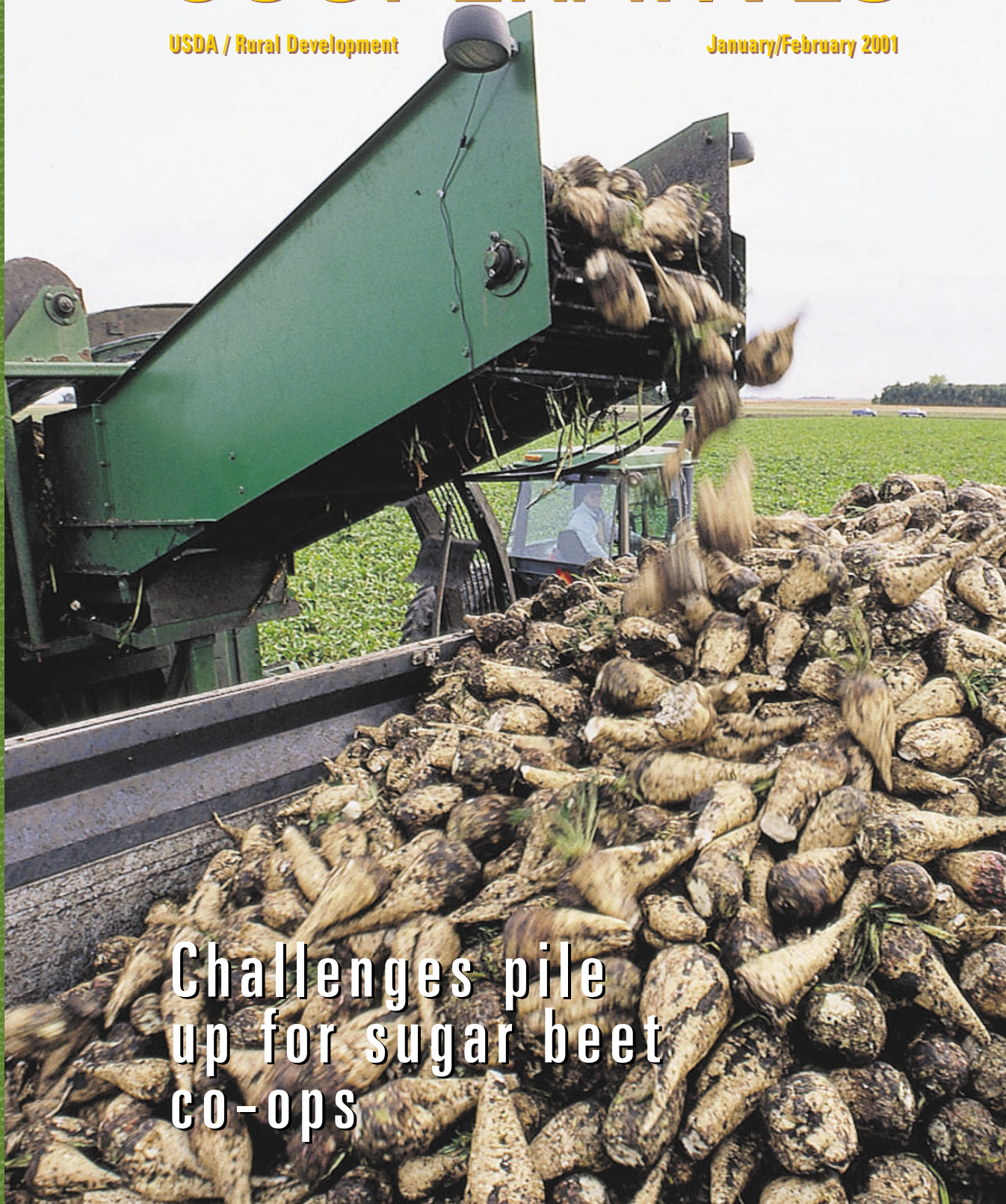


Rural COOPERATIVES

USDA / Rural Development

January/February 2001



Challenges pile
up for sugar beet
co-ops

Commitment to cooperative systems

Cooperative leaders across America are coming to grips with the sweeping changes in the farm economy and structural changes in the ag processing and distribution sectors. The changes include a dwindling number of farms, an increased size of remaining farms, and concentration in food processing and retailing. Other challenges are posed by the burden of huge inventories of many crops that are causing depressed markets and by the effects of new technology, such as e-commerce, robotics and satellite communications systems.

The economics of farm operations clearly influences the vitality of growers' off-farm businesses — their cooperatives — as shown in the reports on cooperative share of marketing activity and the performance of the largest cooperatives found on page 7.

As cooperative boards of directors and managers deal with these issues, we should remind ourselves of the benefits of cooperatives working together as a strategy for the efficient use of member resources. Regional and national federations of cooperatives have operated successfully for many years, linking the basic manufacturing of farm supplies (fertilizer, petroleum, etc.) to distribution at the local level.

Similarly, farm credit associations own regional farm credit banks while rural electric distribution cooperatives own generation and transmission cooperatives. Livestock shipping associations have been linked to regional livestock marketing cooperatives. U.S. Premium Beef is linked through ownership in Farmland National Foods and cooperative grain elevators

are linked to soybean processing and milling operations, such as Ag Processing Inc. and CHS Cooperatives.

Minnesota and North Dakota sugar beet cooperatives have developed a close working relationship through marketing agencies-in-common. These include Midwest Agri-Commodities for marketing sugar beet

During times of economic stress for the farm economy, as exist now, there are no “silver bullets” to secure financing.

byproducts and United Sugars Co. for marketing refined sugar (see page 10). These combined marketing efforts offer a fine example of benefits to producer members from coordinated marketing activity.

Many more examples could be cited, but the point is that effective

cooperative systems have been developed which serve farmer and rancher members well — and continue to serve them well — through cooperation among cooperatives. Farmers and ranchers have realized significant independence through their purchasing and marketing cooperatives. But the system is only as good as the support generated by continued commitment to working together for the common good.

A tendency exists in some quarters to align operations with investor-owned firms rather than remaining committed to developing strong cooperative systems. Many associated issues concerning farmer ownership and control are quite complex and require careful analysis to determine long-term implications.

During times of economic stress for the farm economy, as exist now, there are no “silver bullets” to secure financing, nor are there any “magic” business alignments that will solve long-term problems; *we should not deviate from sound cooperative principles and practices.* Continued progress through forward-looking cooperative strategies and cooperative education for boards and managers — and the farm sector at large — are called for if a vibrant cooperative system is to be a part of the rural scene in the future.

Randall Torgerson, *Deputy Administrator*
USDA Rural Business-Cooperative Service

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Ann Veneman, Secretary of Agriculture

Randall Torgerson, Deputy Administrator, USDA Rural Business-Cooperative Service

Dan Campbell, Managing Editor

Pamela J. Karg, Field Editor

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On the Cover:

Big sugar beet crops — such as this Red River Valley harvest — have added challenges for producers and their cooperatives, which are struggling to bring balance to the market. A Payment-In-Kind (PIK) diversion program has encouraged diverting a portion of the crop. See story on page 10.
Photo courtesy American Crystal Sugar



Peach Growers Cling to Association

CCPA assumes greater role in helping industry manage supply, avoid pitfalls



By Pamela J. Karg
Field Editor

Editor's note: this is the second of two articles focusing on bargaining cooperatives. In the Nov.-Dec. 2000 issue, the focus was on the cherry industry's bargaining association.

R

on Schuler does whatever it takes to ensure that his cling peach growers make another sale.

"That's where some bargaining associations fail," he says. "They just want price. But you can't look at just price. You have to make every effort you can to make a sale. If something doesn't work, you have to try something else."



Jagtar Gill examines his peach crop prior to harvest in Central California. He and other peach growers benefit from the efforts of the California Canning Peach Association to bargain for fair prices for producers. Photos copyright Sacramento Bee



Schuler has led the California Canning Peach Association (CCPA) through a plethora of issues that range from grower-funded supply management plans to negotiating contracts with new owners of the former Tri-Valley Growers canning facilities. He says there is no topic the Association should shy away from if it influences the marketing picture for CCPA members.

“We’re active and involved in all aspects of our industry. Why else would I be sending Association employees to an energy seminar? Because it impacts all of us and we need to know about it,” Schuler says.

That total immersion has made CCPA the longest-lived cooperative bargaining association in the nation. It also has earned Schuler respect within California agricultural circles.

“He is the dean of California bargaining associations,” says Vaughn Koliagian, chief executive officer of the Raisin Bargaining Association in California.

Yet longevity and admiration don’t add up to much in the face of market share erosion due to cheap imports, food industry concentration, a processor bankruptcy and a farm policy that offers little for specialty crops such as peaches. Something has to change, peach growers say. And, as it has always done, CCPA is doing everything it can to make sure it does.

A home and a price

Growers founded CCPA in 1922 with a \$30,000 loan from A.P. Giannini of the Bank of Italy (which eventually became Bank of America). Local, disparate groups of peach growers came together under two ideals: a home for every grower’s peaches and a fair price for the fruit.

Unlike freestone peaches that could be sold fresh, dried or canned, cling peaches had only one use: canning. As a result, the California cling peach industry grew up with the idea that it was captive to canners.

“By 1901, more cling than freestone peaches were canned in California for the first time,” writes Frank Van Konyenburg, a retired CCPA director and past chairman of the board. He wrote “A Home and A Price: 75 Years of History with the California Canning Peach Association” in 1997. “That same year, California Fruit Canners’ Association-Del Monte offered five-year term contracts to cling growers at \$20 per ton. A number of growers signed up to ensure a home and take some risk out of growing clings having

an assured home with a canner every year was much more of a necessity,” Van Konyenburg adds.

Rapid inflation caused by World War I saw long-term contract growers receive \$25 a ton while non-contract growers earned up to the astronomical price of \$110 a ton. Through county Farm Bureaus, growers organized local pools. However, canners told tales of postwar economic depression woes.

Undaunted, growers realized they needed something larger than a county group. Before the end of January 1922, CCPA organized and hired Ambert Dal Poggetto as its manager. By spring, 760 growers representing 25 percent of cling growers and tonnage in California were CCPA members. Thanks to the February 1922 passage of the Capper-Volstead Act, the association operated without threat of anti-trust battles.

Canning peaches today

In the 1927 annual report, CCPA leaders noted that, “Despite a contrary belief among growers, the growers’ interest does not cease until the final product is consumed.” Through the decades, CCPA has learned valuable lessons like this and they mold its programs, policies and attitudes today.

This past summer, Tri Valley Growers announced it was filing for Chapter 11 bankruptcy protection and reorganization. CCPA growers were among several farm groups to feel the chilling after-shocks of a lost market on top of world trade issues that were rearing their ugly heads.

“TVG announced it could only take 85 percent of the 2000 crop, so we needed to do something to take care of the other 15 percent, or about 30,000 tons of peaches,” Schuler explains. “If that production had come onto the open market at the same time we were trying to negotiate a price with Del Monte, we wouldn’t have had a strong market,” he stresses.

As it had done a few other times in its history, CCPA offered members a chance to pull out trees and to receive money to do so. Other commodity groups have had similar production reduction programs.

However, the CCPA plan is unique because producers fund it entirely.

“It wasn’t as equitable to everyone as it could have been,” Schuler explains. “There were growers with extra-earlies (early ripening peach varieties) who weren’t allowed to participate due to timing. But, as it turns out, we got 11,000 acres out and we accomplished our goal of reducing oversupply, which helped sustain prices.”

Small, specialty market

The canning peach industry is not a large agricultural sector compared to dairy or corn. Producers voted out a state Joint Marketing Order in 1996. There are no government programs and no volume control provisions, though a peach marketing board is in place to promote the California-grown fruit.

Peach growers have taken a decidedly independent path. Yet, pitfalls abound, and Schuler believes the next Farm Bill needs to address small, specialty farm crops, such as peaches.

“There was \$28 billion paid to farmers last year by the government, but

less than 3 percent went to California farmers while over 50 percent of our nation’s fruits and vegetables come from farms here,” Schuler points out. “Somewhere along the line, we have to realize that we can’t continue like this. It’s getting increasingly difficult for our farmers to compete.”

A major portion of the competition comes from the Greek peach industry. Those growers are over-producing low-quality fruit that is flooding the U.S. marketplace at low prices, Schuler charges.

“We’re trying to work with them so they understand what could potentially happen to everyone’s market if they continue on this path,” Schuler says. One option U.S. growers have suggested to their Greek counterparts are green drops. Producers agree to pull down a certain amount of fruit in exchange for some partial payment. In the process, supplies shrink and prices may rise as long as consumption holds. “It’s been hard to convince them that this could work just as it has for CCPA in the past,” Schuler adds.

Meanwhile, higher quality standards are in place for American fruit. U.S. cling peach growers also face competition from within: consolidation in the food industry and rising production costs, which includes another jump in the minimum wage.

Rising costs, more consolidation

“Sixty-eight percent of peach costs are labor,” Schuler says. Processors have been reluctant to buy machine-harvested fruit over charges of inferior quality. But a recent increase in the California minimum wage has growers and processors taking a second look.

“A few in the past have done a poor job with machine-harvesting. So, we’re working between processors and growers to set up strict rules on how to do it without sacrificing quality. We’ll have padding requirements on the machines to minimize bruising. We’re working on quality

criteria for when that fruit gets to the plant. We need varieties that can hold up to machine harvesting. There will be a price differential in place,” he explains.

The other major production cost for the entire California agricultural system is energy. Natural gas and electrical costs are rising, and rolling blackouts are plaguing the state. “We need to be aware of both the processor side as well as the producer side of every issue. Knowing both sides is key,” Schuler says.



CCPA was quick to respond to the bankruptcy of Tri Valley Growers with an orchard removal program that helped stabilize the market. Photo copyright Sacramento Bee

To that end, members need to hear from the marketing side of their business. This year’s annual meeting keynote speaker was Bob Piccinini, chairman and chief executive officer of SaveMart Supermarkets.

“If we don’t hear what our customers want or follow processor guidelines, we cannot achieve a reasonable price. We need to hear what our customers are going through so we know how to respond and we know what’s possible,” Schuler says.

