

# Rural COOPERATIVES

USDA / Rural Development

March/April 2000



Turning soft wool  
into hard cash

## *Borders are no longer barriers for co-ops*

As we begin this century of increased global interaction and communication, we recognize the need to work toward improving the technological infrastructure of rural America. Increasing the level of agricultural trade with foreign nations will do much to improve the economic vitality of rural America and the rural cooperatives which are so vital to its well-being.

There are several articles in this magazine that detail trade programs and **technical assistance efforts** between the United States and our international partners. Some of these initiatives, such as our effort to create cooperative village banks in South Africa, will help those who are disenfranchised by poverty. We are also committed to working with our international partners whose future economic development will create marketing opportunities for rural Americans.

USDA Rural Development has bilateral programs to help countries in this hemisphere with their agricultural development efforts. We expect to continue offering our assistance in a range of disciplines, from production techniques, to marketing, extension, pest and disease eradication, and food safety, among others.

In the United States, agricultural cooperatives remain a key component of rural economies. While “rural” is more than agriculture, the future success of our nation’s small farms and their cooperatives is critically linked to the success of economies of rural communities to which they are interconnected.

Our rural economy has strengthened and is growing, but remains fragile and uneven. Rural earnings, after a decade of decline, are rising at rates similar to urban rates in some areas, as is per capita

income. Rural unemployment continues to decline, to historically low levels. However, challenges remain. Even with double-digit percentage growth in the amount of jobs, the incomes remain significantly lower in rural areas relative to urban areas.

In June of 1998, when I hosted the Second International Conference on Women in Agriculture, more than 1,000 participants from 50 countries came together to discuss issues facing women in agriculture and to facilitate the exchange of information. During the conference, we established that in rural communities around the world, we have similar challenges, many of which can be addressed by cooperatives. Creating value-added cooperatives can do much to generate additional income for rural people, as shown by the cover story in this issue about how rural women in Alaska are earning income by knitting musk ox wool into beautiful garments.

In June of 1999, we successfully brought together leaders from several countries to create cooperative relationships to strengthen our nations’ rural areas and increase the channels of communication between rural Latin America and rural United States. Again, we found that we share similar concerns, such as overcoming limited technological alternatives.

With President Clinton and Vice President Gore’s leadership, we are working to build partnerships and develop a comprehensive approach to closing the digital divide and bringing digital opportunity to all Americans. Bringing advanced telecommunications technology to rural America has made significant impacts on people’s lives. Through our various programs, Rural Development is



providing many advantages to rural electric and telephone cooperatives to receive funding for the purpose of putting these new technologies to work for rural residents. We are also working to create opportunities with current and potential trading partners around the globe. Communities will revitalize themselves when opportunities exist for entrepreneurial initiatives, small business expansion and job training — **all of which** offer upward mobility without community members having to move to urban areas to find employment.

In closing, rural economic development and poverty alleviation strategies shared between countries and rural communities will ultimately lead to enriched families, empowered communities, and developed nations.

A handwritten signature in blue ink that reads "Jill Long Thompson".

Jill Long Thompson

*Under Secretary, USDA Rural Development*

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March/April 2000

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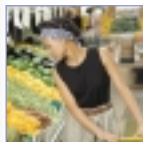
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### *On the Cover:*

*Once extinct in Alaska, the musk ox has made a major comeback. A cooperative of Alaskan Eskimo women are transforming its soft wool into high-fashion accessories and earning much-needed income for their poor, rural communities.*

*Story on Page 7. Photo copyright Musk Ox Farm*



# Boosting the 3 Bs

*England's Plunkett Foundation promotes "The furtherance of rural cooperation"*

By Eliza Banks

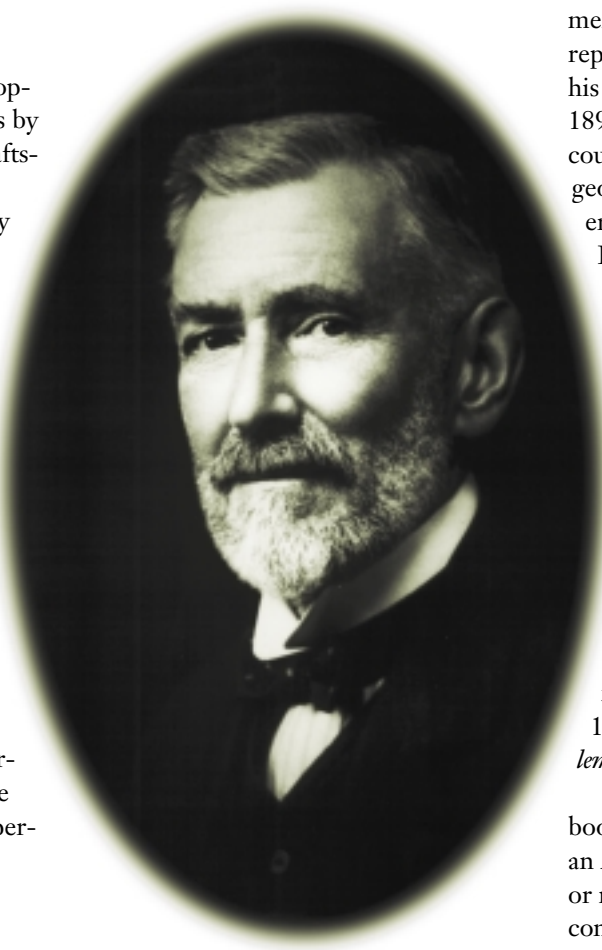
In America, hardly a cooperative celebration goes by when those English craftsmen who formed the Rochdale Equitable Pioneers Society aren't feted for their foresight. So it may come as a surprise that there's often a perceptible lack of enthusiasm toward cooperatives in the very country credited with their creation.

But that's the situation in some sectors of the United Kingdom today. Despite this skepticism, however, for 80 years there has been one voice encouraging, cajoling, and supporting cooperatives and the people who want to start them. At the Plunkett Foundation, near Oxford in south-central England, a team of dedicated cooperative advocates acts as a driving force behind the growth of UK rural cooperatives and other member-controlled businesses.

Through its accumulated experience, extensive network of consultants, and a reference library approaching 40,000 books, journals and articles, the Plunkett Foundation strives to offer appropriate support and sign-posting to all types of cooperatives both in the UK and around the world.

## An "Anglo-American Irishman"

Established in 1919, the Plunkett Foundation bears the name of its founder, the cooperative organizer, agriculturalist and statesman Sir Horace Plunkett (1854-1932). In pursuit of his famous "Three Bs" (Better Farming, Better Business, Better



HORACE PLUNKETT

Living"), Plunkett and a small band of influential, but rigorously non-political, associates inspired the creation of literally hundreds of cooperatives, first in Ireland and then around the globe.

In the 1880s, Plunkett spent part of each year as a Wyoming cattle rancher and shrewd observer of rural progress, including the growth of the National Grange movement. Returning to Ireland in 1889, he soon set about a non-stop program of cooperative develop-

ment and agricultural education. After repeated failures, Plunkett established his first cooperative "creamery" in 1891. Three years later, he founded the country's apex organization for the burgeoning number of agricultural cooperatives. His diaries, kept in the Foundation's unique cooperative reference library, describe the exhausting work of organizing co-ops in the face of stern opposition from local moneylenders, traders, and other vested interests.

Still a frequent visitor to America, and now Ireland's equivalent to the Secretary of Agriculture, Plunkett became a close associate and confidant of President Theodore Roosevelt and his apostle of conservation, Gifford Pinchot, sharing ideas on rural development and, in 1910, publishing *The Rural Life Problem of the U.S.*

"By golly," Roosevelt is quoted as booming to Plunkett, "I wish you were an American and either in the Senate or my Cabinet!" Plunkett's American connections didn't end there, and he subsequently shared his enthusiasm for empowering farmers with Presidents Taft and Wilson.

## Reluctance persists

So, after all this time, why aren't UK farmers more aware of the benefits of co-ops? And why do UK farmers harbor resistance to collaboration, even though cooperative involvement is strong in many sectors and is arguably vital to competing in a global market? The reasons are largely historical.

First, England's smaller geographic area, greater population density, and village trading infrastructure meant

that, for most of rural England — and unlike Ireland or the United States — there were few compelling reasons to “circle the wagons” in cooperation.

Second, in the mid-20<sup>th</sup> century this island nation’s need to sustain core agricultural productivity was exacerbated by war. Unfortunately, the support pricing and capital grants for this purpose were only made available to individual farms, thus creating no incentive for cooperation. Ironically, the converse of this was happening in Continental Europe, where agricultural economies were being rebuilt using cooperation as one of the foundation stones.

Third, there is the legacy of statutory marketing boards in commodities such as milk, wool and potatoes. Until recently, that meant individual producers did not have control over this link in the chain.

And finally, even today, there is widespread lack of knowledge about co-ops and how they work. The subject receives little, if any, attention in the

nation’s curriculum (and sometimes even in major schools of agriculture). And there have been no significant injections of government capital or a designated body to promote the development of cooperative enterprise.

Taken together, these factors have perpetuated a reluctance to embrace cooperation. It is this gap that the Plunkett Foundation seeks to fill with a combination of information, advice, seminars, study tours and advocacy. The current dire straits in UK agriculture would appear to be generating a re-appraisal of cooperation and its potential, notes Information Services Manager Kate Targett. Necessity, she observes, has often been the mother of cooperatives as well as invention.

A native of Michigan, Targett has been working recently to extend the Foundation’s reach still wider by uploading the library’s key-worded index onto the Internet, a project made possible by a grant from the Dublin- and Boston-based Ireland Funds.

### Tradition and individuality

In contrast to America’s ready acceptance of expansion and innovation, the UK agricultural industry has always taken pride in its long tradition, as well as its individuality. From her perspective, though, Targett believes that UK cooperators could profitably take on board some lessons from their counterparts across the Atlantic. “At the moment,” she says, “the United Kingdom probably has more to learn from America than it can teach the United States, although it has to be remembered that the situations are by no means parallel, particularly in terms of scale and public policy.”

Having observed the English scene for 15 years, she suggests that abilities to change may constitute a further difference. “Whereas Americans will often default to ‘Why not?’ the British attitude is sometimes ‘Rather not,’” she notes. For example, UK cooperatives have been slow to adopt vertical inte-



*The Plunkett Foundation is used as a resource by cooperatives worldwide, including this women’s dairy cooperative in Egypt.*

*Photos courtesy the Plunkett Foundation.*

gration as a means of capturing added value for the producer and keeping pace with developments in European and American markets. Meanwhile, cooperatives such as those in Denmark and Sweden have forged ahead in processing and marketing products supplied by co-op members.

came last summer when the government's competition authorities published a report highly critical of Milk Marque's selling system. As a consequence, the cooperative decided to split into three roughly equal regional cooperatives.

Commenting on these developments at a recent Plunkett Milk Groups Con-

the former Soviet Union. Here, where cooperatives had become "top-down" arms of state policy, the Foundation found a lot of work combating the discredited image of cooperation. It has met with notable success, Targett says.

In Poland, projects funded by the European Commission and the UK's Department for International Development successfully encouraged farmers to diversify operations and keep rural communities viable. In one instance, Britain's holiday tradition of "bed and breakfast inns" inspired Polish farm families to develop a niche market for agri-tourism. Recent study tours have been arranged for delegates from Australia and Zimbabwe. Earlier programs have influenced participants from Albania, China, Grenada, Hungary, Italy, Japan, Lesotho, Moldova, St. Lucia, Uzbekistan and Zambia, among others.

The Foundation's Library and Information Service is open to all, and a limited amount of assistance and consultation is provided free. Lists of publications concerning every aspect of cooperative theory and practice are available on request, and should soon be accessible via the Internet.

As an educational trust, the Foundation is not, despite its name, a grant-making organization. Its income is generated from memberships; project funding from the European Commission, the UK's Department for International Development, and a variety of NGOs and development agencies; and the sale of publications. Since 1927, it has published an annual anthology of international cooperative know-how, now entitled *The World of Co-operative Enterprise*, as well as being the only organization to compile and publish an annual directory and statistics of UK agricultural cooperatives.

