

Rural COOPERATIVES

USDA / Rural Development

July/August 2005



Greener Pastures

Farmer/consumer alliance boosts beef sales page 8

Small dairy co-ops looking to branded cheese page 12

Defending the cornerstone of cooperation

Editor's note: Guest commentary for this issue was written by Jean-Mari Peltier, president and CEO of the National Council of Farmer Cooperatives (NCFC). It is based on a statement she submitted in July to the Antitrust Modernization Commission (AMC). The opinions expressed are her own, and do not necessarily reflect those of USDA or its employees. The AMC, created by Congress to review U.S. antitrust laws, announced this spring that it would review the limited antitrust immunity offered by the Capper-Volstead Act, among other agriculture-related statutes.

The Capper-Volstead Act is the cornerstone of farmer cooperative law and enables farmers to join together to cooperatively process and market their products. Without Capper-Volstead, America's farmers and ranchers would lack any real bargaining power in an economy increasingly dominated by a few large buyers.

Farmer cooperatives enable agricultural producers to:

- Derive more of their income from the marketplace;
- Take advantage of value-added opportunities;
- Better manage the risk inherent in production agriculture and
- Compete more effectively in the global marketplace.

Congress has a long history of recognizing the need of farmers to be able to form cooperatives, and has expressed its desire to promote these associations of producers through the Clayton Act, the Capper-Volstead Act, the Agricultural Marketing Act and the Agricultural Marketing Agreement

Capper-Volstead gives farmers and ranchers real bargaining power.

Act. Such statutes are also vitally important for the benefit of producers as well as consumers.

There is no need to repeal or sunset the limited antitrust immunity in the Capper-Volstead Act because effective limits on its application already exist. For instance, the Act already gives the secretary of agriculture authority to review and protect the interests of all parties, including consumers.

Farmer cooperatives and their members form a cornerstone of U.S. agriculture and rural America. They improve the economic well-being of their members, provide jobs and leadership in their local communities and help meet the food and fiber needs of consumers both in the United States and around the world.

NCFC strongly urges that the AMC recommend that the limited antitrust immunities and the historical protections for farmers found in the Capper-Volstead Act be maintained. We are far from alone in taking this stand. Other farm organizations that have offered testimony in support of Capper-Volstead include: the American Farm Bureau Federation, National Milk Producers Federation, Farm Credit Council, National Farmers Union, National Grange and 16 state and regional farmer cooperative councils.

Additionally, the co-chairs of the Congressional Farmer Cooperative

Caucus —Senator Larry Craig (R-ID), Senator Blanche Lincoln (D-AR), Representative Sam Graves (R-MO), Representative Earl Pomeroy (D-ND) — have sent a letter to the Commission voicing strong support of maintaining the historical protections provided by the Capper-Volstead Act.

NCFC has also joined the Joint Export Trade Alliance in support of the Export Trading Company Act and the Webb-Pomerene Act, two other provisions singled out by the Commission for study.

The AMC has scheduled a hearing on exemptions and immunities, which include both Capper-Volstead and the Ag Marketing Act, for Thursday, November 3. Exact time and location has yet to be announced at the time of this writing. Additional information can be found on the AMC Web site at: <http://www.amc.gov>. Comments can be sent to either comments@amc.gov or by mail to Antitrust Modernization Commission, 1120 G St., NW, Suite 810, Washington, D.C. 20005.

Capper-Volstead has played a critical role in making the United States the world's leading agricultural nation, and will continue to pay dividends for all Americans in the years ahead.

— **Jean-Mari Peltier**,
President & CEO
National Council of
Farmer Cooperatives

NCFC is a national association representing America's farmer cooperatives. There are nearly 3,000 farmer cooperatives across the United States whose members include a majority of our nation's more than 2 million farmers, ranchers and growers.

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The verdant pastures of Prince Edward Island provide abundant forage for the province's beef and dairy cattle. The Atlantic Producers Beef Cooperative and Co-op Atlantic are working together to create a bigger market for home-grown beef. Photo by Christian Ruel, courtesy Mirrorlock Photography, www.mirrorlock.com.



USDA marks 70th anniversary of landmark rural legislation

A black and white photograph of a hand pulling a chain to turn on a glowing lightbulb. The lightbulb is the central focus, emitting a bright light that illuminates the hand and the chain. The background is dark, making the lightbulb stand out prominently.

Sventy years ago, much of rural America existed in a world of candle and lantern light after the sun went down. Long after most urban citizens had electric lights and power, the nation's rural quality of life and productivity were severely hampered by the lack of widely available electricity. Only about 10 percent of America's farms had electricity in the early 1930s and progress at expanding service was very slow.

The country was also in the midst of a terrible economic depression that caused millions to lose their jobs. Large swathes of the nation were also suffering from a severe drought and wind storms that combined to create the "dust bowl" conditions that drove tens of thousands of farmers from their land.

In 1935, Congress responded with two crucial pieces of legislation that forever changed the face of rural America, creating the Rural Electrification Administration (REA) and Resettlement Administration. Both were among the predecessor agencies of today's USDA Rural Development.

The REA, working in partnership with thousands of local utility cooperatives, brought electric power to almost every corner of the nation. Rural electrification happened much quicker than many dreamed possible at the time. Indeed, many historians say that the effort was one of the federal government's greatest success stories of the 20th century. In 1949, REA added a rural telephone program that had a similar impact on bringing telephone service to rural areas.

Like the REA, the Resettlement Administration had a dramatic impact on the quality of rural life. Focused initially on emergency relief during the crisis of the Great Depression, the Resettlement Administration made small loans to help farmers get through tough times, built and managed migrant worker camps, constructed rural water projects, purchased land for conservation purposes, resettled displaced farmers on new land and even built entire model communities from the ground up. Out of this eclectic mix of programs grew the Farm Security Administration and then the Farmers Home Administration (FmHA).



REA and FmHA merged with several other USDA programs — including the Agricultural Cooperative Service — to create USDA Rural Development in 1994.

Sec. Johanns notes huge impact on quality of life

The 70th anniversary of the creation of REA and the Resettlement Administration — which launched America's quest for rural electrification, homeownership and economic security — was marked during a special ceremony at USDA headquarters in Washington, D.C., in May.

“The rural electrification effort of the 20th century serves as a benchmark of excellence,” Agriculture Secretary Mike Johanns said. “In 70 years, the quality of life in rural America has dramatically improved, due in large part to the massive effort by USDA to bring economic opportunity, affordable housing and electric, telephone, water and wastewater infrastructure to rural communities across the nation. President Bush has now challenged us to bring telecommunications technologies, such as broadband, with the same dedication to rural communities by 2007.”

The arrival of electricity on farms and rural towns had a dramatic impact on the quality of life and productivity of the nation. Above, satisfied customers outside the office of Vernon Electric Co-op in Westby, Wis. Photo courtesy Vernon Electric Co-op. Photos at left and below, courtesy National Rural Electric Cooperative Association (NRECA).



Having grown up on a dairy farm in Iowa, Johanns said he feels a personal connection to the mission of Rural Development.

“When I was growing up, I asked my mother, ‘can you remember a time when you did not have electricity?’” Johanns recalled. “She said, ‘Yes, of course. When your dad and I started farming and milking cows, it was by hand.’ My mother was a very plainspoken woman, and added, ‘As a matter of fact, half the heck I caught in my life was from not holding the lantern right while your dad was milking the cows.’”

As the former governor of Nebraska, Johanns said he takes pride in knowing that the “father of the Rural Electrification Program” was Senator George Norris of Nebraska. Johanns said he keeps a bust of Norris on his desk. Johanns quoted Norris from a letter he wrote in 1935 to Morris Cook, the first REA administrator, saying, “If you can launch this great work in the right direction and demonstrate that it will bring comforts, enjoyment and prosperity to our farmers and that it can be done without financial loss, you will have made one of the greatest contributions towards the improvement of farm life that could possibly be imagined.

“George Norris was right about that,” Johanns added. “His vision has been a foundation of economic development in rural America for the 70 years since then.”

Johanns said the Resettlement Administration helped ease the economic crisis faced by millions of Americans in the 1930s, and noted that the Water Facilities Act of 1937 provided loans for farm water systems in 17 western states where drought and water shortage were familiar hardships.

Enduring commitment to rural America

“The Rural Development programs today fit like the strands of a thick rope. Together, they are stronger and more able to do the job than just going it alone. The Rural Development mission also fits well into the wider uni-

verse of so many USDA programs,” Johanns said, noting that President Bush has proposed \$12.8 billion for USDA Rural Development programs in 2006.

Competition in agriculture is stronger than it’s ever been, Johanns said, but he stressed that American farmers and ranchers can, and do, compete successfully in a worldwide marketplace. “With the tools that USDA Rural Development provides to rural residents and communities, they also can compete.” USDA is helping rural communities and producers invest in new technologies, helping them develop value-added products and open additional markets.

“The rural communities I know are

ence in the lives of millions of real Americans: shop owners, teachers, factory workers, mothers, fathers and the next generation. You may never meet them, but you are very, very much a part of their lives. And they and our entire country are better off for your service.”



The electrification of rural America was accomplished through a partnership of user-owned co-ops and the federal government, says Glenn English (top photo), CEO of NRECA (top). Agriculture Secretary Mike Johanns (above) calls Senator George Norris — a driving force behind rural electrification in the 1930s — a personal hero and he keeps a bust of Norris on his desk. Above right, USDA staffers Sam Morgan (fiddle) and Ray Sheehan provided some unplugged music for the 70th anniversary celebration. Color USDA photos by Pete Manzelli. Black and white photo courtesy NRECA.

holding on to their values, but they’re also embracing the future,” Johanns said. “They are creating what I call the new rural America, a rural America that combines all of the benefits of traditional rural life...with all of the advantages of the 21st century. It’s a very remarkable thing to see.”

Johanns thanked Rural Development employees for “making a differ-

Gilbert Gonzalez, then USDA acting under secretary for rural development, said rural America must respond to new global markets and competition, and that economic diversification offers new and emerging opportunities for the rural economy. He too offered his thanks “to the many thousands of dedicated employees over the past seven decades” who have made USDA’s



rural development programs work.

“There is no doubt in my mind that — as I travel across the United States and see the millions of people you’ve assisted — that you have made a difference,” Gonzalez said. Rural Development today has a loan portfolio of more than \$87 billion invested in rural America, including \$40 billion in utility loans, \$40 billion in housing loans and more than \$6 billion in business and farmer cooperative loans.

Electric co-ops key to rural advancement

Business Week magazine in 1937 said the REA program — still in its infancy at that point — was doomed to failure, noted Glenn English, CEO of the National Rural Electric Cooperative Association. “The magazine said it’s crazy to think that you can have a bunch of farmers out there that the federal government is going to loan money to, and they’re going to be able to take care of their own needs. But here we are, 70 years later, and we sure proved *Business Week* wrong,” English continued.

About 37 million people in 47 states

today get their electricity through cooperatives, English continued. “No one else wanted to provide power to those farmers and people living in those rural areas. This (REA) executive order made it possible for private citizens to partner with their government — made it possible for people to come together to take care of their own needs,” English continued, calling the effort “the ultimate in self-reliance.”

The electric co-ops that formed all across rural America in the 1930s often had only 200 or 300 members, English noted. These co-ops allowed rural people to “actually own the business and determine their own fate and their own future through their own elected officials.” Today, he noted, about 43 percent of the nation-

al electrical distribution system is owned and maintained by about 10 percent of the population, through their co-ops. Electric co-ops generate about \$1 billion annually for state and local government coffers through the taxes they pay.

John Rose, CEO of the National Telephone Co-op Association, which represents more than 500 telephone co-ops and companies, said the REA program had a bigger impact than even the co-op numbers indicate, because it motivated private utilities to also extend service to rural customers they otherwise would likely have ignored. Rose, a former employee of USDA’s rural electric program, said Rural Development’s efforts to expand broadband Internet service to rural America may have a similar impact.

Rob Johnson, CEO of the National Rural Water Association, which represents almost 25,000 water and wastewater service providers, said that thanks to cooperatives that serve the rural community where he farms — Loco, Okla. — he gets better water, phone and Internet service than when he lived in a much larger city. He thanked all the USDA staff at the meeting for “the wonderful past that you’ve created for rural residents,” and for their “commitment to a better future for making rural development work. You see our goal — our jobs — are not done,” Johnson said, noting that many rural people still don’t have the kind of water service, telecommunications and electrical service that they need. ■

“The rural communities I know are holding on to their values, but they’re also embracing the future.”

*— Ag Secretary
Mike Johanns*



Atlantic Tender Beef

Canadian beef producer & consumer co-ops expanding market for home-grown meats

By Tom Webb

Editor's note: Webb is a former advisor to Canadian Prime Minister P. E. Trudeau. He is a cooperative business consultant and program manager of the International Master of Management - Cooperatives and Credit Unions Program, delivered by distance education from Saint Mary's University in Halifax, Nova Scotia. More information about the program may be found at: www.smu.ca/mmccu and about Webb at www.global-co-operation.com.

Beef producers in the Atlantic Canada region — comprised of Nova Scotia, New Brunswick,

Prince Edward Island, Newfoundland and Labrador— have long struggled to overcome the perception that their product was inferior to beef from western Canada and other regions. But this picture is being turned around through a comprehensive production and branding program.

This effort includes the opening of a co-op beef-processing plant in Prince Edward Island, the establishment of strict beef-production quality and safety standards, and the launching of the well-received Atlantic Tender Beef brand. The branded beef program is a joint effort of the Atlantic Beef Producers Cooperative, headquartered in Borden, Prince Edward Island, with

the consumer co-ops that share membership under the umbrella of Co-op Atlantic, a federated co-op headquartered in Moncton, New Brunswick.

The beef farmers' new-found marketing clout has helped to somewhat soften the severe blow the Canadian beef industry absorbed when the U.S.-Canadian border was closed to cattle exports following the discovery of a case of BSE that originated in western Canada.

Family farms in the region remain under enormous pressure and face an uncertain future due to various challenges, but their new marketing strategy has given them a better chance to withstand negative forces. The co-op's



Darlene Sanford, president of the Prince Edward Island Cattleman's Association and a member of the Atlantic Beef Producers Cooperative, on her farm near Mt. Carmel, Prince Edward Island. Photo courtesy Cooperative Atlantic

effort is benefiting not just producers, but all of the region's nearly 2.5 million people by helping to strengthen the economy of Atlantic Canada.

Reinvigorating dormant industry

For at least 25 years, Atlantic Canada's beef was poorly marketed and the region's cattle industry was generally underdeveloped. Stores in the region — even cooperative retail outlets — mostly carried western beef, which had a reputation for high quality, while the region's own beef was considered “unreliable.”

but also retail consumer co-ops, housing co-ops and a variety of other smaller co-op sectors.

Co-op Atlantic is today an integrated, agri-food business serving 135 member co-ops throughout Atlantic Canada. It had 2003 sales of more than \$508 million (Canadian). Retail sales of its member co-ops are close to \$1 billion.

The cooperative is a significant player in consumer products, agriculture and petroleum products, as well as real estate and housing development. Collectively, Co-op Atlantic and its member co-ops employ more than

plies for both grain and beef farmers and operates several feed mills across the region. It also acts as a meat wholesaler to the last significant regionally owned retail supermarket chain. So it made sense for farmers to team with Co-op Atlantic to create a comprehensive beef production and branding program.

The Atlantic Tender Beef (ATB) branding program sets the following guidelines to ensure highest quality meats:

- All cattle are fed a high-grain diet with feeds produced by Co-op Atlantic;



Prince Edward Island, above, is home to the Atlantic Beef Producers Cooperative. Photo by Christian Ruel, courtesy Mirrorlock Photography, www.mirrorlock.com.