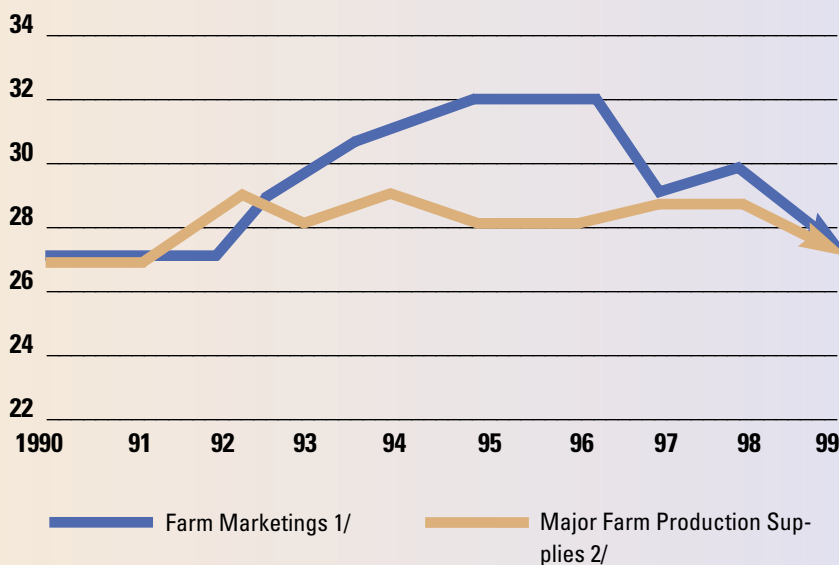
Growers at the meeting heard that the food industry continues to consolidate. Fewer, yet larger, customers want the highest quality fruit at the lowest possible price. The food chain is squeezing out more costs. Consumers are spending a greater share of their food dollar at fast-food restaurants.

As a result, supermarkets need quick, nutritious foods for harried consumers who would rather drive-thru to pick up supper in a bag than check out at the express lane with 10 items or less. Producers were encouraged to continue new product testing and new packaging designs.

“We’ve always got to be looking for that next sale,” Schuler adds. “The Association has to do whatever it can to make sure we get people to eat some golden sunshine – cling peaches in a can.” ■

Co-ops' share of farm market, major cash expenditures down in '99

Figure 1—Co-ops' share of U.S. farm marketings and major farm production expenditures, 1990-99



1/ Based on U.S. farm cash receipts.

2/ Based on U.S. cash expenditures for crop protectants, feed, fertilizer, petroleum and seed used for farm production

Charles A. Kraenzle, Director
 USDA Rural Development, RBS
 Statistics Staff

Editor's note: Assistance in developing estimates of cooperatives' shares of farm marketings and farm production expenditures was provided by the Rural Business-Cooperative Service of USDA Rural Development staff, including David Chesnick, 100 largest cooperatives; Dave Cummins, grains and oilseeds; Eldon Eversull, farm supplies; and Andy Jermolowicz, fruits and vegetables and tobacco.



recent U.S. Department of Agriculture analysis showed that farmer cooperatives' share of total farm marketing —

including crop, livestock and poultry — was 27 percent in 1999. That's down from 30 percent in 1998 and the lowest it has been since 1992, when it was 27 percent (fig. 1). The 1999 market share was based on cooperatives' net marketing business volume of \$72 billion, down from \$76.6 billion in 1998 and the record \$79.4 billion in 1996.

The major factors in the overall decrease in cooperatives' share of farm marketing were the significant decreases in grain and oilseed and cotton shares. Grain and oilseed share dropped from 39 percent in 1998 to 34 percent in 1999. Cotton and cottonseed share decreased from 43 percent to 29 percent.

Cooperatives' share of major farm production items — feed, seed, fertilizer, crop protectants and petroleum — purchased by the nation's farmers was 27 percent in 1999, down from 29 percent in 1998. The 1999 share of farm

Figure 2—Co-ops' share of U.S. farm products marketed, by commodity group, 1995-99

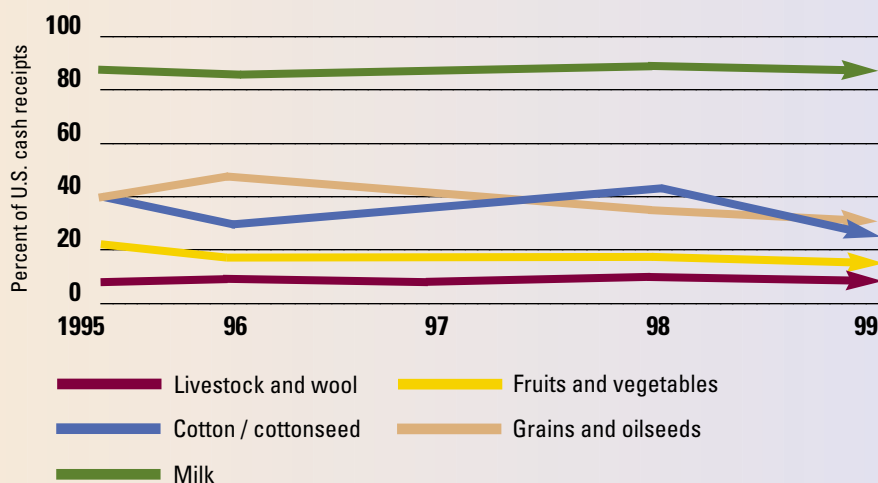


Table 1—Cooperatives' share of U.S. farm marketings, by selected commodity group, 1999-97

| Commodity group | 1999 | 1998 | 1997 |
|-----------------------|---|-----------|-----------|
| | <i>Percent of U.S. cash receipts 1/</i> | | |
| Milk | 89 | 90 | 88 |
| Grains and oilseeds | 34 | 39 | 43 |
| Cotton and cottonseed | 29 | 43 | 38 |
| Fruits and vegetables | 18 | 19 | 19 |
| Livestock and wool 2/ | 13 | 14 | 12 |
| All other 3/ | 12 | 12 | 13 |
| Total 4/ | 27 | 30 | 29 |

1/ Estimates are rounded to the nearest whole percent. Selected data items for 1997 and 1998 were revised.

2/ Includes mohair.

3/ Includes poultry and eggs, dry edible beans and peas, nuts, rice, tobacco, sugarcane, sugar beets, honey and other miscellaneous marketings.

4/ All farm commodities weighted by value.

Table 2—Cooperatives' share of major U.S. farm production expenditures, 1999-97

| Farm production item | 1999 | 1998 | 1997 |
|----------------------|--|------|------|
| | <i>Percent of U.S. farm production expenditures 1/</i> | | |
| Fertilizer | 45 | 45 | 45 |
| Petroleum | 45 | 50 | 45 |
| Crop protectants | 34 | 34 | 34 |
| Feed | 19 | 21 | 22 |
| Seed | 10 | 10 | 10 |
| Total 2/ | 27 | 29 | 29 |

1/ Estimates are rounded to the nearest whole percent.

2/ The five major farm production items weighted by value.

supplies purchased was based on cooperatives' net sales of \$23.2 billion, down from \$24.6 billion in 1998 and the record \$25.2 billion in 1997.

Most milk sold through co-ops

Farmer cooperatives' net sales of milk and milk products totaled \$26 billion in 1999, up \$0.7 billion, or 2.6 percent, from 1998. U.S. farm cash receipts for milk were down nearly \$0.9 billion, or 0.8 percent, in 1999, due to lower milk prices. Co-ops' share of total U.S. farm cash receipts for milk was down slightly in 1999, to 89 per-

cent, from 90 percent in 1998 (table 1).

Nationally, the quantity of milk marketed in 1999 was up .8 percent from 1998. At the same time, the weighted average U.S. price per 100 pounds of milk was down nearly 7 percent. Co-ops' share of milk sales at the first-handler level includes the value of milk for which cooperatives bargained with processors over price and terms of trade for members.

Co-ops' share of grain and oilseed marketed at the farm-gate dropped from 39 percent in 1998 to 34 percent in 1999. Faced with continued sharp price

declines in 1999, many co-ops withheld marketing proportionally larger volumes of grains and oilseeds than did investor-owned grain firms, based on the anticipation of higher prices in the future. This was facilitated by the co-ops' traditionally proportionally larger grain storage capacity at the local level. During 1999, farmer cooperatives marketed \$17.1 billion worth of grains and oilseeds, down from \$21.3 billion in 1998.

Co-ops' share of cotton and cottonseed cash receipts stood at 29 percent in 1999, down from 43 percent in 1998. The net value of cotton and cottonseed purchased by farmer cooperatives was \$2.1 billion, down nearly 30 percent from 1998. In comparison, farm cash receipts for cotton and cottonseed were down only 3.9 percent for the 1998 crop. The exit of one large co-op that marketed cotton, as well as lower cotton production—due to drought and fewer planted acres—were major factors in the decline.

Co-ops accounted for 18 percent of the nation's fruit/vegetable sales in 1999, compared with 19 percent in 1998. Co-ops' sales of fruits and vegetables totaled nearly \$9.3 billion in 1999, down 1.1 percent from a year earlier. Total U.S. average cash receipts for fruits/vegetables, however, were up 1.9 percent in 1999.

Cooperatives' share of livestock (including wool and mohair) marketings was 13 percent in 1999, down slightly from 14 percent in 1998. Co-ops' net sales of livestock were \$7.3 billion in 1999, down from \$7.4 billion, or 1.3 percent. However, total U.S. cash receipts for livestock/wool increased 4.9 percent from 1998 to 1999, due mainly to higher prices for beef cattle.

Cooperatives' share of "all other" marketings — such as poultry, dry edible beans and peas, tobacco, nuts, rice and sugar — was 12 percent, the same as reported for 1998. Co-ops' "all other" marketings totaled \$10.2 billion in 1999 and 1998. In comparison, total U.S. cash receipts for "all other" marketings increased 3.4 percent. The biggest increase was in nuts and miscellaneous marketings, such as hay, grasses and other field crops.

Table 3—U.S. farm cash expenditures and co-ops' sales of major farm supplies, 1999-98

| Farm production item | U.S. farm cash expenditures 1/ | | | Co-ops' sales of major farm supplies | | |
|----------------------|--------------------------------|------|------------------|--------------------------------------|------|------------------|
| | 1999 | 1998 | 1999 | 1999 | 1998 | 1999 |
| | Bil. Dol. | | Percent of total | Bil. Dol. | | Percent of total |
| Feed | 24.5 | 25.0 | 43.7 | 4.7 | 5.4 | 24.2 |
| Fertilizer | 9.9 | 10.6 | 17.7 | 4.8 | 5.2 | 24.4 |
| Crop protectants | 8.6 | 9.0 | 15.4 | 3.0 | 3.2 | 15.5 |
| Seed | 7.2 | 7.2 | 12.9 | .7 | .7 | 3.9 |
| Petroleum | 5.8 | 5.6 | 10.3 | 6.3 | 6.6 | 32.1 |
| Total 2/ | 56.1 | 57.5 | 100.0 | 19.5 | 21.1 | 100.0 |

1/ Source: USDA, ERS.

2/ May not add due to rounding.

Figure 2 shows the most recent five-year market-share trends for selected farm commodities marketed by farmer cooperatives. Grain and oilseed, and cotton and cottonseed shares varied. Milk, fruit and vegetable, and livestock and wool shares were fairly level.

Share of Farm Production Expenditures Drops

Co-ops' share of major farm production items — feed, seed, fertilizer, petroleum and crop protectants — was 27 percent in 1999, down from 29 percent in 1998. Co-ops' shares of fertilizer, crop protectants and seed remained the same, while feed dropped to 19 percent and petroleum dropped to 45 percent (table 2 and figure 3).

Total U.S. farm cash expenditures for the five major supply items decreased 2.5 percent from 1998 to 1999, while co-ops' sales decreased 7.5 percent. Co-ops' sales of feed were \$4.7 billion, down from \$5.4 billion, or 12.6 percent, in 1998. Total feed expenditures were down 2.1 percent.

Co-ops' 45-percent share of petroleum expenditures was down from a record-high 50 percent in 1998. Co-ops' sales of petroleum totaled \$6.3 billion, down from \$6.6 billion, or 5.4 percent, from 1998. However, total U.S. farm expenditures for petroleum fuel and oils in 1999 were \$5.8 billion,

up from \$5.6 billion, or 3.3 percent.

Calculating co-ops' share of petroleum expenditures is based on the assumption that 43 percent of petroleum purchased through cooperatives is for farm use. This percentage was applied to co-ops' net sales in calculating market share. This can vary from year to year, depending on factors such as weather conditions.

Co-ops' lowest share of the major farm supply items was seed, at 10 percent, unchanged from 1998 and 1997. Co-ops' share of total U.S. cash expenditures for seed was 19 percent

as recently as 1987.

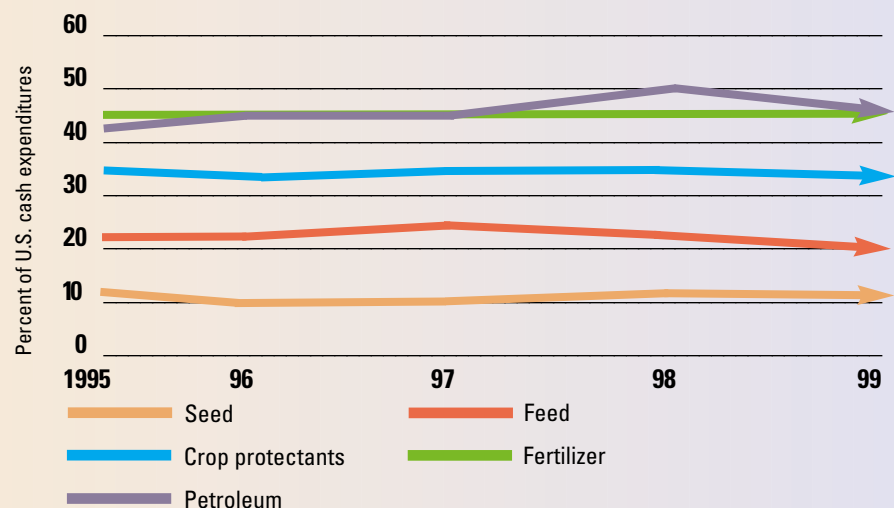
Cooperatives' sales of major farm supplies totaled \$19.5 billion in 1999 (table 3). Petroleum sales accounted for nearly \$6.3 billion, or 32.1 percent, of the total. Co-ops' sales of seed were up, while sales of all other farm inputs were down. Total U.S. farm cash expenditures were up for petroleum, about the same for seed, and down for the others — feed, fertilizer and crop protectants.

Fertilizer accounted for the second largest proportion of co-ops' major farm supply sales (24.4 percent), followed by feed (24.2 percent) and crop protectants (15.5 percent). Seed accounted for only 3.9 percent. Total U.S. feed expenditures accounted for 43.7 percent of the major farm supplies purchased, followed by fertilizer (17.7 percent), crop protectants (15.4 percent) and seed (12.9 percent).

Methods Used in Developing Co-op Shares

Cooperative-share estimates for selected commodities and farm supplies

Figure 3—Co-op's share of selected U.S. farm production expenditures, 1995-99



continued on page 31

Sweet and Sour

Sugar cooperatives restructure to combat foreign threats, low prices

By Pamela J. Karg
Field Editor



here is nothing sweet about the U.S. sugar market.