For more information on the Plunkett Foundation and its services, visit its website at [www.co-op.co.uk/](http://www.co-op.co.uk/) [ukcm/plunkett/index](http://ukcm/plunkett/index) or email [info@plunkett.co.uk](mailto:info@plunkett.co.uk). ■

*Editor's note: Raised on an Upper Midwest family dairy farm that does business through cooperatives, Eliza Banks is now a writer based in North Yorkshire, England.*



*The headquarters of the Plunkett Foundation, Oxford, England, where they are in the process of uploading their key-worded index onto the Internet so emerging and established user-controlled groups and businesses can learn more from this world-class cooperative resource.*

### Cream rises . . . or sour milk?

Yet there are small signs of change afoot in some UK sectors, such as dairying, where there are examples of successful processing subsidiaries. For the most part, however, the dairy industry has evolved differently from the U.S. and Europe. From the 1930s, the existence of the Milk Marketing Board meant that the industry's processing and manufacturing capacity developed privately. However, farmers soon became concerned that they were missing out on any resulting "added value," which eventually led to the formation of the Board's wholly owned subsidiary Dairy Crest.

When the Milk Marketing Board was deregulated in 1994, Dairy Crest was privatized (although farmers owned most of the shares). At the same time, Milk Marque was formed and became the largest dairy cooperative in the European Union. Initially, it was able to use its strength on behalf of its members. But the crunch

reference, the Foundation's Chief Executive Simon Rawlinson noted, "It seems a travesty that, while the rest of the world seems to be reaping the benefits of vertical integration and economies of scale, the UK seems to be being forced to regroup and start again. No other dairy industry in a developed country has attracted the same attention from the competition authorities, despite many others having a much larger market share."

### Working around the world

The Plunkett Foundation's achievements in the UK are rivaled only by its successes abroad, where it provides support tailored to the conditions of emerging user-controlled groups and businesses. With a tradition of overseas development going back decades, the Foundation recently has been heavily involved with the emerging democracies of Eastern and Central Europe and

# Fingers and needles

*Alaskan co-op turns cashmere-soft musk ox wool into hard cash*

Pamela J. Karg  
*Field Editor*

**S**oft yet sturdy. Thin but warm. That's how Sigrun Robertson describes the garments marketed by the Oomingmak Musk Ox Producers' Cooperative.

"Qiviut is similar to fine cashmere," explains Robertson. She has been with the cooperative since it began in 1969 and now serves as its executive director. "And our members love working with this beautiful fiber to make beautiful products. They're artisans," she adds.

Mention musk oxen to most people in the lower 48 states, and their questioning eyebrows belie the fact they

know little about this cousin to sheep and goats. But in the open tundra and well-vegetated terrain of Alaska, Canada and Greenland, this short-legged, massively built animal with broad, down-curving horns and an ankle-length outer coat is well known. Alaskan agriculture has helped the musk ox evolve into a sustainable enterprise. But it wasn't always that way.

## **Bringing the musk ox back**

Musk oxen are neither oxen nor do they have glands to produce musk, and they resemble bison. While their fossils have been found as far south as Ohio and France, scientists believe musk oxen wandered across the Bering

Straits on a narrow land bridge to North America nearly 2 million years ago. By the 1850s, though, they had been hunted to extinction in Alaska.

In the mid-1950s, a Connecticut native set out to prove that musk oxen could be domesticated and raised sustainably. The late John J. Teal Jr. returned from World War II as a decorated B-17 bomber command pilot in the European campaign. He earned bachelor's and master's degrees in anthropology from Harvard and Yale, respectively. Teal had a research fellowship at McGill University in Montreal and was teaching at the University of Vermont when he established the Institute of Northern Agricultural Research, headquartered in Hunting-



*Oomingmak members determine how much they want to knit and at what pace based solely on the amount of money they need for their families.*

*Photo by Bill Bacon, courtesy Oomingmak Musk Ox Producers' Cooperative.*

ton, Vt. The NAR's primary project was to re-establish musk oxen in the United States. Teal captured his first animals during a Canadian expedition in 1954. Eventually, he established a herd for the University of Alaska, Fairbanks, and managed it for many years.

Teal's premise was simple. Rather than introduce exotic animals such as cows or llamas to the Alaskan landscape, he wanted to develop a cottage industry around an animal or plant native to the region.

The ankle-length guard hairs take musk oxen four to six years to grow and are essential in protecting the animals against temperatures that can dip to 100 degrees below zero. But beneath that outer coat, Teal knew, is a light brown, soft, dense undercoat known as qiviut (pronounced kiv-ee-ute, meaning "down" or "underwool" in the Inupiat Eskimo language).

Eight times warmer than sheep wool by weight and very lightweight, qiviut is one of the finest natural fibers known to man and is often referred to as "the cashmere of the North." By domesticating the animal, native people learned the undercoat could be combed out, cleaned to capture the fine qiviut, spun into yarn and used to knit garments. Rather than raising musk oxen for meat and hides, the animal could provide a renewable resource throughout their lives, Teal was convinced.

### Co-op starts with 25 members

The domestication of the musk ox and the start-up of the Oomingmak cooperative are tightly inter-woven. By 1969, enough qiviut had been converted to yarn to put it into production. The first 25 knitters were all from Mekoryuk, Alaska, located on Nunivak Island. They were encouraged to try the fiber and they enlisted as the cooperative's founding members. Research had shown qiviut was better suited to knitting than weaving, and knitting was a skill Eskimos had learned from missionaries. The fine needles required for



Photo by Ron Eagle, courtesy Oomingmak Musk Ox Producers' Cooperative.

the delicate patterns also meant less equipment and little financial investment, Robertson says.

The patterns were adopted from traditional village life and Eskimo culture — from 1,200-year-old artifacts to beadwork designs. The patterns were converted into graphic instructions easily understood by the older women, most of whom were not familiar with the complex written English instructions used in typical knitting patterns. Workshops were held so members could learn how to read the patterns and complete the lace-like stitches. More importantly, members learned how to handle qiviut.

"It's spun much finer than what you're used to with other yarns," Robertson explains.

After the first year, 27 knitters from Mekoryuk turned the qiviut into 291 scarves, stoles, tunics and nachaqs (which is now the cooperative's specialty item and means hat or hood in Eskimo. The nachaq, also called a smokering, is a seamless, tubular garment that can be worn as a hood or pulled down around the neck like an over-stuffed, yet decorative, turtle-neck accessory).

Almost immediately, large retailers such as Nieman-Marcus featured qiviut garments. But the large orders, often requiring special sizes and particular colors in a short amount of time, exceeded what the small cooperative could produce.

"In retrospect, perhaps it was overly ambitious to think that handknit qiviut

garments could easily step into the fast and fickle world of fashion," Robertson reported in a paper presented at the First Arctic Ungulate Conference in Nuuk, Greenland, in 1991. "Instead, the qiviut garments have found their own particular market, one that can accept their peculiarities and appreciate their very special qualities."



Photo by Gary Lackey, courtesy Oomingmak Musk Ox Producers' Cooperative.

### Over 200-members strong

Originally, the plan was to wash and block garments in members' homes or to start washing and blocking cooperatives in nearby villages. As it turned out, sending the garments to the cooperative's office and store in downtown Anchorage is a way to ensure quality. Five employees, including Robertson, wash and block garments, as well as inspect them to assure they are as perfect as possible. They also work the



retail store six days a week and fill orders received over the Internet ([www.qiviut.com](http://www.qiviut.com)). The boldly painted musk oxen adorning the storefront have made the cooperative a popular shopping stop for visitors.

Today, over 200 knitter-members, ranging in age from pre-teens to octogenarians, own Oomingmak.

Ox Development Corp. as a private nonprofit organization dedicated to the development and domestication of the musk ox. The cooperative contracts with a cashmere mill on the East Coast to wash, de-hair and spin the fine yarn. Up to 600 pounds — or hair from about 100 musk oxen — are required by the mill for each run.

sleeveless, open-sided tunic that comes complete with a hand-braided qiviut belt. Twenty-percent of the garments are sold through a gift shop at the Musk Ox Farm.

In fiscal 1999, the cooperative's sales were \$600,000. After expenses, members receive a dividend check based on the number of garments they marketed through Oomingmak.

"In spite of the co-op's relative success, it probably has not made much of a dent in the many problems of the region," Robertson says. "However, the co-op was created not to make great sweeping changes in the native culture (thereby creating new problems), but to help with problems within the traditional mode of life. This is not about making money hand-over-fist."

### Challenges and opportunities

Problems facing Alaskan Natives are attributed to the introduction of European culture and its need for cash to buy ammunition, fuel, electricity, clothing, and even food, she explains. Before that, Eskimos led subsistence lifestyles and took or created from the natural resources everything they needed.

Over 26 percent of the 50,000 rural Alaskan Natives have incomes below federal poverty levels, compared to only 9 percent of non-native Alaskans. The problem is perpetuated by Alaskan Natives' isolation from the cash economy.

While most Oomingmak members live in the Yukon Kuskokwim region, which can be reached only by air, their lifestyles now depend upon a blend of subsistence and capital enterprise. Most people fish, hunt and collect berries in season, and many men leave their communities for months at a time to find jobs in larger cities.

Isolation makes running a cooperative challenging, too. The six-person board meets quarterly, after which members receive a newsletter with updates on board actions, calving, sales and what satisfied customers are saying. Repeatedly, members have to be reminded that Oomingmak is their



*John J. Teal Jr. re-introduced the musk ox to Alaska and insisted they be used in a sustainable enterprise. As a result, 25 members started the Oomingmak co-op. Their knitted garments include symbols that celebrate their Eskimo culture.*

Many are related or are close friends who helped each other get started knitting and into the cooperative. All are women, though men have been members in the past, and nearly all the members are Alaskan Eskimos, who work from home in villages ranging from 150 to 300 people.

The cooperative buys most of its qiviut from the herd Teal helped establish, now kept in the Matanuska Valley near Palmer and operated by the Musk

Back in Alaska, the yarn is sent to members. There are no quotas to fill. Members determine how much they want to knit and at what pace based solely on the amount of money they need for their families. After the finished garment is sent to Anchorage, the member is paid. Seventy-five percent of the garments are sold directly from the cooperative to customers. Prices range from \$95 for a bell-shaped Cloche cap without a cuff to \$495 for a

cooperative and what that ownership means.

The education process will start anew this year because a new product line is being introduced. After months of research, the cooperative will market garments from a luxurious fiber of 80 percent qiviut and 20 percent silk. For the first time since 1976, a membership drive is planned in new communities in the Yukon Kuskokwim and Interior regions, and St. Lawrence Island, where some of the state's highest unemployment rates – 18 to 63 percent – exist.

The cooperative took out a loan to buy Canadian qiviut for the new line. The mill the co-op uses will add silk from its existing stock. The cooperative applied for grants to cover staff recruitment time and travel, and new member



*A cousin to sheep and goats, the short-legged, massively built musk ox, with its broad down-curving horns, is neither an ox nor does it have glands to produce musk. Photo copyright Musk Ox Farm.*

training on both the knitting and cooperative ownership fronts.

“The cooperative has successfully been in business for 30 years, providing rural Alaskans an opportunity to work part time and earn cash income for their families,” Robertson says.

“Expanding the membership will offer this same economic opportunity to women living in other economically depressed communities in the state.”

Taking the loan to buy the Canadian fiber was a big step for directors, but necessary. When the 100-percent qiviut yarn is plentiful, members are encouraged to knit more garments and they respond, filling the shop with plenty of goods. But then the yarn supply runs low and the stocks drop. By starting up the qiviut-silk line, the cooperative may be able to ease the problem, which occurs about every four years.

“I’m not sure what tomorrow’s challenges will be,” she adds. “But I do know they will center around fingers and needles,” she adds. ■

## The Musk Ox Farm continues Teal’s work

In the 1940s and 50s, wild musk oxen were a disaster or two away from extinction and the villages of coastal Alaska were some of the most impoverished in the world. Where others saw two utterly hopeless situations, John Teal’s eyes sparkled and a vision was born.