Consumer demand forced retail grocery co-ops and other food retailers to buy the majority of their beef products from western Canada or abroad because they lacked local suppliers who could offer a consistent supply of top-quality beef products.

While farming, forestry and fishing historically have been dominant industries in this region and remain key industries, their share of the regional economy has declined during the past 25 years. Still, the beef industry alone in Atlantic Canada generates \$100 million in annual farmgate receipts, so its well-being is very important to the region's economy.

Beef producers saw an opportunity to improve their market position through their membership in Co-op Atlantic, a regional cooperative wholesaler. Co-op Atlantic actually began life in 1927 as the Maritime Livestock Board, which evolved over time into a multi-faceted, federated co-op. It serves not only farmer cooperatives,

5,000 people and serve more than 226,000 member-families.

Agri-foods strategy

There has long been tension within Co-op Atlantic resulting from the dominance of the retail co-ops, which for many years have been more prosperous than farmer co-ops. The farmer co-ops sometimes feared that they were the “tail being wagged by the consumer dog.”

At the same time, there has also been a deep well of good will among the co-op sectors, creating opportunity for innovative thinking about farmer/consumer cooperation and mutual self-help.

With both farm and retail cooperative members, Co-op Atlantic was in a strong position to respond to the growing crisis facing beef and other farmers. Indeed, many of the keys to creating a solution to the beef farmers' problems were already in place.

Co-op Atlantic provides farm sup-

- Beef must grade AA or AAA;
- Feed is hormone- and antibiotic-free and contains no animal byproducts or renderings;
- Cattle are dressed at smaller carcass weights, subject to a minimum aging period and handled following strict safety guidelines of HACCP (Hazard Analysis Critical Control Point);
- Beef is traceable.

All cattle in the program are raised on the scenic rolling hills and the fresh air of Atlantic Canada. Consumer co-ops in the program guarantee to buy all the beef that is produced, and the brand has benefited from strong promotional efforts that helped it gain rapid market acceptance.

To make all this happen required the creation of complex partnerships involving: marketing boards, government agricultural agencies in four provinces, the retail and ag cooperatives that comprise Co-op Atlantic, the newly formed beef cooperative created in 2002, secondary processors which



Co-op Atlantic purchases more the \$15 million of co-op beef annually for Atlantic Tender Beef. Photos courtesy Cooperative Atlantic

manufacture “Market Town” and private label products, plus independent farmers and their associations.

Pulling all the pieces together was a challenge, but Atlantic Tender Beef was launched in 1998. In 2002, after only a few years on the market, Co-op Atlantic’s then-CEO Eric Claus said “Although we consider it our brand, we are expecting more and more Atlantic Canadians will continue to make it their brand. The numbers tell the story... the tonnage in beef sold in stores has risen nearly 19 percent since ATB was introduced in our member co-ops. We expect that trend to continue because we’ve worked very hard to ensure that the quality of the beef is consistent from week to week.”

Co-op Atlantic purchases more than \$15 million worth of beef annually under the program, and the trend is upward.

In 2002, Atlantic Tender Beef grilling steak won a Canadian Grand Prix Award, presented by the Canadian Council of Grocery Distributors. The competition evaluates product innovation, packaging design, labeling, pricing, taste, nutrition, value, quality and overall benefits to the consumer.

While some people feared that supporting local producers might mean that they would have to sacrifice quality or price, Co-op Atlantic and the beef producers deliver goods that meet the standards of national and international competitors — and often exceed them.

Packer closing, BSE pose major challenges

Atlantic Tender Beef was still in its infancy when Hub Meat Packers — the only major packer in the region — was bought by the giant Maple Leaf Foods in February 2000. A press release said: “Hub Meat Packers currently has annual sales of approximately \$270 million. No changes are currently planned for the businesses or their operations.”

Some hailed the move as promising stability for the beef industry through integration with a national meat company. Others feared that the plant was purchased to achieve market control and would be closed. After a brief life under the new owners, the plant was shut down.

The implications for Atlantic Tender Beef were disastrous. Beef producers in the region were left with the prospect of shipping cattle to Ontario for slaughter and then shipping the meat back — over 750 miles each way.

Lightning struck twice when the U.S. border was closed to Canadian beef due to a case of BSE, creating a “perfect storm” of hardship for farmers.

The response of the cooperatives was quick and decisive. Co-op Atlantic — together with its co-op partners — subsidized the shipping of beef to and from Ontario and began planning for a regional, cooperatively owned beef processing plant.

An integral part of the plan was the creation of the new Atlantic Beef Producers Cooperative. The co-op came into being in November 2002. By April 2003, it had 160 members and by early 2005 membership stood at 200.

Co-op packing plant overcomes challenges

Moving from plan to reality was, of course, not without challenges. Stiff

competition from multi-national retailers have made it difficult for Co-op Atlantic to invest its planned 50 percent share to make the beef-processing plant a reality. Aggressive price competition between the major competitors drove down retail markets and margins, forcing retail co-ops to focus diminished profits on defensive retail strategies. Its planned \$1.5 million investment had to be reduced to \$500,000. Finding money became a problem and progress faltered.

The Prince Edward Island (P.E.I.) government stepped in to provide support that put the project back on the road. P.E.I. offered the co-op a piece of land in a “food park” at a favorable price and also helped finance a waste-treatment plant.

The beef farmers, in spite of the battering their industry has taken over the past two years, did not falter in raising their share of the investment.



To raise their \$1.56 million share, Atlantic Beef Producers Cooperative sold shares, often referred to as ‘hooks,’ that carried the right and the responsibility to deliver cattle to the new plant.

Every producer share cost \$60. With planned processing of 500 cattle a week, there were 26,000 shares available. Farmers investing in those hooks raised the \$1.56 million needed to make the plant a reality.

The cooperative is in the process of

increasing its ownership of the plant from 50 to 80 percent. Co-op Atlantic will hold the remaining 20 percent.

Stock sale exceeds expectations

The co-op initially expected a minimum sale of 18,000 shares. That number was seen as a measure that there was enough interest in the industry to move forward. That figure was easily surpassed.

In testimony before a Canadian Senate Committee in April 2004, Atlantic Beef Producers Cooperative President Dean Baglole said, "We suspended sales after the initial run to give us an opportunity to sit back and see exactly how many cattle we could put through. With Co-op Atlantic as our prime customer, certainly in the early going we did not want to have more cattle coming into the plant

than we could sell. We want to be very careful and businesslike."

A waiting list was established for would-be share buyers. The \$60 share price is a one-time investment by producers.

"For someone who has 100 cattle, [the cost] is \$6,000 and they are in for life, which is very appealing," Baglole said.



"Right now, we pay in excess of \$80 an animal to have them shipped to Ontario; so, to pay \$60 to actually own part of a plant was a no-brainer for many producers. They felt it was the right thing to do."

One of the strengths of the new plant is that it operates on the basis of real commitments from farmers to deliver cattle, ensuring a steady supply to the plant.

Because it buys only from members, it is able to schedule deliv-
continued on page 37

Cattle on pasture in New Brunswick, where the co-op also has members. Photo by (and courtesy of) William Clarke, presspics@gmail.com.

Consumers prefer locally produced foods

Canadian beef farmers have a history of using cooperative solutions to overcome challenges. Since the early 20th century, farmers have been instrumental in the development of producer and consumer cooperatives, including credit unions, that evolved, thrived and grew all across the Atlantic region.

As elsewhere, local cooperative development was followed by the creation of second-tier "cooperative centrals," like Co-op Atlantic, which were created and owned by local co-ops to meet shared needs.

But even this strong co-op tradition has not stemmed the out-flow of businesses during the past century from Atlantic Canada to the powerful economic centers of Central Canada and the United States. Often, these businesses take the provinces' best jobs and educated young people with them.

Most of the region's people, even those living in urban communities, have strong ties to rural communities and the values they represent. This has led to strong support for the economic base of rural communities. Surveys show that Atlantic Canadians want to support their farmers.

About 96 percent of Atlantic Canadians would prefer to buy and support a local product, while 95 percent prefer

local products if the price and quality are equal. Some 92 percent want to know where and how their food is produced and 80 percent say knowing this kind of information influences purchases.

Another 81 percent trust locally produced food more than imported food. A solid 85 percent support the Co-op Atlantic Agri-Food Strategy. Food safety and ethical production have become real issues with consumers.

Among the issues of growing interest to consumers are animal treatment, additives, pesticides, fertilizers, GMOs (genetically modified organisms), e-coli and labor practices. The recent move by the U.S. government to pass an anti-bioterrorism act to protect food from chemical and biological tampering has heightened awareness among North American consumers of a wide range of food issues.

Consumers increasingly want to know, for both primary and secondary products, who grows their food, what happens to it chemically and mechanically, and where it comes from. They want to know what an animal was fed and its health record. Increasingly, consumers want "traceability." ■

— By Tom Webb

Bucking the Trend

Small dairy co-ops adding value for members by targeting niche markets



Photo courtesy Graze Magazine

**By Carolyn Liebrand, ag economist
USDA Rural Development**

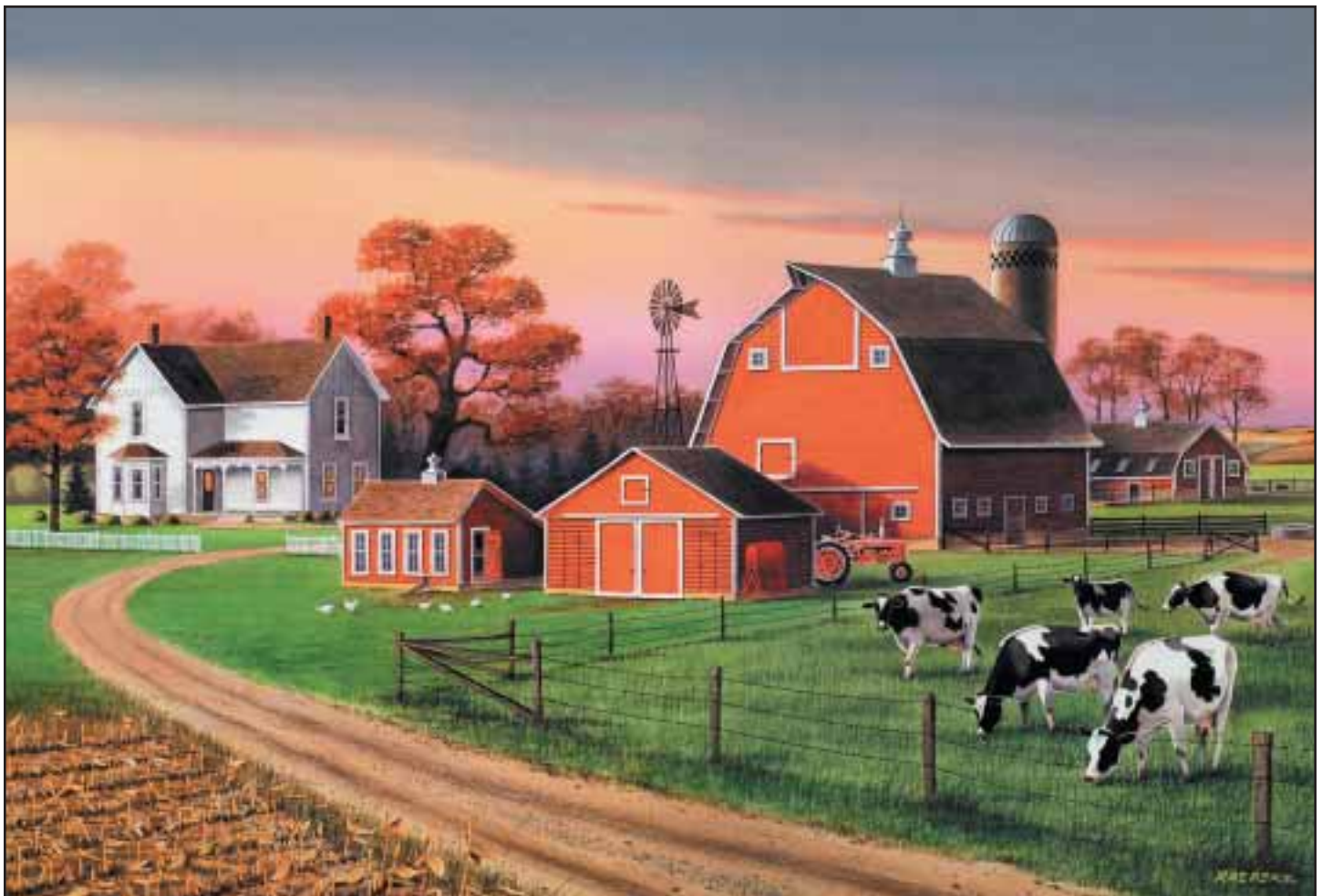
The 1990s was a period of continued adaptation by the dairy industry to dynamic, rapidly changing market conditions. These changes included advances in production technology (both on the farm and in the milk plant), consolida-

tion and growth of retail food chains, vertical and horizontal integration in milk manufacturing/processing sectors, new trade rules and practices, and changes in government programs.

These factors contributed to the trend of consolidation and mergers among dairy cooperatives, which accelerated during the waning years of the century. As a result, just four cooperatives marketed 49 percent of all the

milk marketed by cooperatives, or 41 percent of all milk sold to plants and dealers in the United States in 2002 (Ling).

Furthermore, the four largest dairy cooperatives marketed 74 percent of the natural cheese, 76 percent of the nonfat-dry milk and 80 percent of the butter produced by cooperatives. (The make-up of the top four cooperatives varies, depending on dairy product).



Many operators of small, traditional dairy farms, such as this, have banded together in niche-marketing co-ops that are producing branded cheeses and other dairy products. "The Home Place" painting by (and courtesy of) Jerry Raedeke, <http://ftinet.com/raedeke/>

However, in spite of these trends (or perhaps because of them) there was another marketing development in the 1990s. While many dairy cooperatives were growing larger in size and scope, there was corresponding growth in interest by milk producers in “niche marketing.”

Niche marketing means that members’ milk is manufactured into specialty or branded dairy products for specific market segments. These activities are typically conducted on a small scale.

The idea of niche marketing is to add value to member milk by producing a unique product, capitalizing on its specific attributes and selling it to a relatively narrow target market. The increasing interest of consumers in where their food comes from and how

it is produced has created a growing market for products with attributes such as “organic,” “artificial hormone-free,” “pasture-based” (grazing), locally produced and “freshness.”

Co-ops and niche markets

While some producers have delved into these activities individually, others have banded together with like-minded dairy farmers to form small cooperatives to market milk into these niche markets. These efforts have been spurred on by several factors: the need to preserve a market outlet, milk production style, and/or producers’ desire to generate added returns on their milk above what their traditional outlet offers.

In at least two cases, niche-market

co-ops were formed when milk buyers would no longer accept producer milk via their established delivery method. Thus, to preserve an outlet for their milk, they decided to own the outlet themselves. The option of adopting new technology on the farm to meet market demands was not available to them due to religious considerations.

Similarly, another group of producers found that the payment plan they had enjoyed from their milk buyer was being terminated. They banded together to seek markets that would continue to pay them premiums based on the quality and composition of their milk.

Other producers that formed niche-market co-ops shared the belief that consumers desire, and will pay for, cer-

Hurdles to niche-markets

Niche-marketing co-ops face several challenges. Most arise because of the small volume of milk they have to market. These hurdles include:

- Higher per-unit costs — The small volume inherently increases a co-op’s per-unit processing costs. The costs of shipping partial loads of milk, manufacturing small batches of cheese and butter and bottling small runs of milk are at a premium. And, as noted elsewhere, the long-established cheese-manufacturing cooperatives required \$5 per cwt of milk of member equity in 2002.