Raw sugar prices have been hovering about 25 percent below their historical average and refined sugar prices bottomed out last fall. A self-supporting sugar industry program has turned to government support. Good weather, a large domestic sugar crop, government-guaranteed import increases and trade disputes with Mexico and Canada have soured the outlook for the industry.

As prices took a nearly unprecedented free-fall in late 2000, however, growers and their cooperatives began their own slicing and dicing to determine how to weather the economic lumps. Sugar cooperatives are cutting costs to improve operating efficiencies and have anteed up money to study whether to own a greater share of the farm-to-consumer processing chain. They continue to educate political leaders about the realities of U.S. sugar policy. In the process, American sugar growers might turn their sour grapes into sweet successes through innovation and perseverance.

Processors forfeit sugar, PIK offered growers

Weak prices have caused many sugar operations, including American Crystal Sugar Co. of Moorhead, Minn., to forfeit sugar to the government for the first time in more than 20 years. James Horvath, president and CEO of the sugarbeet grower's cooperative says,



American Crystal Sugar, a grower-owned cooperative which operates this modern processing plant in Moorhead, Minn.
Photos courtesy American Crystal Sugar

“Turning sugar over to the government is not something we do lightly. However, market conditions at this time make forfeiture a viable alternative.”

Under the sugar price-support program administered by USDA, processors may pledge sugar as collateral for nine-month loans. If market prices are below the loan rate for sugar, the processor may forfeit sugar to USDA instead of repaying the loan.

Horvath pointed to a number of factors that combined to push U.S. sugar prices to their lowest level since the mid-1980s. Foremost among these are trade and domestic policy issues. Traditionally, USDA managed sugar imports to balance supply and demand. Horvath says a number of recent actions by government policymakers have limited USDA's ability to use this tool to the extent it has in the past.

“In the Uruguay Round of the World Trade Organization negotia-

tions, the government agreed to import at least 1.25 million tons of sugar each year, regardless of whether the U.S. market needs the sugar or not,” Hovarth says. “This means that foreign sugar coming into the U.S. is causing pressure on prices.”

Another source of price weakness within the U.S. sugar market is something called “stuffed molasses.” This mixture of sugar and molasses, made in Canada and brought into the United States, wreaks havoc on the industry. Horvath says that stuffed molasses imports will displace at least 100,000 tons of domestic sugar this year.

Finally, he says, there is potential for an increase in sugar imports from Mexico. Under the North American Free Trade Agreement (NAFTA), that country can ship unlimited amounts of sugar into the U.S. market after it pays a “second tier tariff.” Mexican sugar production has grown dramatically since

implementation of NAFTA in 1994. Because of sharp declines in world market prices, Mexican producers divert some of their surplus here.

“When NAFTA was being negotiated, the second tier tariff provision did

ducers the loan program as a way to ensure the market is balanced,” Horvath said. “Last fall, forfeiture to the government was the best financial alternative for our shareholders. However, our long-term interest is to bring

transferred title to 277,349 tons of refined crystalline sugar to participating producers, or their assignees, on Dec. 1. The acres diverted from production by the PIK program represented about 7 percent of acreage planted to sugarbeets. Transfer of this sugar will result in about a \$555,000 reduction in monthly CCC storage-related outlays. The sugar transferred from CCC inventory also represented about 7 percent of the expected fiscal year 2001 domestic sugar production from sugarbeets.

Testifying before the Senate Agriculture Committee in late summer, Horvath said that his farmer/owners “are supportive of this (PIK) concept. We believe it achieves several worthwhile objectives for the industry and the government.” He listed these benefits:

- It helps reduce the current oversupply of sugar by cutting the number of harvested acres this year.
- It saves USDA the responsibility of obtaining and managing large amounts of purchased or forfeited sugar.
- It starts the industry down the road to balance an over-supplied market.
- It saves the government money.

Nevertheless, Horvath emphasized that PIK does not eliminate the need for USDA to purchase additional sugar. In a letter to then-Agriculture Secretary Dan Glickman, the domestic sugar industry representatives said, “We cannot emphasize too much how important we believe it is that USDA issue an announcement immediately of an additional sugar purchase, in a significant amount, to avoid CCC sugar loan forfeitures.”

In a September 2000 editorial, *The Miami Herald* weighed in on the sugar situation. “The full impact of the failure of the 1996 Freedom to Farm Act will be felt in South Florida as sugarcane growers forfeit their crops in lieu of repaying \$141 million in government loans,” the editorial reads. “Among Midwest beet farmers, the losses to taxpayers are likely to be much greater, \$251 million... In theory, Freedom to Farm and the weaning of farmers from government controls had a lot going for it. Even today, the U.S. Department of Agriculture can point to studies show-



Moorhead, Minn., has had to forfeit sugar to the government for the first time in 20 years.

not look like a threat to U.S. producers,” according to Horvath. “Now, because of the very poor prices available in the world market, paying the second tier tariff and shipping sugar into the U.S. is beginning to look more attractive to Mexican sugar producers.”

Trade issues are compounded by a large domestic sugar crop this year. “Some U.S. sugar producers were blessed with a very good crop this year, both in cane and beet areas,” Horvath says. “This is certainly a part of the supply/demand balance. Even though American Crystal’s shareholders harvested fewer tons in 1999 than in 1998, we are getting more sugar per ton. Putting these two factors together, our total sugar production will be about the same.”

Poor domestic prices have forced American Crystal to forfeit sugar to USDA. “The Sugar Program approved by Congress in 1996 gives sugar pro-

ducers the market back into balance. If that can be accomplished, we anticipate prices would return to the levels normally provided by the Sugar Program.”

On the grower side of the supply equation, USDA’s Commodity Credit Corporation (CCC) offered a Payment-In-Kind (PIK) diversion program. The PIK program offered sugar beet producers the choice of diverting from production a portion of their crop in exchange for sugar held in CCC inventory. CCC Executive Vice President Keith Kelley reported that producers submitted 5,022 acceptable bids to participate in the program. Sugar beet acreage diverted from production totaled 101,832.9 acres.

By reducing the 2000 harvest, the PIK program helped lower government inventory costs, alleviate the current over-supply of sugar resulting from changes in supply conditions, and consequently strengthen sugar prices. CCC

ing that farmers are generally better off than they would have been under the programs that had government telling farmers what to plant and guaranteeing minimum prices. However, the new policy isn't working for all the farmers or all the commodities, and the sugar program is one example."

Diversifying, owning operations

American Crystal Sugar, the largest U.S. sugar beet processor, is owned by nearly 3,000 grower/shareholders in the Red River Valley of North Dakota and Minnesota.

Throughout the 1990s, American Crystal and other partners formed several marketing agencies in common (MAC) and joint ventures to expand marketing and to diversify agricultural opportunities for area farmers.

One marketing agency in common, United Sugars, was started in 1993 by American Crystal; Minn-Dak Farmers Cooperative, Wahpeton, N.D.; and Southern Minnesota Beet Sugar Cooperative, Renville, Minn. By pooling their resources, the three co-ops formed the nation's largest beet sugar marketing company. In 1997 amid heavy blizzards and a 500-year flood, United States Sugar Corporation, a Clewiston, Fla., sugarcane grower and processor owned primarily by employees and two charitable foundations, joined the venture. That addition increased United Sugars' share of the U.S. market to 25 percent. That same year, American Crystal introduced Pillsbury Best, the country's first national brand of sugar.

The three Upper Midwest sugarbeet cooperatives had developed close working relations in 1979 by forming Midwest Agri-Commodities, a marketing agency in common. American Crystal, Minn-Dak and Southern Minnesota Beet Sugar Cooperative are partners in the organization that markets molasses,



beet pulp and other byproducts.

American Crystal has a 46-percent ownership interest in ProGold LLC. The corn syrup plant in Wahpeton, N.D., was organized as a farmer-owned, value-added processor in 1996 by Golden Growers Co-op, American Crystal Sugar and Minn-Dak Farmers Cooperative. It began operations just before high-fructose corn syrup prices dropped by 28 percent. Operating losses caused the new cooperative to lease its plant to Cargill, which manages all aspects of its operations. Operations were halted temporarily Jan. 16.

American Crystal Sugar Company has a 50-percent ownership interest in Crystech, LLC, which was formed to acquire, construct, finance, operate and maintain a molasses desugaring facility at the Hillsboro, N.D., sugar factory. The Crystech facility came on line in 2000.

Success of the Minnesota and North Dakota sugar beet cooperatives has inspired western U.S. sugar farmers to explore ways to capture a greater share of the consumer food dollar. Growers are bidding to buy sugar plants owned by Tate & Lyle's Western Sugar Co. and by Imperial Sugar's Holly division. Frank Eckhardt of the Colorado Sugarbeet Growers Association believes farmers will raise the money and the plants will come under farmer ownership.

"This goes back to 1974 when we wanted to buy the Great Western Sugar plants," Eckhardt says. "But a man named White got them, who then sold them to the Hunt Brothers in the early 1980s. When they went bankrupt, Tate & Lyle North American Sugars bought them. Every 10 to 12 years, we've had to go through somebody else buying them. When times were tough, private investors got out and growers had a

How sweet it is

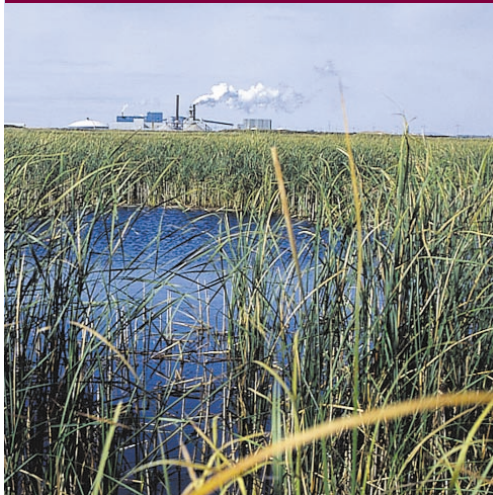
The American Sugar Alliance in Arlington, Va., is a national coalition of cane, beet and corn farmers, processors, suppliers and workers dedicated to preserving a strong domestic sweetener industry. It's made up of more than 1 million beet, cane and corn farmers who produce sugar and corn for sweetener, as well as thousands of other Americans who work in sweetener production and processing. The ASA works to ensure that farmers and workers survive in a world of heavily subsidized sugar. "Only through a united effort can these dedicated Americans continue to offer a plentiful and secure domestic supply of sweetener at a reasonable price," says ASA Executive Director Vickie Myers.

According to ASA, the corn sweetener industry includes 17 refineries nationwide that use over 750 million bushels of corn each year. That is a cornfield almost four miles wide, stretching from Washington, D.C., to San Francisco. Over 1.4 million acres of sugarbeets grow in 13 states and 33 factories process them. In the sugar cane industry, 12 refineries and 34 mills process sugar cane raised in Florida, Hawaii, Louisiana and Texas.

The ASA reports that from 1985 to 1995, U.S. sweetener policy operated at no cost to the government. The industry paid an estimated \$40 million a year into the U.S. Treasury under a special marketing assessment. The Congressional Budget Office estimates that through the end of the 1996 farm bill in 2002, that assessment will total \$288 million.

Current U.S. sugar policy allows efficient U.S. corn, beet and cane growers and processors to compete against unfair foreign subsidies and trade practices. The program provides for reliable supplies of sugar at fair and stable prices for consumers and operates at no cost to the taxpayer, who pays 28 percent less than consumers in other developed countries for their sweeteners. ■

Wetlands maintained around this American Crystal Sugar processing plant, in Hillsboro, ND, provide wildlife habitat.



chance to get in, but times were tough for us, too,” Eckhardt explains. However, current owner Tate & Lyle – based in England and one of the world’s largest sugar industry players — has been receptive to a farmer buyout.

“They’re offering the plants at their appraised value. Because the farmers have been investing in the plant, silos and equipment all along, we have \$12 million in equity built up. We would have had more, but we lost it all when the Hunt Brothers went broke. So now we will only need to pay \$78 million for the plants instead of the \$90 million they’re appraised at,” Eckhardt explained.

To buy the six sugar plants – one each in Montana and Wyoming, and two each in Colorado and Nebraska – several western organizations banded together to form the Rocky Mountain Sugar Growers Cooperative. Included in the founding group is Eckhardt’s Colorado sugarbeet bargaining association, for which he serves as board treasurer.

“It seems as though there’s only enough profit for one entity anymore, and a cooperative has more latitude in operations and sales,” Eckhardt said.

Western sugar growers are hearing the message. The co-op is asking growers to commit \$185 per acre of planted beets, with \$35 per acre due by Feb. 1 and the rest a month later. The co-op is seeking commitments representing about 185,000 acres in the four states.

The sale faces a March 31 deadline. There are over-subscriptions in Montana, and Wyoming is right on target with the amount of acres that have been contracted in the past to supply the plant, said Rick Rodriguez, vice president of the Big Horn Basin Beet Growers. Big Horn Basin is a partner in the farmer buy-out effort.

“We were a little skeptical going into this, but I’m meeting with my growers this morning to go through some more questions they have. I’d have to say everyone is fairly positive about this. There’s even a few growers who have decided not to go in, but they sure hope it works out

because they don’t want Rodriguez farms to suddenly be marketing 1,500 acres of (pinto) beans,” Rodriguez said. The Basin area has a short growing season and crop production mainstays are malt barley on contract for Coors beer, some seed crops, sugarbeets and dry beans. Rodriguez and his father, Paul, plant about 1,500 acres of sugarbeets. Switching to another crop could upset the agricultural market balance in the Big Horn.

“Even the guys downtown realize the importance of sugarbeets to this area. It’s a \$30 million industry here, when you consider growers and employees at the Lovell plant,”

U.S. ranked among world’s lowest cost producers

Despite some major obstacles, American sugar producers remain among the world’s most efficient, according to a global survey by the renowned commodities research firm, LMC International, based in Oxford, England.

For the most recent five-year period studied, 1994/95-98/99, U.S. corn sweetener producers were the lowest cost of 19 countries, U.S. beet sugar producers were second lowest cost of 40 countries, and U.S. cane sugar producers ranked 31st among 63 nations. For beet and cane sugar combined, the U.S. ranks 32nd among 102 countries studied. “Adding in the very cost competitive corn sweetener industry lifts the combined U.S. sweetener sector to 20th place out of 120 countries,” said LMC analyst Martin Todd.

Todd said U.S. corn sweetener producers have long been the world’s lowest cost producers by far, and that American sugar producers have managed to improve their ranking in each of the five-year periods LMC has studied since 1979.