In this windswept and inhospitable land, he saw an opportunity for Alaskan Natives to live together peaceably with this animal so both would thrive. After more than a decade of research, Teal started what came to be known as the Musk Ox Project. Supported by funding from the W.K. Kellogg Foundation, as well as assistance from the University of Alaska and countless volunteers, the project started Alaska’s first domestic musk ox farm in Fairbanks in 1964.

Today, the farm ([www.muskoxfarm.org](http://www.muskoxfarm.org)) is situated outside Palmer in the Matanuska Valley, about 50 miles from Anchorage. It’s managed by the Musk Ox Development Corp., a private nonprofit organization dedicated to the development and domestication of the musk ox, *Ovibos moschatus*. Teal’s youngest son, Lansing, oversees its operations today, spending the greatest share of his days at the farm with the herd.

Every year, thousands of visitors stop by the farm during regular tour times offered from Mother’s Day through late September. At the end of the summer, visitors anticipate the impressive dominance displays of rutting bulls in preparing for the breeding season.

The famous head smashing occurs between males vying for breeding privileges. Two males will engage in a ritualized dis-

play designed to intimidate each other, including pawing at the ground, walking stiff-legged, and aggressively swinging their massive horns. Following the displays, the bulls will face-off and back up about 100 feet before charging together at speeds close to 35 miles per hour. The head smashing may continue for up to a dozen times before one bull quits and submits to the other.

Several separate harems form in the fall. Each harem consists of one bull and a selected group of cows. Breeding lines are chosen to promote qiviut production, tameness, health and to avoid inbreeding. Following six weeks in harem, the cows are moved to a separate pasture and monitored throughout their eight-month gestation. Calves are born any time from mid-April to early May, and can weigh up to 25 pounds. They are born with a full coat of qiviut and boundless energy. The calves are the main attraction on opening day — Mother’s Day — at the farm.

Tour fees in combination with foundation grants and private donations help the farm continue the mission John Teal began nearly 50 years ago.

“Perhaps the most meaningful support that the farm receives is the many entirely voluntary contributions made by the *Friends of the Musk Ox*, the public membership arm of the project,” explains Lance Teal. “A wide variety of people have contributed to the project. From ‘Herd Parent’ Alex Trebek of *Jeopardy!* fame to local volunteers lending a hand repairing fences and fixing hay feeders, donors and volunteers have remained integral to the success of our work.” ■

## South African village banks receive World Bank funding

A South African financial services co-operative (“village bank”) was one of 44 projects to share in \$5 million awarded during a World Bank competition for innovative community development proposals. The U.S. Department of Agriculture’s Rural Business-Cooperative Service has been involved in a project under the auspices of the U.S./South African Bi-National Commission to assist in the development of these so-called village banks.

The proposal, “Leveraging Local Savings for Local Development,” received \$60,000 in the competition. It was selected from a group of 339 finalists from 60 countries. The finalists were chosen from nearly 2,000 entries. Finalists set up booths in the atrium of the World Bank’s headquarters in Washington, DC, and were asked to explain their projects to a panel of judges.

Wezi Ximaya, chief executive officer of the Financial Services Association, a trade and financial services association in South Africa, represented the project in the competition. According to Ms. Ximaya, the “local savings for local development” proposal focuses on the role of a newly organized financial services cooperative in an overall community development effort. The funds will be used to conduct pilot community development projects in rural South African villages that already have their own financial services cooperatives.

The project was born out of rural South Africa’s deep-rooted mistrust of banks, and the unwillingness of commercial banks to serve rural areas. Rural communities, however, need funds for development projects and the lack of financial services can thwart that effort. In addition, Ms. Ximaya indicated that community banking structures have tended to be institutionally weak and not integrated with local development priorities.

The solution was to redefine village banking to better leverage local savings for local development priorities. Working together, organizers, community leaders and residents created a sound, local institutional structure, a “village bank.” It also serves as a link to the formal financial sector.

The village bank is operated by and for the community. It integrates the community’s development planning and decision-making processes, and provides local deposit and withdrawal services for individuals. The bank also makes loans to the community’s traditional authority for

development projects and to community members for entrepreneurial and targeted investment activities.

The World Bank competition was modeled after a similar competition in 1998 that awarded \$3 million in start-up funds to World Bank staff. This year’s competition was extended to organizations outside the bank.

“It’s remarkable to see so many people from within and outside the bank join in one very simple objective, which is to see how we can do development better and address the issues of poverty,” said World Bank President James Wolfensohn. “In the next 25 years, another 2 billion people will share the world. Most of them will live in poverty if we don’t take action now,” he said. “We need ever more effective, innovative solutions to meet this challenge. The development marketplace can help bring our collective experience, knowledge and passion to bear in search for solutions.”

Proposals offered ways to promote good government, combat corruption, develop legal and judicial systems, strengthen financial and regulatory systems, and insulate the poor from crises. Ideas ranged from creating a center to train Moldova’s disabled children in crafts and specialized enterprises to providing cultural sensitivity training for judges in indigenous areas affected by war in Guatemala. Representing the development community and private sector, jurors judged the proposals on originality, partnerships created, cost effectiveness, potential for ownership for those who benefit the most and, above all, expected impact on poverty.

Susan Theiler, an agribusiness specialist on assignment to the bank from the U.S. Department of Agriculture, visited the event. “The visual impact of these displays is really amazing,” she said.

For those who weren’t selected for awards, there is still a chance for funding. “We’re keeping all proposals on the Web and encouraging donors, foundations and multilaterals to look at them to see if they can fund them,” said Mari Kuraishi, one of the event’s key organizers.

Wolfensohn said he was working with the United Nations Development Program to try to link unfunded proposals with potential donors through Net Aid, the recently launched Website that acts as a clearinghouse for donors and organizations. ■

# Strength through unity

*Bulgarian honey producers sweeten their future through cooperation*

By James Matson,  
Agricultural Marketing Specialist  
*USDA Rural Development*

**S**ons of a medieval Bulgarian king debated who would rule after their father's death. The king requested that a quiver of arrows be brought to him. He removed a single arrow and causally snapped it in half. Then he removed the remaining arrows from the quiver, held them out to his sons, and requested they break them. The sons tried to break the bundle of arrows without success. The king then told his sons that, individually, people, like the arrows, are easily broken, but there is strength through unity.

Today, that lesson "Strength Through Unity" is engraved in the Cyrillic alphabet above the entrance to the Bulgarian National Assembly in Sofia. It's become a time-tested phrase from Bulgarian history and one that's applicable across the cooperative world.

Bulgarian beekeepers, following this example, formed cooperatives to purchase supplies and to market their honey production. In a country still undergoing its transition to a market-driven economy, individual producers work together to coordinate their efforts to create a better situation for all the beekeeper-members. They're learning the age-old lesson of strength through unity.

## **A traditional product**

Honey is a traditional Bulgarian product. It has been produced in Bulgaria for more than 3,000 years. Honey marketing cooperatives were created

early last century, but were converted to collectives in the Soviet era. Traditionally, Bulgaria has a strong domestic honey market. Foreign visitors to Bulgaria's popular Black Sea resorts supplemented domestic demand, which has aided in the development of international markets.

The 35,000 beekeepers throughout Bulgaria make up the Bulgarian Beekeepers Union, which tries to rectify deficiencies in the country's beekeeping system. The Union functions as a trade association, similar to America's Beekeeper Federation or National Corn Growers Association. The Beekeepers Union is headquartered in the capital of Sofia, with regional representatives for its 1,700 local beekeeping societies.

The years since the breakup of the communist system in the early 1990s have been tempestuous for Eastern Europe. The Bulgarian agricultural sector is no exception to this turmoil.

During the communist era, collective farms, often larger than 20,000 acres, produced the majority of the country's food. Commercialization and costs of production were not considered. Instead, central planners determined what would be produced and where it would be shipped. In recent years, the collective farms were divided into smaller holdings, and private land ownership is being slowly re-established.

Bulgaria is characterized by microclimates — from warm Mediterranean



zones in the south, to broad internal valleys, and then to mountainous terrain that covers 35 percent of the country. As a result, farmers in different regions produce many crops including fruits, vegetables and forest products. This agricultural diversity results in many varieties of honey. This range includes many specialty honeys, such as



*The Riga monastery is one of many architectural treasures found in Bulgaria.*

one produced from oak trees, that has a dark, rich flavor, to other honey that comes from bees that pollinate acacia and lime trees.

### **Small-scale marketing**

Bulgarian beekeepers fall into two general groups. Most producers manage a small number of hives, though there are a few large producers.

A typical small producer is more than 65 years old, and usually a retired white-collar professional such as a schoolteacher or bookkeeper. Most of these smaller producers have been beekeepers since their youth. Many recount how their first hive was given to them as a wedding present or how they helped their parents with their own bee management.

These producers live in smaller rural communities and have hives at their

homes or in the neighboring countryside. Family members assist them with production activities. No standard production practice or hive type is used, which leads to a wide range of quality and volume differences. In addition, a single small producer could have three different styles of hives in the same field.

These small-scale producers market honey through personal contacts, home sales, and uncoordinated interaction with brokers. However, in rural communities, more honey is produced than is demanded by local consumers. The excess honey is stored, sometimes for years, in whatever containers the beekeeper has available until a broker shows up to buy it.

Honey generates a substantial part of their income because inflation has eroded the value of their pensions. The number of hives managed by each producer is small, often 30 or less. The few thousand dollars a small honey producer can earn, however, has a large economic impact in rural areas where annual income is even less than the national average of \$4,000.

### **Commercial-scale beekeepers**

Large-scale or commercial producers typically manage between 150 and 200 hives and production techniques are more standardized. They tend to know international production techniques and prices. On average, these large-scale producers are younger than small producers.

Though production is more standardized among large producers, marketing practices vary. A few producers have developed markets and value-added products. Some are even trying to export their production. Yet, the majority of large-scale producers use the more informal marketing techniques practiced by small-scale producers.

Differences between the two groups complicate the marketing situation for all producers. Key issues confronting the Bulgarian honey market are perceived differently by each group. On one hand, small producers are concerned with receiving a “fair” price and having access to markets outside their local communities. On the other hand, large-scale pro-



*Many specialty honeys are produced in Bulgaria because of the country's agricultural diversity, which ranges from warm Mediterranean zones to cool mountain ranges.*

*Photos by James Matson.*



*The typical Bulgarian beekeeper is usually a retired, white-collar professional.*

ducers complain of a lack of credit, a lack of quality standards and a lack of markets for their larger volumes.

### **Regulatory and credit systems hamper business**

Nonetheless, all producers face the issues of low prices, the theft of hives, access to more markets opportunities, accurate and timely market information, bear control, and an inadequate legal framework. Bulgaria as an emerging market-oriented economy is still creating the legal structure needed to foster business transactions. In addition, regulations only establish a minimum quality for honey, but do not distinguish between quality grades. There are no mechanisms to financially punish producers or brokers that deliberately adulterate honey, which negatively impacts the whole honey industry.

Another challenge facing beekeepers — especially large-scale producers — is access to adequate credit. Agricultural enterprises are regarded as old-fashioned by urban Bulgarian lenders. A farm credit system, where lenders are familiar with production practices, does not exist. The few producers who can obtain credit pay back more than 150 percent of the amount borrowed annually.

### **Seeking international expertise**

Against this backdrop, the Bulgarian Beekeepers Union has sought the assistance of international agencies such as the USDA or ACDI/VOCA (a non-profit development organization). Representatives of these agencies have provided advice on ways to improve the Bulgarian legal and financial framework. And they coordinate their work with the Bulgarian government officials to implement necessary local and national changes.

The producers recognize that an improvement in the institutional framework represents only a partial solution. The margin between the farmgate price and the price paid by the final honey consumer is quite wide. Consumer prices often are as much as five times higher than the farmgate price.

In an attempt to retain more income for producers, the Beekeepers Union assisted in the formation of the cooperative Agropchel SA. It is a separate commercial entity that operates on behalf of its 700 members across the country. This supply and marketing cooperative for producers of honey and related products was organized in 1997 and was capitalized with 50,000 stock shares. Agropchel sells production

inputs and then markets the honey products.

As with many start-up businesses, the cooperative has worked hard to improve its bookkeeping systems. It has also instituted production and quality standards.