- Ability to attract qualified personnel — Due to their small scale, it may be difficult to offer salaries competitive enough to attract management and personnel of sufficient quality to operate a plant profitably. Poor management and staff can derail the success of even a high-quality, highly desired product. Skilled management is critical to avoiding or minimizing the effect of any “hidden-bummer factors” that can be costly to address, says Gerry Ely, cooperative specialist for USDA Rural Development in Pennsylvania.

These troubles can include the unforeseen cost of getting the cooperative’s products into retail stores (slotting fees), unanticipated packaging costs (customers not returning the novel glass milk bottles when the deposit charge did not cover the bottles’ actual cost), or perhaps unanticipated costs of complying with labeling requirements (waste and/or fines from mislabeling or ineffective labeling).

Producing a quality product is just the first step. The cooperative must next efficiently get its product to market in good and attractive condition. Distribution channels must

be efficient so as not to eat up the added value derived from processing and packaging. Moreover, they must have a plan for handling “returns” and unsold product. Finally, they must be savvy about marketing — be able to get the word out about the uniqueness of their product and convincing consumers to seek it out and to pay more for it.

- Contract processing — To avoid the high costs associated with owning and operating a small plant, some of these groups contract with a plant to have their specialty products produced for them. This means they give up some control over the production process. These groups are then at the mercy of that processor — be it for the rates charged, quality, reliability or continuity of service. Many of the newer niche-marketing cooperatives are operated on this basis, presumably to avoid the significant financial commitment and management demands that come with owning a plant.

Some of these that have their products made for them rely on members to carry out the marketing and distribution tasks. This way, the members capture some of the labor charge that would otherwise go to middlemen.

However, the opportunity cost of the farmers’ time should not be overlooked. Labor, even if “unpaid,” is never cost-free. Furthermore, while members may excel at producing milk, they may not have the necessary expertise to carry out the marketing and distribution functions. Only if they are able to perform the middleman functions in an efficient and cost-effective way will they be able to capture profits. ■

— By Carolyn Liebrand

tain special attributes of their milk. These select characteristics arise from production techniques that they believe affect the quality of their milk (and resulting dairy products). These include no use of artificial hormones, pasture-based production, organic production, the breed of dairy cow, the location of the farms and the size and ownership of the dairy farms.

Furthermore, some of the members were small-scale producers, hard pressed to make a living in an environment of increasing costs and volatile milk prices. They sought continued viability for their farms by capturing a higher return through these specialized cooperatives.



The Duprey family, members of Our Family Farms Cooperative in western Massachusetts, sample some of their product. Photo courtesy Our Family Farms

These producers may look for additional revenue from niche markets rather than attempt to gain efficiencies through traditional means (such as increased size of farm operation). In addition, part of their motivation may be philosophical — a belief in a certain scale of agriculture or production practices (for instance, family farms and/or organic production).

A number of articles in this magazine in recent years have profiled various producer-group efforts to add value to their milk in this manner (see the *January/February 2005*, *September/October 2003*, and *July/August 2002*

issues for examples). This article attempts to summarize the niche-marketing efforts by U.S. dairy cooperatives.

Traditional niche dairy co-ops

Traditionally, a niche-marketing dairy cooperative was one that processed all of its members' milk in its own plant to manufacture and market specialty or branded dairy products (typically cheese) for particular markets. In 1992, USDA documented 25 of these cooperatives, labeling them "branded cheese" cooperatives (table 1). A couple of these co-ops also produced minor quantities of other prod-

ucts, such as butter, nonfat dry milk or whey products in addition to cheese.

These branded-cheese cooperatives captured some marketing margins, in addition to processor margins, by moving operations closer to the consumer and by marketing distinctive products that commanded premium prices. They are predominantly located in the East North-Central region, especially Wisconsin.

Following the overall trend of declining cooperative numbers, the number of branded-cheese cooperatives fell by 7 cooperatives (28 percent) between 1992 and 2002. However, the

net decline masks the dynamics of what occurred.

Seventeen cooperatives left the category during that period. Of that total, 12 branded-cheese cooperatives (48 percent of the 1992 total) went out of business, nine of which ceased operations altogether under stressed financial conditions, while three merged with other, larger cooperatives or were acquired by an investor-owned firm.

At the same time, four niche dairy co-ops grew to the extent that their expanded product lines moved them into a new category, which USDA calls "diversified dairy cooperatives." These dairy co-ops have multiple product lines, including commodity dairy products such as bulk cheese and butter, and also sell a large amount of milk in bulk. One co-op took the opposite track and ceased manufacturing cheese, but continued marketing members' milk.

In contrast, 10 cooperatives were added to the branded-cheese category between 1992 and 2002. Five were existing cooperatives that began (or resumed) manufacturing cheese and the other five were newly formed cooperatives. Therefore, there were 18 niche marketing cooperatives operating in 2002, representing 9 percent of all dairy cooperatives. Because these cooperatives tend to be rather small, they handled less than 1 percent of all milk handled by dairy cooperatives.

Long-established branded-cheese co-ops

In 2002, 13 niche-marketing cooperatives were long-established businesses, having been in operation for many decades. This indicates that manufacturing non-commodity cheese has long been a viable alternative for some groups of dairy producers.

However, as was noted earlier, more than one-third of the branded-cheese cooperatives went out of business between 1992 and 2002 due to poor financial performance. These smaller, specialty-cheese makers must offer superior and unique products and service in order to survive in an environ-

How big are “middleman” profits?

Some farmers have been stirred into cooperative action when they noted the gap between the price of their milk as it leaves the farm and the prices of dairy products in the stores. In 2000, for example, the average retail price for one-half gallon of milk and of cheddar cheese was around three times the farm value of the milk used in making the retail products.

Thus, many a farm group has been exhorted to add value to members’ raw agricultural products to capture higher revenue. However, the gap between the price of milk at the farm and the price of end-products from milk represents the total marketing bill: the cost of getting the raw product off the farm and into consumers’ hands. “These costs are likely to be incurred regardless of who conducts the middleman operations.”

The bulk of what may be thought of as “middleman profits” actually represents the expenses associated with getting farm products into consumers’ hands: labor, packaging, rent, transportation, advertising, depreciation, taxes, fuels and energy, interest and repairs. Of course, there is opportunity for profit in these activities, otherwise there would be no incentive to perform them.

Yet, in order to capture any profits, the middleman functions must be conducted efficiently. Any higher-than-average costs due to inefficiencies related to small scale or inexperience would erode profit margins quickly.

According to USDA’s Economic Research Service (ERS), pretax corporate profits made up just 6 percent of

the marketing bill for all food in 2000 (Elitzak). Labor was the largest marketing expense, which accounted for 47 percent of the difference between the farm value of food and what consumers spent on food in 2000. Packaging was the next largest expense, accounting for 10 percent of the marketing bill, followed by profits.

This suggests that if farmers take on some, or all, of the middleman functions, they may be able to retain a portion of the profits generated by middleman activities. In addition, since labor costs are a major contributor to the value added between the farm gate and dinner plate, farmers may be able to benefit by providing their own “sweat equity.”

Any of the middleman steps the members carry out themselves may allow them to retain a portion of the labor charge.

Alternatively, producers could try to raise the value of their milk as it comes off the farm. This is what the organic milk producers have been able to do. For example, the farm value of organically produced milk received a premium of \$4.16 per cwt in 2004, according to Organic Valley (*Cheese Market News*). By stressing the benefits of their particular milk to consumers, niche-marketing cooperatives may command a higher price for their milk and dairy products.

If these premium prices more than compensate for the relatively higher production and marketing costs that are likely to accompany organic and specialty milk production, these producers may indeed capture greater returns. ■

— By Carolyn Liebrand

ment where large cheese manufacturers have considerable market clout due to the latest technology in their high-volume, low-cost plants.

These long-established, branded-cheese cooperatives are almost all located in Wisconsin (with one each in Ohio and Pennsylvania). They use all of their member milk in their own plants, and typically are small operations (10 of the 13 cooperatives handled less than 50 million pounds of milk annually) and all have grade-B milk producer-members.

These long-established cheese-marketing cooperatives averaged \$10.03 in assets per-cwt of member-milk in 2002 (Liebrand), while \$5.80 (58 percent of the total assets) was provided by members.

This level of asset use was far higher than for other operating types of dairy cooperatives. However, these cooperatives also generated higher average net margins per-cwt of milk handled than did the other types of cooperatives: 32 cents vs. 21 cents for all dairy cooperatives in 2002.

New niche-marketing co-ops

USDA identified seven cooperatives that were formed after 1992 that market distinctive, niche-dairy products. Moreover, most of these (5 cooperatives) were formed between 1992 and 2002. These are all small cooperatives marketing milk or milk products that have unique attributes attractive to certain consumers.

Two of these newer cooperatives

marketed bottled milk under their own label while the other five made a wide variety of cheeses and flavored cheeses; and at least one of these co-ops made butter in addition to its specialty cheese. Several were located in Wisconsin with others in Massachusetts, Minnesota, Ohio and Pennsylvania.

All of these new niche-marketing cooperatives attempt to capitalize on the “natural” production practices of their members. They want consumers to know that their products come from family farms and that no artificial hormones are used to enhance milk production. Several emphasize their practice of keeping cows on pasture (which some view as more humane) and say this affects the composition of their milk in a health-promoting way.

The two co-ops that sell bottled milk emphasize the milk's local production and therefore its freshness. They maintain they can deliver the milk from cow to consumer in far less time than it takes the large, regional milk bottlers.

A couple of the new niche cooperatives were formed by Amish producers who were seeking a market outlet for their milk because the milk plants they traditionally dealt with would no longer accept milk in cans. These two cooperatives operate much like the traditional branded cheese cooperatives — all their milk goes through their own plant to make cheese.

For the Amish in particular, though they own the plants, they do not operate them because it would violate their religious tenets. A hired cheesemaker carries out the manufacturing, often for a portion of the gross income. (Note: some traditional, branded-cheese cooperatives also operate under this type of arrangement with a cheesemaker who furnishes the equipment, labor and tools to make the cheese out of members' milk in plants

owned by the cooperative. In exchange, the cheesemaker gets a share of the gross income or profits.)

Plant ownership rare

Only one other new niche dairy-marketing cooperative owns a plant. However, this cooperative only processes a small portion of its members' milk in its plant. It sells all of its member milk to a larger, more established cooperative, then "buys back" the milk it needs for its own operations. The other cooperative bottling specialty milk has a similar relationship with a larger cooperative and is searching for its own plant, but does not own one at this time.

Thus, five of the seven new niche-marketing cooperatives deviate from the model used by the long-established cheese-marketing cooperatives. With one exception, they do not own or operate any plants. Rather, they contract with established manufacturers to make their products on a batch, or co-pack, basis.

Because the markets for their specialty products are still limited, only a

small portion of their members' milk is needed to manufacture their specialty products. So, the bulk of their milk continues to be sold through established outlets. This also contrasts with the long-established cheese-marketing cooperatives, which use all of their members' milk in their own plants.

It is apparent that for most of these cooperatives, the fledgling niche-marketing effort is an attempt to garner supplemental income for members, rather than a market outlet for all of their milk production. The volume of milk moving through these new niche-marketing cooperatives is quite small — a majority (four out of the seven niche dairy co-ops) handled less than 5 million pounds of member milk per year. In 2002, these new niche-marketing cooperatives produced just 16 percent of all the cheese manufactured by niche-marketing cooperatives; the rest was produced by long-established cheese cooperatives.

Continued interest in niche co-ops

The idea of niche marketing continues to attract the interest of dairy pro-

Micro co-op finding success in local markets

PastureLand in southeastern Minnesota is an example of a new, branded-cheese and butter micro co-op that has had considerable success penetrating local and regional markets. Marketing efforts emphasize that freshness is enhanced by local production and that it comes from small family farms that help preserve a rural way of life and that have a low impact on the environment.

PastureLand's member farms have all recently been certified organic. Its members' cows are all kept on pasture.

"Our job is to manage solar energy," says board President Dan French. "We harvest it in the form of grass, using animals. The healthier the system is, the healthier our product is going to be."

PastureLand's artisan cheeses are produced in small batches for the co-op by Eichten's in Center City, Minn., using only fresh milk from members' pastured dairy herds. The co-op produces a wide range of Gouda cheeses,

including aged, mild, herb, jalapeno and dill flavors. It also makes baby Swiss and cheddar cheese, as well as cheddar curds.

The co-op's Summer Gold salted and unsalted butter is also made in small batches at an old-fashioned, local creamery in Hope, Minn., using only sweet cream from the co-op's grass-fed cows. Business has been increasing at a rate that recently justified hiring its first fulltime manager, Jean Andreasen.

PastureLand, formed in 1999, was awarded honors in three divisions by the American Cheese Society in its 2004 competition, including: first place salted butter, first place unsalted butter and third place herb Gouda cheese.

"It is important to us to be an organization that is small enough that the members have say in future membership, farm certification and other business matters," says French. ■



Table 1—Dynamics of branded-cheese marketing cooperatives between 1992 and 2002

	Number
Branded-cheese cooperatives, 1992	25
Exits of branded-cheese cooperatives	
<i>Branded-cheese cooperatives that:</i>	
...went out of business	9
...merged with another cooperative	2
...acquired by an IOF	1
...ceased manufacturing operations	1
...grew into expanded and/or more diversified operations	4
Total exits	17
Entries of branded-cheese cooperatives	
<i>Cooperatives that:</i>	
...began/resumed manufacturing branded or specialty cheeses	5
...formed to manufacture branded/specialty cheese	5
Total entrants	10
Branded-cheese cooperatives, 2002	18
<i>Location:</i>	
East North-Central ¹	16
North Atlantic ²	1
West North-Central ³	1

¹ Illinois, Ohio, Wisconsin

² New York, Pennsylvania

³ North Dakota, Minnesota

ducers. Since 2002, at least seven more producer groups have formed cooperatives to pursue specialty markets. All ship to established milk handlers (cooperatives for the most part) and look to use a portion of their members' milk for their specialty product(s).

Several co-ops in the Northeast emphasize that they are "local producers" and encourage consumers to buy their products as a way to preserve the family farms and rural landscapes in their state. Most look to bottle and label milk as being produced locally,

in-state, but a majority (four cooperatives) has not settled upon a specific dairy product.

Except for one Amish group, none own or operate processing facilities. Most of these efforts (five of the emerging cooperatives) are in the North Atlantic region, where there is interest among residents, consumers and state officials in preserving their state's agricultural heritage and open space.

Market potential

The very nature of niche marketing implies a limited market. However, that is not to say these niche-marketing cooperatives are precluded from growing into large, successful ventures. For instance, the Coulee Region Organic Producer Pool (CROPP) started out as a small cooperative with seven members marketing to the organic niche market (see *Rural Cooperatives* January/February 2000 and May/June 2005 issues). It is now a large, nationwide cooperative marketing a variety of organic dairy products under the "Organic Valley" brand name.

Large cooperatives such as Tillamook and Cabot Cooperative (now part of Agri-Mark, Inc., a dairy marketing cooperative — see the May/June 2000 issue of *Rural Cooperatives*) have grown broad regional, if not national, markets for their premium, branded cheeses. (These three cooperatives are classified as diversified cooperatives by USDA due to their wide scope of activities and are not counted in the number of niche-marketing cooperatives. In fact, many of the large, diversified dairy cooperatives offer a variety of branded dairy products.)