Todd said the U.S. producers’ ranking is all the more impressive because they faced two major obstacles. One is that their competition is dominated by developing-country cane producers “where wages are generally very low and environmental regulations tend to be far less stringent than in the U.S.,” he said. Developing countries produce two-thirds of the world’s sugar.

The second obstacle was the strong value of the dollar, which has soared in value by about two-thirds in the past 20 years against the currencies of most other cane-producing countries. Todd explained, “A strong dollar acts to inflate that value of your costs relative to other countries, irrespective of whether or not you have managed to lower your own costs.”

Todd said, “The second half of the 1990’s presented the U.S. sweetener industry with a stern test of its ability to remain internationally cost competitive. Perhaps the greatest of these has been the strengthening of the U.S. dollar, which is beyond the control of domestic producers. Nevertheless, the industry has shown itself equal to the challenge, maintaining its impressive international ranking as a sugar and sweetener producer.” ■

Candy goblins gobble up profits from lower sugar prices

"The American sugar farmers I work with every day are having a really scary Halloween, with prices they receive for their crop down by almost a third in the four years of operating under the current Farm Bill," said Luther Markwart, executive vice president of the American Sugarbeet Growers Association (ASGA) this past October. The economic picture remained unchanged months later.

"At the same time," he said, "the big international manufacturers of sugar-containing products — from candy makers to bakers and cereal companies — continue to raise their prices."

Markwart, who is also chairman of the American Sugar Alliance, cites figures from the Bureau of Labor Statistics and USDA in making his assertion. "Since the start of the 1996 Farm Bill, the wholesale refined sugar price has dropped almost 29 percent. The price for raw cane sugar

has declined during this same period by more than 14 percent," he said.

"The price consumers pay for candy has risen more than 6 percent during this period. Cereal prices are up almost 7 percent, cookies and other bakery products are up 8 percent and ice cream prices have climbed by 10 percent," Markwart said. "Even for sugar on the grocery store shelf, despite the dramatic one-third plunge in the wholesale price, the price consumers pay has barely declined at all, a mere half-a-percentage point," he added.

The ASGA incorporated in October 1975 to unite the sugarbeet growers in the United States and promote the common interests of its members, which include legislative and international representation and public relations. ASGA represents over 12,000 sugarbeet farmers in 13 states. ■

Rodriguez added. "I just got a \$100 check from the local Kiwanis to put towards our feasibility study costs. And we've received money from all three cities in the area — Powell, Cody and Lovell — as well as Big Horn and Park counties. The state didn't have any money, but did help us secure a \$25,000 USDA grant."

Eastern Colorado may be a bit over-subscribed and western Colorado is still uncertain, Eckhardt added about his home state.

"The average age of farmers is a little higher in the western region. They have a few more options because of the continued population growth and land pressures, and if they don't have children coming into the business, this is a hard decision to make. If we do this right, those older farmers who do come in can make some money," explains Eckhardt, who farms 1,750 acres of sugarbeets, onions, potatoes, edible beans, shelled corn and silage corn at LaSalle, Colo., near Greeley. The fourth-generation farm includes his two sons. Some years, his sugar acres are the second- or third-highest income generators in the operation.

"Sugarbeets have just worked a lot better in our rotation and with the price fluctuations for different commodities," he says. "With different trade policies coming into play, prices to farmers haven't been too good. So we just feel that, as a cooperative, we could do better with marketing and keeping prices more stable for farmers."

Helping the newly formed Rocky Mountain group throughout these initial stages has been Larry Steward. He retired in September as chief executive officer of Minn-Dak Farmers Cooperative in Wahpeton and planned to move to Colorado. "But he's agreed to help us during the feasibility study. When we get going, our plan would be to hire him as our CEO," said Rodriguez.

By mid-January, it was uncertain what Nebraska growers would do. While a number of them had put up a \$2-per-acre fee to fund the feasibility study, Nebraskans now have a second option to consider after Imperial Sugar Co. announced its Holly Sugar plants in Wyoming and Montana may close due to financial troubles.

Randon Wilson, a Salt Lake City lawyer working on both proposals and providing assistance to similarly affected Michigan beet growers, said Western and Holly growers have talked about joining forces if their efforts succeed. That won't happen if too few growers back the Tate & Lyle buyout, he told the Scottsbluff, Neb., *World-Herald*.

Nebraska panhandle growers "have got a clear choice," said Wilson, who helped Idaho and Oregon beet growers buy Amalgamated Sugar Co. in 1997. "They either save the (local) industry or sentence it to death."

Eckhardt added that, if the grower buyout fails, Tate & Lyle say they will shut down Western Sugar's factories after contracts with growers expire in 2003. He and other organizers don't think that way; they foresee a sweeter future. ■

A critical look at new-generation cooperatives

Randall E. Torgerson, Deputy Administrator
USDA Rural Business-Cooperative Service

Editor's note: this article is based on the author's remarks at the annual Pacific Coast/National Cooperative Bargaining Conference in Reno, Nev.

Taking a critical look at the concept of new-generation cooperatives is a topic where some have feared to tread. But in the wake of the recent bankruptcy of Tri Valley Growers, it is a subject that merits close attention.

Growers have two basic organizational strategies for achieving marketing power. One is by organizing horizontally to help establish farmgate prices. In addition to cooperative bargaining associations, guilds, alliances and farm organizations are variants that engage in the pricing of identity-preserved commodities.

The second strategy is vertical integration, by which producers seek to add value beyond the farmgate through cooperative marketing.

All business organizations have three distinguishing features: ownership, control and who receives the benefits. The cooperative is owned and controlled by its users through democratic or proportional voting. It is capitalized by those using its services and returns to capital are limited. And it is obligated to return net margins (benefits) to users on the basis of their patronage. We define a cooperative as a user-owned and user-controlled business in which benefits are received in proportion to use.

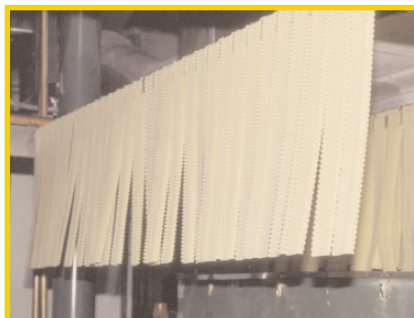
What is different about new-generation cooperatives in terms of structure and operations? A number of elements incorporated in these co-ops have been found in California for a number of years. But they were reborn on the high plains and prairies of North Dakota and Minnesota in the

1970s through the efforts of sugar beet growers. Based on the success of these organizations, a terrific resurgence of interest took place in the 1980s and 1990s by growers of durum wheat, corn, hard winter red wheat, bison, beef and (most recently) pork.

Factors driving this trend



USDA photos



include: (1) Grower returns for raw commodities as a percent of the consumers' food dollar have been declining; (2) access to markets for growers has become more difficult as concentration among food

processors and retailers has accelerated; (3) independent family farms feel threatened by the so-called "industrialization" of agriculture; (4) technological advances continue to result in increased production; (5) exports were curtailed by the downturn in Asian markets, by globalization of markets and by the strong dollar; and (6) growers have been looking for a way to share in any increase in the value of their cooperative, especially when they approach retirement.

The combination of these factors suggests that if farmers and ranchers are to survive as independent producers, they need to capture a larger share of the marketing profits generated between the farmgate and consumers. One of the primary

means of doing so is for farmers to form cooperatives that process their raw products into value-added products and then market them, thus bringing growers closer to the ultimate consumer.



Farmer organizations — such as the National Wheat Growers, National Corn Growers and National Pork Producers Council — have become leading proponents urging their members to move in this direction.

Based on these facts, many growers have pursued a vertical-integration strategy by organizing for marketing. Common characteristics of these new-generation cooperatives are that equity investment is a prerequisite to establishing delivery rights. These delivery rights are part of a producer marketing agreement (contract) that pools the delivery of products and links them to equity units purchased in the cooperative. If a grower is unable to deliver his agreed raw products, purchase of commodities is authorized by the cooperative for undelivered obligations. Delivery rights are



One of the attributes of new-generation cooperatives, in theory, is that they are very market oriented — that is, they find a market for their output and produce for it.

allocated according to plant processing capacity. This closes membership at plant capacity.

Delivery rights are in the form of equity shares that can be sold to other eligible producers at prices agreed to by the buyer and seller. The board of directors approves all stock transfers to assure that they are held only by eligible producers. This prevents ownership by outside investors. The value of delivery rights (shares) may appreciate or depreciate in value depending upon the performance of the cooperative. High levels of cash patronage refunds are issued annually to producers since they have substantial risk capital invested in the organization.

The advantage of the new-generation cooperative approach is that adequate equity capital is raised at the outset. The burden of capitalization is distributed equitably in proportion to future use of the marketing organization. Substantial up-front investment by members means that they want the business to succeed. And, assuming the business is performing adequately, exiting members can sell their invested equity at a value reflecting the cooperative's performance.

Like any business, future success depends upon a well-founded business strategy, identification of a ready market for the product, sound management, a strong role by the board of directors overseeing policy direction of the organization and protecting members' assets, and good board/management relations. The organization also has to follow sound cooperative practices. Deviation from these often spells trouble, often leading to poor performance or even the failure of the business.

Examples of new-generation cooperatives include: Dakota

Growers Pasta Cooperative, Spring Wheat Bakers, South Dakota Soybean Processors, North American Bison Cooperative, Iowa Turkey Growers Cooperative, U.S. Premium Beef and Corn Plus ethanol cooperative. A number have started from scratch and built new facilities. Others, such as Pacific Coast Producers, have taken over ownership of processors that growers were formerly supplying.

A variant of these new-generation marketing cooperatives are those organized for farm production purposes. Production cooperatives have been organized by corn and soybean growers to add value to their raw commodities by feeding them to poultry and livestock. New, large-scale production enterprises have been organized in the pork, egg and dairy sectors. Examples are ValAdCo pork producers, Golden Oval

and Dakota Layers Cooperative, and some new dairy cooperatives in Kansas and North Dakota.

It is estimated that between 75 and 100 new-generation cooperatives have been organized to date. Many are still in the formative stages. But of those that are operating, we can identify some strengths and shortfalls, and lessons to learn.

How are they performing?

Four issues can be raised about the existence and performance of new-generation cooperatives: ability to control production, stock vs. non-stock form of business, exclusivity in the farming community and the business culture.

New-generation cooperatives, in theory, are very market oriented — they find a market for their output and produce for it, expanding production of processed products only to meet increasing demand. Presumably, they do not expand production beyond the immediate market. Evidence to date on this score is mixed.

In their formative stages, new-generation cooperatives have done an excellent job of identifying markets for their processed products, i.e., not just producing something and then asking the market to take it. This has been accomplished through thorough market research as a part of their feasibility analyses and then activating a particular marketing strategy in a business plan. Clearly, this has been a plus.

Over the long term, however, it does not appear that they are immune from the trap of many isolated units making independent production decisions and then over-producing for the market. This is the exact same dilemma that faces individual growers and is the Achilles heel of

independent growers, each making their own production decisions in isolation.

One current example is the dilemma found in the sugar industry (see related story, page 10). Like many other commodity sectors, refined sugar is being produced in sugar beet country in excess of market needs, despite the fact that about one-half of the production is sourced from new-generation cooperatives in the Red River Valley, Idaho and Washington. Production expansion has occurred in recent years where cooperatives have believed that they have a strategic advantage.

Marketing cooperatives by themselves are not a mechanism for industry-wide production reduction and restraint. Indeed, this is one reason that they have been looked upon – in aggregate – as a competition-enhancing influence on markets.

Business form is a hot-button issue. Most states permit incorporation under either non-stock or capital stock cooperative statutes. At one time, there was a movement that suggested that the non-stock cooperative was a purer form of cooperative. This feeling was particularly strong in California in the 1920s. However, many U.S. cooperatives involved in value-added marketing are organized on a stock basis. The conversion of Tri Valley Growers to a stock plan raised this issue again.

Exclusivity is another key issue. Cooperatives have often had open membership policies under which growers could freely join, sometimes simply by walking in the door and transacting business. This has been especially true in the farm supply business and many raw commodity marketing and bargaining associations. Larger numbers of producers often translate into larger volumes, greater operating efficiencies, more strength in the market and a feeling of community spirit.

To the extent that new-generation cooperatives are only open to those who can afford sometimes high, up-front capitalization investments, they are viewed as more restrictive in their membership. Rather than having a rising tide that lifts all boats, only those that can afford to invest are benefactors. This criticism is heightened in those new-generation cooperatives that tie membership control to the number of delivery rights owned, instead of the more typical one-person, one-vote rule.

A fourth issue is the potential for new-generation cooperatives to take on more of an “investor” than a “cooperative” culture. Since access to delivery rights is linked to investment in shares and an internal market is created for these delivery rights, some critics feel there is a potential for the organization to become more driven by return-to-capital than by return-to-use as a guiding principle. This becomes exacerbated if the business is allowed to be organized as a limited liability company that has management or other outside investors. A trend can easily develop whereby the business is driven strictly by return-on-investment considerations. It then evolves culturally into just

another business — not one dedicated solely to serving the interest of growers.

Co-op practices need scrutiny

In the United States, share of marketing activity represented by cooperatives has doubled since the 1950s. And there is a great deal of opportunity for future growth. When problems occur, it is generally due to faulty practices. These lead to under-performance of the business and, in some cases, to ultimate failure.

A few new-generation cooperatives have experienced problems, including:

1. Purchase of delivery rights outside of a grower's production territory.
2. Use of purchases “off the market” rather than a member's delivery as a predominant means of fulfilling delivery right obligations.
3. Leasing of delivery rights as a way to hold on to appreciated value rather than having ownership in the hands of active producers.
4. Making fixed-term market obligations for final products when the market for a raw commodity is short, causing wide price disparity for producers and losses for the business.
5. Hiring of management from outside of the industry that doesn't know intricacies of the market or how to adapt their management style to a user-owned business.
6. Sourcing equity outside of membership, thereby resulting in conflicting goals and fiduciary responsibilities.
7. Attempts by board members to micro-manage the business.
8. Engaging in large amounts of non-member business.
9. Efforts by the board chairman to also serve as chief executive officer, creating lack of trust within the membership.

Ownership of delivery rights

One successful new-generation cooperative in Minnesota decided to expand operations in a state that was not even contiguous to it. Instead of selling delivery rights for supplying the new plant to producers surrounding it, many of the delivery rights were purchased by existing members in the distant state. Similarly, some producers subscribed to more delivery rights than they had the capacity to deliver from their own farms.

This practice violates basic tenets of operating on a cooperative basis, in which value is added to the production of one's own farming operation. Instead, it appears that return on investment was simply sought by processing someone else's raw commodities.

Off-market purchases

The provision for purchases “off the market” in new-generation cooperatives was put there because of the possibility of a drought, hail storm or disease that would make it impossible for a member to fulfill his or her contractual

delivery obligation. To keep the plant running at capacity, the cooperative could make purchases on the open market in the member's name.

