: Using the criterion of Pimentel and Patzek, he said, the “net energy” of electricity produced from coal is minus 235 percent, because it takes three calories of coal to produce one calorie of electricity. But, “Electricity is higher quality energy than coal.” Refining crude oil into jet fuel, diesel or gasoline results in a net energy balance of minus 39 percent, as opposed to minus 29 percent for making ethanol from corn, according to Pimentel’s figures.

If ‘net energy’ was a good yardstick, “we should shut down all coal-electricity generation and all oil refineries,” Dale said.

During the question-and-answer period, Pimentel was asked about ethanol production’s relation to animal feed. He replied that using corn for ethanol had resulted in higher beef prices. Dale challenged that assertion, asking Pimentel how he could reconcile his statement with the fact that the

United States currently has the highest stocks of corn in history — more than 2 billion bushels of surplus corn last year.

Other questions centered on the data used by the anti-ethanol faction in making its calculations. Both Pimentel and Patzek were accused of using outdated data from the 1980s, but Pimentel asserted that, except for figures regarding the energy costs of the concrete used in building ethanol plants, his figures were up-to-date.

### **Biofuels touted as efficient**

The “Dynamic Possibilities” forum was devoted to supporters of ethanol and other biofuels, many of whom continued to criticize Pimentel and Patzek’s findings.

Roger Conway, a USDA researcher, called the concept of net energy a false standard, and claimed that Pimentel and Patzek “picked and chose” data to get a desired result, treating as consistent information from surveys gathered with differing methods and criteria.

David Morris, of the Institute for Local Self Reliance, said that biofuels are not a silver bullet for the energy industry, but could replace 70 percent of the petroleum used for fuel and other purposes. He pointed out that the co-products of ethanol and biodiesel were “significantly valuable,” and said that Pimentel and Patzek did not include the true value of such products as distillers grains and soy meal, both excellent animal feeds, in their calculations.

“We’re not dying from a shortage of starch,” Morris said, referring to the ingredient of corn that is used in the fermentation of ethanol, leaving behind high-protein distillers grains. Even with biofuels, Morris said, the United States must reduce its overall energy consumption.

Morris has just published a new paper: *Carbohydrate Economy, Biofuels and the Net Energy Debate* (on-line at: [www.newrules.org](http://www.newrules.org)) which looks at the comparative data that underlies the ethanol debate. In it, he says Pimentel’s “aversion to including an

energy credit for [ethanol] coproducts is puzzling. If we use the energy used to grow and process a crop on the input side of the equation, we should include all the energy value of all the end-products on the output side.”

Morris also said biofuels represent a tremendous opportunity for farmers to add value to their crops, saying there could be 1 million farmers owning shares in a biorefinery by 2050.

Michael Wang, of the Argonne National Laboratory’s Center for Transportation Research, said that many studies contradicted the claims of Pimentel and Patzek. He said that Argonne’s study of the same subject concluded that producing corn ethanol requires 26 percent less energy than it contains, and that cellulosic ethanol, made from switchgrass and other inexpensive plant sources, requires a whopping 90 percent less, partly because its byproducts can be burned for energy to power the processing plant.

“A review of Pimentel/Patzek,” said Wang, “reveals that they made pes-

*“There could be  
1 million farmers  
owning shares in  
a biorefinery by  
2050.”*

*— David Morris*

simistic assumptions, and double-counted certain energy costs without detailed elaboration.” Wang accused Pimentel and Patzek of consistently overestimating energy requirements for both farming and processing of corn for ethanol, including calculating ethanol plant energy use at 30 percent above actual figures.

Other speakers attacked Pimentel for using extraneous data in their cal-

culations, such as the food eaten by farmers and workers engaged in ethanol production and the energy cost of building farm machinery, and claimed that their results were not peer-reviewed before publication.

**For more detailed reading:**

A copy of Dr. Patzek’s presentation to the forum is available on the Internet at:

[http://www.berkeley.edu/news/media/releases/2005/08/NPC\\_briefing\\_Patzek.pdf](http://www.berkeley.edu/news/media/releases/2005/08/NPC_briefing_Patzek.pdf). Other presentations can be found at the NCGA Web site at:

<http://www.ncga.com/ethanol/debunking/ForumPresentation.htm>.

David Pimentel’s 1998 report, *Energy and Dollar Costs of Ethanol Production With Corn* is available at: [http://hubbert.mines.edu/news/Pimentel\\_98-2.pdf](http://hubbert.mines.edu/news/Pimentel_98-2.pdf). Pimentel and Patzek’s article, *Ethanol Production Using Corn, Switchgrass and Wood; Biodiesel Production Using Soybean and Sunflower*, was published in the March, 2005 edition of *Natural Resources Research* magazine. ■



*This field of soybeans could be harvested for biodiesel, which produces a higher yield of energy than does ethanol. USDA/ARS Photo*

# Farmer-owned ethanol and the role of information technology

**Anthony Crooks and John Dunn,  
Agricultural Economists  
USDA Rural Development**

*Editor's note: This is the first of a two-part article looking at the impact evolving information technology is having on the nation's rapidly expanding ethanol industry. In part two, we will take a closer look at the various factors that have converged to spark the industry's growth, as well as the impact of information technology on production and commercialization of ethanol products.*

**A**dvanced information technology (IT) and an increasingly transparent financial sector have become key driving business forces in recent years, having major impacts on operations, strategies, structures, ownership and performance. These forces cut across many industries to force changes which, in turn, have had significant economic and social impacts in rural communities.

Recent writings underscore the depth and extent of the impact of IT on business and industry. Consider just a few:

- Are the impacts of IT adoption any more profound or far reaching than that of other technologies? In his book, *Does IT Matter? Information Technology and the Corrosion of Competitive Advantage*, Nicholas Carr seems to think not. Carr asserts that IT, as with earlier technologies — railroads, electric power and telephones — is steadily evolving from a profit-boosting, proprietary resource into a simple utility/commodity and another cost of doing business. Carr contends that the strategic importance of IT has actually eroded as its core functions have become widely available and affordable. Carr's views were roundly contested.
- In *IT Doesn't Matter, Business Processes Do; A Critical Analysis of Nicholas Carr's IT article*, published in the *Harvard Business Review*, Howard Smith and Peter Fingar suggest that

Carr was only half right. They say Carr's article is about technology as a business (the IT industry), not the business use of technology for competitive advantage. In other words, Carr has intermixed information technology as a business with the act of using information technology to conduct business. Carr's article examines the first 50 years of IT and business automation, when the focus was on data function, storage, processing, and transport. In the next 50 years, the core functions of IT are business processes and their functions of storage, processing, and transport.

- In *The World is Flat: a Brief History of the 21st Century*, Thomas Friedman takes off at a gallop, offering example after example of just how correct Smith and Fingar were. Friedman asserts that it is precisely because of IT and business process-processing that the era of mainframe computing — with its command-and-control orientation and companies and departments organized vertically

— has given way to the era of PC-Internet-fiber optics computing and new business practices which are less about command and control, and more about connecting and collaborating horizontally.

- In *The Only Sustainable Edge: Why Business Strategy Depends on Productive Friction and Dynamic Specialization*, John Hagel and John Seely Brown assert that businesses thrive when they take full advantage of IT opportunities to negotiate the “productive friction” of their economic environment and begin to coordinate the activities of enterprises, companies and specialties across dimensions of time, space and form to build and accelerate their capabilities. Friedman and Hagel/Brown emphasize the critical importance of digitizing and decomposing work so that it can be moved around in time and space — to be outsourced (or off-shored) for competitive advantage.

### IT leveling the playing field for smaller-size businesses

It is precisely because of evolving IT and business process-processing that mid-sized firms from all over the world compete now on a more level playing field. Suddenly, mid-sized and even small businesses have access to the same advantages that were once held exclusively by the larger, vertically

integrated firms.

As the fuel ethanol industry ramps out of its developmental stage into a more established role within the U.S. fuels industry, a substantial portion of investments are being made in single plants with annual capacities that range from 50-100 million gallons. Not all ethanol



*Several factors have contributed to lowering ethanol plant operating costs, including greater corn-to-ethanol conversion rates, which are now commonly 2.8 bushels per gallon. Photo by David Lundquist. Background photo USDA/ARS*

ventures have succeeded. However, a substantial flow of capital investment into ethanol plants continues, unabated.

This emerging industry structure is in sharp contrast with what is typically observed in sectors that process bulk agricultural commodities. Typically, a commodity sector is composed of a few, large multi-plant firms which achieve relative prominence after attaining significant economies of scale, size and scope. These plants then work to capture additional value through their trading and financial operations. These traditional industries are also characterized by a high degree of vertical integration and/or coordination.

The ability of traditional firms to achieve competitive advantage is predicated, in part, on their capacity to develop efficient internal information systems to provide market coordination and links between their operations and global commodity and financial markets. However, the rapid and widespread change in information technologies has arguably eroded the power provided to these global processing concerns.

### Objectives

Our hypothesis is that the knowledge-based economy may be fundamentally changing cost structures and the competitive landscape faced by firms in rural America. This became the jumping-off point for this USDA-sponsored study on the future ownership and control of the ethanol industry.





The objective of our study was to discover answers to four basic questions:

- (1) Does the present ethanol industry represent a stable structure or a transitional step toward an inevitable concentration of ownership into the hands of a few large processing firms?
- (2) Have contemporary information technologies fundamentally changed the information flows, scale of operations, access to markets, conditions of vertical and horizontal coordination, sources of finance and the competitive landscape for medium-sized, independent processing firms?
- (3) To what degree have cost savings associated with better access to information and financing offset the cost savings traditionally associated with horizontal and vertical integration in processing industries?
- (4) What steps do medium-sized ethanol production entities need to take to continue to survive in

this new information-based market environment?

The fuel ethanol industry may very well be in transition toward an inevitable concentration of ownership into the hands of a few large processing firms. At present, however, there seems to be a structural equilibrium among the mid-sized and largest firms. This equilibrium is supported by an industry-wide adoption of contemporary information technologies that serves to enhance medium-sized firms' access to markets and inputs, while simultaneously diminishing the relative importance of vertical coordination.

### **The rise of the ethanol plant "franchise"**

In the early 1980s, a number of people were exploring the idea of small, portable on-farm stills and 1-million-gallon-per-year plants. They discovered that besides being expensive to build, these plants have to be staffed 24 hours a day and that the job is much more sophisticated than throw-

ing some corn in a vat, and then opening up a spigot the next day to fill up a tractor with ethanol.

Broin, Fagen/ICM and other engineering firms designed "cookie-cutter" ethanol plants with standard designs that can be easily built in most locations. They also provide the financing, conduct feasibility studies and will "hand-hold" producer-investors through the entire process. They can offer an entire package — from feasibility to turnkey and beyond.

This prospect didn't exist in the early '90s, when there were many questions about the right way to build a plant. Builders of a 30-million-gallon-per-year plant had to follow a more traditional construction route. This involved hiring a process firm, an engineering firm for the design and a construction management firm, all or some of which may have had no prior experience building an ethanol plant. Uncertainty added significantly to start-up costs and, subsequently, to each step in the process.

*continued on page 11*



## Ethanol marketing/contracting

Ethanol plants typically forward-contract the sale of their fuel twice each year. There is also a spot market, but no real-time pricing exists. Daily prices from Bloomberg, OPIS and Platt are published, but these are reported too late to be of use to traders. Mandatory reporting would be useful to plant managers and boards of directors. Having accurately reported prices would provide a basis of comparison for boards to use in evaluating how good a job their marketing firm is doing. Traders and ethanol plants get price quotes, but no quantity information is available.

Plants want to lock in their corn price and sell their ethanol on a six-month contract in an effort to set a "crush margin." Longer periods are unavailable because their buyers (refiners and blenders) won't commit beyond six months. This is an interesting development, given that energy traders are accustomed to locking prices for up to 10 years in advance.

The marketing of dried distillers grains (DDG) — a major co-product created in ethanol production — is also done primarily by a few firms with a few buyers. The traders on both sides are well informed, but the price reporting is of limited use because the product traditionally is highly variable in quality and there are no specified trading standards. DDG quality varies because of corn quality, the heating/drying process and an inconsistent blending of DDG with solubles. Each of these factors results in a highly variable analysis of DDG. The market discounts the price of DDG for this variability.

Universities provide excellent information on the feeding of DDG to beef cattle, swine and poultry. Some research indicates that DDG has a nutritional value equivalent of 120 to 130 percent of corn, but it sells at a much lower price.

However, while the potential to feed DDG is large, the feed industry will not incorporate any ingredient into its rations until there is ready supply in the amount needed to serve their markets. A case in point is ConAgra considering the use of DDG products in its poultry

division. It tested numerous products and was reportedly pleased with the nutritional attributes and cost of DDG and wanted to incorporate it into their rations. Eventually, however, reliability was the restricting factor. The whole exercise stopped dead when ConAgra asked the simple question, "Can you provide us 3 million tons of it?" Such a supply was not then available.

Distributed Control Systems (DCS) benchmarking enables plants to standardize their distillers grain products to the quality and consistency required by their customers. DCS also gives opportunity for consolidated marketing efforts among partnering plants to have a presence in regional and (soon) national markets because they now have a consistently reliable product, available in sufficient volume and offered at an attractive price relative to corn.

Corn procurement is not as concentrated as corn marketing. Many plants have procurement alliances with their ethanol marketing partners. These are supply agreements and risk-management contracts that work in concert with the marketing contract to provide a reasonable assurance to the plant of a working 'grind margin.' However, corn trading/procurement is more fragmented because it is not necessary for a plant to align itself with a major grain-trading company.