But designing a marketing plan that generates sufficient income for members and the capital necessary for future expansion is a major problem it confronts. Other issues management faces include the guarantee of a consistent, quality production and a focus on the right value-added products.

Some producers also view the cooperative as a purchaser of last resort. To confront this problem, Agropchel is instituting marketing agreements with producers. In addition, a regional warehouse collection system and market segmentation for certifiable organic honey are being considered.

Bulgarian beekeepers face many challenges in their transition to a consumer-driven market system. In their response, they are heeding the wisdom of their medieval king. By uniting to improve the situation for the industry as a whole and joining together to form commercial cooperatives, they are creating for themselves a sweeter future. ■



# Foreign affairs

*USDA Foreign Agricultural Service promotes U.S. agriculture abroad*

By Karl Hampton  
*USDA Foreign Agricultural Service*

**A**re U.S. agricultural interests represented overseas? Does it matter whether they are or not? The answer to both questions is a resounding “yes,” says Timothy J. Galvin, administrator of USDA’s Foreign Agricultural Service (FAS). “FAS represents the diverse interests of U.S. agribusiness — from farmers to food manufacturers — abroad,” Galvin says. It also collects, analyzes and disseminates information about global supply and demand, trade trends and emerging market opportunities.

The goal of FAS is to improve market access for U.S. products. To do this, the agency implements programs designed to build new markets and to maintain the competitive position of U.S. products in the global marketplace. FAS also carries out food aid and market-related technical assistance programs, as well as operates a variety of Congressionally mandated import and

export programs.

Under the terms of a recent memorandum of understanding, FAS will also be working closely with the USDA Rural Business-Cooperative Service to help develop export marketing plans for cooperatives that wish to sell agricultural goods overseas (see sidebar, page 16).

## **Why U.S. exports matter**

Established in 1953, FAS has employees in about 70 overseas offices covering more than 130 countries. These offices link foreign buyers with potential suppliers in the United States. They also assist U.S. exporters in launching products in overseas markets that are often characterized by different food preferences, social customs and marketing systems.

In 1999, U.S. agricultural exports totaled \$49 billion. A slight increase in export value is expected this year.

Overseas markets account for one-quarter of farm cash receipts. According to USDA’s Economic Research Service, each export dollar

creates another \$1.28 in supporting activities to process, package, ship and finance products. This means that agricultural exports currently generate \$112 billion in total economic activity. About 750,000 jobs are tied to agricultural exports as well.

## **Market development**

FAS programs help U.S. exporters develop and maintain markets overseas for hundreds of food and agricultural products, ranging from bulk commodities to brand-name supermarket items. Promotional activities are done primarily in cooperation with nonprofit agricultural trade associations, companies that agree to plan, manage and contribute support staff and money. The largest of FAS’ promotional programs are the Foreign Market Development Cooperator program (FMD) and the

Market Access Program (MAP). In addition, FAS sponsors the United States’ participation in several major trade shows and a num-





ber of industry exhibitions overseas each year.

### **International trade policy**

FAS coordinates and directs USDA's international trade agreement programs and negotiations, working closely with the U.S. Trade Representative's office. International trade policy experts within FAS help identify — and work to reduce — foreign trade practices that discourage U.S. farm exports.

### **Statistics and market information**

FAS collects global crop and livestock production data and import/export information from its attaches, ag traders, remote sensing systems and other sources. FAS uses this information to prepare production forecasts and assess export marketing opportunities, as well as track changes in policies affecting U.S. agricultural exports and imports. FAS publishes nearly 200 commodity reports per year that present a world picture of production, consumption and trade flows for about 100 crop and livestock commodities. These reports and much more information are just a click away through the FAS homepage at [www.fas.usda.gov](http://www.fas.usda.gov)

### **Commercial export financing**

FAS provides exporters with short- and intermediate-term commercial financing support through Commodity Credit Corporation export credit guar-

*Overseas markets account for a quarter of farm cash receipts in the United States and about 750,000 U.S. jobs are tied to agricultural exports.*

## **USDA extends more help to small farms**

"There is no higher priority for USDA than working to ensure the long-term survival and economic well-being of America's small- and medium-size family farms," Agriculture Secretary Dan Glickman said while announcing two new steps to help small farmers and ranchers find better ways to market and export their products. "Expanded export opportunities and improved marketing offer tremendous opportunities to boost small-farm incomes during this time of depressed prices."

USDA will provide \$500,000 to help small farmers develop new ways to market their products, including direct selling to restaurants and institutions, agri-tourism and pick-your-own

farms. Under USDA's Sustainable Agriculture Research and Education Program, the University of Vermont, University of Nebraska, University of Georgia and Utah State University will select and assist specific new marketing projects that will benefit smaller farms.

In addition, USDA will offer technical assistance to help small farmers and ranchers form cooperatives to export crops and livestock to international markets. Loans are available to help finance the development of value-added processing at existing cooperatives. ■



antee programs. These programs protect U.S. exporters or financial institutions against risk if an importer's foreign bank fails to make payment. The GSM-102/103 programs are designed to expand and maintain foreign markets for U.S. agricultural commodities, and may help developing nations make the transition from concessional financing to cash purchases.

The Supplier Credit Guarantee Program guarantees payments on promissory notes from importers for a percentage of the face value up to 180 days. And the Facility Guarantee Program provides payment guarantees to facilitate the financing of manufactured goods and services exported from the United States to improve or establish agriculture-related facilities in emerging markets.

### Concessional sales

The United States is one of the world's largest food-aid donors. Over the years, donated U.S. food has often meant life or death to victims of earthquakes, floods, droughts and civil strife. The administration of U.S. food aid programs is shared by the U.S. Department of Agriculture (USDA) and the Agency for International Development (USAID). USDA has available three channels for providing food aid: the Public Law 480, Title I program, the Food for Progress program (FFP), and the Section 416(b) program.

### Agricultural linkages

International cooperation and development activities enhance the competitiveness of U.S. agriculture and preserve natural resource systems. These efforts help U.S. agriculture gain access to emerging technologies and international research, both of which are critical to creating new products, practices and markets. FAS also shares U.S. agricultural knowledge and assists low- and middle-income countries in building stable economies to battle hunger and poverty while increasing their imports of U.S. agricultural products. FAS collaborates

with USAID, other government agencies, foreign governments, international organizations, universities and the private sector to achieve these goals.

For more information about FAS

and its multi-faceted programs, visit its website at: [www.fas.usda.gov](http://www.fas.usda.gov), or contact the Office of Outreach at 202-720-7420, fax 202-205-9728 or e-mail at [tapo@fas.usda.gov](mailto:tapo@fas.usda.gov). ■



*A global marketplace means consumers anywhere want products from everywhere. USDA's Foreign Agricultural Service publishes nearly 200 commodity reports per year that present a world picture of production, consumption and trade flows for about 100 crops and livestock commodities.*

# Going global

*Export certificates a valuable tool helping co-ops tap overseas markets*

Alan Borst  
Ag Economist  
USDA Rural Development  
Rural Business-Cooperative Service



What tools allow businesses – in particular, cooperatives – to work together to market

products overseas? As businesses increasingly compete in a global economy, it's critical they understand the "ins" and "outs" of U.S. regulations that can help them avoid antitrust litigation and capture higher export earnings.

Agricultural cooperatives have joined with cooperative- and investor-owned competitors to form joint exporting groups throughout the past 100 years. These export groups have been able to capture economies of size, to spread export marketing risks and costs across all members, and to increase each group's ability to deal with foreign importers which are frequently organized as buyer cartels or state trading enterprises. However, such cooperative efforts may be curtailed or not even undertaken because of the threat of costly antitrust litigation.

Possible antitrust plaintiffs can include competitors who are outside the group, farmers who supply either member or non-member firms, trading companies or other marketing intermediaries which have some commercial relationship with the group, state attorneys general, Federal antitrust regulators, or even disgruntled firms from within the group. The threat of antitrust litigation is serious, even if the

case is weak, because the lawsuits are among the most costly. Cooperative executives must consider the time and resources that could be tied up and the prospect of paying triple damages if they are unsuccessful in defending a lawsuit. Nearly all antitrust cases are filed by private plaintiffs.

## Export trade certificate of review

U.S. policy makers have long recognized the benefits of horizontal export coordination on member export earnings and competitiveness, and they have promoted it through the granting of limited antitrust exemptions — notably the Webb-Pomerene Act (WPA) of 1918. Agricultural cooperative members are also covered by the Capper-Volstead Act (CVA) of 1922, which grants limited protections against antitrust litigation in both domestic and foreign joint marketing operations. By the early 1980s, U.S. policy makers had concluded that the WPA protections were inadequate, and thus passed the Export Trade Certificate of Review (COR) antitrust pre-clearance program as Title III of the Export Trading Company Act of 1982.

The COR program is administered by the U.S. Department of Commerce's Office of Export Trading Company Affairs. Certificates are issued by the Secretary of Commerce, with the concurrence of the Attorney General. This program allows U.S. exporters to submit specific joint export plans to Commerce and the U.S. Department of Justice's Antitrust Division. Certified firms or associations are provided with immunity from federal and state government antitrust suits with regard to

approved export conduct. (It is important to note that the COR program does not protect holders from foreign antitrust litigation.) In addition, certified exporters receive the following procedural advantages related to private antitrust actions.

- There is a presumption that certified export conduct complies with U.S. antitrust laws. Plaintiffs bear the burden of proving either that the agencies erred in their initial issuance of the certificate or that conditions have changed so that an originally correct certificate is no longer correct.
- If a certificate holder is found liable, its liability is reduced from treble to single damages for damages resulting from the certified export conduct.
- If the certificate holder prevails, it may recover attorney's fees.
- Finally, there is a shorter statute of limitations within which plaintiffs can bring an antitrust action (relative to that found in other U.S. antitrust laws).



### Additional COR advantages

Cooperative exporters seeking protection or clarity regarding antitrust exposure have various options from which to choose, including the WPA, the CVA, and the Business Review Letter (BRL) programs at the Justice Department and the Federal Trade Commission. Depending on the exporters' needs, the COR program may provide the following additional advantages over some of the other alternatives.

- WPA only covers joint exporters of goods; COR allows for coverage of both goods and services.
- WPA is limited to export associations; COR immunizes one or more firms in any organizational configuration.
- WPA associations are limited to exporting; COR exporters may conduct import or domestic business, though only their export business is covered.
- WPA is ambiguous lean-

ing toward negative on exclusive contracting arrangements; COR could immunize them.

- WPA is a general exemption; COR immunizes specific joint export activities through a pre-clearance procedure, which provides greater certainty.
- WPA, CVA, and BRL do not provide any of the procedural advantages allowed for in COR coverage.
- BRL is a specific but non-binding statement of the Department of Justice's position on reviewed conduct; COR pre-clearance is binding on the Justice Department and other potential public plaintiffs (unless circumstances have changed).
- CVA covers only joint marketing activity of farmers; COR potentially covers any exporting firm, including investor-owned co-op competitors and other related channel members.

The COR program is voluntary and there are no application fees. Although many applicants use legal counsel, the application form is intended to be easy to complete by the applicant, and the Office of Export Trading Company Affairs is available to provide pre-application counseling to interested applicants at no cost. Decisions on certification are done, except in extraordinary circumstances, within 90 days from the day a completed application is accepted. Analysts, economists, and attorneys from both the Commerce and Justice Departments review and process the applications, with Commerce being the contact point for the applicant. The process is intended to be user-friendly and additional information from applicants is normally sought through conference calls.

### Protection at a modest cost

The COR program has been criticized for failing to meet inflated expectations regarding its macroeconomic impact that surrounded its 1982 passage by Congress. But, critics are misguided if they assess the program's success or value by whether it has had an impact on the trade deficit or U.S. unemployment rates.