A number of long-established cheese-manufacturing cooperatives continue to thrive by focusing on quality and supplying specific markets with specialty cheeses. These successful cooperatives provide evidence that

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Valerie Dantoin-Adamski is a member of a small co-op that produces Northern Meadows Cheddar Cheese. Photo by Pamela J. Karg

New Technology: Opportunity & Challenge

Technology changes could turn milk plants into ‘dairy refineries’

**By Charles Ling, Ag Economist
USDA Rural Development**

Editor’s note: This article is based on Dairy Co-op Growth Challenges, Research Report 206. For a hard copy of the complete report, e-mail your request (include report number) to: dan.campbell@usda.gov, or call (202) 720-8381. The complete report is also available on the Internet at: www.rurdev.usda.gov/rbs/pub/newpub.htm.

Recent technology developments and evolving technology now on the horizon will create new uses for milk, and new dairy ingredients and products. New manufacturing processes will create opportunities for further growth of the dairy industry. But along with these new opportunities come challenges.

In a future that is driven by technology, dairy cooperatives will face challenges in four primary areas: (1) research and development; (2) product development and marketing; (3) acquiring manufacturing and processing technology; and (4) equity financing.

Technology could create “milk refineries”

Two aspects of modern technology are becoming vitally important for the future of the dairy industry: (a) filtration technology for fractionizing milk components, and (b) processing technology for making dairy products using dairy-based ingredients with only limited amounts of fresh milk. Wider adoption of these technologies will likely cause further restructuring of the milk industry, presenting dairy cooperatives with many challenges and potentially rewarding opportunities.

Filtration is the use of semi-permeable membranes to separate and “harvest” milk components for uses as ingredients in various foods, beverages and nutritional or pharmaceutical products. Milk protein concentrate (MPC) is one such ingredient.

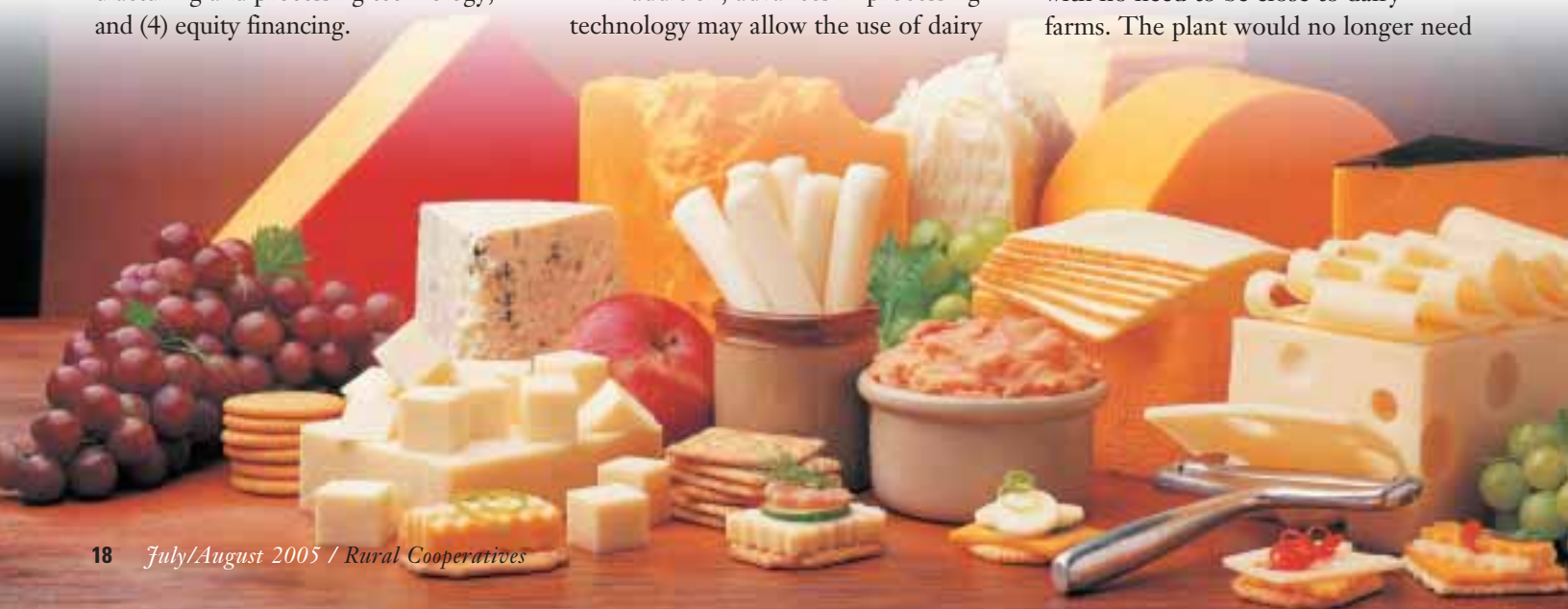
Technological advances in the future may transform milk plants into milk “refineries” that can fractionate milk components into all kinds of desired dairy ingredients.

In addition, advances in processing technology may allow the use of dairy

ingredients combined with only a small amount of fresh milk to manufacture dairy products. An example of this is a patented “wheyless process” for production of mozzarella cheese. This process allows cheese to be manufactured from non-perishable or dried, shelf-stable dairy ingredients.

Developments in filtration and processing technology combine to allow greater flexibility in the location of cheese manufacturing facilities because handling and/or transporting large quantities of fresh milk is not required. Also, the need for refrigerated storage of fresh milk is minimal. Several other wheyless-process patents also have been recently granted for making various other dairy products from dry ingredients.

The proliferation of this type of manufacturing process technology using dry ingredients is going to alter the dairy landscape in a profound way. A plant making cheese (or other dairy products) from mostly dry ingredients can then be located almost anywhere, with no need to be close to dairy farms. The plant would no longer need



to deal with producer payrolls, milk hauling, weather-induced intake variability, seasonality of milk production and composition, seasonal inventories of cheese, etc. This development will have great implications for milk producers and their cooperatives, especially in regard to cooperatives' roles in the supply chain.

Domestic MPC has non-price advantages

Among dairy ingredients that are currently of particular interest to dairy producers are MPC, MPC/casein, casein and caseinates. These are used in the manufacture of cheese products, nutritional supplements and other dairy and non-dairy foods.

Until recently, there was no domestic production of MPC, casein or caseinates in the United States. Milk prices in the United States are high enough that domestic production of these products cannot compete with imports based on price. Other protein products, however, such as whey protein concentrate (WPC) and other whey products, can compete very well with foreign production because whey price is not regulated.

However, domestic milk-protein production may have some advantages

over imports, despite its higher price. These advantages include fresher protein products at a lower transportation cost to customers, better customer services due to proximity to end-users, and the ability to supply protein prod-



Loading time at Car-Min-Vu Farms in Webberville, Mich. Photo by Laura Moser, courtesy Michigan Milk Producers Association

ucts in wet form or caseinates made from fresh milk.

Based on the profitability of milk production, the western United States is the region that is most certain to see continued growth in milk production and could support new plant capacity. This is the region where new milk-protein plants will likely be located.

Indeed, the first plants in the United States for MPC production are located in Tempe, Ariz., and Portales, N.M.

One of the important functions of dairy cooperatives is supply-balancing and last-resort processing of surplus milk. Making milk protein ingredients would be an alternative outlet for such milk. Dairy cooperatives are certainly going to play a prominent role in a milk-protein ingredient sector if it becomes economically feasible to produce such products domestically.

Cooperatives also are end-users of dairy ingredients. Some have been making non-traditional dairy or related products either to satisfy consumers' shifting demand or to offer a complete line of products to customers. In most cases, the non-traditional products are dairy-based, and dairy ingredients constitute the major share of the manufacturing inputs.

R&D key to market niches

Research and development is the foundation of manufacturing and processing technology, product development and marketing. Through their dairy check-off dollars (an assessment on milk production that funds dairy research and promotion), dairy farmers

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Dairy & tomato industries show some parallel trends

The evolution of the milk industry has some striking resemblances to the developments in the tomato industry. In essence, the tomato industry has developed into two separate sectors — fresh market and processing sectors — each with specific varieties of tomatoes and distinctive characteristics.

Tomatoes for the fresh market are produced in every state, while production of tomatoes for processing is highly concentrated, with 95 percent grown in California.

In the 1950s, 33 states grew processing tomatoes and California's share was only 55 percent of the market. Development of mechanical harvesting equipment and tomato varieties able to withstand mechanical harvesting led to

concentration of the industry in California. The long growing season, advanced irrigation systems and dry harvesting weather combined with other natural advantages to help the Golden State come to dominate the U.S. market.

Development of bulk storage technology and transportation allowed processed tomato products to be manufactured year round and processors in the Midwest and East serve as final fabricators of processing tomatoes grown and partially processed in California.

While the milk industry is unlikely to be differentiated to such extremes, the evolution of the tomato industry provides food for thought as milk producers ponder the future. ■

— Charles Ling

The ultimate R&D challenge: financing new technology

Machinery and equipment are the embodiment of new manufacturing technology. Cooperatives usually acquire new manufacturing technology by purchasing equipment. There are considerable economies of scale associated with the new equipment technology. However, as the scale of dairy plants grows larger, the cost of building a new plant with new machinery becomes more substantial. The plant also requires a large milk volume to sustain the operations.

Financing is the ultimate challenge that will enable producers and their co-ops to meet these challenges.

A dairy cooperative's debt financing may work much the same as for any business. Its equity financing, however, is unique and may have one or more of these features:

- common stock held by cooperative members (usually of nominal value);
- retained patronage as net savings allocated to members based on patronage but retained for operations;
- capital retains that are milk payments but are withheld at a certain rate per hundredweight of milk;
- retained earnings that are earned on non-member business. Members must treat retained patronage and capital retains as income for tax purposes. These retains are revolved back to members after a certain period of time.
- In lieu of retained patronage and capital retains, a cooperative may have a base capital plan. Under the plan, a target base capital level is established at a rate per hundredweight of milk marketed during a representative period.

Managing a cooperative's equity financing is a unique business challenge because of three often-competing forces:

1. Members want minimal retains held back from their patronage checks and as short a revolving period as possible;
2. The cooperative needs an adequate amount of capital for operations;
3. Lending institutions require the cooperative to maintain a certain level of equity.

The base capital plan may be viewed as a compromise among the three conflicting interests. Under the plan, once the prescribed base capital level is attained, a member can expect to receive all allocated patronage earnings in cash. The cooperative would have an adequate level of capital to operate with, and the base capital would have a certain degree of permanency that helps relieve lending institutions' concern about risk.

Debt financing increases

From 1997 to 2002, average cooperative equity increased by 3 cents per hundredweight, while assets increased by 97

cents and liabilities increased by 95 cents per hundredweight. Contributions by cooperative member-producers to the increased capital needs were minimal, so cooperative growth was mostly financed by debts.

Various alternative equity financing methods have been used to reduce cooperative members' fiscal burden and investment risks, including: public stock corporations, limited liability companies (LLC), joint ventures and new-generation cooperatives.

It is difficult to operate a public stock corporation or LLC on a cooperative basis because of one or more of the following:

- Investor interests may conflict with the one-person, one-vote democratic control of cooperatives;
- Producers support the cooperative's business by patronizing it, investors do not;
- With investor capital, the cooperative is likely to lose Capper-Volstead status;
- In a dairy cooperative, the distinction between milk pay prices and premiums vs. profits is not clear-cut, and conflicts between producers and investors may be very difficult to reconcile;
- Investors' focus on returns on investment may create fundamental conflicts with a co-op's mission to provide benefits for member-producers.

The new-generation cooperative model has strengths, including a strong market orientation, and the ability to raise investment capital from members for specific projects and to provide members with greater flexibility in marketing their equity if they leave the co-op. But these co-ops have also had their share of problems (see pages 15-19 in the Jan-Feb. 2001 issue of *Rural Cooperatives*, archived at: www.rurdev.usda.gov/rbs/pub/openmag.htm).

The joint-venture model has worked well for many co-ops, some of which are organized as LLCs.

On the marketing side, a joint-venture LLC may be used by a cooperative and its partner to develop and market certain dairy products. The cooperative supplies milk to the LLC while the partner supplies technical and marketing know-how. The joint-venture partners share the financing and the risk of the business activities of the LLC. This organizational model reduces the financing burden and risk exposure of cooperative members, while a market outlet for milk is secured.

The promising rewards of adapting to new technology can be exciting, but the necessary industry adjustment can be challenging for dairy farmers and their cooperatives. Success will depend on adequate member equity capital, well thought-out strategic plans and research and development.

■ — By Charles Ling



Get ready to claim your “QPAI deduction”

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The American Jobs Creation Act of 2004 contains several provisions favorable to rural cooperatives and their member-users. One that will directly benefit many cooperatives and other businesses is the new Qualified Production Activities Income deduction.

The Qualified Production Activities Income deduction is first available for tax years beginning in 2005. This report is a summary of the terms used and general rules for claiming this new deduction. As this is somewhat complicated, readers are encouraged to discuss how this new deduction may benefit them with their professional tax adviser.

Three steps to success

Claiming the new deduction involves three computations. Congress has created some new tax jargon to describe these computations, so taxpayers will want to become familiar with these terms as they begin planning to maximize the benefit of the new deduction.

Step 1 — Compute “Domestic Production Gross Receipts,” which are the total gross receipts from any lease, rental, license, sale, exchange or other disposition of:

- a) Tangible personal property *manufactured, produced, grown or extracted* in whole or significant

- part in the United States,
- b) Electricity, natural gas or potable water produced in the United States, and
- c) Construction performed in the United States.

Step 2 — Compute “Qualified Production Activities Income,” which is your Domestic Production Gross Receipts determined in Step 1 minus:

- a) Cost of goods sold allocable to those receipts,
- b) Other deductions, expenses and losses directly allocable to those receipts, and
- c) A pro-ratable portion of other deductions, expenses and losses not directly allocable to such receipts or other income.

Step 3 — Compute your “Qualified Production Activities Income (QPAI) deduction,” which is your Qualified Production Activities Income multiplied by the applicable percentage for the tax year. The applicable percentage for each tax year, as set out in the law, are:

- a) 3 percent for tax years beginning in 2005 and 2006,
- b) 6 percent for tax years beginning in 2007 through 2009, and
- c) 9 percent for tax years beginning in 2010 and later.

While this may look simple, it may require some careful analysis to determine, for example, which receipts qualify as domestic production gross receipts or how to allocate costs between activities that generate domestic production gross receipts and those that produce other types of income.

Limitations on the QPAI deduction

Congress has included two upper limits on a taxpayer’s QPAI deduction:

- a) QPAI may not exceed taxable income for the year. If a taxpayer’s QPAI is more than its taxable income, the deduction is limited to taxable income times the applicable percentage for that year. If the taxpayer has no taxable income or a loss for tax purposes, the QPAI deduction is lost for that year.
- b) The QPAI deduction may not exceed 50 percent of W-2 wages paid by the taxpayer as an employer during the tax year. This is consistent with the general aim of the new law: to reward companies that create jobs in this country; it should not be a burden on cooperatives.

Special rules favor manufacturing over service

The new law clearly favors businesses that produce things over those that perform services. This is illustrated by several special rules that apply to the computation of domestic production gross receipts (step 1 above) and distinguish between these two types of economic activity, including:

- a) Income from food processing (but not retail operations) is included.
- b) Income from processing, storing and handling (but not transporting) agricultural products used in manufacturing, producing or growing other goods is included,

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No Shell Game

*Oyster co-op hopes to revive
Mystic's faded shellfish industry*

**By Stephen Thompson,
Assistant Editor**

In a little village near Connecticut's famous Mystic Seaport Museum, a small cooperative is working to develop Mystic Harbor into a thriving source of high-quality oysters. The Noank Aquaculture Cooperative, in operation for five years, is still working towards full profitability for its members, but they are optimistic about its prospects.