One reason for this is that the farmer-owned plants have delivery agreements with their producer members to source a significant portion of the required feedstock locally. A more important reason is that there is a trading history in corn and market transparency because of the Chicago Board of Trade and the futures markets. There's a local corn "basis," and a historically well known set of transportation differentials. So, it's not necessary to align one's self with a major company to procure feedstock efficiently. However, lenders offer incentives to new plants to contract for risk management services as a way of mitigating their own risk in the project. ■

By Anthony Crooks & John Dunn

However, enough plants have been built to develop a large body of knowledge and experience which has reduced the degree of uncertainty about such projects. Time and expense have been reduced for everything — from the first planning meeting to pouring the first gallon of ethanol.

The standardized designs and business models were pioneered mainly by Broin, Fagen/ICM and a few other companies. These firms began with the recognition that producer groups were developing an investment interest in these plants. They also understood the operating point at which these plants could be profitable — at that time, it was around 40 million gallons per year.

Compared with 10 or 15 years ago, standard design technology has cut in half the costs of construction and the non-energy portion of operations. And while it's unfortunate that higher natural gas costs have wiped out much of that savings, today's plants are being built for half the money and operate twice as efficiently as those of the 1990s.

Several factors have contributed significantly to lowering operating costs, including greater corn-to-ethanol conversion rates, which are now commonly 2.85 bushels per gallon, up to three gallons (on a denatured basis) given the right variety of corn. Reduced cost and increased efficiency of enzymes mean that enzymes cost only half of what they did 10 years ago.

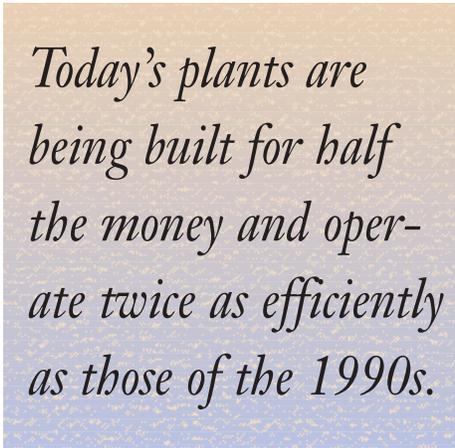
### Distributed control systems

Prior to the mid-1980s, process automation was comprised of analog loop controls and complex pneumatic controls with individual, large circuit boards dedicated to each control loop. These systems were normally located in control rooms, so the sensors and controller outputs had to be physically connected to the control room.

This resulted in large cable runs full of wires and tubing. Because the systems were bulky and required direct interconnections with the process, there were often several satellite con-

trol rooms for each part (or subpart) of the process. These systems required sophisticated maintenance by skilled instrument technicians, and data-logging was done on strip chart recorders. Despite the awkward implementation, these systems replaced hardwired relays and manual controls for critical systems, allowing plants to reduce labor and improve consistency of operation.

But an even more significant con-



*Today's plants are being built for half the money and operate twice as efficiently as those of the 1990s.*

tributor to plant efficiency has been the development of information technology systems, the so-called Distributed Control Systems (DCS), and the electronic automation that's evolved in the plant. DCS were introduced in the late 1980s, enabling centralized process monitoring and control. DCS systems placed integrated circuit board controllers close to the processes that they controlled. Inputs from field instruments and outputs to valves and pumps were converted to 4-20 milliamp signals to minimize signal loss and noise.

They generally run short distances to cabinets in the process area which contained a manageable number of control loops. Each DCS cabinet is connected to a main control computer. Process instruments, output to pumps and valves, and controller settings are driven from a computer console (dashboard) located in a central control room. This design also enables monitoring and control from multiple (and redundant) locations, such as local

control rooms, engineering offices or even remote locations.

### Expanding system capabilities

During the 1990s, these systems grew in capabilities in step with the geometric growth of information technology applications and abilities. This evolution reduced labor requirements by more than 50 percent during the past 15 years. As computer control, process monitoring and laboratory capabilities further improved, sophisticated data warehousing and analysis systems were adopted to convert the ever-increasing volume of data into useful information. These systems can now monitor process conditions and control settings, as well as laboratory measurements when integrated with a LIMS (Laboratory Information Management System).

Whereas early systems could only retrieve historical information, today's systems perform complex mathematical manipulations, display graphical results and project future outcomes all in 'real-time.' Data manipulation and extraction capabilities enable much narrower process tolerances to further reduce costs and simultaneously increase yields and productivity.

The advantages of DCS systems, data warehousing and analysis include: A reduction in manpower by allowing one operator to monitor and control several processes at once; the ability to see small changes in production variables and correlate them to changes in conditions, raw materials or ingredients; and an increase in overall plant efficiency, because operators can fine-tune process parameters using real-time data and sophisticated analysis.

Early on, plants scheduled several maintenance shutdowns during the year to prevent equipment failures. With the data collection capabilities of the DCS systems, preventive maintenance programs came into a world of their own, reducing downtime for preventive maintenance. These processes and technologies continue

to evolve and become even more significant.

### **Business/bio process metrics & benchmarking**

DCS plants all have the same production and business processes and share a data collection and analysis protocol called "benchmarking." Benchmarking is an array of performance measures that are monitored daily, gathered weekly and summarized monthly to be reported to management and the board. If, for example, a group of 10 plants of common design are all linked together, the business and biological process benchmarks for this group are very well understood.

The manager of any one plant, therefore, can adjust and refine the process to improve his performance and thereby raise the standard of the whole group, in a stair-step fashion. This business process is possible only with today's information technology, and even now it's time-intensive to perform. But this would have been virtually impossible 10 years ago.

Firms like Broin and Fagen/ICM were able to expand to their present capacity level because of the information technology employed by the new plants. Broin and Fagen/ICM each direct the operations of some 20 plants.

The talent pool to manage and operate these plants has grown with the process. Both firms employ a cadre of well-seasoned managers who learned during the difficult years how to run a plant efficiently. Both companies provide management services, marketing and procurement contracts

to mid-sized plants. This is a far cry from the old days when managers were still putting contracts out and doing everything by hand.

Now — by using information technology and business process technology — a group has the ability to manage about 20 plants as one plant. Fifteen years ago, it would have been nearly impossible to market the product for that many plants and do a good job. Now, an entire array of management services is provided.

There is no way those plants could be managed in this way without improved information technology. The plants themselves are physically too far apart. It would be impossible to oversee so many variables in different parts of the country. The necessary staffing wouldn't be available because of the expertise required at the control points.

### **Consolidated marketing partnerships**

The rise of marketing firms was instrumental in this trend. Ethanol is not marketed at the processing plant. Buyers (the refiners and blenders of gasoline) don't want to deal with all these small plants. They demand bulk purchasing — millions of gallons at a time. Buyers want to sign contracts for 50-180 million gallons and want to trade with someone marketing 500 million gallons per year.

The first impact of modern IT on the ethanol industry was as a horizontal coordinator. Many mid-sized firms consolidated their marketing activities out of necessity to bargain with the handful of fuel ethanol buyers who traded in quantities of hundreds of

millions of gallons at a time.

Successful consolidated marketing efforts led to innovative applications of these powerful new IT technologies to coordinate other activities horizontally — such as procurement and logistics, risk analysis and eventually plant management — among several plants simultaneously. This horizontal coordination/consolidation role across enterprises, companies and time/space is now performed by five or six firms. Their services are contracted to a substantial majority of the mid-sized, farmer-owned plants.

Over the past few years, the market share of the industry's major producer (ADM) has dropped from 60 percent to around 30 percent. The balance has been taken by marketing firms — United Bio Energy, Ethanol Products and a few others.

Because fuel ethanol is sold by a dozen marketers and most of it is purchased by a half dozen buyers, information on prices and quantities may be very good within that trading circle, but it is unavailable to outsiders. There is no mandatory reporting of ethanol prices.

### **Consolidation of process management**

It appears that a virtual consolidation of ethanol processing is taking place. Instead of consolidation through ownership, management is becoming more centralized and concentrated. A number of companies — such as Land O'Lakes and Purina, CFC, United Bio Energy and even integrators such as Cargill — are offering management services to facilities other than their

own. IT has altered the ethanol industry structure by shifting the ownership and control emphasis from the acquisition of physical production assets to the aggregation of information technology assets. Economic power in the industry no longer arises from ownership of production capital (plants and equipment) but from the control and manipulation of intellectual capital and property rights. ■

## **Study methods**

This study is based on two focus panels of leading ethanol producers and industry experts, held in March 2005, to examine the state and future of the ethanol industry. Industry experts on the panels included representatives from: the commodities exchanges (NYMEX, CBOT), financial

firms, producer associations and legal firms that serve the industry, information technology, plant management and an agricultural biotechnology firm. Follow-up interviews among 12 plant managers were also conducted to clarify the information obtained in the focus panels. ■



# Energy Tax Incentives Act includes cooperative provisions

**By Marlis Carson**

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*Editor's note: This article does not represent official policy of USDA, the Internal Revenue Service, the U.S. Department of the Treasury or any other government agency. It is presented only to provide information to persons interested in the tax treatment of cooperatives.*

**O**n Aug. 8, 2005, President George W. Bush signed into law the Energy Tax Incentives Act (Energy Act) of 2005. The new law provides \$14.5 billion in tax reductions over a 10-year period to boost conservation efforts, increase domestic energy production and expand the use of alternative energy sources, such as ethanol, biodiesel, solar, wind, hydropower and clean coal technology. Several provisions will benefit farmers, other rural residents and their cooperatives. These new tax incentives are in addition to several favorable sections in the American Jobs Creation Act of 2004 (Jobs Act) (see Legal Corner, *Rural Cooperatives*, Jan/Feb 2005, p. 20).

These rules are often somewhat complex. But, if understood and used effectively, they can provide significant tax savings to producer owners and their cooperatives involved in energy production.

## **Small ethanol producer credit extended**

For several years, the tax code has provided small ethanol producers a tax credit of 10 cents per gallon on the first 15 million gallons of ethanol produced each year. A small ethanol producer had been defined as a person or entity whose ethanol production capacity did not exceed 30 million gallons per year. The Energy Act extends the credit to ethanol producers with a production capacity of 60 million gallons of ethanol per year.

The Jobs Act gave cooperatives that qualified for this credit the option to pass the credit through to their patrons, on a patronage basis. The Energy Act requires cooperatives that do pass the credit through to notify their patrons in writing of the pass-through within the 8.5-month payment period described in tax code section 1382(d).

## **Small agri-biodiesel producer credit and pass-through**

The Energy Act creates a new small agri-biodiesel producer credit that mirrors the small ethanol producer credit. The credit is 10 cents per gallon on up to 15 million gallons of bio-diesel produced each year and a "small" producer is defined as one whose biodiesel

production capacity does not exceed 60 million gallons per year. Cooperatives may pass the credit through to their patrons on a patronage basis, provided a written notice of the pass-through is mailed to the patrons within the 8.5-month payment period.

This credit is in addition to credits created in the Jobs Act for biodiesel used as fuel either in a mixture with diesel fuel or on its own. That credit is \$1 per gallon for any biodiesel that is agri-biodiesel and 50 cents per gallon for other biodiesel. Agri-biodiesel is biodiesel derived solely from virgin oils from crops such as corn, soybeans and sunflower seeds, and from animal fats.

## **Renewable energy credit, pass-through**

In 1992, Congress created a tax credit for the production of electricity from wind, organic material of plants grown exclusively for use in producing electricity and poultry waste. The Jobs Act and the Energy Act have expanded the list of qualified renewable fuels to include all livestock waste, forest products, other crop by-products and residues, geothermal energy, solar energy, small irrigation power, municipal solid waste, refined coal and Indian coal.

Eligible cooperatives may pass the credit through to their patrons, on a patronage basis, provided a written notice of the pass-through is mailed to the patrons within the 8.5-month payment period. An "eligible cooperative" means a cooperative that is more than

*continued on page 34*



# Farmers Pride Cooperative

*Newman Grove Branch, Nebraska*

**Type of business:** Farmers Pride Cooperative is a 100 percent, producer-owned soybean meal production and marketing cooperative. On Sept. 1, Farmers Co-op Oil Co. in Newman Grove merged with Farmers Pride, Battle Creek Co-op.

**Business objective:** To operate as a producer-owned, value-added enterprise that processes locally grown soybeans into soybean meal for local livestock producers and soybean oil for feed or fuel.

**Annual sales:** Farmers Co-op Oil had \$18.8 million in total co-op sales for 2004, up 29.6 percent from \$14.5 million in 2003. NewMaSoy™ soybean meal and oil sales were \$1.4 million for 2004, up 353 percent from 2003. Total NewMaSoy™ sales for 2003 were \$415,000, which was the start-up year, with meal being processed for less than six months. Sales have increased exponentially since then, and will surpass \$2 million this year for processed soybean meal and oil.

**Number of members & employees:** Membership comprised of 310 Newman Grove-area farmers; the Newman Grove co-op location has 18 full-time employees overall, and several more in the soybean-processing division.

**Description of business activity:** The conversion of soybeans into meal and oil begins by mechanically extruding the soybeans to release the oil from

the meal. These products are then separated; the meal is ground to a uniform consistency for additional protein and energy in livestock feed for swine, poultry and dairy operations. The oil is sold as feed or fuel-grade oil to processors. While these processes have been

*“This soybean-processing facility allows members to actively participate in, and own, a value-added enterprise, which diversifies their incomes and improves the long-term sustainability.”*

in existence for years, many farmers in rural areas have been unable to reap the benefits because the value-added activity takes place after the commodities are sold at low market prices.

**How co-op was developed/financed:** Farmers Co-op Oil Co. was first organized in 1924 as a fuel purchasing and

distributing co-op. In succeeding years, grain merchandising, agronomy/fertilizer, feed sales and ready-mix concrete departments were added. In early 2002, an informal feasibility study on adding a soybean processing facility was done through the local board of directors with advisory assistance from CoBank. There was no stock sale to finance the soybean processing plant. The plant costs (in excess of \$400,000) were amortized over seven years at 5 percent interest.