It is best to consider

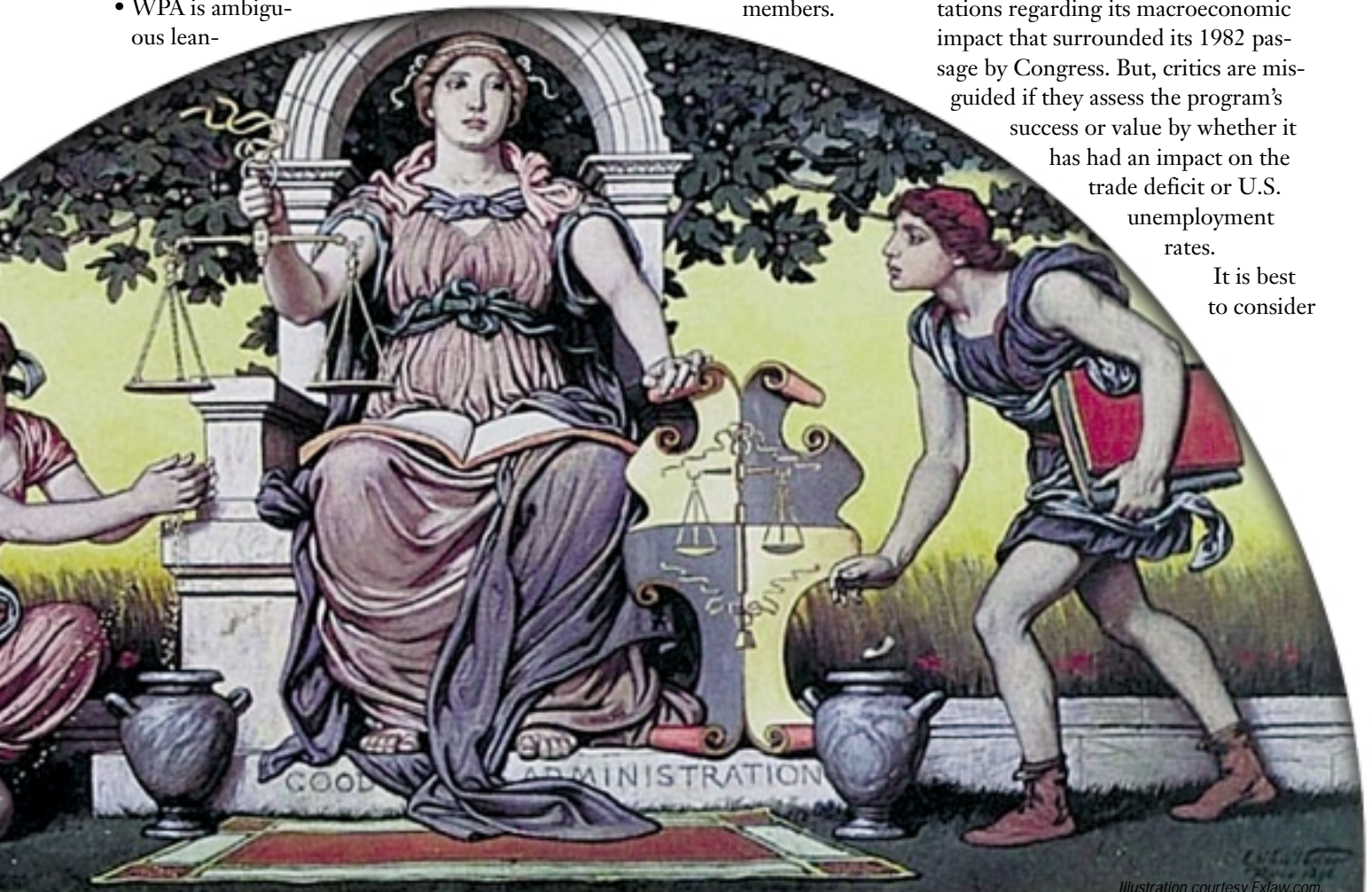


Illustration courtesy Exlaw.com.

this program as one useful tool, among many, available to U.S. exporters. The success of any export venture depends on business realities and the efforts export partners put into the venture. Nevertheless, if the threat of antitrust liability is of any concern, the COR program offers some certainty and protection at a relatively modest cost. It should be noted that the costs to the government for running this program are, likewise, modest (particularly when compared with the potential liability to exporters using it). In addition, obtaining a COR sometimes serves as a catalyst for renewed export activities by certificate holders.

Congress made agricultural exporters a major target group for this program. In Title I, Section 102 (a) (5) of the Export Trading Company Act of 1982 Congress stated:

“The Congress finds that...although the United States is the world’s leading agricultural exporting nation, many farm products are not marketed as widely and effectively abroad as they could be through export trading companies.”

An important target sub-group of these agribusinesses were agricultural marketing cooperatives. In 1986, Janice Payt, attorney advisor at the Commerce Department’s Office of the Assistant General Counsel for Trade Development, made the case in the *Journal of Agricultural Taxation & Law* that cooperatives could benefit from the COR program to strengthen their market power:

“It may be advantageous to organize an ETC [export trading company] as a cooperative, and cooperatives can, as members, form or otherwise participate in ETCs. Generally, cooperatives can use the ETC Act to obtain antitrust protection not available under the CVA alone and can combine the two statutes to obtain optimum protection for export activities.... To obtain optimum benefits from joint exporting, cooperatives may desire to enter into arrangements with nonproducers. Such arrangements fail to qualify for the CVA [Capper-Volstead Act] exemption,

inasmuch as the CVA requires all members of a cooperative to be agricultural producers. For example, courts have held that a nonproducer processor is not an eligible agricultural producer within the meaning of the CVA.... By using Title III certification, cooperatives can obtain immunity for their export activities with noncooperatives, while still retaining the CVA exemption for domestic (and foreign) cooperative activities.”

### Co-ops use antitrust pre-clearance

It should also be noted that, in the 1996 Farm Bill, Congress encouraged the U.S. dairy industry to “establish and maintain one or more export trading companies under the [ETC Act]” and authorized the Secretary of Agriculture to provide his advice and assistance as necessary.

Agricultural marketing cooperatives have used the Export Trade Certificate of Review antitrust pre-clearance program for many purposes. Over 40 cooperatives have been certified in 18 different export groups since the first certificate was issued in 1983. Much has been written about the potential benefits which COR offers to prospective joint exporters, while little has been said about the experiences which certified firms have had with this program.

A series of interviews were conducted with executives from cooperative members of a majority of certified joint export marketing groups with cooperative membership. Questions were asked about how COR pre-clearance influenced their export grouping activities, and what limits existed to undertaking the certified conduct. Some cooperatives reported that certification played a central role in enabling their export-grouping venture by resolving serious antitrust threats which would have otherwise stopped the venture. Others reported that the certification was valuable as inexpensive legal insurance, but not absolutely needed for their venture’s joint exporting activities.

Most of the certified groups with cooperative membership failed shortly

after start-up or have operated sporadically and at the margin, with very limited sales volumes. A few of the certified groups, however, have been very successful in their joint exporting activities. These are groups which, not coincidentally, have heavily used their certification. The threat of antitrust litigation tends to be proportional to the potential market power the exporters could collectively exercise through the group. The greater the potential market power, the greater the potential damages to be won through antitrust litigation.

There are natural checks to the exercise of joint export market power among certified U.S. firms. Certification has almost always been sought for joint exporting to new or undeveloped markets. There are also the strong vertical market links between these established U.S. exporters and their importing partners, who do not wish to confront horizontally coordinated U.S. exporters. No examples were found of competing exporters initiating horizontal coordination with respect to established export markets. Further, once vertical relationships were developed between individual U.S. exporters and foreign importers, horizontal coordination tended to decline.

### Business relationships important

A large proportion of the certified joint exporting activities faced little actual threat from potential antitrust litigation. Nevertheless, there were industries with painful memories of past antitrust actions, and others without a history of antitrust litigation, per se, but where relations among competitors were otherwise strained and litigation of other sorts had been threatened or taken. In these situations, certification enabled even low-risk joint marketing activities by providing assurance to highly risk-averse exporters.





*Over 40 cooperatives have been certified in 18 different export groups under the COR antitrust pre-clearance program. Research shows they are generally satisfied with the protection it provides against antitrust litigation and how that enables higher export earnings.*

Most of the respondents reported that the importers with whom they dealt were also horizontally coordinated, either as state trading enterprises with some measure of publicly conferred authority, or as buyer cartels that presented a united marketing front. Thus certification enabled the exercise of countervailing power against coordinated importers.

The business culture among the joint exporters was another determinant of their capacity to actually undertake the activities for which they were certified. The potential efficiencies some certified groups possessed went unused when distrust and suspicion fueled rivalry over cooperation. Conversely, where exporters knew and trusted each other well, some export activities were successfully implemented.

Most of the certified export groups were coordinated by a commodity association, which usually established a distinct entity to administer the joint marketing activities. This served the purpose of preserving the commodity association's eligibility to receive export promotion funds and services.

One area in particular where certification has proved useful is in legitimating political relationships between U.S. commodity associations and foreign governments. Certification helped U.S. commodity groups to: 1) administer tariff export quotas granted by a foreign economic union; 2) negotiate a suspension agreement to terminate an anti-dumping investigation brought by a foreign government; and 3) implement phyto-sanitary requirements imposed by importing-country agricultural officials. This has allowed commodity groups to take active and coordinated roles in governing their export markets on important issues.

Several cooperative executives reported that certified joint exporting was undertaken in conjunction with other horizontal coordination, as exercised under Federal marketing orders, information-sharing cooperatives, and bargaining cooperatives. Some of these other entities provided financing and other support for the joint exporting efforts.

Some COR program applicants were third parties, such as economic development specialists or trade association staffers, who were seeking to

facilitate horizontal coordination from outside the industry. These ventures were typically less successful in promoting joint exporting than were certificates directly sought by exporters.

#### Overall satisfaction with COR

The COR program is a tool which has been used to free several cooperatives from antitrust fears. Some cooperatives have been protected from the active threat of non-member farmer lawsuits, while others have been freed from the threat of litigation from other sub-sector stakeholders from outside the group. However, antitrust litigation was treated in one instance when a certificate holder used its certificate to protect its joint exporting arrangement with a disgruntled cooperative supplier that had earlier threatened the holder with antitrust legal action.

Most cooperative and ETC executives reported receiving certification for almost all of their joint exporting plans, although a few compromises were necessary. All expressed appreciation for Commerce's COR staff, and they had no complaints about the overall process of obtaining and maintaining their certification. Respondents valued the role of Commerce, which they perceived as being business-friendly and as the main contact point in the process. They also view Commerce as the liaison for interactions with Justice, which is perceived as less business-friendly because it is an enforcement agency.

In summary, cooperatives and the certified export marketing groups to which they belong have been generally satisfied with the protections provided by the COR program against the threat of potential antitrust litigation. A majority of cooperative exporters have not sought certification, and many of those who obtained it have never effectively used it. But for those who have used their certification to resolve active antitrust threats or to assure otherwise anxious competitors, and who have subsequently engaged in joint export marketing activities, the COR program can be fairly credited with having enabled their higher export earnings. ■



# Mt. Pride Cooperative Inc.

*Mt. Lake Park, MD*

**Co-op type:** Founded in 1997, Mt. Pride is the home of USDA-inspected rabbit, goat and lamb growers.

**Service provided:** With the help of local cooperative extension agents, members are especially developing rabbit production practices, experimenting with new products, and coordinating their efforts to supply over 1,500 pounds of rabbit fryers to major supermarket chains.

**Production Coordinator:** Paige Dopson, program assistant, Garrett County Cooperative Extension Service, Maryland, who also serves as treasurer.

**Board:** A 10-member board of small producers governs the co-op. Its officers include President Barbara Harvey, Moatsville, W.V.; Vice President Charlotte Koontz, Philippi, W.V.; and Secretary Ieda Darnell, Bruceton Mills, W.V. Membership

shares are \$50 each.

**Geographic area:** There are many members in the cooperative stretching from Maryland, Virginia and North Carolina west to West Virginia and Pennsylvania. However, fewer than 50 growers supply the majority of meat processed at Country Pride Meats, Friendsville, Md., one of only three USDA-inspected rabbit processors in the country.



**Product highlights:** Rabbit production hit an all-time high in the war years of the 1940s. With meat scarce, families in rural and urban areas supplemented their diets with home-grown rabbit. In the late 1940s and early 50s, domestic rabbit was common in meat departments in certain areas of the United States and it sold for about the same price as chicken. While the poultry industry moved ahead in production and marketing techniques, the rabbit industry lagged. Now Mt. Pride members are marketing whole fryers, taken at 4.5 to 6 pounds, live weight.