Noank is an archetypal New England hamlet, with gracious old wooden houses and narrow shaded streets, dominated by a beautiful traditional white church on a hilltop. It's only a few miles away from Mystic, a popular tourist destination known for its charming 19th-century atmosphere.

Jim Markow, president of the Noank Aquaculture Cooperative, with a day's harvest of oysters. USDA photos by Stephen Thompson



Both Mystic and Noank are part of the town of Groton, and have gone from being sleepy, working- and middle-class neighborhoods 40 years ago to fashionable haunts of the rich. At the same time, the traditional industries of fishing, oystering and lobstering declined drastically as marine wildlife disappeared from the harbor. Now, among the luxurious homes and sleek yachts, some people are trying to redevelop one of those industries.

Co-op breeds new oyster strain

The Noank co-op is headquartered in a building at the foot of Noank's three-block-long Main Street, on the waterfront at the mouth of historic Mystic Harbor. Most of the building is dedicated to a hatchery for oysters and other shellfish, presided over by the co-op's only full-time employee. Through trial and error, the hatchery has developed a strain of oysters that thrives in the harbor and has developed a reputation for quality among restaurateurs and other customers.

Rural Cooperatives met Jim Markow, president of the co-op, on a foggy June morning. He was standing at a table mounted on his boat tied up at the co-op dock, getting a fresh catch of oysters ready for market.

"Ya had breakfast yet?" he asks, as he deftly shucks three oysters for his visitor. Despite a recent breakfast, the chance to have oysters fresh out of the water is too good to pass up. They are plump, juicy and very tasty.

"I eat them all the time," Markow says. "They're the best oysters you can get!"

Markow is president of the small cooperative, which has 12 members, most of whom work part-time as oystermen, and some who work only weekends. Some members operate in Mystic Harbor; others from across Long Island sound on Long Island.

The Noank co-op is developing a reputation for a high-quality product, and its oysters even have a distinctive appearance, with radial ridges on their shells. The co-op sells as many oysters as it can grow. The only thing holding it back from greater sales is production limitations.

More production needed

Increasing production is a complicated problem, and members are working hard in anticipation of greater returns in the future. Oysters are difficult to breed and raise to the size at which they can be set out in the beds (see sidebar). They take three or four years to grow to marketable size, lengthening the time it takes to get a decent return on investments of time and money. And there are countless variables that must be dealt with — not only from year to year, but, most importantly, from one part of the harbor to another.

Steve Plant, another member of the cooperative, says that the learning curve is steep. “You’ve got to start slow

and go easy,” he says. “If I had known what was in front of me ... well, I guess I would have gone ahead. Because you have to go through the pain. If it were easy, a lot of people would be doing it.”

“Every day I learn something new,” says Plant. “Stuff you thought would work like a charm fails completely, and accidents sometimes work better than anything. But once you’ve got everything set, then you’ve got a cookbook.”

“You have to learn your area intimately,” he says. That’s partly because conditions are different from one part of the estuary bottom to another. Plant’s oyster beds are exposed to more current than some of the other members’, requiring him to grow his baby oysters to a larger size before putting them out. But he thinks the trade-off is worth it, because with the current comes more exposure to nutrients and better flushing action to carry away oyster waste.

Helping each other out

The cooperative is run informally for the most part. “We get along with

each other and help each other out,” says Plant. “I hope it stays that way.”

If one member is short on product for a customer, other members will loan him some of theirs, and members often assist each other with repairs and other activities. For the present, the spirit of cooperation seems to make things work, and the co-op officers and bylaws can settle any disputes.

The co-op is set up as a fee-based operation. Members are obliged to buy oyster “seed” — baby oysters — from the co-op, and to sell through the organization.

Markow has been a waterman all his life, and was a driving force behind the founding of the co-op. He works full time at his oyster business, along with his business partner, Karen Rivara. Together, he says, they have been able to develop the business to the point where it is profitable.

Plant’s background is not on the water, but on Wall Street, where he used to work as an analyst for a hedge fund. Tiring of his routine, he looked for a new career that would get him



The Noank co-op grows algae under highly controlled conditions to feed baby and breeding oysters.

Breeding and growing oysters — easy does it

Breeding oysters is a delicate task, says Stuart Mattison, manager of the Noank Aquaculture Cooperative and head of the co-op's Noank hatchery. The conditions must be right and, even then, success isn't assured.

To ready adult oysters for breeding, they are put into flat conditioning tanks, where they are kept for weeks at optimum temperatures, bathed in clean water from the harbor and fed algae. The algae — four different varieties — is grown on the premises under controlled conditions.

Adults are then moved to another tank and the water temperature is raised to about 80 degrees to encourage spawning. Once one oyster begins spawning, the others, stimulated by the hormones released, also spawn.

When spawning begins, the oysters are put into individual plastic buckets, and the eggs and sperm they produce are precisely mixed, with the goal of maximizing the number of fertilized eggs. One female oyster can produce up to 30 million eggs.

The oyster larvae are incubated, hatched and nurtured in vertical tanks with conical bottoms, with a steady stream of air bubbles and feedings of algae.

After a few weeks, the larvae are transferred to horizontal trays to "set" — that is, to attach themselves to a bit of shell or sand, and become sedentary. The trays have fine screen bottoms covered with a thin layer of the sand, down through which filtered harbor water is pumped.

After the tiny oysters have grown to a certain size, they are ready to be removed from the hatchery. However, before they can be introduced to open water, they first must be nurtured in floating nursery tanks moored in protected waters.

The open-topped tanks contain modified plastic barrels with screen bottoms in which the tiny oysters are confined while being bathed in a constant upwelling flow of harbor water, pumped through by an electric motor. The "upweller" tanks are large fiberglass boxes originally used for holding lobsters. PVC pipes are used to suspend the barrels in the tank and carry the exhaust water out.

After the oysters have reached the correct size — about the size of the tip of a man's thumb — they are put out on the beds, which have been prepared by cleaning away any silt or other contaminants. Alternatively, some co-op members suspend their oysters in the water in cages. They are allowed to grow for about three years, until they reach market size.

An oyster dredge — basically a flat, steel basket about one yard wide — is dragged along the bottom to harvest the oysters. Before going to market, they are put in cages suspended in deeper water to depurate, or clean themselves out, for a few weeks. Only after this final step are the oysters ready to be processed for market. ■

out of the office. When his boss sent the fund staff out to look for investment opportunities in commodities production, he looked into aquaculture, and was attracted by its possibilities. To start learning the business, he got a job with a fish farm.

What he learned was not entirely encouraging. "I found that not a lot of people make much money at aquaculture. A lot of these ventures aren't serious about turning a real profit."

While Plant was looking for a way to get an aquaculture operation going, he ran into a friend who introduced him to Markow, who was looking for recruits for a new shellfish cooperative.

The cooperative got its start after Markow was approached by Roger Sherman, a retired engineer from the nearby submarine shipyard at New London. Sherman, a volunteer with the Groton Shellfish Commission, was interested in reviving commercial shellfishing in the Mystic.

Vacated building offers home

Sherman learned that an old building in Noank, then used by the University of Connecticut as a marine research laboratory, was being vacated. Originally built at the turn of the century as a lobster hatchery, the building had two stories (a third story was blown off by a hurricane in the 1920s). It had 6,000 square feet of space and a 120-foot-long dock.

Sherman saw the old hatchery building as a terrific opportunity. The Shellfish Commission not only leases Mystic Harbor shellfish beds to commercial watermen, but also maintains recreational shellfish beds in a nearby cove, selling 2,000 recreational shellfishing permits a year. Sherman figured that if the town could gain own-



Boats used by Connecticut members of the Noank cooperative tie up at the hatchery's dock. Other members work out of harbors on Long Island, across the Long Island Sound from Mystic Harbor.

ership of the building, it could lease it for use as a hatchery to a shellfish business, in return for oysters and clams to stock the recreational beds. He contacted Jim Markow, who expressed immediate interest.

Markow believed that other watermen in the area would be attracted to the idea of a shellfish cooperative, and the idea took off from there. Markow began recruiting potential members and Sherman went about obtaining the rights to use the building.

The Commission put together a proposal to turn the building back into a hatchery and took it to the chancellor of the university. However, while the marine scientists who had used the building were enthusiastic about its transformation into a shellfish hatchery, the administration of UConn was not. The university wanted a financial return on the building, which is located on prime waterfront real estate. Half a million dollars was the lowest figure the university chancellor was willing to entertain. It was money the town just didn't have.

The solution was a special appropriation from the state legislature, obtained by the town's state representative, and a statute reserving the building for aquaculture purposes. The university was paid, ownership of the property transferred to the state agriculture department, and the fledgling cooperative signed a lease agreement. The upkeep and maintenance of the building is overseen by the Shellfish Commission, which keeps office space on the second floor.

In August 2002, then-Secretary of Agriculture Ann Veneman presented the state of Connecticut with a Rural Business Enterprise Grant from USDA Rural Development for \$63,000 to replace the roof and upgrade the interior. The state is currently transferring ownership of the building to the town of Groton.

The co-op has another hatchery, as

well: on Long Island, run by Markow's partner, Rivara. Having two hatcheries offers a fail-safe alternative if one should be affected by disease or other factors.

Sport fishermen feared impact

Some of the biggest hurdles for the co-op were getting the necessary permits, complicated by the fact that different government entities have jurisdiction over various aspects of the co-op's operation. But one obstacle came from an unexpected quarter.



Co-op manager Stuart Mattison checks the water from an oyster breeding tank for signs of spawning. Co-op members fear that a proposal by the National Marine Fisheries Service to declare oysters endangered on the Atlantic Coast would put oyster hatching and growing operations such as this one out of business.

"Our biggest opponents," says Plant, "Were the anglers." Perhaps influenced by unfavorable publicity about salmon farming, local sport fishermen were afraid that an oyster-growing operation would somehow hurt their fishing.

They needn't have worried, says Plant. "Oysters belong here," he says. "They used to grow wild here. We're just trying to restore old habitat for them." And in restoring oysters to the harbor, co-op members believe they are working for the return of other

estuarine wildlife that disappeared years ago. A bumper sticker on Plant's car proclaims, "Oysters are Habitat Forming."

"People don't want to change anything," says Plant, "But they don't realize it's already changed. We're changing it *back*."

Much of the reason oysters disappeared from the Mystic River estuary, according to Jim Markow, is that a development boom along the shore destroyed vegetation that filtered silt from runoff water. Silt chokes oysters, which need clean sand or gravel bottoms to thrive.

But other conditions in the harbor offered great potential, including a healthy level of algae, which is the food of oysters. "Look at that," he says, pointing to the water's greenish tinge. "See all that algae? That's just about perfect for raising oysters."

Preparing the co-op's oyster beds has meant tediously dredging the harbor bottom to clean off sediment. With the return of oysters, Markow says, conditions improve for other estuarine wildlife that also left. He points out that in other areas fishermen seek out oyster beds because they attract fish.

Plant says he's seen evidence of the beneficial effect of oysters for fish around his nursery tank. "You can see the little baby menhaden (a commercial fish) hanging around where the water comes out. They wouldn't be doing that if the oysters didn't put something they like into the water."

Markow says that there is a certain amount of tension between the watermen and the well-heeled outsiders who have bought up most of the waterfront property. He shakes his head. "These guys are out here with their million-dollar yachts, and they don't like seeing us because our boats are ugly."

Good neighbors

But co-op members and others say that most of the immediate neighbors of the co-op are happy with it. "The

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The inside scoop on outside help

Outside co-op development specialists play crucial role for business launch

**By Gerald Ely,
Co-op Development Specialist
USDA Rural Development
(Pennsylvania)**

Editor's note: this article is based on a presentation the author made at the National Value-Added Conference in Indianapolis, June 16–17, 2005.

On paper, the concept of what a cooperative is and how a co-op operates is fairly basic. But successfully developing and launching a co-op — while not rocket science — can be complex and daunting for those who have never been through the process. Any number of obstacles can derail a promising co-op in its formative stages.

A skilled, outside advisor (or agent) can play a critical role in the development process. Advisors need to wear a number of hats, but there is no universally accepted qualification skill set. We in USDA Rural Development who provide technical assistance to co-ops try to regularly update the skills of our development specialists to keep pace with the evolving economy and technology.

Co-op development agents must also be reliable conduits to finding more outside expertise, which may include an attorney, accountant, economist, marketing specialist, environmental specialist, engineer or technical-process specialist. “People” and communications skills are also needed by development advisors.

The purpose of this article is to provide an overview of the various roles that an outside co-op develop-

ment specialist needs to fill, and some cautions regarding conflicts of interest.

Roles of an outside co-op development specialist

- **Educator** — For many producers, their knowledge of cooperatives is centered on the co-op failures they have read about or, perhaps, experienced. But there is so much more to know. Cooperatives come in all sizes, organizational and governance packages, and capitalization structures. They perform widely different functions and provide a wide array of products and services. They suffer or prosper under widely different leadership capabilities. The role of the outside agent as educator can be critical to understanding opportunities and making good decisions. They can also play a key role in identifying prospective leaders from within the ranks of the producers’ group.

- **Technical Advisor** — Closely related to the role of educator is that of technical advisor. Much work can be done with a steering committee to develop knowledge of cooperatives and provide guidance in cooperative structure and governance to prepare a committee to work effectively with other important “outside agents,” the attorney and accountant.

Cooperative development, like any other business development process, goes through several stages. Informing and advising members



Dan Schofer, co-op development specialist with USDA Rural Development, works with a co-op of produce farmers which is supplying school cafeterias in north Florida. USDA photo

about development stages and process can be important in co-op success. Failure to adequately address one phase can easily lead to decisions that simply compound the problem being addressed.

- **Advocate for co-op structure** — For many, the cooperative business structure is a new concept. It is not taught in our schools or in most universities. An outside agent can provide objective information about the relative advantages and disadvantages of cooperatives compared to other business structures. Likewise, not every situation is suited for a cooperative business structure. Use of a cooperative structure that is inappropriate will likely be detrimental to the project and its members and customers.

- **Champion/cheerleader for the project** — Cooperative development specialists and publications often discuss the importance of a project champion. This is a person who serves the co-op on a regular — and

often prolonged — basis to encourage, lead, promote, push and pull to bring together (in a timely manner) the various elements necessary for success. The role of project champion is not a role of the outside advisor, but rather the role of a local leader (or two) who will ultimately become part of the cooperative. However, every successful cooperative development start involves a fair amount of internal and external encouragement. An outside agent can be effective in developing confidence among project participants that they have the ability to effectively carry out a development project.

An outside agent or advisor can play an important role in gaining the support of potential resource agencies, project partners or other supporters. In the case of cooperative development, these agencies or individuals may not be familiar with the cooperative business structure. Objective information and education about the cooperative form of business, cooperative governance, finance and responsibilities of members and the board of directors can be useful in gaining their participation.

- **Objective observer (devil's advocate)** — This trait should be com-



Co-op development specialists need to be objective observers. Here, a USDA development specialist works with board members of a women's crab processing co-op on Smith Island, Va. USDA Photo by Bob Nichols

bined with all of those listed above. The outside agent must be more than an observer. The ability to objectivity step back, observe, evaluate, process and use the vast array of information one gathers in the co-op development process is an important part of successful development.