**How USDA helped:** In addition to technical assistance, USDA Rural Development provided Farmers Co-op Oil Co. with a \$22,300 Value-Added Producer Grant (VAPG) for product

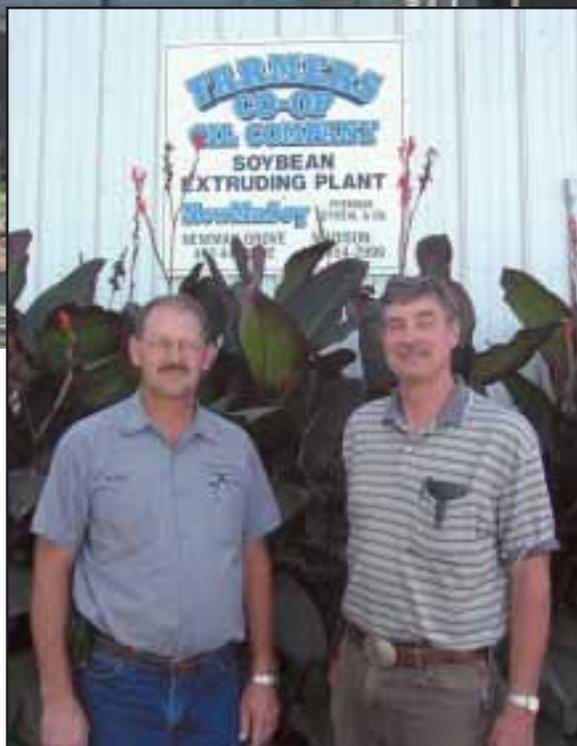


market development in 2003. The money was used to complete a feasibility study that would verify the existence of an emerging market for natural processed soybean meal and oil products. The project received the green light and later that year the co-op received a second VAPG of \$120,000 from USDA Rural Development to assist in the first full year of operations. Farmers Co-op Oil provided matching funds of \$142,300.

**Leader's comment:** "This soybean-processing facility allows rural Nebraskans who are members of Farmers Co-op Oil Co. to actively participate in, and own, a value-added enterprise, which diversifies their incomes and ultimately improves the long-term sustainability of their farming operations." — Randy Benson, General Manager, Farmers Co-op Oil Co.

**The results:** Today, NewMaSoy™\* Extruded/Expelled Soybean Meal, Extruded Full Fat Soybean Meal and Natural Process Soybean Oil are being produced from the 1,200-1,500 bushels of soybeans processed daily. (NewMaSoy is a state of Nebraska registered trademark.) Three full-time positions and several part time positions have been added to the plant's workforce. Through the hiring of a full-time marketing representative, made possible by the VAPG from USDA, sales increased dramatically in 2004. The soybean value-added activity is anticipated to provide a 20-cents-per-bushel increase above the raw product value.

**Market outlook:** The demand for soybean oil is excellent, with the product being sold as quickly as it is processed. Soybean meal requires more marketing effort, but sales continue to climb each month and the trend is strong for repeat-customer business. More than 480 tons of meal were sold in



*Randy Benson, Newman Grove branch manager (left), and Gene Wissenburg, NewMaSoy manager, outside their co-op's new soybean extruding plant. Above, a large bin was added in 2004 to the NewMaSoy Soybean Meal loading facility to handle increased production, which tripled in the second year of operation. Photos courtesy Farmers Pride Cooperative*

October and approximately 1,000 tons were contracted for in late 2004 and the first half of 2005. Protein is being provided to dairy and swine farms, and several feed mills. The sales area has expanded to cover 13 counties in Nebraska with contracts in Kansas, Colorado, South Dakota, New Mexico and Idaho. Soybean meal has not been sold out of state yet, but this is the next marketing step for the co-op, with sales in both Kansas and South Dakota on the horizon.

**Major challenge/opportunity facing co-op:** Margin percentage, production efficiency and equipment maintenance continue

as our greatest profit challenge.

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# Diversified, strong rural economy goal of Under Secretary Dorr

**T**homas C. Dorr — a farmer from Marcus, Iowa — was appointed by President George W. Bush to be the under secretary for rural development and was sworn into office by Agriculture Secretary Mike Johanns on July 27. Dorr served in the same position under a recess appointment from August 2002 to December 2003. After his recess appointment ended, he was named senior advisor to the secretary of agriculture for rural development issues.

“Tom has demonstrated his insight into the issues facing rural America and commitment to addressing those issues throughout his 4 years at USDA,” Secretary Johanns said. “He is a tireless advocate for rural America and I’m very pleased that the Senate recognized his hard work and dedication, as reflected in his confirmation.”

Johanns said Dorr’s leadership has been “instrumental in many of USDA’s efforts to carry out the President’s vision of a vibrant rural America. I’m confident that Tom returns to the under secretary position with even greater passion and a renewed sense of commitment to that vision.”

Dorr will oversee USDA Rural Development policies and programs.

Rural Development consists of three program areas: rural business & cooperatives, utilities and housing. These program areas provide \$14 billion in annual funding authority for loans, grants and technical assistance to rural residents, communities and businesses. Dorr also oversees an \$87 billion portfolio of existing business/co-op, housing and infrastructure loans to rural

States and in Puerto Rico, the Virgin Islands and the Western Pacific Trust territories.

“I look forward to advancing the President’s rural initiatives and positioning rural America to benefit from the changes that are barreling down the pike at us,” Dorr said. “There are challenges due to ever-tougher international competition and unrelenting



*Thomas Dorr, left, of Marcus, Iowa, is congratulated by Agriculture Secretary Mike Johanns after being sworn in as the new under secretary for rural development. With Dorr is his wife, Ann. USDA Photo by Alice Welch*

America. Rural Development also includes USDA’s cooperative program, which includes research, technical assistance, education (including this publication) and statistics designed to strengthen the nation’s rural cooperatives.

Rural Development has over 7,000 employees located across the United

cost pressures on individual producers. But there is also enormous upside potential from diversification of the rural economy. Emerging growth sectors based on broadband, bio-agriculture, value-added production, ethanol and biodiesel are there to be leveraged. They create significant opportunity for all rural Americans.”

As senior advisor to the secretary of agriculture for rural development issues, Dorr coordinated several major initiatives on behalf of the secretary. He played critical roles in USDA disaster relief efforts in response to the hurricanes in Florida; he worked closely with the assistant secretary for civil rights to reach out to minority farmers and provided key leadership on various activities to improve program manage-

ment and business practices throughout USDA.

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 service at USDA, Dorr was the president of a family agribusiness company consisting of a corn and soybean farm, a state-licensed commercial grain elevator and warehouse and two limited liability companies.

Dorr graduated from Morningside College with a B.S. degree in business administration. He is married to Ann Dorr and has two children. ■

## USDA Rural Development offers hurricane-relief

USDA Rural Development moved quickly and decisively to offer many types of assistance to those affected by Hurricane Katrina.

"In Mississippi, for example, Rural Development volunteers are driving FEMA staff to the places where they're needed, and working closely with FEMA," Agriculture Under Secretary for Rural Development Thomas Dorr said on Sept. 5, during a trip to Missouri, where he met hurricane victims evacuated from Louisiana and Mississippi.

"Our state offices are identifying vacant housing units for the newly homeless. In Oklahoma, our staff is assisting anyone from the hurricane zone who needs help finding shelter," he continued. "We're working to get generators to the affected area. As far away as South Dakota, our agency is finding shelter for hundreds of people who are without homes.

"The 7,000 members of our team are doing everything they can to help those in need," said Dorr. An assessment of Rural Development housing identified nearly 800 vacant housing units near the hurricane-affected area, and more than 30,000 units nationwide.

Assistance is also being offered to homeowners financed through Rural Development loans. Homeowners in the affected area are getting a 6-month moratorium on their mortgage payments.

Rural Development has also designated a toll-free number to provide assistance to homeowners, renters and others in need of housing assistance: 1-800-414-1226. Information is also available on the USDA web site: <http://www.usda.gov>.

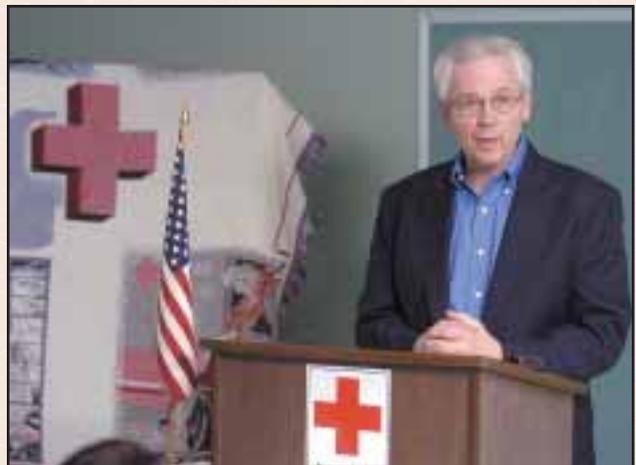
Renters, individuals or families made homeless by the disaster may apply for occupancy at any other apartment complex as a "displaced tenant." Applicants will be placed on a special list to be offered any vacant unit, or the next one available if no vacancies currently exist.

For residents receiving rental assistance (RA) in

units made uninhabitable by Hurricane Katrina, Rural Development can allow the transfer of the RA to another eligible apartment complex. The transfer must be agreed to by all parties and be designed for the return of the residents — if they so choose — and the RA to the original complex and unit after the property has been restored.

Dorr noted that assistance is also being offered to those communities in the affected areas that have Community Facilities loans, and if asked, the Business and Industry Program will place a moratorium on Intermediary Re-lending Program payments.

Additionally, Dorr said an estimated 50 Rural Development "circuit riders," who maintain and repair small sewer and water systems across the country, were dispatched to the disaster area to provide technical assistance to operators of sewer and water systems. ■



*Under Secretary for Rural Development Thomas Dorr addresses a press conference at a Red Cross center in Cape Girardeau, Mo., where many hurricane victims were evacuated following the storm. Dorr is leading USDA efforts to find housing for evacuees. Photo by Fred Lynch, courtesy Southeast Missourian*

# Taking Stock

*Rural food cooperative case studies reveal critical retail success factors*

By Greg Lawless & Anne Reynolds,  
University of Wisconsin

*Editor's note: This article is excerpted from the authors' new report: Keys to Successful Start-Ups for Rural Food Co-ops: Four Case Studies, CIR 63, produced by the University of Wisconsin Center for Cooperatives. Hard copies of the report can be ordered by e-mail: dan.campbell@wdc.usda.gov, or by calling: (202) 720-8381. It can also be downloaded from the Internet at: www.rurdev.usda.gov/rbs/pub/newpub.htm. The report was prepared for the North Country Cooperative Development Fund, with funding from USDA Rural Development.*

**W**hat factors contribute to the success or failure of a rural grocery cooperative? To find some answers, four case studies were conducted of Upper Midwest co-ops: Iron River Cooperatives, Iron River, Wis.; Root River Market Cooperative, Houston, Minn.; Viroqua Food Cooperative, Viroqua, Wis., and Tower Foods Market Cooperative, Oneida Nation, Wis.



Root River Cooperative General Manager Tony Densted emphasizes friendly customer service. The co-op averages just over \$1 million in annual sales. Photo by Greg Lawless, courtesy University of Wisconsin



An original 1914 share of stock in Iron River Cooperatives, formed by Finnish immigrants in Wisconsin.

This article begins with brief overviews of the four co-ops, followed by analysis of key factors that influenced the success or — in one case — failure of these co-ops.

## Root River Market Cooperative — Houston, Minn.

The Root River Co-op is a full-service retail grocery store that provides a conventional inventory of foods and other grocery items in a city of 1,020, located in the southeastern corner of Minnesota. The community suffered the loss of its only grocery store in 1998.

After failing to attract a private company to run a store, a core of people in the community in early 1999 decided to try a cooperative. A study showed it would cost \$400,000 to launch a co-op store. Some 310 members joined, who contributed \$170,000 in member equity and loans. North Country Cooperative Development Fund (NCDF) then originated a loan for \$225,000. About \$12,500 in grants were also raised.

The store generated \$1.06 million in the first year, about 12 percent below the projection. Operational costs had also been underestimated. To reduce costs, one of three department managers was reluctantly laid off.

Sales have been evenly split among members and non-members. Summer has been the heaviest sales period, driven by tourism to the area. In recent years, the co-op's gross sales have held steady at just over \$1 million. A pharmacy (which rents space from the co-op) has drawn customers, particularly elderly residents. The gross margin held steady at about 25 percent during the first 5 years of operation, and it earned a 5.9 percent net profit, annualized over the past 3 years

At the end of November 2004, membership had risen to 419. Based on an average of 2.58 people per household, co-op membership is estimated to be 1,081 individuals.



*Inside the old Viroqua Food Cooperative (above) and the new store (right), which opened in June. This co-op serves as an example of the “start small and grow” approach. Photo by Greg Lawless, courtesy University of Wisconsin*

**Viroqua Food Cooperative — Viroqua, Wis.**

Located in a town of 4,335 which has become a hub of the “alternative, back-to-the-land community.” As a natural food store, it faces different circumstances than most conventional grocery stores. It serves as an excellent example of the “start small and grow” approach to food co-op development.

It started as a food-buying club in 1991. Members decided to open a retail outlet in Viroqua, incorporating as a Chapter 185 Wisconsin cooperative. While the new board did not have written a business plan or use professional consultants, it had 5 years’ experience

operating a buying club of 40 core families. The co-op’s incorporation papers established two classes of stock.

When the doors opened in September 1995, the store had 600 square feet of retail space and the co-op had 95 members. In 1996, the co-op had \$174,330 in gross sales. By 2003, the co-op’s gross sales had risen to \$1.07 million.

The co-op did not take out any commercial or institutional loans to capitalize start-up. About a year or two after opening, it approached NCDF for

Members invested \$159,000 for the project. However, the co-op board ultimately decided to build a new store at a cost of \$1.6 million. It authorized the sale of \$900,000 of new, Class C stock, which, unlike its voting stock or Class A shares, would pay dividends. However, unlike loans with a fixed maturity date, the co-op won’t have to return the new equity until people request it.