Cooperative members also market goat and lamb. However, that meat isn't marketed through retail store out-

lets under the cooperative's own label. The rabbit meat has been sold in about 400 Shop N Save, Foodland, Country Market and SuperValu supermarkets in the membership region, as well as some Ohio stores.

**Recent developments:**

James I. McNitt, a noted rabbit researcher at Southern University, Baton Rouge, La., has found that consumers want rabbit parts while only whole rabbits are usually available. Even though whole fryers are the mainstay, Mt. Pride members are considering other types of value-added products as rabbit supplies increase. Extension agents Ron Swope, Marion County, W.V.; Jim Simms, Garrett County, Md.; and Melanie Barkley, Bedford County, Penn.; are helping develop basic rabbit production practices. Members and their processor are exploring both smoked and marinated rabbit; experimenting with products such as "rabbit wings," using the foreleg in a sauce; and studying the possibility of rabbit sausage. The co-op is also networking with the meat goat industry to organize a channel for direct marketing of goats and lambs to processors so more money can be returned to farmers.

**For more information:** Mt. Pride Cooperative, Inc., 1916 Maryland Hwy. Suite A, Mt. Lake Park, MD 21550; (301) 334-6960; fax 334-6961; or [www.mtnpride.com](http://www.mtnpride.com).



*In-store food sampling by co-op members relates to consumers that rabbit is USDA inspected, 95 percent fat-free, versatile and has an exceptional gourmet flavor.*

*Photos courtesy Mt. Pride Cooperative Inc.*

# Why U.S. agriculture should support foreign aid

By Perry Letson  
Assistant Vice President of  
Communications  
ACDI/VOCA

“F”oreign aid” is a term that often provokes intense debate. However, besides benefiting the needy, U.S. foreign assistance is a wise investment in our own economic fortune. This is especially true when the aid is devoted to agricultural development. American agriculture must look beyond current difficulties and support strategic agricultural aid overseas.

It is well established, though counterintuitive, that broad-based agricultural growth in developing countries boosts ag imports from the United States. When people in developing nations earn disposable income, they spend it on improving their diets. According to the International Food Policy Research Institute, each dollar increase in developing-country farm output leads, on average, to 73 cents in imports from the United States, including 24 cents of agricultural imports from the United States.

Agriculture is a critical engine for a nation’s economy because, on average, a \$1 increase in ag production generates \$2.32 worth of growth in the overall economy. And agricultural assistance works: U.S. investments in better seeds and farming techniques have helped feed an extra billion people in the developing world since the early 1960s.

## Exports: key to U.S. ag success

Today, agriculture is the bright spot in a gloomy U.S. balance of payments



*José Artigas of Farmers Commodities Corporation in Egypt on an ACDI/VOCA project to strengthen Egypt's grain industry. The Des Moines co-op discovered opportunities in its field of agricultural risk management and today has a thriving office in Cairo. Photo courtesy ACDI/VOCA.*

picture. While large global supplies and weak import demand have in recent years hurt U.S. farm exports, the Food and Agricultural Policy Research Institute projects that over the next 10 years the value of exports will increase by more than 40 percent. In 1998 Secretary Glickman put it succinctly: “Without world markets, the U.S. farm economy goes in the tank.”

Wayne Boutwell, former president of the National Council of Farmer Cooperatives and now president of Southern States Cooperative, said in 1996 that “over the next 50 years, 94 percent of the growth in population-based food demand will occur outside the industrialized countries. This is where the battle will be fought for world markets.”

While our traditional agricultural markets in Europe and Japan are maturing, developing countries offer accelerated population and economic growth. China’s economy alone is expected to triple in seven years! Unless we want to be left behind in global competition, the

United States must pursue foreign assistance that conforms to the demographic realities. To the extent the aid is agriculture-oriented, it will be more effective at accomplishing broad-based economic development and more likely to cultivate new customers for U.S. farm products.

## Agricultural aid in decline

Yet agricultural aid from all industrialized nations plummeted almost 50 percent in real terms over 1986-96. The United States is leading the decline.

Fifty years ago, the United States provided almost two-thirds of all the foreign assistance in the world. Now we rank last among the 21 industrialized nations (according to the Organization for Economic Cooperation and Development) in percentage of GNP per capita devoted to humanitarian assistance abroad. In actual donations, we rank behind Japan, Germany and France – nations with much smaller populations than the United States. There has been a 40 percent erosion in U.S. aid (in real dollars) over the last decade, and we’ve closed 28 missions of the U.S. Agency for International Development (USAID) since 1993.

From an agricultural marketing standpoint, this is folly! Other nations – our competitors – are becoming more generous and more strategic with their aid programs as we shrink from our rightful role as world leader.

The actual amount of the federal budget devoted to foreign aid is less than 1 percent. According to a University of Maryland poll, a majority of Americans believe the United States spends 15 percent or more of the federal budget on foreign aid. The same

respondents believe the proper amount should be about 6 percent.

Congressional support for foreign aid has ebbed in recent years. Too many Americans misunderstand the win-win aspect of international economic development and are cynical because past aid in certain cases propped up dictators. In general, we Americans say we support the idea of development and humanitarian assistance, and we tend to be generous when disaster strikes. However, citizen support for aid is more a latent value than an urgent, activist concern, and Capitol Hill has consequently treated it as a low priority.

### A history of success

There's no denying that U.S. foreign assistance has had remarkable success. Since the inception of the Marshall Plan in 1947, America has provided vital resources, development models (including cooperative forms of business and banking), and critical know-how around the globe. From France, Italy, Germany, Spain and Japan in the post-war era, to Thailand, Chile and Costa Rica in more recent years, foreign aid has brought tremendous gains.

In the 1950s and early 1960s, the four developing countries that received the most U.S. aid were Brazil, Korea, Taiwan and Turkey. Today, we have over \$100 billion in trade with each. Now South Korea each year buys U.S. goods that are worth more than all the assistance provided to that nation since 1962.

In addition, there have been astounding benefits to American agriculture: Wheat varieties with dwarfing genes found in Asia as part of a USAID program are now grown on almost two-thirds of the area under wheat cultivation in the United States.

### Co-ops: a natural at international economic development

Even with the gains, 800 million people are still chronically hungry, and the world population is increasing

by approximately 80 million per year. U.S. farm cooperatives and farm credit banks have a proud history of helping those in need overseas. CARE, ACDI/VOCA and its predecessor organizations – Agricultural Cooperative Development International and Volunteers in Cooperative Assistance – as well as NCBC, NRECA and other organizations have carried the co-op banner to the far corners of the world, creating prosperity and injecting the democratic values and efficiency of co-ops where they are most needed. Today, with world markets beckoning, U.S. farmers can't afford to be isolationist; they must support strategic foreign aid.

There are many ways of looking at foreign assistance. It's investing in people so that they can join the global information and economic order. It's leveraging the limited resources of governments to build indigenous skills and promote private initiative. Ultimately, it's a process of making friends and creating customers overseas in stable political environments – customers who have money to spend and look to America as a worthy helpmate and a reliable supplier of quality goods.

Ted Turner says, "We cannot save the United States in the long haul without saving the whole world. We cannot throw up walls at our borders or set tariffs on imports. We cannot escape environmental degradation of our foreign neighbors. Why create refugees when we can cultivate buyers?"

Howard Shultz, CEO of Starbucks, adds, "Supporting global development is not charity – it's an investment. And, it's the right thing to do."

The new world economy is based on democracy and trade: currently, American foreign aid, what there is of it, is becoming more business-oriented, and trade barriers are inevitably coming down. The United States must be engaged overseas to prepare for a future in which more and more customers will have names that are harder and harder to pronounce. A

future in which diseases more easily become pandemics; a future in which we'll eventually discover that an enormous amount of the world's vital genetic diversity is reposed across our border in remote rain forests or on mountain terraces.

### More than money

Seat-of-the-pants economists may say that private investment in the developing world has soared in the past few years from \$30 billion in 1987 to near \$200 billion today and that this massive infusion of money will make all the difference. Right? Unfortunately, no. In most cases, it only makes the rich richer. The vast majority of this private investment went to a mere handful of nations – less than three percent went to all sub-Saharan Africa. Private investment will not bring about broad-based global economic prosperity. There must be government and civil society intervention to make aid equitable.

Whether it's helping to organize smallholder farmers in Malawi to capture market share from colonial-style plantations, or teaching marketing to bakers in Romania, or bringing cooperative banking back to Poland, people-to-people, private enterprise-based development assistance is inexpensive in the long run especially if it helps avert crises. The prosperity it brings will pay off manifold for market-hungry American agriculture.

We, as a people, must not miss the opportunity to be good leaders, to be good businessmen and to be good period. If we're serious about finding new markets, about creating new business opportunities for American companies in this competitive environment, we must recognize that we have a vested interest in helping the developing world – especially in agriculture. ■

*Opinions expressed by guest columnists in Rural Cooperatives magazine do not necessarily represent those of the U.S. Department of Agriculture.*





# How Does Your Local Farm Supply Cooperative Rate?

By Beverly L. Rotan  
Economist  
USDA Rural Development  
Rural Business-Cooperative Service

**W**ith farm commodity prices severely depressed and thousands of producers all across the nation struggling for their economic survival, most farmers could improve their odds by belonging to

financially strong marketing and supply cooperatives to add some certainty to an uncertain world. But a cooperative is not a panacea, and managers and directors need to constantly monitor all aspects of the cooperative operation to make certain it is returning a good value to its members.

One way to measure the success of your farm supply cooperative is to compare it with the performance of cooperatives with similar functions

during the past year. Was its performance higher, lower or about the same as the average of a cross section of local farm cooperatives with similar factors?

The two tables below contain average financial data compiled from a survey of 329 cooperatives for 1997 and 1998. These include trend and industry norm comparisons. Fill in the blanks and compare these benchmarks with your cooperative's financial data.

So how is your cooperative doing? ■

**Table 1—Compare your farm supply cooperative 1/ with averages for cooperatives with similar functions.**

Measure/Item	Unit	Size (1997) 2, 3/				Size (1998) 2, 3/				Your cooperative
		Small	Medium	Large	Super	Small	Medium	Large	Super	
Sell farm supplies only	Percent	85	60	41	10	85	60	41	10	
Total assets	Mil. dol.	1.6	4.1	7.4	14.0	1.6	4.3	7.9	15.4	
Long-term debt	Thou. dol.	90.0	342.0	661.2	786.3	88.1	361.7	759.4	1,284.4	
Total liabilities	Thou. dol.	404.6	1,287.0	2,646.5	5,544.1	405.6	1,324.3	2,937.2	6,055.9	
Total sales	Mil. dol.	2.9	7.2	13.3	24.9	2.6	7.0	12.7	26.0	
Total service revenue	Thou. dol.	48.1	204.1	320.1	665.9	56.2	201.7	321.7	686.5	
Total revenue	Mil. dol.	2.9	7.7	14.1	26.5	2.7	7.2	13.5	27.6	
Net income (losses)	Thou. dol.	115.4	335.5	642.2	1,159.2	85.7	300.3	506.8	1,049.4	
Labor of total expenses	Percent	54	51	53	54	54	51	53	55	
Patronage refunds received	Thou. dol.	67.1	184.9	319.5	761.6	70.5	184.2	333.3	790.2	
<b>Liquidity ratios</b>										
Current	Ratio	2.39	1.90	1.51	1.42	2.35	1.90	1.40	1.41	
Quick	Ratio	1.42	1.05	0.80	0.71	1.38	1.05	0.75	0.63	
<b>Leverage ratios</b>										
Debt to asset	Ratio	0.11	0.13	0.16	0.18	0.09	0.12	0.17	0.19	
Debt to equity	Ratio	0.08	0.12	0.14	0.09	0.07	0.12	0.15	0.13	
Times interest earned	Ratio	7.37	7.47	6.27	7.30	5.87	6.83	5.37	5.88	
<b>Activity ratios</b>										
Fixed asset turnover	Ratio	7.87	6.81	5.86	6.68	6.62	5.97	5.02	5.79	
Total asset turnover	Ratio	1.78	1.76	1.80	1.78	1.57	1.57	1.60	1.68	
<b>Profitability ratio</b>										
Gross profit margins	Percent	16.99	16.64	18.65	16.12	17.86	18.15	19.56	15.88	
Return on total assets before interest and taxes	Percent	9.12	10.01	10.97	10.57	6.81	8.76	8.30	8.85	
Return on total equity	Percent	10.05	11.87	13.49	13.68	7.20	10.21	10.13	11.22	

1/ 100 percent of sales were generated from farm supply sales.