Cooperative development initiatives are frequently born of desperation. When loss of a farm, a business or even a rural community seems eminent, every idea is thought of as a solution. The sense of

urgency cries out for shortcuts and emotions run high. I have, on many occasions, been called a “wet blanket.” But, experience has proven over and over the need to be objective when evaluating needs, opportunities, business structure options, potential benefits for participants and the time required to implement a plan.

Loss of objectivity results in unrealistic expectations and plans. The goal of an advisor is to help a group make sound decisions based on the best information and analysis possible. A decision to not form a cooperative that has little opportunity for success is still a success. We should count successes, not cooperatives.

Evaluating qualifications

A big issue for members trying to develop co-ops is how to evaluate the capabilities of an outside agent. Brian Henehan of Cornell University says, “The level of professionalism and competence can vary greatly among those involved in advising a new start-up business, including new cooperatives.”

In many cases, these advisors may provide free service. They may be on the staff of USDA Rural Development, a university or cooperative extension office, Small Business Development

USDA offers co-op development help

USDA Rural Development offers a wide range of technical assistance to developing cooperatives. This help can range from an initial feasibility study to the creation and implementation of a business plan and bylaws. The goal is to provide a realistic view of what it will take to make a new cooperative succeed.

Assistance is offered through USDA Rural Development's national office in Washington, D.C., (202) 720-3350, and most USDA Rural Development state offices. To be connected to your state office, call (202) 720-4323, then enter “1” and follow the voice prompts. Or visit www.rurdev.usda.gov and click on the “office locator” button.

USDA also has a number of publications that should be read by those forming a new cooperative. Most are in the Cooperative Information Report series, which are on-line at:

<http://www.rurdev.usda.gov/rbs/pub/cooprpts.htm>. For hard copies, e-mail: dan.campbell@usda.gov, or call (202) 720-8381. ■

Center, Cooperative Development Center, Ag Innovation Center, state department of agriculture or a local economic development corporation.

But, "free service," can become very expensive if that advisor or agent deliv-

ers the wrong advice, has a bias toward someone else's priorities or puts someone else's goals higher than the co-op's.

Weigh agent's motivation

Be cautious of "self-appointed" out-

side agents. What is their motivation for wanting a cooperative business started? How will they benefit? Does their interest come with the potential for personal benefit or gain?

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Cooperation Works

Cooperative development practitioners associated with the Cooperative Development Centers, funded by USDA Rural Development, organized as a network called Cooperation Works in 1995. They developed a set of professional standards called The Madison Principles, so named because they were drafted in Madison, Wis. These principles should be studied by members of developing co-ops, and serve as a reminder for co-op development specialists.

The Madison Principles

Professional Standards for Cooperative Development Practitioners

1. Individuals providing technical assistance subscribe to the highest level of ethics and shall declare any conflict of interest, real or perceived, so that they can be a credible source of objective feedback and an articulate advocate of the project as needed.
2. Cooperatives are tools for development and should promote both social empowerment and economic goals.
3. Applied appropriately, cooperatives have value to all population groups and for all businesses and services in the public and private sectors.
4. Each cooperative responds to its unique economic, social and cultural context; as a consequence, each cooperative is different.
5. There are essential steps that must be taken in a critical path to succeed.
6. An enthusiastic group of local, trustworthy leaders is a prerequisite for providing technical assistance. The effective cooperative development practitioner nurtures that leadership by helping them shape a vision that will unite members and provide ongoing training.
7. Cooperatives only work when they are market driven; the development practitioner seeks to ensure that accurate market projections precede other development steps.
8. Member control through a democratic process is essential for success.
9. Success also depends on the commitment of the member's time and financial resources.

10. There must be tangible economic benefits for members.
11. The cooperative's products and services must generate sufficient revenue so that the effort can be financially self-sustaining. Provisions must be made to share any surplus revenue.
12. Market opportunities exist throughout the world. Cooperatives and market development should transcend national boundaries.
13. Successful, established cooperatives should assist emerging cooperatives to develop. New and emerging cooperatives should be encouraged to communicate with and learn from successful cooperatives. ■

Co-op development training slated for Madison in November

Cooperation Works is sponsoring the second of two, five-day training workshops for co-op development specialists, Nov. 14-18 in Madison, Wis. The first session of *The Art & Science of Starting a Cooperative Business* was held last May. The program is the most comprehensive training program on the development of cooperative businesses available in the United States, bringing together proven experts and co-op leaders from across the country to deliver the best of what has been learned in cooperative business development to new practitioners in the field. Best practices case studies using various types of cooperatives will be incorporated into the classes.

Participants who missed the first part can still enroll in the November session, but should call the Cooperation Works office first. The training program was launched in 1999, and was re-tooled and updated last year in collaboration with the University of Wisconsin Center for Cooperatives. For more information, visit: www.cooperationworks.coop, or call (307) 655-9162, or e-mail cw@vcn.com.

Cooperation Works was found in 1997 by eight co-op development centers, and has since grown to 21 centers serving 43 states. It promotes business development in all co-op sectors by sharing best practices and lessons learned. ■

Consolidation, expansion spark growth in cooperative feed sales

By Eldon Eversull, ag economist
USDA Rural Development

Editor's note: Information for this article is from a soon to be published Research Report 207.

Agricultural cooperatives sold about \$7 billion in feed in 2004, more than double the sales value reported in USDA's last study, conducted in 1984. Many changes have, of course, occurred during the past 20 years for cooperative feed manufacturers. Six of the major cooperative feed manufacturers no longer exist. However, their manufacturing facilities have not been lost. Prior to ceasing operations, alliances were developed with other cooperatives to incorporate most of the feed mills into existing cooperatives.

This consolidation and expansion trend continued until one cooperative became the leading cooperative feed manufacturer. This same cooperative purchased a major investor-owned feed manufacturer and has become the largest U.S. feed manufacturer. Also, one large cooperative feed manufacturer converted to an investor-owned firm.

The more than doubling in the dollar amount of feed sales for cooperatives over the past 20 years is thus the result of a combination of business expansion, purchase of an investor-owned feed manufacturing firm and increased ingredient costs, minus the loss of the cooperative that converted to an investor-owned firm, among other such changes.



Co-op feed sales have more than doubled in the past 20 years, according to a new USDA survey. USDA Photo by Ken Hammond

USDA survey

USDA Rural Development sent a survey to 646 cooperatives that had at least \$500,000 in feed sales in any of the prior five years. There are many more cooperatives that sell feed, but few of these with less than \$500,000 in sales had feed mills. About 33 percent, or 220, usable surveys were returned.

Among the major changes since the 1984 survey is that hog production continues to be concentrated in larger farms and vertical integration continues among feed production, hog pro-

duction and meat packers. Hog production has also seen movement from traditional production areas of the Corn Belt, Lake States and Northern Plains to Appalachian, Southeast and Mountain states, much of the migration being driven by pollution and odor issues.

Global markets have also opened U.S. borders to meats produced overseas. Bovine spongiform encephalopathy (BSE), or mad cow disease, has closed the U.S./Canadian border several times to importation of live animals and has impacted export markets. Avian flu has had a large impact on foreign poultry production and could become a major domestic concern. The large increase in ethanol production has made distiller's grain (an ethanol byproduct) a competitive choice to traditional feed production.

Survey highlights

The survey found that:

- The Corn Belt and Lake States account for 80 percent of cooperative feed production;
- Types of feed and percent of total production by co-ops are: complete feed — 83 percent; supplement feed — 12 percent; premix feeds — 5 percent;
- Feed sold in bulk accounts for 90 percent of feed sales, while 10 percent is still sold in bags.
- Meal was the most common form of feed produced by co-ops (72 percent of the total); pellets were second (14 percent), followed by coarse-textured (11 percent), liquid (2 percent), cubes (1 percent) and blocks (0.4 percent).

- Hog feed was by far the biggest share of the market, accounting for 53 percent of co-op feed production, followed by dairy feed at 17 percent and beef feed at 14 percent.
- Over half of the feed produced was sold at the retail level, while 17 percent was sold wholesale; 15 percent was custom grind and mix; 9 percent was custom fed to others' animals; and 6 percent was fed to animals owned by the cooperative.

Complete, supplement or premix feeds

Formula feed is produced according to exacting specifications to satisfy different animal groups' physiological and environmental needs. Feed production is usually classified further into specific feed types, such as complete, supplement and premix. Comparing 2004 to 1984, we can see that complete feed production rose about the same amount as supplement feed declined (chart 1). By region, complete feed production increased greatly over the 1984 average of 74 percent in all but the Northeast, Lake States and Southeast.

By feed mill size: mills producing from less than 999 tons to 74,999 tons annually produced complete feeds about 70 to 79 percent of the time.

Chart 1 — Complete, Supplement and Premix Feed Production, 2004 and 1984

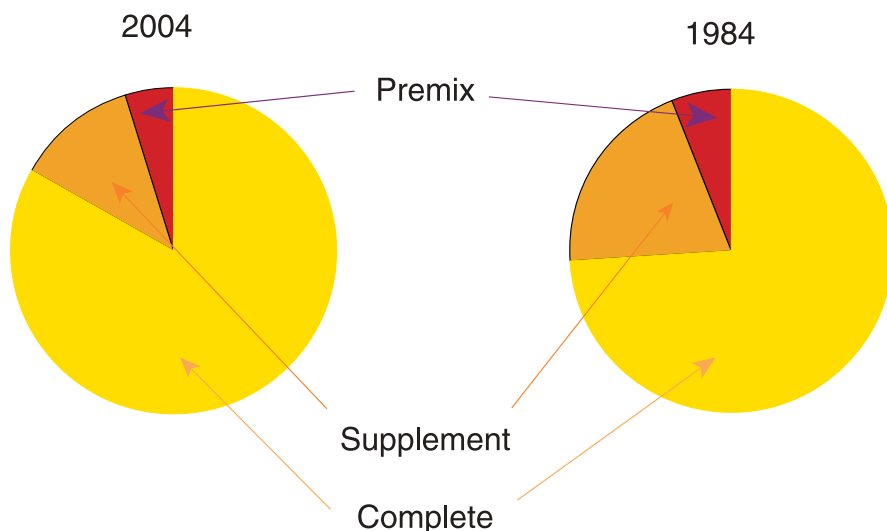
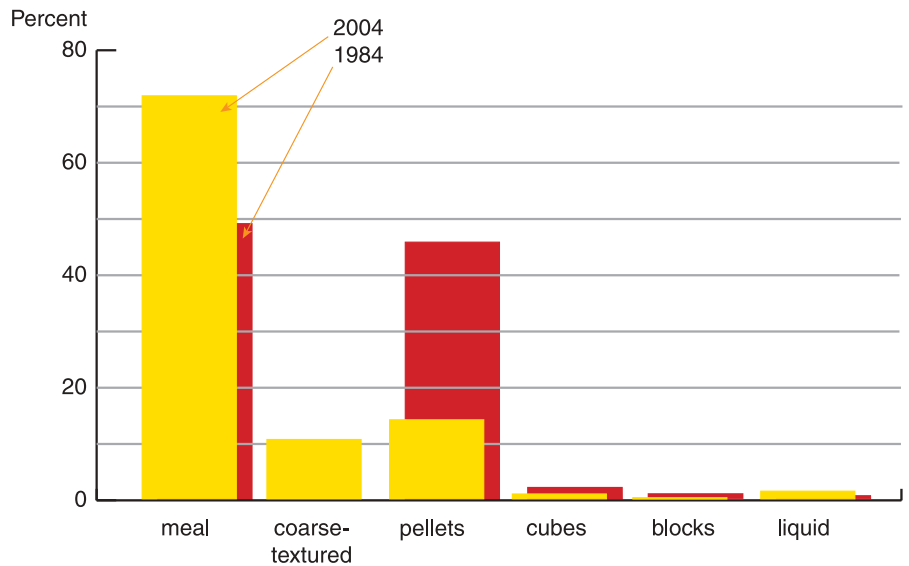


Chart 2 — Feed Production, 2004 and 1984



Feed mills producing from 75,000 to 99,999 tons produced more supplement feed (30 percent) and less complete feed (65 percent). Production at feed mills with a volume of more than 100,000 tons also differed from the average, with more than 90 percent complete feed and only 6 percent supplement feed.

Feed type

In 1984, the use of pellet feed had increased greatly from prior studies, accounting for about half of total feed production. By 2004, pellet feed dropped to 14 percent of total produc-

tion while meal climbed to 72 percent and coarse-textured 11 percent (chart 2). This compares to 49 percent meal in 1984 and 47 percent pellets. Meal production increased in the Corn Belt, while pellets increased in the Southeast. Much of this apparent drop in pellet feed may be due to several larger cooperative feed manufacturers not responding to the survey.

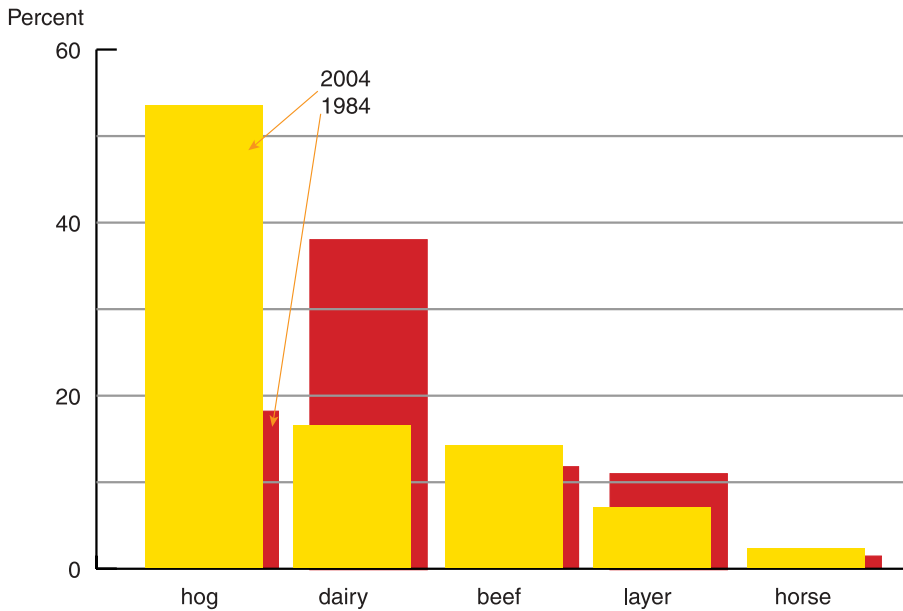
Feed mills with less than 999 tons of production made about equal amounts of meal and coarse-textured feed. They also made the most liquid feed. Feed mills with 10,000 tons to 74,999 tons of production made about the average amount of meal feed, 70 percent. Feed mills with 75,000 to 99,999 tons of production made the most pellet feed (32 percent).

Animal type

Hog feed accounted for 53 percent of the feed produced by respondents, while dairy feed was the most-produced feed in the 1984 survey (chart 3). Hog feed was the most-produced feed in the Lake States, Corn Belt, Northern Plains and Mountain regions while beef feed was the most-produced feed in the Southern Plains and Pacific regions. Dairy feed was the most-often-produced feed in the Northeast, Appalachian, Southeast and Delta regions.

Hog feed was the most-often-pro-

Chart 3 — Feed Production by Animal Types, 2004 and 1984



duced feed for feed mills with annual production from 25,000 tons per year to over 100,000 tons. Feed mills with a volume of less than 999 tons per year to 9,999 tons focused on beef feed. Feed mills producing between 10,000 tons per year and 24,999 were about evenly split between hog and dairy feeds.

Feed distribution

By a large margin, respondent cooperatives distributed the feed they produced through retail sales (chart 4). This is very different from the distribution pattern found in 1984, in which wholesale sales and retail sales were about equal. Again, several large cooperatives that did not respond to this survey have feed sales that are known to be heavily weighted toward wholesale sales and thus may have skewed survey results.