Some new-generation cooperatives have made this a common practice, again losing the traceability of production from one's own farm through the cooperative. This practice again smacks of operating more like an investor-owned firm than a user-owned business. Some California cooperatives have even been processing non-member products (cash market) instead of using plant capacity to process members' products under marketing agreements. This has led to member dissatisfaction in several instances and criticism that members are being treated as residual claimants rather than primary beneficiaries.

Leasing of delivery rights

Cooperative control should be vested in the hands of active producers. The recent payment-in-kind (PIK) pro-



A basic cooperative operating premise is that control follows investment. If farmers want to control their business, they have to invest in it.

gram for sugar beet growers disclosed that many sugar cooperative members — particularly older ones — had leased their delivery rights to other producers. This presented many administrative problems for USDA.

The sugar program notwithstanding, the fact that delivery rights were leased clearly shows a problem. Growers holding delivery rights, while not actively producing themselves, are doing so based on expected appreciation in value of those rights or for tax purposes regarding their estates. This is a property rights issue, not unlike production quotas, which requires active monitoring by boards of directors and the need for policy direction. Otherwise, ownership in the cooperative could end up in the hands of retirees rather than active producers.

The previous three practices are those particularly related to new-generation cooperatives. The following six are related to all types of cooperatives including the new-generation variety.

Fixed-term market obligations

A Minnesota new-generation cooperative ran into severe difficulty when its management entered into fixed-price contracts for sale of processed products at a time when a short crop led to skyrocketing raw commodity prices. Millions of dollars in losses occurred that threatened to wipe out a large part of the entire grower equity base.

In order to survive, the company had to seek an outside equity investor, in this case a major investor-owned firm that was in the same business. When it recovered from the debacle, members wanted to buy out the outside firm, but found resistance to liquidating the investment by the outside company, which had been given some control over the cooperative's marketing operations as a condition of investment. In an era of fluctuating commodity prices associated with the global market, this shows that boards have to scrutinize management activities through policies that assure continuity of operations.

Hiring management from outside the industry

It is a necessity to secure top management that believes in the cooperative method of doing business and understands basic cooperative principles and practices. Numerous examples can be found where outside management is hired that possesses little understanding of the cultural differences

between user-owned and investor-owned businesses, and moreover are not predisposed to learning about them. As a result, both board and management experience a great deal of frustration that leads to under-performance. Similar situations can be found where a successful manager in one industry is brought in to another, but an understanding of the essential nuances of that industry is missing. This results in poor decisions and can lead to failure.

Outside Equity

A basic cooperative operating premise is that control follows investment. If farmers want to control their business, they have to invest in it. There simply is no substitute for grower equity in a cooperative. Some people like to promote outside ownership in cooperatives without realizing that this act changes the basic fiduciary relationship within the organization. Conflicting goals result between maximizing returns to investors and maximizing returns to grower owner-users. Basic methods of providing equity capital are through up-front subscription, retained annual earnings and per-unit capital retains. One or a combination of these must be used to finance the value-added marketing business.

Using outside sources of ownership dilutes the purpose and the direction of cooperatives — frequently making them more management than producer controlled. Ready sources of debt capital continue to be available to coopera-

tives that are creditworthy through the cooperative credit system and other sources.

Board micro-management

A key to successful cooperatives is good board-management relations. This is a practice that is a two-way street and has to be worked on every day of the year. It requires constant education about the respective roles of each. Boards must hire qualified managers in whom they have confidence and then turn over the day-to-day managerial responsibilities to them. Boards set policies that guide managers and provide them adequate room with which to manage. Periodic evaluations determine if objectives are being met and whether corrective action is required. Managers have a responsibility for maintaining good board-management relationships. Boards that develop an adversarial attitude toward managers or attempt to second guess decisions by micro-managing are destructive.

As an example, the board of a commodity promotion organization in Wisconsin was spending board meeting time going over every check written by the association. A North Dakota sugar beet cooperative lost a very resourceful manager because a few board members were attempting to dictate hiring and other belt tightening measures rather than letting the manager handle it. These are examples of actions that lead to mistrust that eventually can lead to the demise of a cooperative.

Non-member business

Engagement in large amounts of non-member business can lead to changing priorities in a cooperative. It is often justified on the basis of using tax-paid surplus as a cushion for losses. But it can also shift management's attention to maximizing profits at this end of the business rather than enhancing returns to member-users. Over time, the culture of the organization changes to operating more as an investor-owned rather than a user-owned business. Recent developments in Calavo exemplify this development.

Attempts to wear two hats

Periodically, we see a board chairman who thinks he should also wear the hat of the chief executive officer. This situation is closely related to the former issue of micro-managing, but is a special case. While there is no question that one of the primary responsibilities of a board of directors is to see that members' assets are protected and that the organization is being operated in the members' interests, attempts by board leaders to substitute their policy role with executive management responsibilities simply doesn't work in cooperatives.

Much progress, strong potential

Despite identifying certain practices that have been, or have the potential to be, problematic for new-generation cooperatives, there are many more success stories. The fail-

ure rate has not been high. We have to consider this new form of organization as a work in progress in which continual fine-tuning and adjustments will be made to enhance their potential for success on all operational fronts: governance, transfer of delivery rights, capitalization methods, pooling rules, expansion options and membership relations.

A number of these projects typify farmers' and ranchers' efforts to identify niche markets that they can fill without incurring the wrath of dominant players in the industry. As smaller businesses, they are more nimble and can adapt their marketing strategy within these market settings. In some cases, such as Dakota Growers Pasta Cooperative and sugarbeet cooperatives' marketing agencies in common, they may grow to become top players in the industry. In others, such as Spring Wheat Bakers and North American Bison Cooperative, they have identified niche markets that are not dominated by any major player.

The Iowa Turkey Growers Cooperative has found its mark in further processing of meats rather than selling whole birds, and is rapidly expanding its role in luncheon meats for delis and for private-label markets. U.S. Premium Beef has developed a quality grid that rewards members for delivering higher quality beef that meets consumer demand. As part owner of the rapidly growing Farmland Foods cooperative team, they are participating in retail markets through Walmart and other major outlets. A number of grain growers have seen their ethanol cooperatives experience improved margins with the rise in petroleum prices and the possible reduction in the use of MTBE as a gasoline additive. Dozens of others are up and running or on the launching pad.

Congress is supporting these efforts through loan guarantees for stock purchase in new value-added cooperatives, grant programs that provide assistance in studies and help defray some startup costs, establishment of a value-added market development resource center and establishment of cooperative centers that offer technical assistance. A proposal has even been introduced that would establish a government-sponsored equity capital venture fund to augment these developments. And USDA recently announced a program that rewards processors for using more grains in ethanol-producing facilities. Conversion of other forms of biomass to energy are also the subject of expanded program funding.

In short, there is a lot of momentum and energy in the value-added arena as farmers seek to strengthen income and keep themselves in the driver's seat at a time of rapid consolidation and concentration in the food industry. How will it all turn out? Are these efforts too late? Or, are they on the cutting edge of new institutional market development?

The outcome will be determined by the strength of leadership offered, careful development of business plans and marketing strategy, and proper capitalization. Ultimately, the assurance that these businesses are set up on a user-owned, user-controlled and user-benefitted basis will determine if members are the primary beneficiaries. ■

Financial performance declines for largest ag cooperatives in '99

By David Chesnick, Ag Economist
USDA Rural Development

Editor's note: USDA's annual look at the financial performance of the top 100 U.S. farm cooperatives has been condensed into a single article this year, instead of the three-part series that has run in the past. A more in-depth version of this article will soon be available at: www.rurdev.usda.gov/rbs/pub/miscell.htm.



As go the farmers, so go their cooperatives and communities.

For yet another year, most of the farming community suffered through depressed prices. In turn, this affected all agribusinesses, including cooperatives. According to a preliminary report from the Rural Business-Cooperative Service, *Farmer Cooperative Statistics*, 1999, there are 3,466 agriculture cooperatives. The business volume for all marketing, farm supply and related-service cooperatives dropped nearly 5 percent in 1999.

This article focuses on the 100 largest agricultural cooperatives because of their dominance in the co-op community. The contribution of the "top 100" co-ops to total business transacted by all ag co-ops illustrates their contributions. While representing only 3 percent of the total number of agriculture cooperatives, they account for 58 percent of total gross business volume. They also control 59 percent of total assets.

The largest 100 cooperatives vary tremendously in their type and volume of business. The total volume of business ranges from \$63 million to \$10.8 billion. The types of businesses include manufacturing, farm supply sales, marketing and processing. While more than half of the largest cooperatives sell farm supplies, only those that sell predominantly farm supplies were included

Table 1—Consolidated statement of operations, 1998-99, Top 100 cooperatives

| | 1999 | 1998 | Difference | Percent Change |
|----------------------------------|-----------------------|------------|------------|----------------|
| | ———— \$ thousand ———— | | | |
| Revenues | | | | |
| Marketing | 50,481,262 | 50,104,312 | 376,950 | 0.75% |
| Farm Supply | 16,143,245 | 16,598,476 | (455,231) | -2.74% |
| Total Sales | 66,624,507 | 66,702,788 | (78,281) | -0.12% |
| Other Operating Revenues | 541,922 | 612,823 | (70,901) | -11.57% |
| Total Operating Revenues | 67,166,429 | 67,315,611 | (149,182) | -0.22% |
| Cost of Goods Sold | 60,667,323 | 61,094,980 | (427,657) | -0.70% |
| Gross Margin | 6,499,106 | 6,220,631 | 278,475 | 4.48% |
| Expenses | | | | |
| Operating Expenses | 5,751,883 | 5,230,018 | 521,865 | 9.98% |
| Net Operating Margins | 747,223 | 990,613 | (243,390) | -24.57% |
| Other Revenues (Expenses) | | | | |
| Interest Expense | (634,149) | (566,210) | (67,939) | 12.00% |
| Interest Revenue | 69,123 | 92,045 | (22,922) | -24.90% |
| Other Income | 359,583 | 341,188 | 18,395 | 5.39% |
| Other Expenses | (54,696) | (60,211) | 5,515 | -9.16% |
| Patronage Revenue | 47,783 | 96,999 | (49,216) | -50.74% |
| Net Margins from Operations | 534,867 | 894,424 | (359,557) | -40.20% |
| Non-Operating Rev. (Exp.) | 11,974 | (10,582) | 22,556 | -213.15% |
| Net Margins | 546,841 | 883,842 | (337,001) | -38.13% |

Prior year restated on all tables

in that category in this report. Cooperatives involved with several commodities were classified as "diversified."

Stagnant sales hamper agriculture cooperatives

Low prices and adverse weather put pressure on the farm community. For the third consecutive year, operating rev-

Table 2—Total operating revenue by commodity group, 1998-99, Top 100 Cooperatives

| | Total Sales and Operating Revenue | | Difference | Percent Change |
|---------------------|-----------------------------------|------------|-------------|----------------|
| | 1999 | 1998 | | |
| | \$ thousand | | | |
| Cotton | 1,913,399 | 2,492,752 | (579,353) | -23.2 |
| Dairy | 18,421,051 | 17,170,810 | 1,250,241 | 7.3 |
| Diversified | 24,508,109 | 24,674,277 | (166,168) | -0.7 |
| Fruit & Vegetable | 7,005,105 | 6,748,965 | 256,140 | 3.8 |
| Farm Supply | 5,353,663 | 5,489,923 | (136,260) | -2.5 |
| Grain | 5,094,027 | 6,164,594 | (1,070,567) | -17.4 |
| Poultry & Livestock | 2,448,339 | 2,282,089 | 166,250 | 7.3 |
| Rice | 1,136,630 | 1,173,017 | (36,387) | -3.1 |
| Sugar | 1,286,106 | 1,119,184 | 166,922 | 14.9 |

sales for these cooperatives (Table 2).

The bright points included increased total revenue for sugar, dairy, fruit/vegetable, and poultry/livestock cooperatives. However, the gain made in these sectors couldn't overcome the drop in the other sectors.

Gross margins show resilience to sluggish sales.

Gross margins for all 100 cooperatives (Table 3) jumped 4 percent despite stagnant sales. The poultry/livestock sector caused most of the jump.

While all cooperatives in that sector had an increase, one cooperative accounted for nearly one-third of the total increase in gross margins for the top 100 co-ops.

Higher expenses hurt operating income

An increase in operating expenses for the cooperatives wiped out any gains made from higher gross margins. Operating expenses

jumped 10 percent in 1999, the largest increase in the five-year period examined.

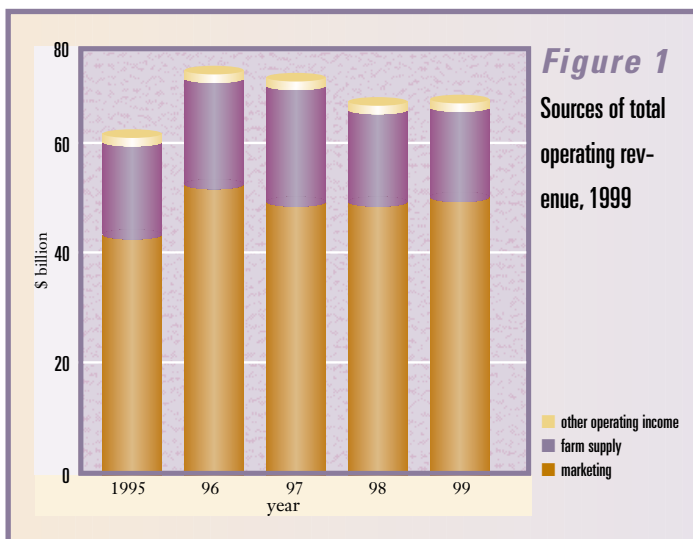
Labor expenses account for some of the increase. The average increase for labor was 5 percent in 1999. Only some cooperatives and sectors could control labor costs. Cotton cooperatives had lower operating expenses, due almost entirely to lower labor costs. Rice cooperatives also had overall lower labor costs. However, they were also able to find greater operating efficiencies that lowered their expenses further.

The other sectors showed higher labor costs and higher overall operating costs. However, most were able to control some of their operating costs despite huge increases in labor expenses.

These overall higher operating expenses hurt operating margins (Table 4). Operating margins for all cooperatives fell 25 percent to \$747 million in 1999. All sectors except poultry & livestock and sugar cooperatives ended the year with lower operating margins.

Lower interest rates made debt financing more attractive. High debt pushed interest expenses to 1980 levels. Interest expenses jumped 12 percent to \$634 million. While not a crisis, there should be some concern by cooperatives if interest rates climb.