By the end of 2004, the co-op was negotiating a substantial loan with a local commercial lender, using a USDA Rural Development loan guarantee, combined with a subordinate loan from NCDF. The co-op opened a new store in June 2005. The new building is 7,200 square feet, with 4,400 square feet of retail space. In the first two months of operation, sales were running ahead of projections.

**Tower Foods Market Cooperative — Oneida Nation, Wis.**

This co-op had the misfortune of representing the only “failure” among the four case studies. The store was located about 5 miles from Green Bay, Wis., a metropolitan area of 226,778 people. Motivation to start a co-op goes back to April 1995, when a non-Native family closed its private grocery in the area.

The idea for a new grocery in the Oneida Nation became a vehicle for achieving a

number of greater tribal goals: economic development and job creation, tribal self-sufficiency, improved diets and better health, food security for elders and young children, and even environmental stewardship (the store used solar power).

In January 1996, the tribe commissioned a study — the first of two market analyses conducted by major wholesale suppliers. Based on a



the first of three small loans to finance equipment and other needs.

The co-op currently has 1,000 members representing 635 households, with 82.5 percent of sales going to members. Extremely limited retail space means employees must be constantly stocking shelves.

In 2002, a feasibility study looked at moving to a new, larger location and renovating an existing building.

10,000-square-foot facility, the first study projected a 19-percent market share and gross sales of almost \$3.3 million in the first year of operation. A second market analysis later reduced sales projections to \$1.7 million. Both proved wildly optimistic.

The Oneida Nation agreed to provide \$250,000 to the grocery store, and an application was also submitted to USDA requesting a \$500,000 grant. The co-op ultimately got a \$460,000 USDA revolving loan, issued through the tribe. Some projections were apparently erroneously based on that money being

extensive renovations were finally underway to convert an empty warehouse in a business park into a modern, full-service grocery.

Tower Foods Market opened for business in July 2002. The store occu-

was the turnover in management; the co-op went through four managers in 2 years. Poor location, outside competition and non-competitive prices were among other factors cited in the failure to generate more sales.

In June 2004, unable to attract further support from grants, the tribe or local banks, Tower Foods Market shut down.

### Iron River Cooperatives Inc. — Iron River, Wis.

As they struggled to clear ground and grow crops in the hard clay soil north of Iron River in the early 1900s,

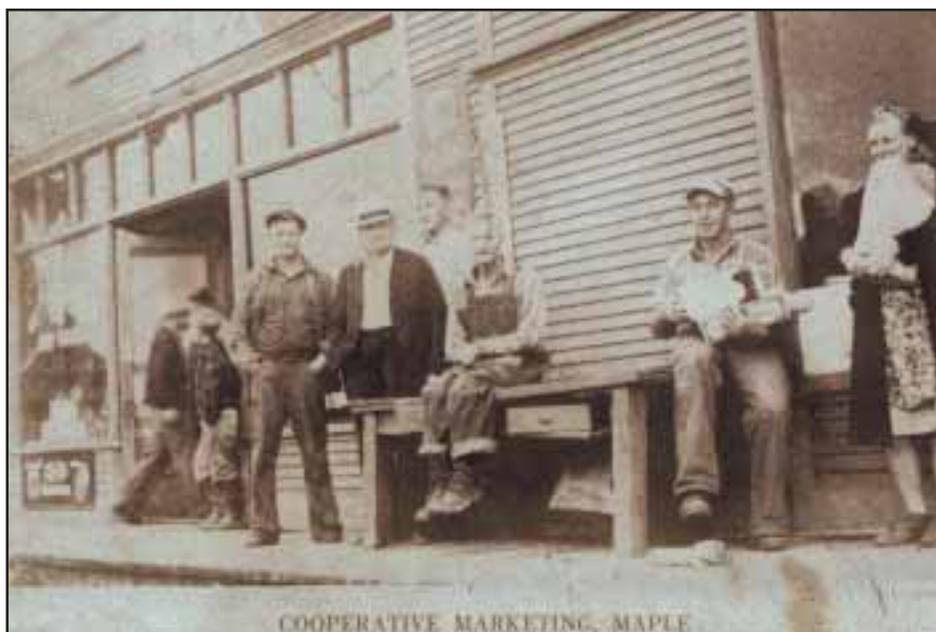
Finnish immigrants

would trade their farm produce with local merchants for farm supplies and household goods. Unsatisfied with the available retail service, in 1914 they organized the Oulu Co-op grocery and set out to raise \$2,500 to open it. The sale of \$10,000 of co-op stock was authorized, at \$5 per share.

Merchants responded by cutting off all credit to the farmers and stopped trading groceries for their butter and eggs. After six months, the co-op had raised only \$640, but nevertheless decided to open for business in nearby Iron River. In 1916, they opened a second branch in Oulu.

Other Finns in northern Minnesota, Wisconsin and Michigan's Upper Peninsula — many of them living and working in company-owned mining towns and remote farming communities — were also forced to deal with stores that held a virtual monopoly over trade and charged excessive prices. This led to the formation of about 65 Finnish-sponsored co-ops in the three states, very few of which failed during this period.

Success was credited primarily to the solidarity of the members and the key role played by a federated co-op wholesaler, the Central Co-op Exchange (CCE), formed by Finns in 1917. CCE not only made bulk purchases for member stores, it also



An undated photo of a neighboring Finnish co-op in Maple, Wisc., 16 miles west of Iron River. Photo courtesy Wisconsin Historical Society

Top: The Red Star Chorus youth group, from a 1929 issue of the Central Co-op Exchange's (CCE) publication Cooperative Pyramid Builder. In the 1930s, CCE and affiliated co-ops severed relations with the Socialist party.

a grant — a misinterpretation that severely affected the co-op's financial projections. No commercial bank loans were taken out to finance the opening of the store.

Project leaders spent 2001 developing a business plan, recruiting board members, incorporating the co-op, developing bylaws and holding community meetings. By April 2002,

they had completed 8,000 square feet and had 266 members when the doors opened. Around the time of opening, a whole new slate of directors took over the board. Money set aside for board training was not spent.

In its first year of operation in 2002/2003, the grocery achieved only \$452,589 in gross sales, one-third of the projection. Another sign of trouble

helped with co-op education and technical assistance for such crucial functions as bookkeeping.

Many of the Finnish immigrants were socialists, due in part to the tyranny they had faced under the Russian Czarist regime. Their co-op stores were even called 'Red Stores' by non-Finns. But a struggle in the 1930s resulted in a break with the Socialist party. CCE changed its name to Central Co-op Wholesale (CCW), and replaced its red-star trade label with the twin pines logo of the Rochdale consumer co-ops.

Big economic and social changes after World War II led to the rise of supermarkets and greater auto travel. About 30 of the Finnish co-op stores failed between 1945-1963. CCW merged with Midland Co-op Inc. in 1963. By the mid-1970s, only about one-third of the 175 Finnish co-op stores still existed.

Midland merged with Land O' Lakes in 1982. By 2004, Iron River Co-op was one of the few Finnish-origin co-op groceries still operating in Wisconsin. Today, it operates a 7,000-square-foot grocery and a 6,400-square-foot hardware store.

In fiscal 2003, the grocery and hardware stores had gross sales of \$3.88 million and gross margins (after cost-of-goods-sold) of 26 percent and 39 percent, respectively. About 86 percent of grocery sales were made to members in 2003. The net margin (or profit) for the combined business was \$88,082 in 2003. Current membership stands at roughly 4,000 households, about 3,500 of which are active.

The co-op has been negotiating with a local commercial bank to obtain financing to build a new, 15,000-square-foot building — a \$2.5 million project. Thus far, the co-op has not pursued selling equity shares to members, nor does it intend to ask members to make unsecured loans — two strategies that other co-ops have used successfully to finance expansions.

By early September 2005, the financing for the new store was in place (with help from Bayfield Electric

Co-op to cover a "gap"), and the board was slated to meet later that month to make a final decision on the move. "It's gut check time: when you put all the final numbers together, does it still work?" General Manager Patrick Dooley said. Despite fully owning an empty parcel of land on the edge of town, the new plan calls for building the new store closer to downtown.

### Critical success factors

- Common variables that impact the success or failure of these food co-ops were identified in this study: community and industry support; member support; quality of the business plan; business growth patterns; market niche; board and management leadership, and finance.



The new Viroqua Food Co-op includes 4,200 square feet of retail space in a 7,200-square-foot building. Photo by Greg Lawless, courtesy University of Wisconsin

### Competition

Three of the four cooperatives faced direct competition from grocery stores in nearby, larger communities. In each case, many members of the local community commute to work in these cities and often buy groceries on the way home. Root River Cooperative is the only grocery store in Houston, but there are two full-service grocery stores in nearby small communities, plus a Wal-Mart Superstore in La Crosse and other large groceries in both La Crosse and Winona.

Iron River Cooperatives is the only full-service grocery store within a 30-mile radius, but the co-op is concerned about a planned WalMart Superstore

in Ashland. Tower Foods Market Co-op faced the closest competition, with four dominant grocery stores in nearby Green Bay and a new, 68,000-square-foot store in DePere, Wis. (five miles away).

Viroqua Food Cooperative differs because it is a natural foods grocery store, with the closest competition more than 30 miles away. Viroqua is four times larger than Iron River or Houston, and it is more isolated from large population centers.

### Support from other co-ops & community

All of the cooperatives received support from their cooperative community in the form of advisors or consultants. Two of the co-ops, Root River

and Viroqua, benefited directly from the presence of strong cooperatives in their community. The two largest employers in Houston are cooperatives and each of them provided loans to Root River during its start-up phase. An attorney from the local electric co-op helped the steering committee file the articles of incorporation.

In Viroqua, a local resident who had helped start CROPP, a successful organic marketing cooperative, served as an active advisor to the food cooperative. A long-time CROPP employee serves on the board of directors and provides valuable experience with marketing and operating. The Viroqua co-op also benefited tremendously from

*continued on page 24*

# Keys to success...and pitfalls

Based on these four case studies, we can identify four key characteristics that contributed to the success of Root River, Iron River and Viroqua.

- **Strong operational management** — Each of the successful cooperatives employed managers who were willing to innovate, make necessary changes, invest and grow. The manager of Root River eliminated the meat department manager's position to improve the bottom line. In Viroqua, the manager invested in technology that helped the co-op benchmark performance, improve profitability and gather the data necessary to plan an expansion. Iron River Cooperatives hired a new manager who had run a major business in another service industry, so he came with financial, personnel and marketing experience. He is leading the relocation effort.

- **Member, community and industry support** — Viroqua, Iron River and Root River all received substantial leadership and financial support from their members at start-up. They also benefited from strong cooperatives in their communities that provided financial support and/or shared expertise. Root River also got support from local public officials, who were very interested in attracting a grocery store to Houston. Local support was a major factor in convincing the local bank to make a start-up loan. Root River was the only cooperative in the group that received a commercial loan on start-up, but Iron River is currently negotiating for a major loan from a local lending institution.

Cooperative industry support also helped some. Iron River Co-op, along with dozens of other co-ops started by Finnish immigrants, received significant support from the Central Co-op Exchange. Part of the challenge today is the co-op's isolation as it works toward a major expansion without a CCE to provide advice, unbiased benchmark data and other support.

Viroqua Food Co-op has tapped into a national network of food co-ops. This has clearly strengthened its management's hand.

While Root River, as a "conventional grocery," did not enjoy similar industry support, the help it received from long-standing local co-ops and from a cooperative lender (NCDF) was critical. By comparison, Tow-

er Foods was relatively isolated and independent.

- **"Reasonable" competition** — Although travel for shopping is a fact of life in rural communities, the successful cooperatives all benefited from a location as the sole grocery store (or natural foods store) in their immediate area. All three of the successful co-ops are located about 20-30 miles from their competition.

- **Dedicated organizers** — The three successful cooperatives all drew on substantial leadership skills from a dedicated group of volunteers. In Viroqua and Root River, the volunteers had track records to draw on from previous businesses experience. They also took advantage of advisors from local cooperatives, from the local community and within the grocery industry. In Iron River, the cooperative was instrumental in forming a wholesale cooperative, which became an integral part of many successful retail co-ops across the northern tier of Wisconsin, Minnesota and Michigan.



*Tower Foods Market Cooperative was hurt by rapid turnover in management and co-op leadership, and by having too many collateral goals. USDA photo by Margaret Bau*

## Potential pitfalls

The case study of Tower Foods Market Cooperative provides a detailed examination of many potential pitfalls in starting a co-op grocery. Although it might be viewed as a unique case because of its relationship with the Oneida Nation, it is probably safe to make the following generalizations as contributing to its failure:

- High turnover of leadership and management;
- Too many "collateral" goals (which included improving the diets of the Native American population it served, creating economic development on the reservation, etc.);
- Lack of rigorous financial analysis;
- Poor location;
- Failure to change direction quickly.

The story of Tower Foods Market also points out the importance of the "cooperative advantage." A co-op that lacks member support, especially during the critical start-up phase, will lose out on the very tangible factors (financial, leadership and expertise) that have made Viroqua, Iron River and Root River successful rural grocery stores. ■

support of the regional and national natural food co-op network.

Iron River was part of a movement in the early 20th century to develop cooperatives across northern Minnesota, Wisconsin and Michigan. The board and management were instrumental in starting and supporting a cooperative wholesaler (CCE) in Superior and benefited from its services for years. They occasionally attend training sessions provided by CHS Inc., but don't seem connected strongly to the co-op community. The current situation is similar to that of Tower Foods Market, which received sporadic assistance from cooperative advisors and other food co-ops in the region. But it had no consistent rela-

tionship with another local, supportive cooperative.

Both Root River and Tower Foods Market had significant support from local officials. The City of Houston commissioned the initial feasibility study for a downtown grocery store, after the previous store closed. They also contracted with a grocery wholesaler for a design and to identify operational needs. The co-op steering committee benefited from these studies and got the support of a local lender.