Retail sales increased by about 20 points over 1984 while wholesale sales dropped about the same amount. Custom-grind and mix feeds dropped six points, as did feeding to cooperative-owned animals. Feeding to others' animals (custom fed in feed lots or confinement facilities) grew by almost nine points. Retail sales accounted for at least 90 percent sales in the

Northeast, Appalachian, Delta, Southern Plains and Pacific regions.

Feed mills with production of less than 999 tons per year almost exclusively relied on retail sales. Feed mills producing from 75,000 to more than 100,000 tons per year relied on wholesale sales about 24 percent of the time. These same feed mills also custom-fed their feed to others' animals for more than 10 percent of their feed sales. ■

The farm-production regions referenced in this article are as follows:

Northeast: Maine, N.H., Vt., N.Y., Mass., R.I., Conn., Pa., N.J., Del., Md. and D.C.;

Lake States: Mich., Wis. and Minn.;

Corn Belt: Ohio, Ind., Ill., Iowa and Mo.;

Northern Plains: N.D., S.D., Neb. and Kan.

Appalachian: Va., W.V., Ky., TN and N.C.;

Southeast: S.C., Ga., Ala. and Fla.

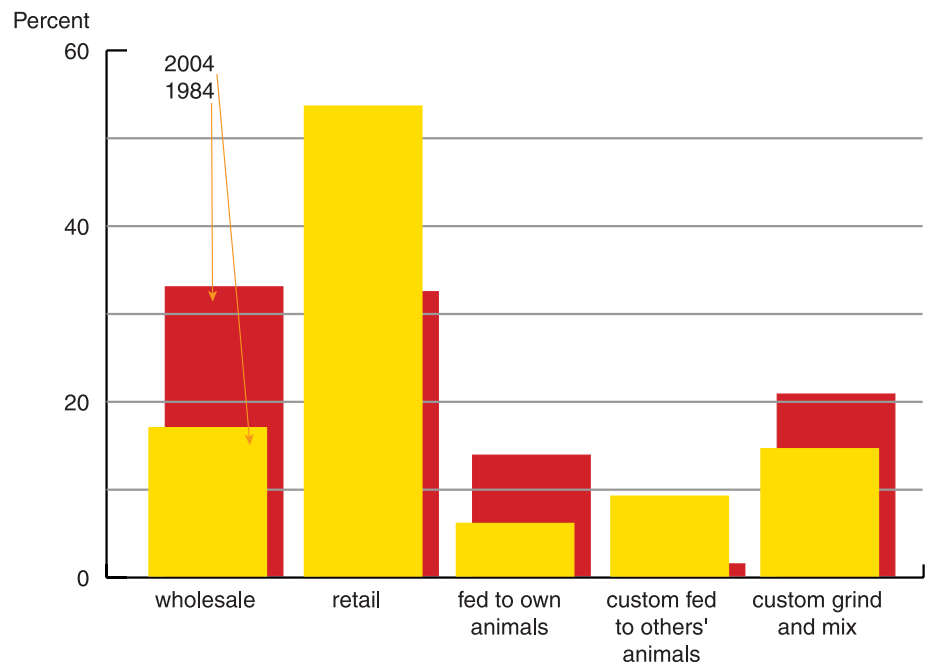
Delta States: Miss., La. and Ark.;

Southern Plains: Okla. and Texas;

Mountain: Mont., Idaho, Wyo., Colo., Utah, Nev., Ariz. and N.M.;

Pacific: Wash., Ore., Calif., Hawaii and Alaska.

Chart 4 — Feed Distribution, 2004 and 1984



CoBank's Schoniger named top co-op communicator

For her "drive, wisdom and relentless pursuit of excellence," Janet H. Schoniger, vice president of corporate communications for CoBank in Denver, Colo., has been named the 2005 winner of the H.E. Klinefelter Award, the highest honor bestowed on a cooperative communicator.

Terri Faulkner, communications coordinator for Dixie Electric Cooperative, received the Michael Graznak Award, which recognizes the outstanding young co-op communicator (under 36) of the year. The awards were presented at the annual institute of the Cooperative Communicators Association (CCA) in Denver, Colo., in June.

Schoniger is the 47th recipient of the Klinefelter award, which recognizes contributions in furthering the cooperative system and for raising the standards of cooperative communications. She was recognized for the key role she plays in ensuring CoBank's communications advance the bank's mission and vision.

Schoniger focuses on communication efforts that support CoBank's strategic plan, and even coined the bank's tagline, *Rural America's Cooperative Bank*. She is active in CCA, where she is past committee chair of the CEO Communicator of the Year award, and the National Council of Farmer Cooperatives.

Faulkner is responsible for all

aspects of her 18,000-member cooperative's communications, including publications, media relations and Web sites. She also handles cooperative advertising and is responsible for all school programs, community and public relations and special projects.

Faulkner was saluted for "demonstrating the seven cooperative principles in her work ethic and attitude on a daily basis, and for bringing creativity and a high level of professionalism into



Janet Schoniger of CoBank.

all the communications efforts."

CCA's annual cooperative communications competition attracted nearly 800 entries in four classes:

writing, publications, photography and programs & special projects (the latter of which includes everything from advertising to web sites). The grand award winners in each class were:

- Writer of the Year – (tie) Allison Morgan and Mark E. Johnson, both of Tennessee Farmers Cooperative;

- Photographer of the Year – Robin Conover of the Tennessee Association of Electric Cooperatives;
- Publication of the Year – Bonnie Jones of Jackson Electric Membership Corporation for its 2004 annual report.
- Special Projects, Best of Class – Joseph W. Richardson, Southwestern Electric Cooperative, for a "small-shop portfolio" of communications work.

USDA's *Rural Cooperatives* magazine won the first place feature article award from a field of nearly 50 entries for "Flying the Coop," by Catherine

Merlo, which addresses strategies for retaining co-op members. It also won third place for best overall member magazine or newspaper, while Stephen Thompson, the magazine's assistant editor, won the third place award for digitally manipulated photos for an illustration/photo showing a farm inside a bank vault. For the complete list of award winners, visit: www.communicators.coop.

CCA is a national organization of more than 350 professional communicators who

work for cooperative businesses and organizations throughout the United States and a number of other nations. For more information, visit the Web site above or call Executive Director Susie Bullock in Lubbock, Texas, at (806) 795-2783.



Terri Faulkner of Dixie Electric Cooperative.



Send items to: dan.campbell@USDA.gov



Fred Detrick displays a co-op poster that graced New York City buses in the 1960s. Tru-Blu Blueberry Co-op, founded in 1928, recently closed its doors. Photo by Larry Hajna, courtesy Camden Courier-Post

Agriculture (USDA),” Pennsylvania Agriculture Secretary Dennis Wolff said, noting that many of the trip’s costs were offset by a grant from USDA. The co-op had an exhibit at the HOFEX Food Show in Hong Kong and participated in retail tours.

“Pennsylvania cannot ignore China’s market potential for many of the same foods our own citizens have come to enjoy,” Wolff said. “This trade mission was extremely important in

providing exposure for the commonwealth’s food products while developing relationships with quality importers and distributors in China.”

Ron Davis of Bell Export Foods Group, representing members of FMCP, joined John Jantos, PDA’s international business development division chief, during the week-long trip to Hong Kong and southern China. During the mission, the pair participated in market briefings by the U.S. Embassy and Consulate. They also gained insight and perspective into the Asian market through a trade show in Hong Kong and meetings with buyers, importers and distributors there and in the southern Chinese city of Shenzhen.

“With a population of more than 1 billion people, there is tremendous market opportunity for Pennsylvania’s diverse array of quality agricultural products in China,” Wolff said. “This trip was a great step forward in creating relationships that will soon add China to the growing list of countries purchasing Pennsylvania’s agricultural products.”

The co-op’s expenses for the trade mission were partially offset through

use of the Market Access Program (MAP) of USDA’s Foreign Agricultural Service. MAP funds are available through four State Regional Trade Groups (SRTGs), which consist of state departments of agriculture. The SRTGs work closely with USDA to promote international trade. This program can reimburse businesses for up to 50 percent of their international promotion expenses.

In this case, Food Export USA-Northeast, the SRTG which represents ten northeast state departments of agriculture and the Mid-America International Agri-Trade Council (MIATCO), which represents 12 grain-producing states, collaborated on the China mission to benefit the co-op and several other agribusinesses from other states.

Alto forms whey-marketing partnership

Alto Dairy Cooperative, Waupun, Wis., has formed a marketing alliance with Main Street Ingredients, LaCrosse, Wis., to sell its dried whey and permeate to the nutritional and food-processing industries. The arrangement will not affect Alto’s feed divisions. “By marketing our dried whey and permeate through this part-



nership, Alto will be able to capitalize on Main Street’s sales and marketing expertise — adding value to our members’ milk,” said Rich Scheuerman, President and CEO of Alto Dairy Cooperative.

Pennsylvania food-marketing co-op completes trade mission to China

The Food Marketing Cooperative of Pennsylvania (FMCP) — a joint effort of small to medium-sized food processors — recently completed their first trade mission to China. The trade mission, coordinated by the Pennsylvania Department of Agriculture (PDA), represented 13 food manufacturers who have found that leveraging their resources helps all of them reach markets that almost none of them could access individually.

“This trip was a real team effort by the members of the co-op, the state and the U.S. Department of

Correction

In the May-June issue of *Rural Cooperatives*, an article about Cooperative Agricultural Services’ new soybean extruder incorrectly stated that the operation is located in South Dakota. It is actually located in Kansas. The state agency that worked closely with the co-op to develop the facility is the Kansas Department of Commerce.

The partnership is one of several initiatives Alto is working on to bring higher margins and add value to the cooperative and members' milk, Scheuerman said. In April, Alto announced its partnership with

Winona Foods to brand and market its aged cheddar cheese nationally.

In other news, Alto recently hosted the national Food Network television show "Unwrapped," at its Waupun, Wis., plant, where it was featured in a special segment on food toppings. The show focused on Alto's shredded cheesemaking process and its 110-year history as a producer-owned cooperative. Hosted by Marc Summers, "Unwrapped" uncovers behind-the-scenes details on classic American food by exploring test kitchens and the secrets behind food companies and their products. Alto Dairy manufactures more than 550,000 pounds of American and Italian-

style cheese per day at its Waupun and Black Creek facilities from a daily intake of more than 5 million pounds of milk. Cheese and whey produced by Alto Dairy are marketed nationwide under a variety of brand names and private labels.



Alto Dairy's shredded cheesemaking process was recently featured on the Food Network's "Unwrapped" program. Photo courtesy Alto Dairy

Aurora Co-op buying Cargill's Grand Island mill

Aurora Cooperative is buying Cargill's Grand Island, Neb., feedmill. "This acquisition is a wonderful opportunity as it allows Aurora Cooperative to upgrade its feed services to current and future livestock producers," says Aurora Cooperative President and CEO George Hohwieler.

The purchase comes on the heels of the co-op's 2005 board retreat, where the directors "committed to be actively involved in the feed business for the long term," Hohwieler said. The acquisition also favorably positions Aurora in response to USDA's and the U.S. Food and Drug Administration's

Bucking the trend *continued from page 17*

niche marketing is a viable alternative for interested farmers.

Synergy with established cooperatives

Most of the newer niche-marketing cooperatives continue to sell the bulk of their milk to other handlers. They direct just a portion of their milk to a plant to have their specialty products made.

For some, these shipments for their niche products are only done occasionally. Others ship all their milk to their handler (typically a cooperative) and "buy back" the amount of milk needed to make their specialty product. In this case, the handler diverts shipments of the niche marketing cooperative members' milk to the selected plant.

These arrangements give the members market security (a market outlet for all of their farms' milk). At the same time, it allows them to seek added

returns on a portion of their milk.

The relationship between these new niche-marketing cooperatives and established cooperatives appears mutually beneficial. The niche-marketing cooperative can focus its efforts on its niche products, leaving the tasks of managing milk routes, producer payroll and balancing milk supplies to the larger cooperative.

The established cooperative benefits by having members who, due to the added revenue they gain from their niche products, are thriving and happy members. Moreover, the established cooperative gains another outlet for member milk, however small.

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stance on species-segregated feed manufacturing operations, he noted. In conjunction with the asset sale at Grand Island, Cargill Animal Nutrition announced that it will double production at its Duncan, Neb., location.

Bin collapse causes co-op to halt storage

Central Valley Ag Co-op is closing its grain storage facility in Fremont, Neb., but will continue to offer agronomy and petroleum services, according to the *Fremont Tribune*. In November, one of the co-op's grain bins collapsed, and the Nebraska

State Fire Marshal's office and the co-op's insurance firm said the storage bins and the feed mill were a safety hazard.

At one time the local co-op provided storage for some 500,000 bushels of grain. But last November, a 50-year-old storage bin housing some 70,000 bushels of corn collapsed, spewing grain into the loading area. Metal fatigue is the suspected cause. Rebuilding the storage facility and upgrading the feed mill would be cost-prohibitive, so the board chose to close them. The co-op will offer members the option of shipping grain to terminal elevators under the co-op's name,

or it will pick grain up on members' farms.

Calif. dairy co-op buying Frito plant

California Dairies Inc., Artesia, Calif., is in the process of buying the 280,000 square-foot Frito-Lay plant in Visalia that was closed last fall. The final proposal is subject to the approval of the cooperative's membership. The purchase is also contingent on the city's permission to build towers taller than 100 feet, as well as on receipt of a conditional-use permit.

The facility may start producing toward the end of 2007. In the first

No shell game *continued from page 25*

old-timers around here are all for the operation," says Roger Sherman. "They understand that oysters help the water quality."

Co-op member Artie Valdez believes in keeping the neighbors happy. So, he recently took a day off to clean up weeds and brush around the building. "The local people have been really helpful," he told me. "We were strangers at first, but we've gotten to know and trust each other."

Valdez grew up in the Groton area, and says he has had a passion for the outdoors and the water all his life. After a term in the military, he

returned to the area in 1990 to settle down. For a while he worked as a civilian at the local naval base, but after the unit in which he worked shut down in 1993, he tried commercial fishing, starting a firm he named "Sweet Pea Enterprises," after his oldest niece's nickname. "I made ends meet, but not much more," he says.

In 1999, Valdez was talking to Jim Markow and brought up the difficulty of working on the water alone. The two started working together, and when the idea of a co-op came up, he says, "I thought it was a great idea."

Valdez especially likes the way co-

op members support each other. "We all offer to do stuff for each other," he says. "That's the whole idea of a cooperative. It's a great feeling, working together."

Valdez says his operation is finally starting to pay off. "It's been a long road," he says, echoing Steve Plant's sentiments: "You never stop learning."

He also hopes to be able to hire more people and provide them with a way to earn income. While he's not able to do that yet, he's confident that, with continued hard work, Sweet Pea Enterprises and his fellow members' businesses will continue to grow. ■

New technology: are co-ops ready? *continued from page 19*

have supported many research projects that advance processing technology and product development. However, only through a cooperative's own proprietary research and development efforts can it identify and fully grasp market niches and bring new products to the market.

New products may be developed by modifying the flavors, taste, colors, forms, packaging or shelf-life of existing products, or by fortifying them for desired functionality. Product development also refers to using dairy ingredi-

ents (or dairy products as ingredients) to develop or improve existing foods and beverages.

Marketing new consumer products requires market research, test marketing, advertising and promotion, consumer education, shelf-space acquisition, merchandising and servicing the products. Substantial costs are associated with each of these activities. In marketing new dairy ingredients, the challenge is to provide end-users (processors) with information on the attributes, the functionality and the applica-

tion of the ingredients.