2/ Small = Sales are \$5 million or less; medium = over \$5 million to \$10 million; large = over \$10 million to \$20 million; and super = over \$20 million.

3/ There were 329 cooperatives surveyed in both years.

Table 2—Compare your mixed farm supply cooperative 1/ with averages for cooperatives with similar functions.

Measure/Item	Unit	Size (1997) 2, 3/				Size (1998) 2, 3/				Your cooperative
		Small	Medium	Large	Super	Small	Medium	Large	Super	
Market farm products and sell farm supplies	Percent	6	19	24	19	6	19	24	19	
Total assets	Mil. dol.	1.1	3.7	8.3	16.2	1.1	3.9	8.6	17.4	
Long-term debt	Thou. dol.	27.9	479.4	1,063.2	2,029.7	116.0	571.2	1,117.8	2,094.0	
Total liabilities	Thou. dol.	399.1	1,380.0	3,293.8	8,099.2	342.8	1,467.2	3,381.7	8,594.6	
Total sales	Mil. dol.	2.7	7.9	14.6	34.9	2.5	7.3	14.4	34.3	
Total service revenue	Thou. dol.	60.6	251.3	550.1	1,102.9	65.6	293.8	598.5	1,224.7	
Total revenue	Mil. dol.	2.9	8.4	15.6	36.9	2.6	7.8	15.5	36.4	
Net income (losses)	Thou. dol.	14.3	232.8	377.2	868.3	34.2	233.0	388.1	941.9	
Labor of total expenses	Percent	51	48	51	48	51	49	51	49	
Patronage refunds received	Thou. dol.	27.9	125.8	345.6	634.9	31.8	126.6	365.2	662.6	
<b>Liquidity ratios</b>										
Current	Ratio	1.54	1.74	1.44	1.36	2.33	1.70	1.30	1.32	
Quick	Ratio	0.80	1.07	0.81	0.64	1.18	0.94	0.68	0.59	
<b>Leverage ratios</b>										
Debt to asset	Ratio	0.14	0.17	0.20	0.25	0.20	0.19	0.20	0.25	
Debt to equity	Ratio	0.04	0.21	0.21	0.25	0.16	0.24	0.21	0.24	
Times interest earned	Ratio	1.70	4.47	3.61	3.20	2.53	4.68	3.37	3.32	
<b>Activity ratios</b>										
Fixed asset turnover	Ratio	11.83	7.39	5.80	7.98	10.29	5.72	5.06	7.19	
Total asset turnover	Ratio	2.49	2.17	1.76	2.15	2.31	1.87	1.66	1.97	
<b>Profitability ratio</b>										
Gross profit margins	Percent	11.17	12.37	14.51	13.45	12.47	13.31	15.58	15.10	
Return on total assets before interest and taxes	Percent	4.00	8.96	6.82	8.35	5.83	8.03	6.75	8.36	
Return on total equity	Percent	2.03	10.25	7.49	10.70	4.73	9.66	7.37	10.64	

1/ 50 to 99 percent of sales were generated from farm supply sales.

2/ Small = Sales are \$5 million or less; medium = over \$5 million to \$10 million; large = over \$10 million to \$20 million; and super = over \$20 million.

3/ There were 329 cooperatives surveyed in both years.

## Land O'Lakes buys butter business

Land O'Lakes Inc., Arden Hills, Minn., recently announced its purchase of Madison Dairy, a 95-year-old, family-owned business in Wisconsin's capital city. The butter plant is the city's 18th largest business, employing 80 and tallying \$290 million in revenues last year. Madison Dairy, owned by the Steinhauer family, produced 15 percent of the nation's butter in 1999. Land O'Lakes controls about 33 percent of the U.S. butter market. The deal will allow the co-op to add a major production facility to its current roster of butter plants in Faribault, Minn.; Carlisle, Pa., Kent, Ohio; and Tulare, Calif.

In other news involving LO'L:

- LO'L and Alto Dairy Cooperative are studying whether to construct a jointly owned cheese plant in Wisconsin that would be the state's largest. It could handle up to 6 million pounds of milk daily — or about 600,000 pounds of cheese a day.
- LO'L and Cooperative Business International Inc. have formed Specialty Grains LLC, a partnership which will integrate seed contracting, and the marketing and delivery of specialty grains to overseas customers. The key to Specialty Grains will be an integrated, formalized contract production system. The original focus of the venture is expected to be identity preserved soybeans and white corn.
- LO'L, Cenex Harvest States Cooperatives and Farmland Industries announced that Agriliance LLC will be the name of the agronomy marketing joint venture between the three regionals. It maintains marketing and sales offices in St. Paul, Minn., and Kansas City, Mo. Agriliance was originally proposed in anticipation of a unification between Cenex Harvest States and Farmland which did not receive the necessary member approval. This alliance is not contingent on a Farmland and Cenex Harvest States unification. Agriliance will be the largest North American crop input provider; marketing approximately 15 million tons of crop nutrients, \$1.7 billion of crop protection products, and \$300 million of Croplan Genetics seed.



**Welch's sales soar;  
Pokemon coming!**

For many ag co-ops, 1999 was a year they'd rather forget. One exception: Welch Foods Inc. of Concord, Mass. Thanks to new products, wider distribution and studies that tout the health benefits of grape juice, the marketing arm of the National Grape Cooperative Association Inc., recently out-performed much of the industry. Over the past eight months, Welch's has seen monthly sales running more than 20 percent above the previous year's levels, said Daniel P. Dillon, Welch president and CEO.

Most members grow their grapes in Michigan, New York, Ohio, Pennsylvania, Washington state and Ontario. As grapes thrive, many other farm products are hurting. The co-op may be thriving because it's doing a good job fulfilling its purpose: maximizing profits and preserving the long-term livelihood of members by stimulating demand through marketing efforts and

advertising campaigns. Welch's ads target families and feature cute kids. New market efforts include a sponsorship of I-Village, a Website that caters to women. And soon Pokemon characters will be enlisted in a Welch's promotion. Also stimulating demand is medical research that Welch's has supported. This research claims that white grape juice may be the easiest juice for a young child to digest and that purple grape juice is as good for the heart as red wine.

What's really impressive about last year, according to Dillon, is that about one-third of sales came from new products introduced within the past five years; in the early 1990s, new products accounted for about only 10 percent of overall sales.

**Merger creates Evergreen Co-op**

McLean County Service Co. members recently attended their final annual meeting, followed by the first board meeting of Evergreen FS, created

through a combination of McLean County Service and Woodford FS in Illinois. Farmer-members of the two Growmark Inc.-member cooperatives elected Dan Kelley, Normal, board president; Rick Dickinson, Congerville, vice president; and Darwin Buita, Bellflower, secretary-treasurer. Other directors on the new board include Mark Newmann and Kent Hodel, both of Metamora; Irvin Bane, Bellflower; Russel Johnson, Chenoa; Jerry Wisted, McLean; Lynn Rader, Bloomington; and Paul Duzan, Colfax.

Evergreen FS serves 4,200 farmers, providing them fuel, fertilizer, LP gas, agrifinancing, precision farming and grain marketing and storage services. The co-op employs 250 people, with its main office in Bloomington. Woodford FS posted 1999 sales of more than \$11 million. McLean County Service completed its third-best year with sales exceeding \$77.8 million. Doug Oehler, former McLean County Service general manager, remains in that position,



Welch's new Pokeman jelly jars are sure to be a big hit with the public. Photos courtesy Welch's.

while Bob Eichelberger, former Woodford FS general manager, takes over as assistant manager of operations.

### Ag Council salutes Steve Easter

Steve Easter, who recently retired after a long career as vice president of member and government relations for Blue Diamond Growers, was honored with the Co-op Career Professional Award for 2000 during the 81st annual meeting of the Agricultural Council of California in Sacramento. Easter was saluted for his 32 years of service to agricultural cooperatives.

He continues to serve as a director of the Almond Board of California and is past president of the Almond Hullers and Processors Association. Easter is also a former chairman of the Agricultural Council of California and member of the Advisory Committee on Horticultural Trade to the Secretary of Agriculture and the U.S. Trade Representative. He also served as chairman of the American Institute of Cooperation.

### Rural Utilities sells debt securities

National Rural Utilities Cooperative Finance Corp. (NRUCFC), Washington, D.C., filed to sell up to \$300 million in debt securities. Combined with \$100 million in previously registered securities, the offering is worth \$400 million, according to the self registration filed with the Securities and Exchange Commission.

The non-profit Herndon, Va.-based cooperative provides financing to supplement the loan program of the U.S. Agriculture Department's Rural Utilities Services. The proceeds from the offering will be added to NRUCFC general funds which will be used to make loans to members, repay debt, refinance long-term debt and other corporate purposes.

### NRTC praises House Ag Committee for moving to close 'digital divide'

The U.S. House Agriculture Committee voted in mid-February to bring the benefits of local satellite TV broadcasts – and perhaps high-speed Internet service – to the half of America overlooked in last year's Satellite Home

## Minnesota power alliance established

Minnkota Power Cooperative, Inc., will work with Minnesota Power, Inc., and Great River Energy in an alliance to optimize about 4,000 megawatts of generation assets. The alliance will also combine the power supply assets and customer loads for all three companies and will result in a larger resource base to help mitigate risk in volatile power markets. MPEX, a division of Minnesota Power, will provide power trading, least cost supply and risk management services for the combined operations. The companies plan to complete alliance details by summer.

“This is the right thing to do in today's energy marketplace,” said Dave Loer, president and CEO of Minnkota. It is a consumer-owned generation and transmission cooperative serving 12 distribution co-ops. Its service area, approximately 35,000 square miles, is in northwestern Minnesota and eastern North Dakota with a population of 300,000. Its generating facilities are among the lowest-cost producers of electric energy in the country.

Viewer Improvement Act (SHVA).

Bob Phillips, president and CEO of the National Rural Telecommunications Cooperative (NRTC) hailed approval of the “Rural Local Broadcast Signal Act” by the House Ag Committee as “a major step toward bridging the ‘digital divide’ looming in rural America.” Phillips' comments came following a 41-0 vote by the committee to approve the bill, which contains \$1.25 billion in federal incentives to assist non-profit organizations in providing local broadcast television services to rural areas.

“The Committee sent a clear message – rural Americans are not second-class citizens and they deserve access to the same news and information services as urban Americans,” Phillips said. “H.R. 3615 is the right bill at the right time to address the lack of access to broadcast signals in vast areas of the country,” he said.

Phillips praised the co-authors of the legislation, Reps. Bob Goodlatte (R-VA) and Rick Boucher (D-VA) along with Rep. Charles Stenholm (D-TX) for moving quickly to provide the incentives. “They understand the plight of rural consumers, and they have

crafted a bill that not only offers significant incentives to address the crisis, but a bill that puts the right agency — the Department of Agriculture's Rural Utilities Service (RUS) — in charge of administering the local broadcast signal program,” he said. “The telecommunications loan guarantee program administered by RUS has a 100 percent repayment record – not one dime of taxpayer money has ever been used to cover a loan default,” he said.

### SD co-op plans egg production plant

Dakota Layers Cooperative received a \$48,000 grant to plan an egg-production plant that would house 750,000 hens. The money comes from the South Dakota Governor's Office of Economic Development to study the feasibility of a plant north of Flandreau, reports Scott Ramsdell, president and founder of the farmer-owned cooperative.