Tower Foods Market was supported by the Oneida Nation from its inception and received grant/loan support based on its relationship with the tribe. The cooperative was located on

tribal land, next to several service offices. The co-op didn't seek conventional funding from local banks, and there is no evidence that it received support from Green Bay or other nearby communities. The 2004

business plan recommended a strong marketing plan to the larger trade area, but the store closed before the plan was implemented.

### **Member support**

Iron River and Viroqua both make more than 80 percent of their sales to members. Viroqua opened with 95 members in 1995 and had 1,000 members by 2004. Members' support allowed Viroqua to open debt-free in 1995, and members continue to show their support with equity investments and loans.

Iron River has 3,500 active members, 200 of whom attended the last annual meeting. Members are not being asked to invest in the relocation project through loans or equity.

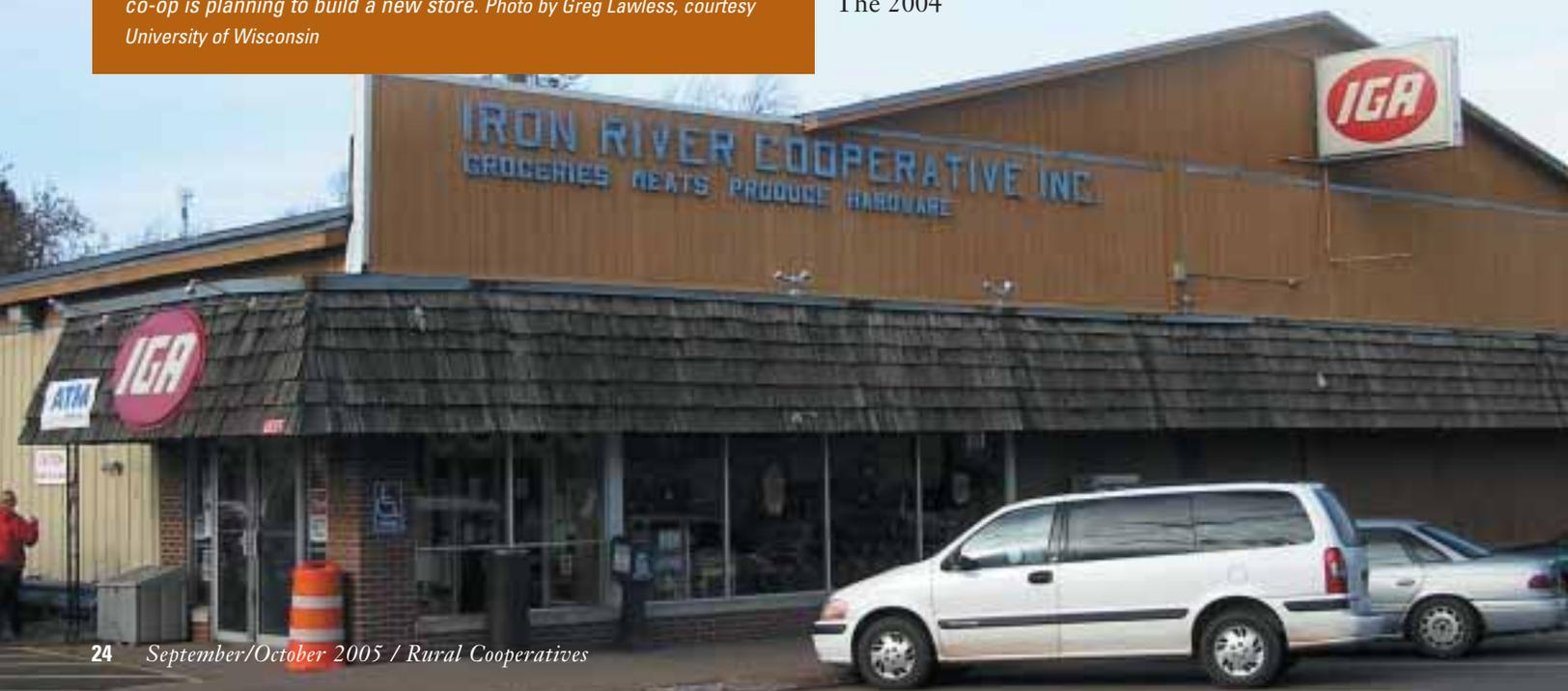
Root River makes 50 percent of sales to non-members — many of them tourists, who are an important component of the co-op's profitability. The co-op had 310 members when it opened in 2000, and members provided over 40 percent of the funds needed to open the store. Membership has increased by 35 percent in 4 years, to 419.

The organizers of Tower Foods Market held a number of community meetings to gather support and feedback from potential members and customers. It seems clear that the co-op

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*Iron River Cooperatives General Manager Patrick Dooley and Board President Lee Ruska. The current store (below) was built in 1929, but the co-op is planning to build a new store. Photo by Greg Lawless, courtesy University of Wisconsin*



# Antitrust review reveals strong co-op community support for Capper-Volstead

By Alan Borst, Ag Economist  
USDA Rural Development

**A**gricultural producers in the United States have long enjoyed the right to collectively market their products through cooperative marketing associations. This right has been established and maintained over the last century through a series of laws, rules and regulations which have provided limited antitrust protection to such producer cooperation.

This is critical, because without such protection, farmers seeking to collaboratively market their products would face a serious risk of antitrust litigation. Beyond this enabling legal framework, the U.S. government has actively promoted agricultural cooperation through various policies and programs which have provided favorable tax treatment and access to certain program benefits.

Public officials have periodically brought some elements of this institutional infrastructure under scrutiny. The logical response of the cooperative community to such examination has been to justify the public benefits of producer cooperation and the policies and programs which enable it.

A federal commission is currently reviewing all of the laws that provide producers with some limited antitrust protections. The following article is a review of the arguments made in support of the most important federal

antitrust exemption for cooperative associations — the Capper-Volstead Act of 1922 (CVA).

## AMC assessing need

In 2002, Congress created the Antitrust Modernization Commission

There are a series of working groups under the Commission examining various aspects of U.S. antitrust laws, including one for Immunities and Exemptions. The Commission has agreed to study all antitrust immunities and exemptions to determine whether



President Warren Harding signs the Capper-Volstead Act in 1922, which provided limited anti-trust exemptions for farmer cooperatives. The law is currently being reviewed by the Antitrust Modernization Commission (AMC).

(AMC) to determine the need for reform of various antitrust laws. The AMC findings will be submitted to Congress and the President. The AMC is a 12-member, bipartisan commission composed of mostly antitrust lawyers.

they should be repealed (if not justified by their benefits), or if they should otherwise be time-limited.

The AMC has received several submissions in response to its request for public comment in support of coopera-

tive antitrust protections. Parties submitting comments in defense of Capper-Volstead include: the U.S. Department of Agriculture, the Congressional Farmer Cooperative Caucus, the National Council of Farmer Cooperatives, the American Farm Bureau Federation, the National Farmers Union, the National Milk Producers Federation, the Oregon Department of Agriculture and some distinguished professors with decades of experience in research on cooperatives and their enabling laws. There were no submissions that were directly critical of the CVA. The arguments in support of Capper-Volstead in these public comments follow.

### **CVA worldwide model**

*The Capper-Volstead Act is a model that has been emulated around the country and the world.* CVA has been a model of cooperative legislation which many foreign countries have been using as a blueprint for their own co-op laws. U.S. government agencies are supporting the organization of agricultural cooperatives in countries around the world. All 50 states have enacted laws for agricultural cooperative incorporation and many states have antitrust exemptions for producer cooperation.

*The weakening or repeal of the Capper-Volstead Act would be disruptive and costly to U.S. farmers.* U.S. farmers and their cooperative marketing associations have relied upon CVA protection for the last 83 years. Any uncertainty over the future of CVA would create uncertainty over the future of cooperative enterprises that are dependent upon its protection. Such uncertainty could translate into higher interest rates and costs for co-ops. This would create increased economic uncertainty for farmers who are already carrying a disproportionate share of risk in their marketing channels.

*CVA remains as relevant today as 83 years ago when it was passed.* Between increasing concentration of agricultural marketing firms and increasing international competition, U.S. agricultural producers have been con-

fronting an even greater market power imbalance in the marketing channels through which they sell their products. The large number, variety and small size of agricultural producers compared with the fewer, larger buyers with whom they are dealing is still a characteristic of the U.S. agri-

*The Capper-Volstead Act is a model that has been emulated around the country and the world. It remains as relevant today as 83 years ago when it was passed.*

cultural sector.

*Capper-Volstead will not allow producers to organize monopolies.* There is little risk that producers operating under CVA protection will be able to exercise monopoly power in their markets, as farmers are generally too dispersed and independent to collaborate in that way. Furthermore, the Act does not grant the associations any power over their members' entry and exit or over the marketing decisions of non-member producers. Even when cooperatives have a large market share they have been unable to exercise undue market power because of their open membership policies, inability to control the supply of their individual members, and their incapacity to prevent non-member competitors from sharing in any market gains from collective action without having paid any of the costs.

### **Act levels playing field**

*CVA only allows farmers to potentially level their market power with corporations, which have their own organizational advantages.* Corporations have more control over their productive assets, while individual producers may withdraw from their cooperatives at will, with some notice. There are also constraints in CVA which balance the benefit of limited antitrust protection. Cooperatives are required to be democratically governed and user owned or controlled. While corporations can secure capital from any class of investor, cooperatives must rely upon user-owners.

*Capper-Volstead actually needs to be strengthened rather than weakened.* One argument along this line is that CVA should be amended to apply to all cooperatives, not just those involved in agricultural marketing. Another that was submitted was that CVA should allow for membership of integrated producers, who are also processors of agricultural commodities. Those who take on the risk and burden of producing agricultural products should be eligible, regardless of their also being processors of the product.

*CVA already has provisions for oversight of cooperative marketing conduct.* The U.S. Department of Agriculture has the authority to prevent cooperatives from exercising monopoly power that results in "undue price enhancement." Cooperatives are still accountable for their market conduct and have been subject to antitrust litigation along with their investor-owned rivals.

The AMC has scheduled hearings Nov. 9 on immunities and exemptions issues, which will cover the Capper-Volstead Act and other laws of relevance to agricultural marketing cooperatives and their members. The community of cooperative advocates has responded to the Commission's call for public comment with a spirited defense of this central federal source of limited antitrust protection for producer marketing cooperatives. ■

# When the sky falls

*Advance planning key to crisis communications*

**By Amber Dumont  
& Donna Abernathy**

*Editor's note: This article is reprinted from CCA News, the newsletter of the Cooperative Communicators Association (Web site: [www.communicators.coop](http://www.communicators.coop)). The article is based on a panel discussion held at the CCA's annual Co-op Communications Institute, held in Denver last summer. Dumont is communications director at Virginia & Maryland Milk Producers, while Abernathy operates her own communications business based in Murfreesboro, Tenn.*



While it might seem preferable to pull a Chicken Little and run screaming: “the sky is falling,” when crisis

hits, the job of co-op communicators is to face reality and deal with the situation as professionals. Should the unthinkable happen, it's good to know that others have made the journey and lived to tell the tale.

Cooperatives come in different shapes, sizes and varieties, yet when they face upheaval their one commonality is the need for a crisis communications plan. It's vital for a communicator to have a roadmap to follow when disaster strikes.

Sheryl Meshke, communications director at Associated Milk Producers Inc. (AMPI), in New Ulm, Minn., knows this all too well. She studied the crisis communications plans of other cooperatives and then developed one for AMPI — just in case the sky should fall some day.



*Fire crews battle the flames at AMPI's butter plant in New Ulm, Minn. last December. The co-op had prepared a crisis communications plans for just such an emergency. Photo by Sheryl Meshke, courtesy AMPI*

## 10 steps for survival

When a night-time fire engulfed much of the AMPI butter processing and packaging plant in New Ulm last December, Meshke was ready. She quickly swung into action with this 10-step communications plan:

- 1. Activate the emergency response team.** AMPI has an emergency plan that designates those who should be contacted first. This includes the CEO, the communications director and other management staff involved with plant operations and safety.
- 2. Unleash the crisis communication team.** This is typically comprised of senior management, including the CEO and the communications director. All communication — media interviews, releases regarding the incident, etc. — must funnel through this team.
- 3. Designate the on-site spokesperson.** Most often, this is the CEO or communications director. To maintain a consistent message, AMPI CEO Mark Furth

(CCA's 2004 CEO Communicator of the Year) and Meshke spoke for the cooperative in all interviews. It is the cooperative's policy that only the designated spokesperson may give interviews, because others may not have all the vital information.

- 4. Gather facts.** While others on the response team are busy doing specific jobs to handle the situation, it is the communicator's duty to get the big picture by collecting all the facts. Like the reporters who are requesting interviews, the communicator must determine the what, when, where, why and how.
- 5. Identify the primary audience** for your messages. For AMPI, there were several key groups who wanted, and needed, to know about the situation at the butter plant. Meshke primarily targeted communications to: butter plant employees, cooperative members and AMPI butter customers. After the first 24 hours of the crisis, she also developed key messages aimed at lawmakers and

community leaders.