To differentiate value-added products and gain competitive advantages, cooperatives also must devote adequate resources to develop or acquire processing technology and adopt new ways to manufacture or package products, or to enhance the particular attributes of their products. The other aspect of processing technology development is finding new ways to make existing products, such as the wheyless process for making mozzarella cheese. ■

phase, 5 million pounds of milk per day would be processed, and 100 workers would be employed at full production. In the second phase, the plant capacity could increase to 10 million pounds of milk per day and employ as many as 180 workers.

California Dairies' 680 members annually produce more than 14 billion pounds of milk that accounts for 40 percent of the state's production. The cooperative is buying the plant to keep up with its members' milk production growth of 3 to 4 percent per year. Visalia is in Tulare County, which had \$1.4 billion in milk sales in 2004, making it the No. 1 milk-producing county in the country.

CF Industries plans stock sale

CF Industries Inc., a Long Grove, Ill.-based manufacturer and distributor of nitrogen and phosphate fertilizer products, plans to raise \$700 million in an initial public stock offering. CF Industries is owned by eight farmer co-ops: CHS Inc., MFA Inc., Growmark Inc., Southern States Cooperative, Land O'Lakes, Tennessee Farmers Cooperative, Intermountain Farmers Association and Cooperative Federée de Quebec.

The owners of CF Industries would receive shares of common stock in the new company and cash in exchange for their outstanding equity interests in CF Industries. CF had an operating

loss of \$311.3 million in 2004.

If approved by the U.S. Securities and Exchange Commission, CF Industries Holdings Inc. would be formed to serve as the holding company for the operations of CF Industries Inc. Morgan Stanley & Co. Inc. and J.P. Morgan Securities Inc. will serve as joint lead managers in connection with the offering. Credit Suisse First Boston LLC and Harris Nesbitt Corp. are serving as senior co-managers.

CHS sells Mexican foods operations

CHS Inc. recently sold its tortilla and chip operations to Gruma Corporation. The sale consists of three plants, located in New Brighton, Minn., Fort Worth, Texas, and Phoenix, Ariz. The plants employ about 250 employees. Gruma is a subsidiary of Gruma SA de C.V., of Monterrey, Mexico, which markets products under the Mission and Guerrero names.

"As we looked at the future direction of our operations and our investment in the value-added food sector, we concluded that it is in the best interest of all of our stakeholders that we divest of our Mexican foods operations and focus on other areas of our food and grain processing business," said John Johnson, CHS president and chief executive officer. "CHS remains committed to its vision of linking producers to consumers through its other

grain-based food processing and manufacturing businesses."

Co-op conference slated in Minnesota

"Cooperative Opportunities in a Global Economy" is the theme for the 8th annual Farmer Cooperatives Conference, to be held Nov. 7-8 at the Hyatt Regency in Minneapolis, Minn. The conference has been sponsored since 1998 by the University of Wisconsin Center for Cooperatives to provide co-op directors, managers, government officials and academics with information on major trends and issues impacting agricultural cooperatives. Presenters and topics are selected to stimulate critical thinking and the exchange of ideas. The conference includes ample opportunities for interaction and discussion. For more information, visit: www.wisc.edu/uwcc/fc/fc.html, or call (608) 262-3981.

\$10,000 land stewardship prize offered by AFT

Nominations are being accepted through Nov. 1 for American Farmland Trust's 2006 Steward of the Land Award. The \$10,000 prize is presented annually to a farmer or rancher who best exemplifies AFT's mission of stopping the loss of productive farmland and promoting farming practices that lead to a healthy

Legal Corner *continued from page 21*

- and
- c) Income from the production (but not the transmission or distribution) of electricity, natural gas and potable water is included.

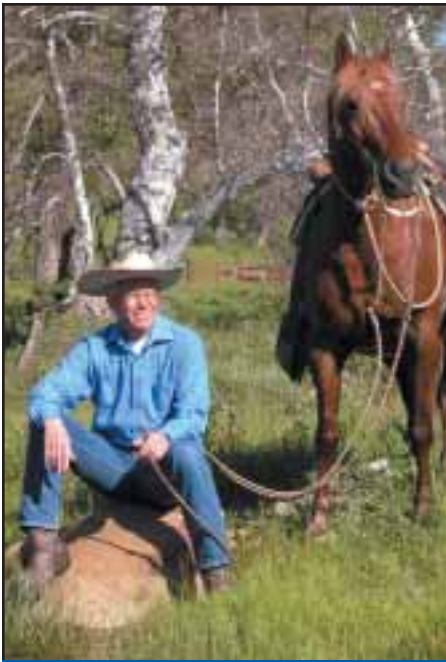
Special rules for cooperatives

Congress wrote special rules into the new law to make sure cooperatives aren't disadvantaged in their treatment compared to other types of businesses:

- a) When computing their Qualified Production Activities Income (step 2 above), cooperatives do not need to take into account their deduction for qualified patronage refunds and per-unit retains.
- b) *Agricultural and horticultural cooperatives* may pass through some or all of their QPAI deduction to their patrons. The cooperative must provide a written notice to its patrons explain-

ing the pass-through within the applicable payment period.

This deduction is not simple, but it does offer a significant tax savings to cooperatives and other businesses that manufacture, produce, grow or extract hard products within the United States. Managers, directors and advisors are urged to study this new tax provision and incorporate it in their future business and tax planning efforts. ■



Cattle rancher and grape grower Steve Sinton of Shandon, Calif., won the 2005 Steward of the Land award. Photo courtesy American Farmland Trust

environment. Nomination kits can be requested by calling (800) 886-5170, extension 3011, or can easily be downloaded on AFT's Web site: http://www.farmland.org/steward/nomination_instructions.pdf.

The 2005 Steward of the Land Award was recently presented to Steve Sinton, a wine grape grower and fourth-generation cattle rancher from Shandon, Calif. Throughout his 18,000 acres of ranchland and 125 acres of vineyards, Sinton uses a variety of innovative practices to promote sustainability and protect the environment. His efforts have even resulted in the reintroduction of the California condor, which nest on parts of his property. He was also instrumental at the state level in the creation of the California Rangeland Trust, California's statewide agricultural land trust.

"The Steward of the Land Award showcases the diversity of American agriculture and illustrates the many benefits farmers and ranchers provide to the general public, like habitat for wildlife, a filter for clean air and water and scenic vistas," said Sinton.

"I'm a rancher, but I know that past winners of this award have also been grain growers, dairy farmers and fruit growers. There are people in every aspect of agriculture that are engaged in good stewardship practices."

Dairy conference eyes national marketing agency

Farmers should take advantage of the Capper-Volstead Act and form a nationwide marketing agency-in-common to manage milk shipments and to allocate milk to end users in the most efficient manner possible, some speakers said during a recent dairy confer-

Atlantic tender beef *continued from page 11*

eries more accurately than can a processor buying cattle on the open market. Still, farmers who have spent their lives thinking of the processing plant "as the enemy" have had some difficulty thinking of the plant they own as "us."

The co-op hopes its strategy of transparency in its dealings with members and not "painting rosier pictures than reality" will pay off with members. Honesty and openness are, after all, a basic foundation of the cooperative movement.

The new plant has a supply agreement with Co-op Atlantic, which makes the Atlantic Tender Beef brand exclusive to co-op stores. That will not prevent it, however, from providing other house brands to other retailers, selling to the food service industry or seeking specialty or niche markets.

Expanding beef traceability

There are other challenges and opportunities facing the industry. While ATB is traceable to its point of origin, traceability ends when it arrives

at the plant door. Baglole says the co-op is in negotiation with the Canadian federal government to find funds to add traceability technology to the plant, which would be a big advantage in promoting their products.

"It's not just food safety that this would help," Baglole says. "We would be able to look at which type of animal sells better, which cuts sell faster and share the information back with the producer. It would make us more responsive to what the consumer wants."

This initiative will not solve all the problems facing beef farmers. BSE and other problems could continue to create havoc for the foreseeable future. But it does point to a long-term way out.

This marketing effort is not limited to beef. The co-op also markets Atlantic Tender Pork and Chicken. There is a range of Market Town house label products that are locally sourced. These products are all part of the co-op's agri-food strategy that supports Co-op Atlantic's goals of: integrating agriculture production into its retail merchandising strategies;

generating and retaining wealth in the communities of Atlantic Canada; differentiating the co-op from the competition.

The programs are variously described as "farm-to-fork," "gate-to-plate," "stable-to-table" or "from the farm family to your family." The programs are intended to offer both farmers and consumers — everyone in Atlantic Canada — a local alternative for goods and services needed if they are to live in viable, healthy communities. The aim is to seek win-win solutions to challenges, such as Atlantic Tender Beef, where both consumers and farmers support each other.

Given the push towards market globalization, some assume that it is inevitable that huge multinational corporations will control every facet of the economy. But when there is a commitment to find innovative methods for solving the challenges faced by locally owned enterprises, everyone benefits: local producers, consumers, communities and the entire co-op system. ■

ence in Syracuse, N.Y. "Growing the Northeast Dairy Industry" was the theme of the conference, held June 1.

New opportunities in the cheese and fluid markets were discussed, and young producers saw promising futures in dairy farming, especially in Western New York.

However, dairy farming challenges were also discussed, including: environment (air, water, odors, flies, pathogens, etc.), animal welfare concerns, food safety, milk quality, efficiency and production costs, decreased government involvement, international competition, and financing.

Diamond Walnut to convert

After functioning as a grower-owned co-op for nearly a century, Diamond Walnut members have voted to convert the business into an investor-owned corporation. About 80 percent of the co-op's 1,735-members voted for the conversion of the company, which will become Diamond Foods Inc.

"We are gratified by the high level of grower support," said Michael Mendes, president and chief executive of Diamond.

The initial public offering may sell 5.3 million shares at \$15 each, possibly

raising \$70.9 million. Money will be used to create new products and markets to address increasing walnut production and more competition.

Production for Diamond's members has grown about 65 percent over the past seven years, according to Diamond's prospectus, due to factors such as higher yields per acre and better varieties.

The company, citing a more competitive environment, also wants to work better with large customers such as McDonald's, which uses Diamond's walnuts in its fruit and walnut salad, *The Fresno Bee* reported. ■

The inside scoop on outside help *continued from page 28*

Many failed businesses can recall the equipment sales person who thought it would be great to build a processing plant on the edge of town. They had the feasibility study to demonstrate that it could work, but was that study tilted by someone who had a vested interest to see a plant built?

There are also project champions who may see themselves fitting nicely in the position of general manager of a new co-op, which can clearly constitute a conflict of interest. This is similar to the issue we see arising in some co-op sales or conversions when management has a vested, financial interest in convincing the board and members to sell or convert their co-op.

The potential for such conflicts of interest should be revealed by any outside advisor involved in a project. Some behavior, especially among attorneys, bankers and others, is addressed by legal or regulatory guidelines. However, behavior of any co-op development advisor must adhere to the highest ethical standards.

Timing issues

• **When is an advisor's assistance needed?** Timing of assistance to

developing cooperatives is important. The appropriate advice at the appropriate time is the goal. Understanding the development process, recognizing the skills that exist and the needs for assistance and arranging a team of advisors should be planned at the beginning of the development process.

• **When does an advisor exit the scene?** The answer, of course, depends on the assistance being provided. Sometimes the assistance is very short term. Issue-specific help can often be completed in a relatively short period of time. General development assistance may continue throughout the project, even into operation.

• **When does the co-op development effort end?** USDA Rural Development policy is that it makes little sense to help form a co-op, and then abandon it. Business development issues that arise after a co-op launch are, to some extent, predictable. If the expertise exists to assist the co-op further with these issues, it should be offered. For example: management turnover often occurs in the first 12-18

months of business operation; the board will face the need for a financial audit within a year of start-up; board turnover will likely make a board training program advisable soon after the first annual meeting. All of these challenges can be surmounted with the help of an advisor who has experienced them in other business start-ups.

Summary

Effective technical assistance in the development of a new cooperative requires:

1. Understanding the cooperative form of business;
2. Understanding development processes and procedures;
3. Understanding business operations;
4. Knowledge of the industry in which the cooperative will operate;
5. Understanding one's capabilities and limitations.

An outside agent must have the knowledge, skills, experience and confidence to provide valuable guidance. Arrogance to think that he or she knows everything needed to complete the co-op business formation will be the downfall of an agent. ■

Renewable energy: the new frontier



Ethanol production is booming in the United States.

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



With record-high energy prices this summer, it's no wonder that interest in USDA's Renewable Energy and Energy

Efficiency grants and loan program is soaring. Under this program, USDA Rural Development has been allocated \$22.8 million to help farmers, ranchers and small rural businesses promote innovative renewable energy development and energy efficiency projects.

Enhancing our energy diversity and efficiency is a key goal of the Bush Administration, and will provide an opportunity to strengthen both our national security and the rural economy. USDA Rural Development is playing a major role in helping to reach this goal by funding a wide range of technologies allowed under this program. They include: bioenergy and biomass (including anaerobic digesters), geothermal, hydrogen, solar and wind energy, as well as energy efficiency improvements.

Agriculture Secretary Mike Johanns calls renewable energy "an exciting growth frontier for American agriculture" as the nation strives forward in implementing an innovative energy policy, and I heartily agree.

The program, now in its third year, was created by Section 9006 of the 2002 Farm Bill. About \$11.5 million, half the funds available, will soon be awarded as competitive grants. By the

time the grant application deadline ended earlier this summer, we had received over 360 applications requesting more than \$60 million – about double the number of requests received the previous year.

These grant requests are being carefully evaluated by teams of experts from the Department of Energy and our own Rural Development State Offices who will eventually select the most promising projects.

Renewable energy grant applications may be made for a minimum of \$2,500 and a maximum of \$500,000. Energy efficiency grant applications may range from \$2,500 to \$250,000. The grant request may not exceed 25 percent of the eligible project cost.

If your grant request isn't funded this year, or if you are now contemplating a new project, keep in mind that applications for 2006 funds will be accepted beginning October 1.

The process is highly competitive, so the more time you spend developing a solid project plan that shows a strong likelihood of success and which will benefit the rural economy in your area, the better your chances of funding.

The second \$11.5 million available in FY 2005 for this program has been reserved by USDA to support guaranteed loans until August 31, 2005. These funds can generate about \$200 million in loan guarantees. As with USDA Rural Development's other guaranteed loan programs, project developers will work with a local lender, who in turn can apply to USDA Rural Development for a loan

guarantee. Any of the second \$11.5 million not obligated to support loan guarantees will be awarded as grants.

Loans may be for up to 50 percent of the project's cost, with a maximum of \$10 million per project. Deadline for the agency to obligate funds for a loan guarantee is Aug. 31, 2005. Rural Development can accept FY 2006 applications beginning Oct. 1, 2005 for both loan guarantees and grants. However, FY 2006 budgets and funding are not yet available.

For more information on the renewable energy and energy efficiency program, please visit our Web site: <http://www.rurdev.usda.gov/rbs/farmbill/index.html>. Or, you can be connected to your USDA Rural Development state office by calling (202) 720-4323 or via links from our Internet home page: www.rurdev.gov.

To date, the Bush administration has invested nearly \$45 million in 32 states through this program.

It is very encouraging to see how innovative our nation's farmers, ranchers and small business owners are in adapting new technology in so many ways to meet the nation's energy needs. The old saying, "where there's a will, there's a way" certainly seems to hold true on the new frontier of agri-energy. Working with this program for the past two years has strengthened my belief that it's not a matter of *if*, but a matter of *when* and *how* our nation will become energy self-sufficient once again. ■

Go to the Source



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