Most of the increase in interest expense can be attributed to diversified and fruit/vegetable cooperatives. These two groups accounted for two-thirds of the total increase in interest expenses as well as the total increase in debt. Farm supply and sugar cooperatives were the other two commodities with increased interest expenses. Fruit/vegetable, farm supply and sugar cooperatives had a major firm in each sector that pushed interest expenses higher while the others in their respective groups remained consistent. The other sectors all showed lower interest expenses.



venues for the largest ag cooperatives slipped. While some bright spots existed, most of the largest organizations did not fair well in 1999. Sixty-four of the top 100 saw revenues decline. The hardest hit were cotton, farm supply and grain cooperatives, which accounted for the majority of lower sales.

As shown in Figure 1, marketing revenues generally held steady during the last three years. Farm supply sales on the other hand declined steadily from their high in 1997 of \$20.6 billion. Other operating income dropped as well.

In the two-year comparison of sales revenue (Table 1), total farm supply sales by all top 100 co-ops fell 2.7 percent, to \$16.1 billion, while sales by top 100 co-ops that specialize in farm supplies fell 2.5 percent, to \$5.4 billion. Grain and cotton cooperatives also took large hits to their revenues. Cotton fell 23 percent to \$1.8 billion while grain fell 19 percent to \$3 billion. Production of both cotton and grain increased from 1998. However, prices fell thereby suppressing the overall

Table 3—Gross margins by commodity group, 1998-99, Top 100 Cooperative

| | Gross Margins | | | |
|---------------------|-------------------------|-----------|------------|----------------|
| | 1999 — \$ thousand — | 1998 | Difference | Percent Change |
| Cotton | 141,258 | 161,792 | (20,534) | -12.7 |
| Dairy | 1,074,521 | 1,071,627 | 2,894 | 0.3 |
| Diversified | 1,574,936 | 1,520,525 | 54,411 | 3.6 |
| Fruit & Vegetable | 1,846,556 | 1,747,684 | 98,872 | 5.7 |
| Farm Supply | 589,706 | 648,388 | (58,682) | -9.1 |
| Grain | 437,257 | 474,192 | (36,935) | -7.8 |
| Poultry & Livestock | 218,978 | 7,042 | 211,936 | 3009.6 |
| Rice | 299,928 | 327,962 | (28,034) | -8.5 |
| Sugar | 315,966 | 261,419 | 54,547 | 20.9 |

Table 4—Operating margins by commodity group, 1998-99, Top 100 Cooperative

| | Operating Margins | | | |
|---------------------|-------------------------|----------|------------|----------------|
| | 1999 — \$ thousand — | 1998 | Difference | Percent Change |
| Cotton | 64,323 | 77,747 | (13,424) | -17.3 |
| Dairy | 186,140 | 209,571 | (23,431) | -11.2 |
| Diversified | 183,229 | 335,008 | (151,779) | -45.3 |
| Fruit & Vegetable | 116,550 | 189,457 | (72,907) | -38.5 |
| Farm Supply | (20,914) | 107,094 | (128,008) | -119.5 |
| Grain | 49,875 | 98,451 | (48,576) | -49.3 |
| Poultry & Livestock | 119,246 | (80,174) | 199,420 | -248.7 |
| Rice | 18,143 | 32,470 | (14,327) | -44.1 |
| Sugar | 30,631 | 20,989 | 9,642 | 45.9 |

Patronage refunds received for all cooperatives fell to a new decade low. Patronage refunds from other cooperatives declined 51 percent, to \$48 million. Cotton and dairy cooperatives were the only sectors to receive higher patronage refunds. The major decline occurred in diversified and grain cooperatives.

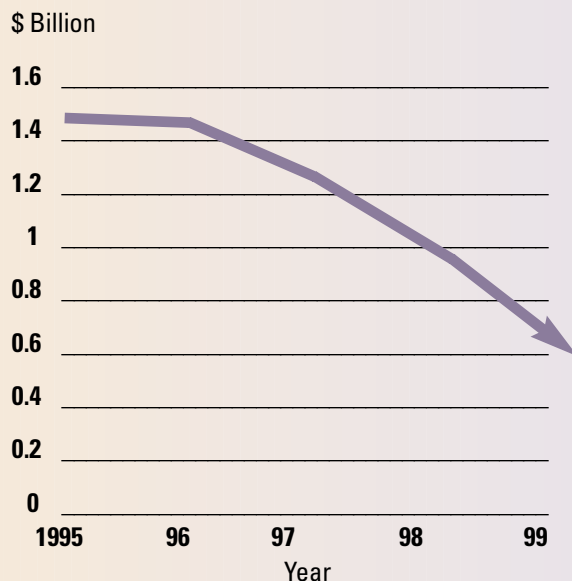
Interest income for all co-ops also dropped 25 percent, to \$69 million. Interest income includes revenue earned on member accounts and finance subsidiaries. For some cooperatives, interest income is substantial and represents up to 7 percent of total revenue. For most co-op, it represents less than 1 percent of total revenue. Every commodity group had lower interest income.

Other income/expense represents earnings or losses associated with joint ventures or unconsolidated subsidiaries. Generally, this income indirectly relates to operations. For all co-ops, other income/expense reached record levels, jumping 9 percent to \$305 million. While most sectors showed higher amounts of other income, diversified and fruit/vegetable cooperatives account for 85 percent of the total increase. Only dairy and poultry/livestock cooperatives had lower other income. Usually these other income/expenses are not substantial. However, eight cooperatives would have ended 1999 with a loss if not for income generated by these sources.

Net margins continue to slide

After peaking in 1995, net margins before distribution for the largest agriculture cooperatives turned downward. Figure 2 illustrates this point. While cooperatives generated higher margins on their sales, they were not able to control operating expenses. These expenses eroded their bottom line. Table 5 shows net margins for each commodity group. Sugar co-ops showed higher margins only after suffering losses in the prior two years. They turned their operations around and ended 1999 with \$2 million in net margins. However, persistent slumping sugar prices

Figure 2—Net margins before distribution, 1999



will continue to put pressure on these cooperatives.

Allocated patronage refunds decline

Members did not get back much in the way of allocated patronage refunds in 1999 (Figure 3). Not only were there fewer margins to distribute, but also the largest cooperatives allocated a smaller percent of their income than in past years. Table 6 shows the distribution of net margins by commodity type.

Cooperatives allocated only 64 percent of their net margins to members, compared with 75 percent in the prior years. Income taxes took a larger chunk of net margins in 1999 than in 1998. Retention of a higher percent of net margins was partially to blame. However, nonmember business

Table 5—Net margins by commodity group, 1998-99, Top 100 Cooperative

| | Net Margins | | | Percent Change |
|---------------------|-----------------|-----------|------------|----------------|
| | 1999 | 1998 | Difference | |
| | — \$ thousand — | | | |
| Cotton | 58,187 | 61,579 | (3,392) | -5.5 |
| Dairy | 222,766 | 300,239 | (77,473) | -25.8 |
| Diversified | 134,091 | 336,610 | (202,519) | -60.2 |
| Fruit & Vegetable | 6,905 | 87,615 | (80,710) | -92.1 |
| Farm Supply | (66,170) | 84,305 | (150,475) | -178.5 |
| Grain | 80,864 | 137,189 | (56,325) | -41.1 |
| Poultry & Livestock | 95,149 | (137,252) | 232,401 | -169.3 |
| Rice | 12,913 | 21,042 | (8,129) | -38.6 |
| Sugar | 2,136 | (7,485) | 9,621 | - |

and other ventures contribute to the increase as well.

Cooperatives also are paying out more dividends. These dividends are not the same as patronage dividends paid on business done with the cooperative, but rather dividends paid on shares owned. Some cooperatives are using more non-patronage sources of equity to help finance their operation and expansion.

Total assets jump as co-ops accumulate more debt

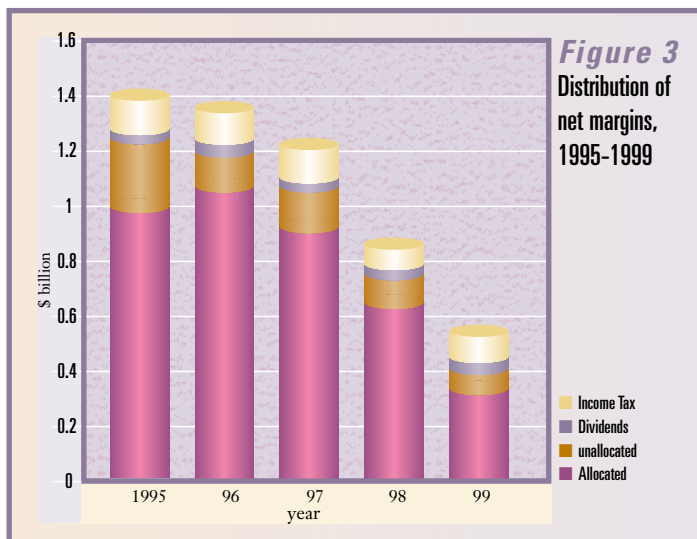
Despite slumping sales, cooperatives continue to increase their asset base. Assets for all cooperatives jumped 7 percent in 1999 (Figure 4), ending the year with a value of \$28.2 billion.

Current assets increased 5 percent, to \$13.7 billion. Cooperatives were holding a higher percentage of cash in 1999 than in 1998. While both accounts receivable and inventory increased, their percentage of total assets fell for the fifth straight year. This would indicate that cooperatives are trying to adjust to a declining agriculture economy.

The largest increase in assets occurred in investments, and joint ventures accounted for most of it. The largest increase in investments was with non-cooperative- joint ventures and unconsolidated subsidiaries.

Table 6—Distribution of net margins by commodity type, 1999

| | Cotton | Dairy | Diversified | Fruit & Vegetable | Farm Supply | Grain | Poultry & Livestock | Rice | Sugar |
|--------------------------------|---------|---------|-------------|-------------------|-------------|--------|---------------------|--------|-------|
| Cash Patronage | 24,811 | 68,088 | 44,479 | 3,923 | 7,350 | 21,243 | 2,417 | 6,890 | - |
| Retain Patronage | 12,917 | 78,977 | 72,391 | (84,941) | 18,409 | 40,913 | 12,314 | 415 | - |
| Nonqualified Noncash Patronage | 521 | - | - | 17,211 | - | 1,843 | - | - | - |
| Dividends | 24,261 | 944 | 11,398 | 8,195 | 1,081 | 55 | - | 491 | - |
| Unallocated Equity | (4,240) | 52,146 | 1,357 | 29,828 | (85,929) | 12,089 | 46,099 | 5,389 | 752 |
| Income Tax | (83) | 22,611 | 4,466 | 32,689 | (7,081) | 4,721 | 34,319 | (272) | 1,384 |
| Total Distribution | 58,187 | 222,766 | 134,091 | 6,905 | (66,170) | 80,864 | 95,149 | 12,913 | 2,136 |



Property, plant and equipment expanded 7 percent, to \$8.4 billion. These fixed assets represent 30 percent of total assets, the same percentage as in 1998.

Expansion of assets fueled by higher debt

Liabilities financed 80 percent of asset expansion in 1999. Total liabilities climbed 9 percent, to \$17.7 billion in 1999. Leading the way was debt. Total short- and long-term increased by \$1.3 billion.

Current liabilities increase by 5 percent, to \$10.1 billion. Short-term debt and accounts payable were the leading causes of this increase. Those liabilities owed to members — either through cash patronage and other revolving equity or through pool liabilities — fell by \$313 million. All this leads to a higher leveraged cooperative and greater influence from outside creditors.

Table 7—Condensed balance sheet by commodity type, 1999

| | Cotton | Dairy | Diversified | Fruit & Vegetable | Farm Supply | Grain | Poultry & Livestock | Rice | Sugar |
|------------------------------|-------------|-----------|-------------|-------------------|-------------|-----------|---------------------|---------|-----------|
| | \$ Thousand | | | | | | | | |
| total current assets | 438,500 | 2,108,381 | 5,313,040 | 2,359,946 | 1,370,433 | 952,116 | 511,403 | 265,668 | 367,738 |
| total investments | 56,221 | 1,009,457 | 1,322,259 | 467,446 | 596,997 | 283,920 | 111,334 | 34,956 | 116,670 |
| net pp&e | 164,122 | 1,074,905 | 2,513,678 | 1,358,489 | 1,406,667 | 786,055 | 255,874 | 182,009 | 692,964 |
| other assets | 15,168 | 97,919 | 1,249,567 | 283,033 | 170,679 | 102,897 | 99,635 | 3,101 | 13,928 |
| total assets | 674,011 | 4,290,662 | 10,398,544 | 4,468,914 | 3,544,776 | 2,124,988 | 978,246 | 485,734 | 1,191,300 |
| total current liabilities | 304,370 | 1,658,250 | 4,166,028 | 1,523,412 | 8,517,724 | 766,838 | 397,678 | 181,772 | 291,712 |
| total noncurrent liabilities | 81,674 | 699,174 | 3,051,421 | 1,624,168 | 1,005,382 | 341,554 | 277,006 | 66,913 | 461,000 |
| total liabilities | 386,044 | 2,357,424 | 7,217,449 | 3,147,580 | 1,857,154 | 1,108,392 | 674,684 | 248,685 | 752,712 |
| minority interest | - | 302,658 | 109,380 | 43,000 | 7,444 | 70,297 | 1,048 | - | 947 |
| member equity | 263,200 | 1,256,627 | 2,636,213 | 1,007,971 | 1,286,207 | 721,942 | 217,941 | 161,644 | 451,219 |
| unallocated capital | 24,767 | 373,953 | 435,502 | 270,363 | 393,971 | 224,357 | 84,573 | 75,405 | -13,578 |
| total equity | 287,967 | 1,630,580 | 3,071,715 | 1,278,334 | 1,680,178 | 946,299 | 302,514 | 237,049 | 437,641 |
| total liabilities and equity | 674,011 | 4,290,662 | 10,398,544 | 4,468,914 | 3,544,776 | 2,124,988 | 978,246 | 485,734 | 1,191,300 |

Non-current liabilities posted a 15 percent jump, ending 1999 at \$7.6 billion. Long-term debt was the major influence on this increase, jumping \$912 million. Fruit/vegetable, farm supply and diversified cooperatives contributed the largest increases in long-term debt. Only a few cooperatives dominated the fruit/vegetable and farm supply arena while most cooperatives in those two sectors actually had lower long-term debt. Every cooperative in the diversified group showed higher debt levels.