6. **Develop key messages.** Stick to just two or three, but know that these messages will most likely evolve as the situation progresses. At AMPI, the designated spokesperson consistently repeated the messages in interviews and Meshke placed them in all written communications. The result: The cooperative's intended messages were repeated in newspaper articles and on television and radio broadcasts.
7. **Designate spokespersons for other audiences.** Though the CEO was tapped to speak to the general media during the initial stages of the crisis, Meshke recognized that her post-fire efforts could be bolstered by having audience-specific opinion leaders communicating details. For instance, the butter plant manager became the primary communicator to butter plant employees.
8. **Draft statements.** To assure that all messages remained consistent, Meshke wrote talking points for all those who were communicating on behalf of the cooperative.
9. **Work with the news media.** It's a natural inclination to want to shutter the doors and stand behind a "no comment" when the media comes calling about a crisis. Meshke took the opposite tack and reaped the benefits. The CEO conducted countless interviews in the first 24 hours of the crisis, even when it meant standing outside in sub-zero temperatures and snow. Reporters' calls were answered promptly by Meshke. The philosophy behind the openness: Talking to the media gave them an opportunity to communicate the co-op's messages. When reporters don't get the story from the authorities, they'll go elsewhere and are more likely to get inaccurate and/or completely false information.
10. **Go back to No. 4 and repeat as needed.** Most crisis situations last longer than a few hours. The situation may encompass days, weeks or months. As time goes on, your

messages will change and this necessitates a revamping of steps 4 through 9, Meshke said. In the first days after the fire, she was repeating her crisis management steps every few hours.

Dealing with a crisis is never fun, but a cooperative communicator can survive it. Meshke is living proof. With the fire now several months behind her, the communicator has put aside her crisis communications strategies in favor of a new task: Planning this fall's grand opening of the rebuilt butter plant.

### Common threads

Disaster comes in many forms.

Sometimes it strikes with 100-mph winds. It may threaten the health of a nation.

Regardless of its form, disasters often fall squarely into the laps of cooperative communicators.

There are common threads of strategy that communicators can employ to best manage the situation.

### Stay in touch

Brad Kimbro, vice president of marketing and member services for Florida-based Peace River Electric Cooperative, has survived more than 11 tropical storms and hurricanes, including three of the four that hit Florida last year. His top tips for outwitting and outlasting disaster include:

- **Maintain an up-to-date directory** of key contacts, including office, cell phone and fax numbers. Keep information for media as well as senior staff members and even primary customers. In Kimbro's case that included the phone company. Keep a hard copy of the information accessible at some place other than your office. Then, if the unthinkable happens and your office becomes damaged due to a storm or other emergency, your communications efforts can stay on track.
- **Plan for the unimaginable** and "communicate, communicate, communicate." In times of disaster, your

members and others will want to receive constant updates on the situation and it's up to you, the communicator, to provide it.

### Keep it simple

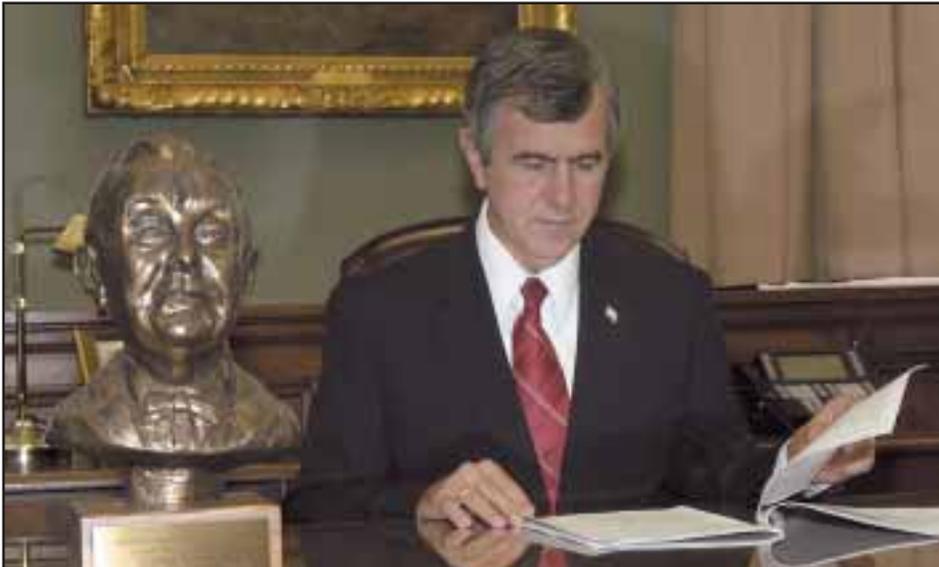
National Cattlemen's Beef Association (NCBA) identified bovine spongiform encephalopathy (BSE or Mad Cow Disease) as a crisis issue more than 20 years ago. In 2003, when the United States had its first confirmed case of BSE, NCBA sprang in to action with its communication plan. Kendal Frazier, vice president of public opinion and issues management for NCBA, offers these tips on handling crisis communications:

- **Organize your resources** and "make sure everyone is at the table." Get as much input as possible so that all angles of the issue are examined.
- **Follow the KISS (keep it simple stupid) method.** He advised CCA members to establish truth and facts early in the process and then be consistent with key messages.
- **Remember** that "the media is not the enemy, it is the battleground."

### Know members matter

A proposal to sell one of the nation's leading Farm Credit System lenders to a Dutch co-op bank sent shockwaves throughout the nation's farm co-op and ag credit communities. Doug Sims, CEO of CoBank, a \$31 billion cooperative bank comprised primarily of Farm Credit members, led efforts to avert the proposed sale of Omaha-based Farm Credit Services of America (FCSA) to Rabobank Group of the Netherlands. His advice:

- **Don't take members for granted.** Ownership matters, though it's not often a priority unless it's threatened. Communication with members and other stakeholders is absolutely crucial. "Members are more tolerant than the marketplace," Sims said. "But they need to know where the cooperative is going and why. Then, when the time comes to vote, they'll be prepared." ■



*Responding to an article in the last issue of this magazine, several readers asked whether Agriculture Secretary Mike Johanns still keeps a bust of fellow Nebraskan and co-op advocate Senator George Norris on his desk. The picture above, snapped in Johann's USDA office in August, provides the answer. The bust was presented to Johanns when he was governor of Nebraska in appreciation for his carrying on Norris' legacy as a champion of rural utilities. USDA photo by Alice Welch*

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

## Scope of co-op law project expanded

For nearly two years, the National Conference of Commissioners on Uniform State Laws (NCCUSL) has been preparing a model state agricultural cooperative law. The draft is based on laws recently enacted in four states that authorize entities called "cooperatives" that may have substantial non-patron voting and which distribute most of their earnings on the basis of investment, rather than patronage.

In late July, NCCUSL voted to expand the scope of the project to include all types of cooperatives, with unspecified appropriate exclusions. The draft law has been renamed the "Uniform Cooperative Association Act." Representatives of several non-ag cooperative groups (rural electrics, telephone, credit unions, housing and non-ag business cooperatives) urged NCCUSL, to no avail, not to broaden

the scope of the effort to include non-ag co-ops.

Implementation decisions, including which types of cooperatives to exclude, will likely be taken up by the working group drafting the model law at its next meeting on Oct. 21-23 in Chicago.

## NCFC surveying co-op structure

The National Council of Farmer Cooperatives (NCFC) has distributed two surveys to members to gauge their views on cooperative structure. The first survey focuses on "big picture" issues, and is directed at cooperative CEOs. It covers where CEOs see their organizations going in the future, the nature of the competition they expect and the challenges they see in continuing to operate as a farmer-owned organization. NCFC President Jean-Mari Peltier and NCFC Chief Economist Terry Barr have begun the process of interviewing CEOs as part of the survey.

The second survey, developed by NCFC's Legal, Tax and Accounting (LTA) committee, will be directed at cooperative CFOs and counsels. This questionnaire asks very detailed questions about structure, use of cooperative tax provisions and, in particular, detailed questions related to Capper-Volstead.

The surveys are important to help NCFC formulate its policy agenda and its response to the review of Capper-Volstead by the Antitrust Modernization Commission. It will also help guide NCFC's work with the National Conference of Commissioners on Uniform State Laws (NCCUSL), which is in the process of drafting uniform cooperative statutes that states can enact.

At its June meeting, the NCFC Council approved the surveys as part of the work being done by the Cooperative Business Advisory Group (CBAG), which is chaired by Jack Gherty, CEO of Land O'Lakes Inc.

In other NCFC news, Ag Secretary Mike Johanns has appointed Peltier to the Agriculture Policy Committee for Trade (APAC). "There is a great deal at stake for American Agriculture in the upcoming World Trade Organization (WTO) negotiations," she said. "The farmer cooperative community is committed to playing a constructive role in the process while strongly standing up for the interests of members: this country's 2 million farmers and ranchers."

## Wisconsin law would allow outside investment in co-ops

Backers of a proposal to encourage outside investment in Wisconsin agricultural cooperatives say it could give

co-ops a badly needed financial boost as the number of farms dwindles in the state. But Sue Beitlich, president of the Wisconsin Farmers Union, thinks the idea would destroy cooperatives by putting outside investors' needs before those of farmer members, according to the *Baraboo News Republic*.

State Rep. John Ainsworth and Beitlich, a farmer in rural Stoddard, Wis., recently offered contrasting testimony on Assembly Bill 327, which would create a new business organization form known as an "unincorporated cooperative association" (UCA). The bill, introduced by Ainsworth, could affect the way cooperatives are formed to create and market products ranging from organic food and low-cost housing to health care.

*Country Today*, a Wisconsin farm journal, ran an editorial opposing the new law, saying it would blur the difference between co-ops and investor-owned businesses: "The legislation would allow cooperatives to have as much as 70 percent control from non-member investors. Allowing non-

member investor control of cooperatives goes against the nature of what a cooperative is all about."

Under the bill, outside investors would be allowed to sit on a cooperative's board of directors, and investors could be guaranteed a percentage of the profit, Robert Cropp, interim director of the University of Wisconsin Center for Cooperatives, told the *News Republic*. Current law allows outside investment in cooperatives through a preferred stock option, but return on investment is limited to 8 percent, and the option is rarely used, Cropp said. Although the bill affords outside investors some voting rights, majority control would remain in the hands of user members, also known as patrons, under the bill, Cropp said. It's unlikely existing agricultural cooperatives would convert to UCAs because of potential federal tax liabilities, the paper notes.

The bill would essentially strip some of the safeguards that help protect cooperative members, who might have spent the better part of a lifetime

investing in a cooperative, Beitlich said.

### **Co-op wants incentives for buyout payments to fund value-added ag**

Under the American Jobs Creation Act of 2004, some agricultural quotas will be involuntarily eliminated under a 10-year buyout program. Absent an incentive to continue engaging in agricultural production, many recipients of the quota buyout payments may simply use the after-tax proceeds of their buyout payments to retire or invest outside their rural communities. This would have adverse effects on jobs and economic development in rural communities already struggling to recover from reduced agricultural production, according to Wayne Sine, director of corporate taxation for Southern States Cooperative Inc., Richmond, Va.

However, with clarification of provisions in the Internal Revenue Code, many quota holders would consider reinvesting in agricultural ventures within their local communities. "This would preserve or expand job opportu-

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## **Taking Stock** *continued from page 24*

received overly optimistic feedback from surveys and interviews. The store opened with 266 members in 2002, among a target population of 8,876. Per-customer weekly expenditures had been estimated at \$30, but was actually only \$9. While the co-op had aimed to garner 60 percent of business from non-Native Americans, only about 20 percent of the co-op's business was non-Native.

### **Quality of the business plan**

Each of the cooperatives in this study differed considerably in their experience with business plans. Viroqua, which grew from \$290 in annual sales per square foot in 1996 to \$1,166 per square foot in 2003, was started without a business plan. After start-up though, subsequent expansions have been well researched and

planned.

The organizers of the Viroqua co-op never wrote a business plan, but they had the advantage of 5 years of experience running a food-buying club for 40 members. Like many 1970s-era natural food cooperatives, the retail store was an outgrowth of the buying club's desire for a storefront grocery. Because members were able to "self-finance" the start-up, they didn't need to write a business plan for a lender.

The Root River Co-op didn't start as a buying club, but the organizers were basically re-starting a grocery store that had been reasonably profitable in the same location. The former owner shared all of his financial records with the steering committee, and the co-op also had access to a business plan previously commissioned by

the city of Houston. Along with the substantial commitment of equity and unsecured loans from members, the business plan helped to convince a local bank to lend the co-op the balance of the needed start-up capital.

The founders of Iron River Cooperatives may not have written a business plan before it opened in 1916, but the co-op is in the process of putting together a detailed plan to support the request for the capital needed to relocate the store. Co-op leaders have conducted member surveys and worked with a distributor to create accurate sales and operating projections.

Community members began planning for a grocery in the Oneida area in 1996. Two market analyses were conducted by wholesale suppliers (in 1996 and 2000), and both were significantly overly optimistic. A needs



*This Holly Sugar plant in Brawley, Calif., is one of four plants Southern Minnesota Beet Sugar Cooperative is negotiating to buy. Holly is a subsidiary of Imperial Sugar. Photo courtesy Imperial Sugar*

nities and economic development in those rural communities which the buyout program was designed to assist,” says Sine.

America’s farmers are diversifying and investing in alternative agricultural operations, establishing or expanding value-added and other agricultural cooperative enterprises. Co-ops, pro-

ducer-owned LLCs and partnerships are building processing plants, establishing innovative marketing enterprises and alternative energy plants. This process would accelerate if more buyout funds can be devoted to such ventures, he says.

“This proposal would clarify involuntary conversion treatment when the

recipient of quota buyout payments elects to reinvest such amounts directly in domestic, value-added agricultural enterprises or other agricultural cooperative associations,” says Sine. “Many former agricultural quota holders and producers would be interested in investing in such ventures should the capital gain tax on their involuntarily converted quotas be deferred.”

Contact Sine at (804) 281-1301 or at [wayne.sine@sscoop.com](mailto:wayne.sine@sscoop.com) for more information.

### **Minn. sugar co-op buying Holly Sugar from Imperial**

Southern Minnesota Beet Sugar Cooperative, Renville, Minn., has agreed to purchase Holly Sugar Corporation, a subsidiary of Imperial Sugar, for about \$50 million. The sale was expected to be completed by the end of September, subject to completion of environmental, due diligence and customary regulatory approvals. Holly Sugar’s primary operations include two beet sugar factories, located in Brawley and Mendota, Calif., a distribution facility located in Tracy, Calif., and Holly

assessment survey was conducted among community members. It showed mixed support for the cooperative, and the 2000 market study identified potential problems with the size and location of the store. In spite of these concerns, the study predicted profitability in the first year.