The \$41.5-million plant would create 15 jobs. It will use 650,000 bushels of corn and tons of soybeans. The co-op has held a public meeting to discuss the plan and has taken an option to buy a quarter section of land. The plant would consist of 10 barns, and the site

would feature a processing plant to grade, clean and package eggs. In addition, a mill is being proposed to convert locally grown corn and soybeans into feed. Ron Wheeler, the state's economic development commissioner, said the plant would be a boon to Flan-dreau. Local businesses ranging from electric cooperatives to main street business should see increased business, he said.

### **Small Poultry Processor Co-op Planned**

Karen Machetta, a central Missouri woman who uses organic methods to raise free-range chickens north of Columbia, says a poultry processing plant would let small producers compete with large corporations. Farmers would be able to bring birds in for processing and USDA inspection. Her effort received a boost with a \$7,180 grant for consultants' services for the project. The money came from the Missouri Value-Added Grant Program of the state's department of agriculture.

Last year, Machetta received \$10,000 to study demand for the plant. She had hoped the latest grant would be enough to build the plant, but program manager Tony Stafford said capital expenses are ineligible. One possibility is for farmers to organize a cooperative. Larry Kieffer, a farmer in Macon, has been working on such a project but said his efforts are in a very early stage. Kieffer said the plant would be very important to small farmers. In a 1999 survey, nearly 300 farmers expressed interest in a processing plant and co-op that could help them market birds. The survey showed farmers would produce 96,000 chickens, 4,500 pheasants and 14,000 ducks.

### **NCBA to help 'false' co-ops become real**

The National Cooperative Business Association (NCBA) has announced an initiative to address the problem of businesses presenting themselves as cooperatives when they are not cooperatives. The problem, explained NCBA's Paul Hazen, has become more prevalent with the advent of e-business and

group purchasing. The businesses may be trading on the good will that the public has for cooperative businesses or may be ignorant of cooperative operating principles. "Regardless of the reasons for these false claims, NCBA's mission is to support and protect cooperative enterprise," he said.

The association will rely on members and other interested cooperators to keep it informed of potential problem businesses. Indeed, the new initiative was prompted by a call to the association about the status of a business promoting itself as a cooperative when that was not the case. NCBA's response to such cases is a two-stage program. When a questionable business is identified, NCBA will contact the business to determine whether it is operating as a cooperative. If it is determined to be a non-cooperative, NCBA will first educate the business about cooperatives and help it truly become a cooperative.

The initiative harkens back to the beginnings of the association in 1916. At that time, James Peter Warbasse, association president, exposed a number of stores calling themselves cooperatives that were not democratically controlled or run, but were instead generating substantial profits for a few people.

### **Tomato co-op files canner complaint**

The California Tomato Growers Association, a Stockton-based cooperative of canning-tomato growers, filed an unfair trade-practices complaint against Sun Garden-Gangi Canning Co. The Association claims that the Riverbank canner has cut out every association grower and 100 percent of their tonnage from Sun Garden-Gangi's contracted tonnage for the 2000 crop year.

Facing lingering surpluses from last year's bumper crop, Kevin Gangi said that a number of canners have cut back on contracts for the upcoming harvest. The Association, which gives growers more clout than if they bargained individually, claims that Sun Garden-Gangi's actions constitute a boycott, discrimination and a failure to bargain. California law requires that commodity

buyers bargain reasonably and seriously with grower cooperatives they recently had done business with.

### **Tri Valley Growers sues Oracle**

Tri Valley Growers of California announced a lawsuit against Oracle Corp., alleging fraud, negligent misrepresentation, malpractice and breach of contract because the Redwood City, Calif., software developer allegedly failed to fulfill its promise to modernize the food co-op's production and management systems. TVG is asking for more than \$20 million in damages. The lawsuit follows Oracle's alleged refusal to accept responsibility for a failed venture into enterprise resource planning (ERP) software.

TVG retained Oracle in 1996 to install ERP software that would enable the co-op to integrate and computerize its operations – from raw product delivery to finished goods distribution. For TVG, this modernization of production and management meant computer systems at nine factories employing more than 9,500 workers, processing more than 1 million tons of fruit and vegetables annually, and distributing and marketing 15,000 Stock Keeping Units (skus), 24 brands and thousands of private label food products domestically and internationally.

According to TVG's lawsuit, Oracle's ERP solution never worked. Rather than correct the problem, admit failure or provide the promised level of support to make the system work, Oracle blamed TVG's computers and its lack of technical expertise. The co-op reports it abandoned the investment and retained another vendor. TVG filed its lawsuit in California Superior Court. Founded in 1932, TVG processes and markets nearly half of the canned peaches, pears and apricots and close to 10 percent of the canned tomato products in the United States.

### **Co-ops buying into 'green' power**

California co-ops are voting for the environment with their electricity purchases. At least five co-ops have switched to a green electricity provider

for their stores. There is also an organized effort underway to get all 60,000 members of all the state's food co-ops to purchase power from one of several existing green power providers.

"The co-op movement was born out of a frustration with the status quo way of doing business," said Steven Kelly, executive director of the Renewable Energy Marketing Board. "It only makes sense for co-ops, which often offer more environmentally conscious and superior products, to purchase their electricity from non-polluting renewable sources such as solar, wind or geothermal steam power."

Berkeley-based Missing Link, a worker-owned bike co-op, is one of the most recent to switch to green power. The store went to GreenMountain.com's 100 percent renewable energy product, which helps support construction of a new solar photo-voltaic power plant in Mendocino County and costs less than generic power.

Another Berkeley-based co-op, University Students' Cooperative Association, switched to Green Mountain a year ago. The student

housing cooperative – the largest in North America – owns 20 properties, all of which are now powered by green electricity. Co-opportunity Consumers Co-op, Santa Monica, went with Commonwealth Energy, Tustin, Calif., providing power generated from geo-thermal steam coming from Sonoma, Lake and Imperial counties. Both Isle Vista Food Cooperative, Santa Barbara, and People O. B. Organic Food Co-op, Ocean Beach, switched to GreenMountain.com's Wind For The Future. These co-ops are paying about a 10 percent premium to ensure that 25 percent of their electricity is generated at new wind turbines installed in the San Geronio Pass, California's wind farming site.

The three food co-ops that have already switched are part of a statewide campaign organized by the Twin Pines Cooperative Foundation to get the 10 largest food co-op stores to purchase green power and then educate members to also switch to green power. The education campaign is funded by the California Energy Commission.

### Imperial Sugar offers plants to co-op

Imperial Sugar Co., the largest U.S. marketer and processor of refined sugar, has offered to sell its plants in Tracy and Woodland, Calif., to the California Beet Growers Association. Based in Sugar Land, Texas, Imperial Sugar markets its products under a variety of brands, including Spreckels, Holly and Dixie Crystals.

"We discussed the possibility of a grower cooperative buying both plants and the growers said they would take the idea under consideration," said Bill Schwer, Imperial's executive vice president. "We talked in general terms, not specifics, so this is the start of our discussions. We offered to manage the plants and market the sugar and by-products."

Imperial, which owns four California plants, is the state's only processor. Sugar beet profits have largely soured over the past decade, according to industry data. The value of the country's sugar beet crop plummeted from \$34 million in 1989 to less than \$7 million in 1998, the most recent figures available. Harvested acreage dropped. Other factors such as the emergence of a soil-borne virus, drought and growing popularity of substitutes for beet and cane sugar, also hammered yields and profits. Meanwhile, world expansion in planted sugar beet acreage has produced a record crop. And the possibility of significantly higher imports of Mexican sugar into the U.S. market beginning Oct. 1 – enabled by the North American Free Trade Agreement – may further push prices down. Reacting to the news, refined bulk-sugar prices fell recently to 15-year lows.

### American Crystal considers forfeiture of sugar

American Crystal Sugar Co., Moorehead, Minn., may forfeit sugar to the government for the first time in more than 20 years because of poor prices. In a member letter, President James Horvath told the 900 growers that it must consider the option. The USDA's sugar program allows processors to put sugar up as collateral for nine-month loans. If

## Glickman sets 2000 goals

Calling 1999 "another extremely difficult year for America's farmers," USDA Secretary Dan Glickman said President Clinton's fiscal 2001 budget includes new proposals to strengthen the farm safety net and to help farmers weather difficult times.

Glickman's year 2000 priorities include:

Supporting American farmers and ranchers: He will work with Congress to improve the 1996 Farm Bill, providing a stronger and broader safety net and enhanced conservation programs.

Helping farmers and rural America prosper: He will make significant additional investments in research and rural economic development, aggressively seek further opening of global markets, implement mandatory price reporting to help ensure fair competition for small farmers and ranchers, and propose a national organic standard.

Moving ahead together: Glickman pledged continued progress on civil rights, ensuring that fairness and inclusion are part of everything USDA does.



## DFA Cow gets rave reviews

Hundreds of cows recently promenaded through the streets of downtown Chicago. No, it wasn't the return of the stockyards. The bovine beauties were life-sized fiberglass cows transformed by Chicago artists into enchanting works of art. Chicago's "Cows on Parade" were on display along Michigan Avenue, in the Loop and River North, near museums, in Grant Park and on the Moo-seum campus. Dairy Farmers of America's "Uncle Sam Cow" was the favorite of Chicago officials and tourists alike. For a statue, this cow really got around. She was featured on a postcard the nation's largest dairy cooperative sent to members of Congress in Washington, D.C.

*Photo courtesy Dairy Farmers of America.*

prices remain under the loan rate, processors have the option of forfeiting the sugar to the government instead of repaying the loan in cash.

Horvath blamed trade and domestic policies for pushing sugar prices to their lowest levels in some 15 years. Among other factors, Horvath said, the United States is required to import 1.25 million tons of sugar annually. Canadian imports of stuffed molasses – a mixture of sugar and molasses – have displaced at least 100,000 tons of domestic sugar, he claimed.

Mark Weber, executive director of the Red River Valley Sugarbeet Growers Association in Fargo, said forfeiting sugar also could give the industry a black eye. The federal sugar program was designed to operate at no cost to the government.

"When we won the farm program on sugar, we only won by nine votes in the House," Weber said. "We're going to have to build a program that's economically responsible, politically feasible and provides a safety net for growers within the budget constraints of Congress."

### Growmark adds facilities

Growmark Inc. added 16 retail and eight wholesale Illinois agrichemical facilities to its existing member company network of fertilizer and agrichemical plants by purchasing Agro Distribution

LLC in Illinois. Bloomington-based Growmark bought the facilities for an undisclosed price from Minnesota-based farm cooperative Cenex-Land O' Lakes Agronomy Co., which bought the former Terra Industries facilities last June.

"This purchase will complement the excellent distribution system our member cooperatives currently have," said Growmark CEO Bill Davisson. "Ultimately, adding these facilities into the Growmark system will mean better service to our farmer-owners, which is our top priority. This is a valuable opportunity to expand our ability to meet and exceed farmers' needs in an efficient manner."

### New Nebraska pork co-op planned

Stan Rosendahl, Creston, Neb., immediate past president of the Nebraska Pork Producers, announced during the 27th annual Pork Expo at Platte County Agricultural Park that a new pork co-op is being planned. He is chairman of the steering committee developing Family Quality Pork Producers. Meetings are expected this spring to gauge interest and provide further details, including selection of a project site. The plan tentatively calls for producers to buy shares in the co-op. The co-op will not own livestock and all profits will go directly to producers. Consumers have started to ask

for specific types and qualities of product and the co-op will try to market to those demands, Rosendahl said.

"The goal is to be further into the pork chain, closer to the consumer," Rosendahl said.

### New pork co-op could hike profits

Jack Rundquist, a Butler County, Ill., pork producer, has been elected chairman of Pork America, a closed cooperative marketing association which plans to coordinate pork production, processing, distribution and marketing for members. With no funds to work with, revenue initially must come from Pork America memberships. Until April 15, producers who joined the co-op paid \$500 for every 5,000 hogs they plan to market. Producers who market fewer than 5,000 hogs could combine forces with nearby producers to meet the commitment, Rundquist said. Producers who join have both the right and obligation to deliver hogs.

Rundquist and seven other board members from six states have a target of 2,000 memberships, after which they will look for marketing opportunities. "We may be able to cooperate with an existing processor," said Rundquist, citing a successful effort by beef producers to buy slaughter space with Farmland Industries to market a special brand of beef.

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