Equity climbs but is overshadowed by debt

Equity for the largest agriculture cooperatives increased 3 percent, to a record high level of \$9.9 billion. Every category of equity increased, with member equity having the greatest increase (Figure 5). Member equity, which includes common stock, preferred stock, equity certificates and credit, jumped \$286 million, ending 1999 at \$8 billion. Unallocated equity increased 1 percent, to \$1.9 billion. However, the increase in equity did not

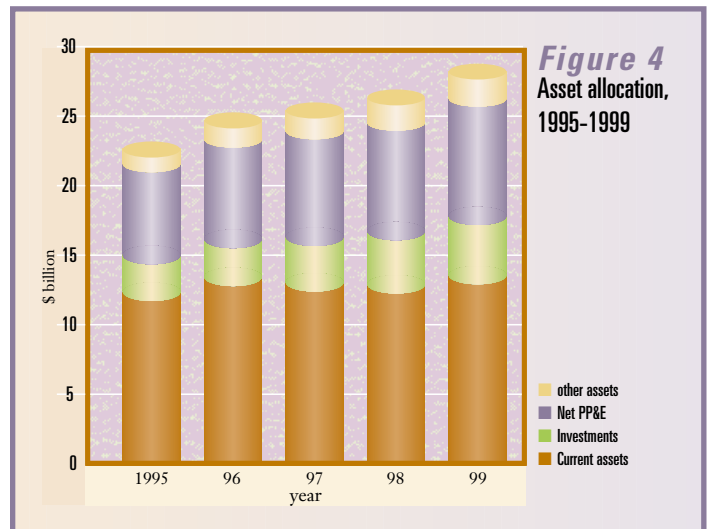
rise as much as the liabilities of these co-ops.

Large co-op performance continues to take beating

The average performance measures for all 100 cooperatives continued to show deterioration over the prior year. The tools devel-

oped to analyze the cooperative's financial information include several performance measurements or ratios (Table 9). These measurements are standard ratios found in most financial textbooks.

The current and quick ratios examine the cooperative liquidity. Both ratios show that the average cooperative liquidity has been eroding over the 4 years preceding 1999. The current ratio fell from 1.37 to 1.36 between 1998 and



1999. The quick ratio fell from .76 to .74 during the same period. While this change is relatively small, it does support the assumption stated earlier that most cooperatives are relying more heavily on outside financial sources. With short-term debt and accounts payable increasing faster than current assets, cooperatives are also relying more on outside sources to finance their day-to-day operations.

Other ratios, such as days-to-sell

Table 8—Combined balance sheet all Top 100 co-ops, 1998-99

| Assets | 1999 | 1998 | difference | % change |
|-------------------------------------|-------------------|-------------------|------------------|--------------|
| | — \$ Thousand — | | | |
| Current Assets | | | | |
| Cash | 859,316 | 745,714 | 113,602 | 15.2% |
| Accounts Receivable | 5,701,565 | 5,460,916 | 240,649 | 4.4% |
| Inventory | 6,024,047 | 5,698,768 | 325,279 | 5.7% |
| Other Current Assets | 1,102,297 | 1,176,749 | (74,452) | -6.3% |
| Total Current Assets | 13,687,225 | 13,082,147 | 605,078 | 4.6% |
| Investments | | | | |
| Investment in cooperatives | 2,119,593 | 2,052,184 | 67,409 | 3.3% |
| Investment in others | 1,879,667 | 1,459,836 | 419,831 | 28.8% |
| Total Investments | 3,999,260 | 3,512,020 | 487,240 | 13.9% |
| Net PP&E | 8,434,763 | 7,883,924 | 550,839 | 7.0% |
| Other Assets | 2,035,927 | 1,807,042 | 228,885 | 12.7% |
| Total Assets | 28,157,175 | 26,285,133 | 1,872,042 | 7.1% |
| Liabilities | | | | |
| Current Liabilities | | | | |
| Total Short-term Debt | 3,308,836 | 2,885,950 | 422,886 | 14.7% |
| Accounts Payable | 3,667,197 | 3,347,622 | 319,575 | 9.5% |
| Member Payables | 422,870 | 595,287 | (172,417) | -29.0% |
| Patron and Pool Liabilities | 1,164,744 | 1,305,463 | (140,719) | -10.8% |
| Other Current Liabilities | 1,578,185 | 1,494,550 | 83,635 | 5.6% |
| Total Current Liabilities | 10,141,832 | 9,628,872 | 512,960 | 5.3% |
| Long-term Liabilities | | | | |
| Long-term debt less | 6,428,116 | 5,516,117 | 911,999 | 17% |
| current portion | | | | |
| Other liabilities and | 1,180,176 | 1,094,291 | 85,885 | 7.8% |
| deferred credits | | | | |
| Total noncurrent liabilities | 7,608,292 | 6,610,408 | 997,884 | 15.1% |
| Total liabilities | 17,750,124 | 16,239,280 | 1,510,844 | 9.3% |
| Equity | | | | |
| minority interest | 534,774 | 481,846 | 52,928 | 11.0% |
| member equity | | | | |
| preferred stock | 1,572,153 | 1,421,296 | 150,857 | 10.6% |
| common stock | 727,470 | 678,745 | 48,725 | 7.2% |
| equity certificates | 5,703,341 | 5,617,068 | 86,273 | 1.5% |
| and credits | | | | |
| unallocated capital | 1,869,313 | 1,846,898 | 22,415 | 1.2% |
| total equity | 9,872,277 | 9,564,007 | 308,270 | 3.2% |
| total liabilities and equity | 28,157,175 | 26,285,133 | 1,872,042 | 7.1% |

inventory and days-in-accounts receivable, also point to lower liquidity.

Days-to-sell inventory represents the average number of days a cooperative holds inventory before marketing it. This ratio increased from 51.6 to 54.1 days. Similarly, days-in-accounts receivable represents the average number of days cash is tied up in accounts receivable. This value increased from 27.8 to 32.1 days. An increase in these values would indicate a less liquid position and a greater need to manage inventory and accounts receivable.

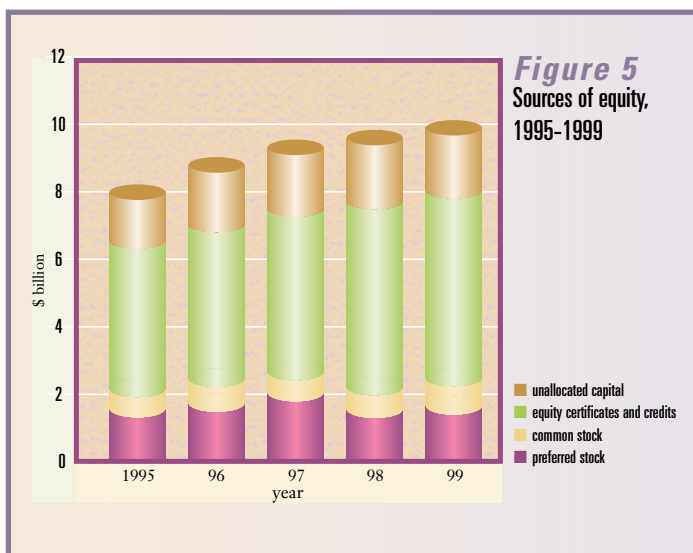
Leverage ratios show the risk associated with financing and the cooperatives' ability to meet their long- and short-term obligations. The debt-to-asset ratio illustrates an asset financing option. In 1999, the debt-to-asset ratio was 0.6, up from 0.59 in 1998. Looking at it another way, members financed only 40 percent of assets directly. Examining long-term financing, we focus on the long-term debt-to-equity ratio. This ratio jumped from 0.5 in 1998 to 0.58 in 1999.

While leveraging a cooperative is not necessarily a bad thing, it does put more risk on the business. The biggest risk comes from a co-op defaulting on its loans. An examination of the times-interest-earned ratio provides a quick look at that scenario. The times-interest-earned ratio looks at the number of times interest expense is covered by net margins with interest added back. This ratio fell from 5.2 to 3.8 in 1999. While there is no current crisis, the leverage ratio points to a situation where cooperatives are leveraging themselves at a time when their businesses are beginning to show some financial stress.

Activity ratios look at how well the cooperative uses its assets. Again, cooperatives are finding activity ratios sliding. Local-asset-turnover, calculated by taking total revenues divided by local assets, dropped from 3.5 to 3.2. This represents the amount of revenue generated by each dollar invested in local assets. Local assets are total assets less investment in other cooperatives. This seems to indicate that revenues are not keeping pace with the growth in the cooperative's assets. Fixed-asset-

Table 9—Ratios by commodity group, 1999

| | Current Ratio | Quick Ratio | Debt-to-asset | L-Term debt-to Equity | Times interest earned Times | Local asset turnover | Fixed asset turnover | Gross profit margin | Net operating margin Percent | ROA | ROE |
|-------------------|------------------|----------------|---------------|--------------------------|-----------------------------------|-------------------------|-------------------------|------------------------|------------------------------------|-------|-------|
| All coopeatives | 1.36 | 0.74 | 0.60 | 0.58 | 3.78 | 3.19 | 14.85 | 15.12 | 1.76 | 6.19 | 9.05 |
| Cotton | 1.60 | 0.96 | 0.54 | 0.23 | 6.02 | 3.54 | 21.83 | 10.89 | 4.42 | 11.73 | 19.12 |
| Dairy | 1.29 | 0.85 | 0.59 | 0.32 | 7.71 | 5.32 | 28.24 | 9.61 | 1.61 | 8.01 | 14.94 |
| Diversified | 1.36 | 0.90 | 0.70 | 1.43 | 1.84 | 2.22 | 9.16 | 12.24 | 1.50 | 4.15 | 4.48 |
| Fruit/Vegetable | 1.49 | 0.74 | 0.67 | 0.88 | 2.56 | 2.10 | 9.94 | 24.36 | 2.07 | 4.41 | 6.07 |
| Farm Supply | 1.43 | 0.63 | 0.57 | 0.58 | 2.37 | 2.31 | 8.67 | 16.13 | 1.60 | 4.75 | 3.66 |
| Grain | 1.27 | 0.66 | 0.54 | 0.40 | 4.06 | 3.03 | 8.60 | 12.54 | 1.04 | 6.34 | 9.50 |
| Poultry/livestock | 1.20 | 0.90 | 0.78 | 0.79 | 0.33 | 4.57 | 59.58 | 5.78 | 2.04 | 6.15 | 4.26 |
| Rice | 1.56 | 0.73 | 0.51 | 0.32 | 3.11 | 2.54 | 6.26 | 28.16 | 2.52 | 6.47 | 10.23 |
| Sugar | 1.22 | 0.55 | 0.63 | 1.03 | 1.13 | 1.03 | 1.63 | 24.30 | 2.96 | 3.22 | 0.42 |



turnover also fell, from 15.5 to 14.8.

These ratios indicate cooperatives are losing efficiency in their asset use. In other words, cooperatives are increasing the amount of assets they hold but these assets are not generating the revenues they once did.

Profitability ratios, while limited as an absolute indicator, do provide a view of financial strength for the cooperative. We have already seen that cooperatives were less profitable and efficient with their assets. Therefore, we would expect return on assets to fall and indeed that is what we find. Return on total assets, calculated as net margins plus taxes and

interest expense divided by total assets, fell from 7.4 to 6.2 in 1999. This ratio focuses on the operation itself without respect to cooperative financing.

Return on member equity looks at the return on member investment after deducting all expenses, including taxes and interest. Here we

can see the effects of leveraging on the cooperative. While the return on assets fell 1.2 points, the return on member equity fell from 12.1 to 9.1. Leverage, in affect, caused a greater proportional drop in member returns. This is the risk of using borrowed capital. Interest must be paid whereas members must take what is left over.

Cooperatives must brace for the future

Overall, cooperatives are finding themselves in a “catch 22” position. With depressed agriculture conditions, cooperatives are finding their bottom line shrinking. Since traditional equity financ-

ing for cooperatives relies on their net margins, cooperatives are increasingly turning to outside sources of capital to fund their operations. This action puts further pressure on their expenses, with higher interest payments cutting deeper into their net margins. If cooperatives did not borrow funds, it would be more difficult for them to fund expansion. Putting off these investments will make it hard to increase efficiencies in their operations and thus cut into their future net margins.

While it is not time to panic, cooperatives must balance their need for capital with their need for investment. Many cooperatives are taking a proactive approach to funding as well as to how they are conducting their operations. We see various experiments with new forms of funding, but there are no “silver bullets” for financing cooperatives. Mergers, consolidations and joint ventures (with both cooperatives and non-cooperatives) are other ways cooperatives are trying to streamline their operations. A few questions remain. Will the agriculture economy finally recover enough for the remaining cooperatives to survive? Are these cooperatives in a position to weather a tight agriculture economy or will more change be forthcoming? ■

EdVisions

Minnesota teachers' co-op serves rural charter schools

Katherine L. Hanson, Education Specialist

USDA Rural Development

In Minnesota, a group of teachers and education professionals has turned to a cooperative in an attempt to improve accountability for student performance and overall school success. Its members are seeking alternatives to the existing framework of traditional educational governance and structure through a teachers' cooperative. They have taken control of their instructional programs and professional futures.

In 1994, a group of educators at the Minnesota New Country School (MNCS) in the Minnesota River Valley took these goals to heart by forming

EdVisions
Teacher Cooperative.
MNCS
was

originally located in three storefront buildings in the sponsoring district of LeSueur-Henderson, about 60 miles southwest of Minneapolis. The school opened its doors with 65 students, and has since increased its enrollment to 130 students in grades 7-12. The increased enrollment forced MNCS officials to relocate from LeSueur to a new, \$1.2 million facility in Henderson. The new building was the result of a partnership between USDA Rural Development and local investors.

It is no coincidence that MNCS is an innovative public charter school enjoying substantial success in terms of state-measured student achievement. The MNCS teachers were confident their approaches to teaching would make a difference, and they were eager to have more control over the educational process.

The cooperative of professional teachers would operate on a new premise quite different from that of a large teacher's union. As member-owners, they would gain true site-based management and control of educational resources.

Ted Kolderie of the Center for Policy Studies in St. Paul supported the EdVisions Cooperative from its inception. He says many educators were disenchanted with their teacher's union, and viewed the organization as a "protector

of the teaching profession, rather than an enhancer of education." He believed teachers would act differently if they were at least "spiritual owners" of their instructional program.

Likewise, fellow EdVisions founder Ron Newell felt a teacher cooperative would encourage professional collegiality and nurture a sense of responsibility for professional development. Teachers were eager for the opportunity to have a say in the quality and quantity of their training. Many teachers said they felt as though they were working at the will of the administrators in the traditional public school. By marketing their services to the school board, the members of this cooperative ensured that the administrators were instead working at the will of the teaching professionals. By becoming their own bosses, the EdVisions teachers could influence career decisions directly impacting themselves and their program.

Cooperative Advantages

According to Newell, one very positive aspect of the teacher cooperative is that student learning activities benefit from money saved in the system. The advantages a teacher cooperative can offer in terms of increased autonomy are obvious. However, what are some other benefits of this type of worker cooperative?