### **Finance**

The start-up financing for each cooperative differed considerably. Viroqua met its financial goals solely through member investment. It needed \$20,000 to open the store and received a major boost when one member bought \$10,000 worth of stock.

Root River financed its start-up with a combination of member stock (310 members at \$100 each) and unsecured member loans of \$137,700 (including \$20,000 in loans from two local co-ops) in addition to a loan from a local bank.

Iron River was financed by its members at start-up in 1914, but it is working with a local bank to finance its \$2.5-million relocation project. Although the members voted overwhelmingly to approve the expansion, there are no plans to raise funds from members. Members invest through their patronage and the co-op regularly pays a patronage refund.

Tower Foods Market was funded through a \$250,000 contribution from the Oneida Nation, along with a \$460,000 revolving loan from USDA Rural Development (via the tribe). Member equity was less than 1 percent of financing at start up, and there were no bank loans. The availability of “institutional dollars” meant that organizers did not have to press tribal members to contribute equity, nor did they have to subject their business plan to the rigor of a commercial lender.

### **Board and management leadership**

The three successful cooperatives studied have had good continuity with experienced managers. The original manager at Root River is still there after 4 years. Viroqua has had the same manager since 1998 and Iron River’s manager has served since 2000.

By contrast, Tower Foods Market had four managers in 2 years. It also experienced high turnover in community leadership. Twenty-five individuals served on the steering committee and board between 1999 and 2004. When the store opened, a completely new and inexperienced board took over.

Viroqua has had regular board turnover, but no trouble finding new people to run for the board. When the cooperative was getting ready to open, a core group of 20 members put in hours of sweat equity to renovate the space. As board members or regular members,

*continued on page 32*

Hybrids Inc., a beet seed processor and marketer located in Sheridan, Wyo.

Holly Sugar, which represents approximately 15 percent of Imperial's production capacity, primarily services customers in the industrial and food service market segments. Imperial will continue to own the Holly brand.

### **Policinski to succeed Gherty**

Land O'Lakes Inc. has named Chris Policinski the co-op's president and chief executive officer, effective Oct. 1. Policinski will replace Jack Gherty, who is retiring after 35 years with Land O'Lakes, the last 16 years as

president and CEO.

Policinski, currently Land O'Lakes executive vice president and chief operating officer for dairy foods, has held various leadership positions with the company since joining the national food and agricultural cooperative in 1997. He has more than 25 years of management experience and previously held leadership positions with General Foods, Kraft Foods, Bristol Meyers and Pillsbury Co.

"Chris has demonstrated his ability to implement strategic plans, drive performance and develop people and leaders within the company," said

LO'L Chairman Pete Kappelman. "He also understands the unique role of cooperatives and is committed to positioning Land O'Lakes to enhance member-owner value."

Policinski has a master of business administration degree from New York University and a bachelors' of business administration from the University of Notre Dame. He is a board member of the National Milk Producers Federation, serves on the President's Council of the Grocery Manufacturers of America and is chairman of the non-profit, charitable organization Prosperity Worldwide.

In other LO'L news, the co-op has completed the sale of its 38-percent equity interest in CF Industries, a domestic fertilizer manufacturing company. The co-op was initially slated to reduce its ownership position from 38 percent to approximately 8 percent in exchange for \$252 million in cash. However, underwriters exercised their option to purchase LO'L's remaining interest in CF, increasing the co-op's total proceeds to \$315 million.

### **Bruce Anderson honored**

Bruce Anderson, who retired in June from the ag science faculty at Cornell University, was honored at the annual banquet of the Northeast Council of Cooperatives for 25 years



*Chris Policinski*



*Jack Gherty*

## **Taking Stock** *continued from page 31*

the co-op has been able to draw on a dedicated group of supporters.

Iron River has an experienced board, with tenure of up to 15 years. Root River also has had good board continuity. The steering committee that started the co-op had a good balance of skills and shares responsibilities well. Some of these founders are still on the board.

### **Business growth patterns**

Each of the co-ops opened in a different environment, and each of them proceeded slightly differently. Viroqua started with a core of a suc-

cessful, 40-member buying club, opened in a small storefront, remodeled it extensively, reached 1,000 members and now is planning to relocate. The manager has invested in training and efficient systems, so the co-op has been able to increase sales steadily and prepare for significant expansion.

Tower Foods opened in a new location (for a grocery store), with a full-service, 8,000-square-foot store. There were discussions about changing the product mix to more profitable natural foods, but the offerings never changed before the store closed after 2 years.

Sales were significantly under projections during that entire period.

Root River opened on the site of an existing grocery store and used that store's records to estimate sales. This proved to be a reasonable estimate, and sales have held steady since the store opened in 2000. The manager cut operating costs in order to achieve profitability, which has been modest but consistent.

Iron River has operated for more than 90 years, but most details of its business growth were beyond the scope of this report. The current store has done well enough to develop plans



Bruce Anderson

of service to Northeast co-ops. Anderson developed a popular undergraduate course on cooperatives and served as a major professor for many graduate students who have gone to work for co-ops worldwide and in academia. A nationally recognized speaker on co-op enterprises and an advisor to many co-op boards, Anderson also helped to expand what started as the New York Council of Co-ops' educational meeting into a regional event that has attracted thousands of co-op directors and managers over the years.

### Riceland's Bell named Arkansas Ag Secretary

Retired Riceland Foods CEO Richard Bell has been selected by Arkansas Governor Mike Huckabee as the state's first agriculture secretary. "If we looked from one end of the country to the other, we would not be able to find someone who has the experience, the expertise and, most of all, the love of Arkansas, that Dick Bell has," Huckabee said. "Agriculture is the leading industry in our state, accounting for some \$13 billion a year of economic activity, representing 20 percent of the gross state product."

Bell is credited by many with transforming Riceland into the nation's top marketer and miller of rice. He was with Riceland for 27 years, including 23 years as president and CEO, before retiring last year.

### PastureLand artisan butter wins tops honors from ACS

PastureLand's Summer Gold salted butter won first place honors for the second year in a row in the prestigious American Cheese Society (ACS) competition. In addition, the co-op's Summer Gold unsalted butter placed third in its category. Complete competition results are available on the ACS Web site: [www.cheesesociety.org](http://www.cheesesociety.org).

PastureLand is a cooperative of three organically certified family farms in Southeastern Minnesota that has been marketing artisan butter and cheese since 2000.

The butter's distinctive flavor and color reflect the quality of the cream from which it is made, says board President Dan French. PastureLand cows graze on carefully managed pas-



tures rich in carotene, resulting in golden-yellow milk which is perfectly suited for butter making," adds French.

French and his wife Muriel milk 140 cows on their third-generation family farm near Mantorville, Minn. "We are also lucky to have such a skilled butter maker in Gene Kruckeberg, who makes our butter at the Hope Creamery in Hope, Minn.

For more information about PastureLand, visit the co-op's Web site: <http://www.pastureland.coop>.

for relocating to a 15,000-square-foot store. The cooperative also owns a hardware store at a separate location and shares some administrative costs with that store.

### Market niche

Communities are very interested in having grocery stores, but don't always support these local businesses. A strong niche-market can be very helpful in overcoming the inherent challenges of running a small, low-profit-margin grocery.

Three of the cooperatives were started as full-service grocery stores, serving as small, local competitors to large, regional grocery stores that dominated

the market. They benefited from their locations as the sole grocery store in a rural community, but they also faced strong competition from regional stores.

Root River is located on a highway near a state park, which creates heavy summer traffic. It is on the site of a previous grocery store and thus benefits from that site identity. It also rents space to a local pharmacist.

Iron River also provides an additional needed service in the community through its ownership of a hardware store.

Tower Foods suffered from a poor location and never drew enough customers through marketing efforts. Sales figures were one-third of projec-

tions. The groceries stocked were "100 percent conventional," and members commented that the store had no "Oneida identity." Local products were not available at Tower Foods, and it was challenged by the many collateral goals: economic development, better health and tribal self-sufficiency. Keeping all of these goals in balance wasn't easy for the organizers, managers or board members.

Viroqua's natural foods focus gave it a unique identity in the marketplace. The founders knew that there was strong support for natural foods among some community members, and the competition in that niche was over an hour away. ■

## PenLight celebrates 80 years

Peninsula Light Co. (PenLight), Gig Harbor, Wash., is marking 80 years serving Gig Harbor and the Key Peninsula. PenLight was founded in 1925 when a small group of community leaders implemented their vision of bringing electricity to the area. This group of pioneers had only a vague idea of how to accomplish the task, because electricity was still a new commodity in rural communities.

Getting the organization off the ground took several months of preparation: raising capital, recruiting the know-how and choosing a form of government to oversee the utility. After numerous community meetings, they decided that it should be a cooperative-run business.

PenLight is committed to improving the quality of life of its members by providing reliable power and safe



*PenLight's original headquarters in Gig Harbor, Wash. The co-op just notched its 80th anniversary.*

drinking water, and by supporting the social and economical development of the community. It is the second largest electric cooperative in the state, providing nonprofit electric service to 28,000 members over 880 miles of line. It offers a voluntary green power portfolio option to its members.

## Rick Smith named DFA president & COO

Rick Smith, a member of Dairy Farmers of America (DFA) management team since 2001, has been named president and chief operating officer for the Kansas City-based co-op. "We like the energy and the skills that Rick's long track record in cooperatives, member services and management bring to our cooperative team," said DFA CEO Gary Hanman. All of DFA's operations will report to Smith.

In 2001, after Dairylea Cooperative Inc. became a cooperative member of DFA, Smith

assumed the role of vice president and chief operating officer of DFA's Northeast and Midwest milk marketing areas. That role was expanded in 2003 when he became president of DFA's seven fluid milk marketing areas. Since January 2005, Smith has served as DFA's chief operating officer with the

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## Legal Corner *continued from page 14*

50 percent owned by agricultural producers or other entities that are more than 50 percent owned by agricultural producers.

### Deduction for costs of complying with EPA sulfur rules, pass through

The Environmental Protection Agency (EPA) has issued rules requiring refiners to start producing diesel fuel with a sulfur content of no more than 15 parts per million beginning June 1, 2006. The Jobs Act allows a small business refiner to elect to deduct 75 percent of capital costs incurred during each tax year to comply with the EPA sulfur rules.

The Energy Act provides that a cooperative small business refiner may elect to pass the deduction through to any other cooperatives holding a direct ownership interest in the cooperative refiner, on the basis of the extent of

that ownership interest (not patronage). The refiner cooperative must provide written notice of the pass through to its cooperative owners before the date on which the tax return is due, noting the pass through is due.

### Equipment deduction

In an attempt to enhance this nation's refinery capacity, the Energy Act allows an immediate expensing of 50 percent of the costs of constructing new oil refineries and upgrading existing ones located in the United States. The resulting deduction may be taken in the year the qualified refinery property is placed in service.

Pass through rules similar to those for the EPA sulfur rule deduction apply here. A cooperative refiner may elect to pass the deduction through to any other cooperatives holding a direct ownership interest in it, on the basis of

the extent of that ownership interest. The refiner cooperative must provide a written notice of the pass through to its cooperative owners before the date on which the tax return is due, noting the pass through is due.

### Renewable fuels mandate increases

Corn and other agricultural markets should get a boost from language in the new law that requires a doubling of the use of renewable fuels (ethanol and biodiesel) in gasoline, to 7.5 billion gallons per year by 2012. This should play a part in reducing our dependence on foreign oil while increasing the demand for crops that can be processed into renewable fuel. It will also create new opportunities for producer-owned cooperatives to generate income for their members and economic development in the rural communities where they are located. ■

added responsibility of oversight for the cooperative's economic and marketing analysis; member, government and public relations; and human resources functions, as well as fluid marketing operations. In his new job, he will oversee all of DFA's operations, including value-added manufacturing, accounting/treasury and legal and risk management functions.

Smith continues to serve as CEO of Dairylea Cooperative Inc., a dairy farmer-owned agricultural marketing and service cooperative based in Syracuse, N.Y. Dairylea markets milk for more than 2,500 member farms in the Northeast. He also heads up numerous businesses which provide services to farmers, including: insurance, dairy management, lending, livestock, information services, risk management and purchase programs for farm inputs. He joined Dairylea in 1982 as the cooperative's vice president and general counsel.

#### **Anderson elected chairman of U.S. Grains Council**

Davis Anderson, GROWMARK vice president of grain, was elected chairman of the United States Grains Council following its 45th Board of Delegates' Meeting in Seattle, Wash., in July. The Grains Council is a private, nonprofit partnership of farmers and agribusinesses committed to building and expanding international markets for U.S. barley, corn, grain sorghum and products derived from them. The Council is headquartered in Washington, D.C., and has 10 international offices that oversee programs in nearly 80 countries. Support for the Council comes from its members and the U.S. Department of Agriculture.

#### **CDF establishes hurricane recovery fund**

Citing the need to help the long-term recovery of rural areas of Louisiana, Mississippi and Alabama, the Cooperative Development Foundation in early September launched the Katrina Cooperative

Recovery Fund. The fund will direct contributions specifically to individuals and cooperative businesses in the rural areas of the three hurricane-ravaged states.

"The nation has been horrified by the scenes from New Orleans, Biloxi and Gulfport," said CDF Chair Terry Lewis, a vice president with the National Cooperative Bank. "We can only imagine the destruction that has also occurred in rural areas. The Katrina Cooperative Recovery Fund will direct contributions to individuals and cooperatives in rural areas that most need help."

The fund will seek contributions from all sectors of the cooperative business community and the public. "This is all about co-ops helping co-ops," said Lewis. "Our focus is on what will be necessary for recovery once disaster relief has met most immediate needs."