In EdVisions, the educator-owners carry many different responsibilities in addition to teaching. Some of these duties include establishing and maintaining insurance and benefits packages for co-op employees, marketing the school to attract students, and preparing payrolls. By serving as



EdVisions teacher Dean Lind offers advice to a MNCS student.
Photos courtesy MNCS student Dan Madlo and EdVisions

their own governance system, the members eliminate about 20 percent of the costs normally associated with administrative staffing duties. This can be especially difficult since charter schools deal with twice as much paperwork as do their traditional counterparts.

Dean Lind is a veteran teacher at MNCS and a charter member of EdVisions. Like many in the organization, Lind must assume responsibility for a portion of the administrative operations of the cooperative. "The original intent of the charter school law was to help reduce the paperwork associated with school operations. However, because we represent small, independent schools, EdVisions can't take advantage of the economy of scale in a larger administration to spread the workload more evenly," Lind explains. "Further, charter schools are scrutinized much more closely in terms of accountability, which contributes to the paperwork burden."

Membership in this worker-owned cooperative is not limited to professional educators. EdVisions provides a voice to the people who are directly involved with, and affected by, decisions regarding teachers. In their eagerness to make the educational process an interactive one, EdVisions members invite parents to join the co-op. Since parents are "outsiders" to the teaching profession – and not directly affected by administrative decisions such as salary, benefits, and staff development — the potential for friction exists.

According to Newell, there has been no dissension among the members based on whether they are teachers or parents. By contrast, the parents defer to teachers on career-affecting decisions and are more concerned with curriculum and instruction issues.

Another cooperative advantage is its ability to pool resources and ideas with other teacher-members who are also striving to deliver guaranteed academic achievements that ensure job retention. If a particular method or activity proves

Educational challenges pose need for change

Why are teachers seeking alternatives to the traditional, top-down administrative systems in education? Consider the state of education in America's burgeoning society.

Education is a top priority for the new Bush administration. Many public school systems are in a state of crisis with rising enrollments and falling academic achievement. There are more children enrolled in school now than at any time in American history, and that number is increasing at a phenomenal rate in some districts. Last September, 53 million children entered U.S. public and private schools – an increase of 8 million schoolchildren in the last 15 years.

At the same time, many public education systems have failed to accomplish the goals established by state and federal mandates. Many districts have not re-invested in their school buildings as they compete with other government programs for tax dollars.

These factors translate into increased demands for academic accountability. Parents, teachers, administrators and legislators recognize the need for education reform and improved teaching methods. Public education reforms have provided innovative, market-based alternatives to the traditional system. Teachers in the trenches fighting the accountability battle have real-life ideas for change that could improve student performance. Quite simply, they recognize the need for change in the education business.

In addition to the first-known teachers' cooperative, another part of the reform effort originating in Minnesota was the nation's first charter school, formed in 1991. A

charter school operates on public funds, under a written agreement between a school and a granting authority. What makes a charter school different is its freedom from most administrative constraints that traditionally encumber public schools.

The trade-off is that a charter school must demonstrate greater accountability in exchange for autonomy. Achieving performance standards stated in the charter is the basis for its periodic renewal. The school faces suspension or closure if it fails to meet accepted standards. Naturally, if a charter school closes, its teachers are out of a job.

This novel approach has encouraged teachers and education professionals to be more creative in their curriculum design, development and delivery. Charter schools, proponents say, allow for freedom in the development of customized curricula and educational programs. Indeed, although charter schools are accountable for the academic achievement of their students, the methods by which they produce those results are completely individual.

Teachers get the flexibility and independence to customize learning opportunities to meet the needs of their specific students. This ability to empower teachers and make them stakeholders in the educational process makes charter schools popular educational options. From this environment of autonomy and accountability, a new breed of teachers has emerged. More importantly, these teachers want to own their services, and market those services competitively. ■

highly successful to one teacher, it benefits the entire cooperative to share that success and spread the educational wealth. In this way, school “A” can help train school “B” in the successful cooperative principles. Cooperatives can share state-required standardized testing materials, thus reducing costs and increasing efficiency.

One distinguishing feature of a teacher cooperative is its reimbursement system. Teachers no longer receive their paychecks from the district. Instead, the sponsoring district pays the school to hire teachers, the school pays the cooperative for the teachers’ services, and the cooperative pays the teachers. There is no relationship between the teachers and the sponsoring district, but legislation entitles the cooperative’s teachers to the same state retirement benefits as non-co-op teachers.

EdVisions teachers are employees of the school, employees of the cooperative, and self-employed member-owners. In a sense, the triple-employment aspect of this cooperative offers the best of two worlds – teachers gain educational independence and governance control without sacrificing the benefits and protections normally associated with traditional teacher employment situations.

Cooperative growth

What began as a handful of vision-ary teachers and education profession-

Foundation Awards \$4.5 Million to EdVisions, Minn. New Country School

The member-owners of EdVisions Teacher Cooperative have made big believers out of some influential friends of the education community. Last September, the Bill and Melinda Gates Foundation awarded a \$4.5 million grant to this group of innovative education professionals. The grant has a twofold purpose: it is being used in the replication of the EdVisions teacher-owner governance model and the learning model at the Minnesota New Country School, where EdVisions was founded. Over the next five years, the EdVisions project will create 15 new schools modeled after the highly successful instructional approach refined at the Minnesota New Country School.

This sizeable award is just a small part of a larger \$56 million initiative aimed at supporting schools that provide small, focused learning environments. The Bill and Melinda Gates Foundation is dedicated to helping all students achieve at high levels by recognizing and encouraging high-achieving schools and developing strong leadership throughout the education system. This desire to improve people’s lives through education is evidenced by the foundation’s three-year, \$350 million commitment to that end. Led by Bill Gates’ father, William H. Gates, Sr., and Patty Stonesifer, the Seattle-based foundation has an asset base of \$21.8 billion. Information on the Bill and Melinda Gates Foundation’s education grants can be found at <http://www.gatesfoundation.org/learning/education>. ■

als has grown to include nearly 90 members. This cooperative has been so successful that the Bill and Melinda Gates Foundation has awarded it a substantial grant (see sidebar) to replicate the governance system by creating 10 new organizations in 15 new charter schools in Minnesota and Wisconsin.

As EdVisions implements the 10 new

co-ops, it will realize its vision of becoming a “nationwide cooperative,” with “individual cells of locally controlled cooperative members.” In achieving that goal, EdVisions will grow large enough to gain economy-of-scale for administrative purposes, benefits packages and professional development opportunities, while retaining teacher-level control. As it grows, so will the repository of available teaching strategies, activities, and creative practices of its member-owners.

Based on the success of the EdVisions Teacher Cooperative and the satisfaction of its professional member-owners, the future looks bright for others in the field of education who want to create opportunities for increased involvement in owning and operating educational entities. Prospective members will be entrepreneurs who are ready to challenge the existing molds of educational thinking, and lead the way into a new century of changing educational paradigms. ■



The EdVisions instructional philosophy encourages independent learning in non-traditional settings.



U.S., Canadian Pasta Co-ops Link

Officials from Dakota Growers Pasta Company, Carrington, N.D., and Prairie Pasta Producers, Carlyle, Saskatchewan, signed a memorandum of understanding Jan. 25 outlining how the two durum co-ops will work together in building an international, farmer-owned, value-added pasta company. The partnership is a proactive approach positioning Dakota Growers Pasta Company in an increasingly competitive global pasta market. "We're trying to do what is right for the farmer. This is not an action that will allow the dumping of Canadian durum into U.S. markets," said Tim Dodd, president of Dakota Growers Pasta Company.

Perry MacKenzie, board chairman of Prairie Pasta Producers, sees the preliminary understanding as a positive opportunity for Canadian durum producers. "Together, Prairie Pasta Producers and Dakota Growers Pasta Company can work toward developing a level playing field for durum producers in North America." Dakota Growers Pasta Co. now can allow non-United States entities and associations of agricultural producers to join the cooperative.

"It is very important to our members that this company remain farmer-owned," said Dodd. New associations that apply for cooperative membership must be grower owned and require board approval. "Our mission is twofold, but is very simple: providing our cus-

tomers with premium quality pasta products and maximizing returns to our grower-members." Dodd embraces the idea of including all durum producers from the durum triangle region of the northern plains to create a single producer-owned pasta company.



Packaged pasta rolls down the line at Dakota Growers Pasta Co. USDA Photo

tomers with premium quality pasta products and maximizing returns to our grower-members." Dodd embraces the idea of including all durum producers from the durum triangle region of the northern plains to create a single producer-owned pasta company.

"The pasta industry is in the state of overcapacity. We have quadrupled our pasta capacity and milling needs over the last seven years. Enrolling Canadian farmers into our cooperative provides a broader base to select durum that meets the quality needs our customers have come to expect. By working together with the Canadian farmers, we can accomplish more than working against one another."

The overcapacity market issue has been clearly identified by Prairie Pasta Producers in its feasibility study and business plan as well. The group has recognized that building a "greenfield" plant presents tremendous risk at a time that the pasta industry is fighting for market share at less than desirable prices. This agreement would allow them to work together in Dakota Growers Pasta Co. rather than against them. The next step for the two organizations is to develop a definitive agreement that can be submitted to the Saskatchewan Securities Commission.

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Three-person panel to settle raisin deadlock

Raisin packers and growers in California are in the midst of a serious impasse over the field price for raisins. Prices are normally set by October, but

in late January the price was still unsettled and growers were left without payment for much of their crop while packers were trying to deal with the food industry without knowing their ultimate costs for raisins. In the latest development, Superior Court Judge Stephen Kane in Fresno ruled that a three-member arbitration panel will be used to determine the price. According to the Fresno Bee, this is the first time in the 34-year history of the Raisin Bargaining Association that the matter has been moved to arbitration because of a deadlock between growers and packers.

Potato co-op seeks answers to crop surplus

Northwest potato growers are struggling to survive in a supply-bloated market that has seen prices plunge to about one cent per pound for a crop that costs them about five cents per pound to produce. To help reduce the surplus, a new cooperative, Potato Management Inc., has been formed by Potato Growers of Idaho. The co-op hopes to dispose of 10 percent of the crop – or about 400 to 600 million pounds of the 1.5-billion pound crop. By reducing the over-supply and encouraging members to reduce their planted acreage, the co-op hopes to drive prices back up. In late January, the co-op was donating spuds to charitable organizations to feed the needy.

Executive director sought for Cooperation Works

Cooperation Works, the national network of cooperative developers and centers, is conducting a nationwide search for an executive director. The North Dakota Association of Rural Electric

Cooperatives is coordinating the recruiting project. Interested persons should apply by March 22 to Kent Brick, NDAREC, P.O. Box 727, Mandan, ND 58554-0727. Cooperation Works' mission is to advance the national network of cooperative developers dedicated to prosperous sustainable communities.

Robson heads Milk Board

James Robson, a former vice president with Dairygold Inc., Seattle, Wash., is the new chief executive officer of the Wisconsin Milk Marketing Board, Madison. He leads the \$26.5 million organization, which conducts statewide and national dairy marketing and promotion programs for Wisconsin-made dairy products. Producer checkoff funds support the activities. Most recently, Robson managed a Texas firm that worked with dairies, food processors, wholesalers and retailers in strategic planning, new product development, promotion and sales training.



James Robson

Tripp Producers join AMPI

Another 27 dairy producers, this time shippers to the defunct Tripp, S.D. Cheese Company, now market milk to the Freeman, S.D., plant owned by Associated Milk Producers, Inc. (AMPI). Combining overlapping

routes should streamline operations and cut hauling costs. In other AMPI news, the cooperative has distributed equities and earnings payments totaling \$8.3 million to members -- revolved \$5.6 million of members' 1995 capital retain investment and paid \$2.7 million in allocated equities.

Co-op education on web site

Local cooperative directors, managers and employees in the Cenex Harvest States-Land O'Lakes systems can now access cooperative education material and a host of other resources by tapping into the new web-site, www.mbrservices.com. The new site includes an electronic newsletter, ePreview, frequently used regional phone numbers and e-mail addresses and Co-op Shop, where you can purchase product and promotional materials and meeting supplies identified with these regional cooperative systems. Jessica Lamker, managing editor of the site, says it offers more informational and educational resources for local cooperatives, such as director's corner, monthly articles on ways to improve operations of boards of directors, jobs in the country to help with cooperative employee placement, and financial understanding, a series of learning

modules about the basics of cooperative financial statements.

Alabama honors Loftis

The Alabama Council of Cooperatives has bestowed its annual cooperator award on Jim Loftis for his 30 years of promoting cooperatives in the Southeast. He currently is director of communications and governmental affairs for Southern States Cooperatives, Richmond, Va. A native of Tennessee, Loftis began a 24-year career with Gold Kist Inc., Atlanta, managing its grain elevators in North Carolina and later becoming regional manager of member relations and director of public affairs. He is a past chairman of the Georgia Agribusiness Council and serves on the public affairs committee of the National Council of Farmer Cooperatives.

Alto leads cheese project

A new cheese yield project by Alto Dairy Cooperative, Waupun, Wis., teaches members how to tailor their milk production to meet specific protein needs of cheesemakers. Producers learn what management practices can help them meet the milk component levels required by individual processors. Higher cheese yields and possibly higher prices paid to producers are among anticipated results. The pilot project was made possible, in part, by the Wisconsin Department of Agriculture, Trade and Consumer Protection.

Co-op' share of farm market *continued from page 9*

are based on data from several sources. They include the annual survey of farmer cooperatives conducted by USDA's Rural Business-Cooperative Service, other Cooperative Services studies, cash receipts from farm marketings and farm production expenditures published by USDA's Economic Research Service (ERS), milk volume handled by the top 50 cooperatives published by *Hoard's Dairymen*, and from Cooperative Services' commodity specialists.

Co-ops' shares of farm marketings represent estimates of cooperative activi-

ty at the farm-gate or first-handler level. Share estimates for farm production items represent cooperative activity in sales of supplies to farmers. The share estimate for each commodity was based on dollar value and annual changes in related data or on physical quantity (where available). In most cases, the share estimate was based on dollar value.

For those commodities where physical quantity handled by cooperatives was not available, cooperatives' shares of farm marketings were estimated by first subtracting gross margins from net

cooperative business volume. These estimated "payments to farmers" were then related to their respective total U.S. cash receipts, adjusted for crop year, to calculate the percentage share figures.

Shares of the major farm supply items were estimated by first subtracting from co-ops' net business volume the volume of business exported, sold to other firms and used for nonfarm purposes. These adjusted business volumes were then related to their respective total U.S. cash expenditures to calculate their percentage share estimates. ■

Rural COOPERATIVES

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