CDF will partner on this fund drive with its colleagues in the cooperative community, both nationally and in the region, to assure the maximum possible impact. CDF will take no administrative fee for funds raised to assure that 100 percent of the funds donated reach the people and organizations that need help. CDF's prime point of contact in the affected area will be the Federation of Southern Cooperatives/Land Assistance Fund, which will help identify the needs of farmers and farm cooperatives and help CDF coordinate this effort with the wider cooperative community in the affected area.

For more information, visit: [www.cdf.coop](http://www.cdf.coop).

#### **Reynolds receives Honored Cooperator Award**

Anne Reynolds, assistant director of the University of Wisconsin Center for Cooperatives, recently received the National Cooperative Business Association's Honored Cooperator Award. Reynolds, of Madison, Wis., was honored at the Association of Cooperative Educators (ACE) Institute in Alexandria, Va. The award recognizes outstanding individuals who have

worked to develop, advance and protect cooperatives.

At the UW Center for Cooperatives, Reynolds works with groups on new cooperative projects, particularly in the housing area. In addition, Reynolds has participated in research and cooperative development projects in the areas of member satisfaction and loyalty, education for emerging leaders, value-added agricul-



ture, and rural housing. She also is responsible for the Center's Internet-based services and serves as coordinator for the Midwest Cooperative Education, Research and Extension Consortium.

Before joining the Center for Cooperatives, Reynolds worked at the Credit Union National Association (CUNA).

#### **Co-op celebrates 80 years**

Celebrating its 80<sup>th</sup> anniversary is Peshastin Hi-Up Growers Inc., in Peshastin, Wash. In the early 1900s the co-op was known as the Brownie Warehouse and packed tree fruit under the Brownie label. The Hi-Up name was adopted to indicate the co-op's fruit is grown in higher mountainous areas of the upper Wenatchee River Valley, according to the *Capital-Press Agriculture Weekly*. The Hi-Up label has been used since the 1920s. More than 100 growers are co-op members. The co-op will pack more than 1 mil-

lion 44-pound boxes of pears, mostly winter varieties. The co-op also handles apples.

### **Struggling Kansas local co-op dissolves**

The board of the Sylvia Cooperative in Reno County, Kan., which first opened for business in the 1930s, has voted to dissolve. "It's sad to say, but it's gone," said Derek Zongker, secretary of the co-op board, according to the Associated Press.

The co-op sold a grain elevator that could store 700,000 bushels of grain, as well as supplies, including seed, feed, fuel and farm chemicals. Board President Steve Yust said the grain, fuel and seed business failed to finish in the black the past 8 years. In June, stockholders approved a lease/purchase of the grain elevator by the Stafford County Flour Mill in Hudson. The lease gives the business until April to buy the elevator from the lien holder, Citizens Bank of Kansas.

Crop production in the area also has dropped as more acres are being enrolled in the Conservation Reserve Program, which pays farmers to set aside croplands. The wheat harvest this year brought in 310,000 bushels of grain, filling only half the elevator's capacity. Members of the co-op board said a leak in an underground fuel storage tank, and the bankruptcy of the parent Farmland Industries Inc., which forced the co-op to write off \$240,000 on its asset sheet, also contributed to the co-op's decline.

### **New hotline for sustainable ag pubs**

The Sustainable Agriculture Network (SAN) has a new hotline that will help producers, researchers and educators quickly and easily order publications featuring cutting-edge research on sustainable farming. As the national outreach arm of USDA's Sustainable Agriculture Research and Education (SARE) program, most SAN publications will continue to be available online at: [www.sare.org/publications](http://www.sare.org/publications).

For book orders and mixed orders of books and bulletins contact: Sustainable Agriculture Network, P.O. Box 753, Waldorf, MD 20604-0753; telephone: (301) 374-9696; Fax: (301) 843-0159. For bulletins only, please call (301) 504-5411. SAN bulletins are available in quantity at no cost to agricultural educators when ordered at least 3 weeks in advance. View SAN's entire catalog online at the above Web site. Revised order forms are available at <http://www.sare.org/publications/order.htm>.

### **Bill expands health care co-ops**

Wisconsin Governor Jim Doyle recently signed legislation that expands access to health care cooperatives in Wisconsin and makes it easier for farmers and small business owners to get quality and affordable health insurance. In June, the U.S. Senate Agriculture Appropriations bill was passed in committee that included a provision sponsored by Senator Herb Kohl and Congressman Dave Obey to provide \$2.25 million for a Wisconsin farmer health care cooperative to increase access to affordable health benefit plans.

According to a study by the University of Wisconsin, 18 percent of Wisconsin farmers are uninsured, compared to 4 percent of the general population. In addition, 41 percent of those farmers who have insurance do not have insurance for every family member.

### **Isolated Alaskan villages get USDA help for Internet**

Akhiok – a remote fishing village of 51 people on the south end of Alaska's Kodiak Island — may be wired for Broadband Internet service by next summer, thanks to a grant from USDA Rural Development. Ouzinkie and Old Harbor on Kodiak are also potential sites for Internet service. All three villages have phone lines, but the high cost of dial-up access limits use, according to the *Kodiak Daily Mirror*. Under the grant, USDA Rural Development pays about 75 percent of the cost. Residents

still have to pay installation charges for their homes, but the cost would now be affordable. Jobs are scarce in the communities, and most residents rely on "native skills" to survive.

### **Co-op Month material on Web**

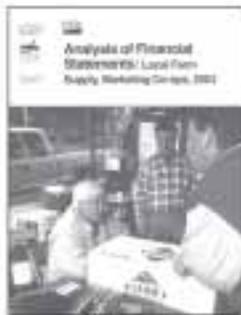
October is Cooperative Month, when cooperatives are urged to undertake some special activities to create better public understanding of what co-ops are and do. Through a combination of media outreach, member education and interaction with policy makers, co-op month events help raise the visibility of cooperatives.

Research shows that when consumers know a business is a cooperative, they are more likely to do business with it. And with consumer trust in co-ops topping investor-owned companies, promoting your business as a cooperative is a win-win proposition.

A wide variety of Co-op Month promotional tools are available on the Internet at: [www.coopmonth.coop](http://www.coopmonth.coop). These include logos, advertisements, a co-op primer, co-op case studies and success stories, a co-op directory, Co-op Month tool kit, etc. Even something as simple as posting a link on your co-op's Web site to the Co-op Month Web site can help increase public awareness of what co-ops do.

"Cooperatives: Owned by our Members, Committed to our Communities," is the Co-op Month theme, which reflects the commitment all types of cooperatives make to the seventh cooperative principle: concern for community. It is a principle that co-ops exercise every day as they serve their members and their communities. It also allows cooperatives to trumpet not just the economic support they provide to their members and communities by creating jobs, income and opportunity, but also their other community involvement, such as charitable contributions, educational activities, environmental efforts and many other ways in which cooperatives support the towns and cities in which they operate.

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CIR 1, Section 16



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### Co-op Foundation awards grants

The Cooperative Foundation recently approved the funding of three grants for cooperative education to: Consumer Cooperative Management Association (CCMA), CooperationWorks! and the Association of Cooperative Educators (ACE).

CCMA — a professional association for managers, staff and directors of retail food cooperatives — received a \$3,750 grant to help Midwestern members attend an annual co-op conference. CooperationWorks! received a \$5,000 grant for its cooperative business development training program, *The Art and Sciences of Starting a Cooperative Business*, where practitioners learn from expert- and case study-based sessions. The grant will serve as financial assistance for practitioners who may not be able to attend the training otherwise.

ACE was awarded a \$3,500 grant to support 2005 ACE Institute scholarships for graduate students and junior

faculty. ACE provides its members a forum to highlight programs and practices that increase understanding, innovation and professionalism in cooperative education. The St. Paul-based Cooperative Foundation ([www.coopfoundation.org](http://www.coopfoundation.org)) has supported cooperative business development, education and research projects in the Upper Midwest for more than 50 years. Projects include all co-op business sectors.

### Walton EMC sends crews to storm-wracked Mississippi

Five electric crews from Walton Electric Membership Corporation (EMC) were dispatched to southwest Mississippi just a day after Hurricane Katrina to help restore power to victims. The crews assisted Southwestern Mississippi Electric Power Association (SMEPA), based in Lorman. SMEPA serves 25,000 customers in nine counties in the southwest corner of the state, all of whom lost power.

Since electric cooperatives follow the same power line construction standards, the Walton EMC crews went right in to Lorman, working side-by-side with local crews or independently. Electric crews face many hazards after natural disasters. Fallen trees can put excess tension on wires and flooding can make access to repairs difficult. The rising waters can also displace poisonous snakes and make mosquito populations explode.

“There is also the hazard from incorrect use of standby generators,” said Greg Brooks, WEMC spokesperson. “Small generators can put several thousand volts back out on power lines if they are not correctly installed, presenting a hazard for line technicians or anyone else who may come in contact with them.”

Walton EMC is a customer-owned power company that serves 110,000 accounts between Atlanta and Athens. Learn more at: [waltonemc.com](http://waltonemc.com). and [southwestepa.com](http://southwestepa.com). ■



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Committed to Our Communities.



# USDA energy program promotes 'cow power'

By Peter Thomas, Administrator  
 Business and  
 Cooperative Programs  
 USDA Rural Development

**E**nergy and the issues surrounding it continue to be a high priority for the Bush Administration and USDA. The recent passage of the Energy Policy Act of 2005 emphasizes the importance the President and Congress place on the issue.

Rural Development has already played a significant role within USDA as a result of the 2002 Farm Bill and the establishment of the Renewable Energy Systems and Energy Efficiency Improvements Program (also known as the Section 9006 program). The funding from this program assists rural energy entrepreneurs in covering the costs of setting up and running these renewable energy systems and energy efficiency improvement projects.

To better illustrate the goals of the program, I'm going to focus on projects which received grants through the 9006 program. In addition to the grants, recent changes to the program will allow USDA Rural Development to offer guaranteed loans to qualifying projects.

In Lodi, Calif., Castelanelli Brothers Dairy received a \$166,000 Section 9006 grant in fiscal 2003. The funds helped the dairy farm establish a renewable energy system which uses an anaerobic digester to convert cow manure into



electricity. Anaerobic digestion is one of the few treatment options of manure that reduces the environmental impact of manure and can potentially produce savings and revenues.

A properly designed and operated digester can biologically stabilize organic wastes, reduce pathogens, reduce odor and improve fertilizer value, in addition to generating electricity from the biogas produced from digestion. It will produce 60,000 to 130,000 cubic feet gas daily, depending on the season.

The manure from the farm's 2,100 cows will produce 90 to 180 kilowatts. Another bonus: after the water flows out of the digester, it is stored and then recycled to flush manure from the barns, or used seasonally to fertilize field crops and grapes.

With the assistance of a Section 9006 grant, the Dairyland Power Cooperative in Elk Mound, Wis., installed its first anaerobic digester "cow-power" facility. The new facility is expected to generate 775 kilowatts of renewable energy, capable of powering 600 homes throughout the four-state area serviced. As is the case for all anaerobic digesters, cow manure from



*Gold Top Farms in Maine (left) is saving 90,000 kilowatt hours of electricity annually with high-volume, low-speed fans in its barn. Above, an anaerobic digester converts cow manure into methane gas, which in turn produces electricity.*

the dairy is collected and heated in the digester tank, a process that creates methane gas. This biogas is used to generate electricity.

Gold Top Farms, a family farm in Knox, Maine, was one of 167 recipients from 26 states to

receive program funding last year. The farm was the first recipient from Maine. The family received a \$4,462 Section 9006 grant, which represented 25 percent of the project cost. The funds were used to install three high-volume, low-speed fans, saving 90,000 kilowatt hours annually. This resulted in the farm saving around \$8,000 a year over the cost of operating existing 24 fans. The new high-efficiency fans lead to energy efficiency, healthier livestock and ultimately higher productivity.

I commend these farmers and other project owners for taking advantage of the Section 9006 program. They are providing rural America with renewable energy and making their own operations more energy efficient. This has resulted in cleaner energy and saved the recipients money in the process.

These projects have also created new jobs while injecting new capital into rural communities. As America looks for alternative energy, USDA Rural Development will continue to assist rural communities in taking advantage of the new technologies and innovations for nontraditional sources of energy. ■

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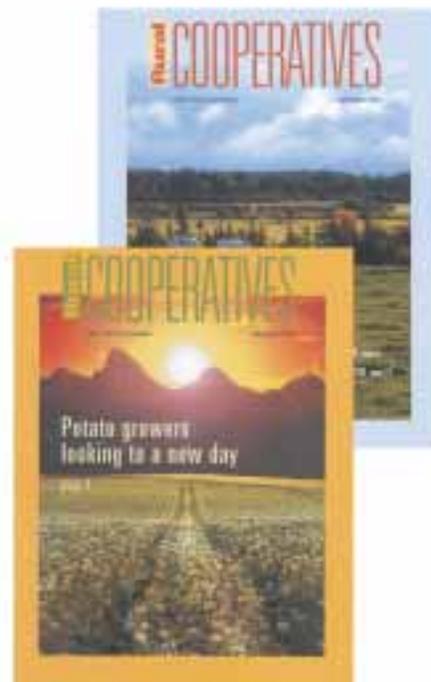
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*Rural Cooperatives* magazine is published six times annually by USDA Rural Development. This award-winning publication carries a wide variety of articles focusing on the nation's farmer-owned cooperatives, as well as utility and consumer co-ops operating in rural areas. The goal during the publication's 72-year history has always been to expand public understanding of the co-op business model and to provide information that may help improve operations of cooperatives.

To receive a link by e-mail to each new issue as it is posted on the Internet, go to: [www.rdlist.sc.egov.usda.gov](http://www.rdlist.sc.egov.usda.gov). Then enter e-mail address(es) at the top of the page, select "Rural Cooperatives" magazine and click the "subscribe" button. It's as easy as that. Each time, a new issue is posted, you will receive an e-mail with a link to the new issue.

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