

Rural COOPERATIVES

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Preserving Common Ground

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Commentary

‘How Can a Bunch of Farmers Do It?’

By Dan Campbell, Editor

The question above is what some bankers asked when approached by Virginia poultry growers about financing their takeover of a major turkey processing plant in the Shenandoah Valley seven years ago. After all, one of the nation’s largest poultry corporations had not been able to make a go of the operation, the bankers reasoned, so how could a bunch of farmers possibly make the operation fly?

Farmers may know how to grow verdant fields of grain and raise livestock, but when it comes to further processing and marketing, those tasks are best left to “real business people,” some have long reasoned. Never mind that farming today is a highly complex business undertaking, some still feel a farmer’s place is on the tractor, not in the board room.

But the Virginia Poultry Growers Cooperative (VPGC) was not about to take “no” for an answer. There was no other processing plant they could economically ship their flocks to, so they had to find a way to keep the plant open or face possible ruin. Fortunately, the farmers were able to tap other sources of financing, including USDA Rural Development (through its Rural Economic Development Loan and Grant program), the Farm Credit System (itself a producer-owned cooperative) and some other funding sources.

There are other examples in the turkey industry — in Iowa, Michigan and South Dakota — where growers assumed ownership of processing plants and are successfully operating these businesses. These examples show that growers can guide their own destiny through expanded entrepreneurial ownership, rather than becoming “piece-wage” growers.

As you can read in this issue (“Flying High,” page 4) seven years after its founding, the co-op is thriving and still playing a vital role in the economy of the Shenandoah Valley region.

As co-op member David Hughes said when leading a tour of his farm: “This co-op is a true, grassroots success story.” Indeed, there is no more dramatic example of the value of cooperatives than in a situation such as this, involving a processing plant or other critical facility which, if shuttered, would likely also put producers out of business and hurt the rural economy.

There are many valuable lessons in this story, including:

- Farmers can better control their own fate when they own the processing and marketing infrastructure that is critical to their survival. There is no guarantee of success with a co-op, but at least farmers themselves will be making the key

decisions about whether to make investments or changes needed to keep the plant in business.

- Farmers don’t run the processing plant or make day-to-day decisions. They employ skilled management to do that for them. The board establishes policy, directions and goals, then holds management accountable for performance.

- Use of outside (non-farmer) directors on a board of directors is always a source of debate in co-op circles, but VPGC is a proponent of the practice, based on its experience with three

outside directors and the wider industry, financial and regulatory experience they bring to board meetings.

- While co-ops are sometimes criticized for being too slow to adapt to change, VPGC managers, who have worked under both co-op and corporate ownership, stress that red tape has been cut under the co-op, so decisions can be made much more quickly.

- In developing a new production contract, farmers never overlooked the need to ensure that the interests of the co-op were given as much emphasis as were farmer needs.

How can a bunch of farmers do it? If you are ever in the vicinity of Hinton, Va., check out the VPGC plant or its feed mill or rail facility and see for yourself. Need further proof? Visit the American Crystal Sugar Company processing plant

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Features

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Tom Vilsack, Secretary of Agriculture

Dallas Tonsager, Under Secretary,
USDA Rural Development

Dan Campbell, Editor

Stephen Hall / KOTA, Design

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coopinfo@wdc.usda.gov

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ON THE COVER: The "Tragedy of the Commons" is a classic study describing what happened to English pasturelands, such as this, used as a common resource. The result was often over-grazing and depletion of the resource. Many farmers and fishermen are using cooperatives to help preserve resources for future generations.



A tunnel ventilation system — employing seven, 52-inch fans — can completely exchange the air inside one of David Hughes' (left) poultry houses in only about a minute. Keeping his birds cool and comfortable is the best way to ensure they thrive. USDA Photos by Dan Campbell



Flying High

Key to success for turkey producers is their willingness to put co-op first

By Dan Campbell, Editor



The success of few agricultural sectors and marketing days are as closely linked as are the turkey industry and Thanksgiving. But the turkeys being raised on David Hughes' farm in Virginia's beautiful Shenandoah Valley aren't destined for the holiday platter.

Rather, they will be processed into a

variety of turkey cuts, marketed nationally and internationally to further-processors. These food industry customers may buy the co-op's breast meat and turn it into a deli item, or buy drumsticks for ground turkey or scores of other food products.

So, if your drive to Granny's house for Thanksgiving dinner involved a pit stop for a sliced turkey and cheese sandwich, there's a chance your lunch may have originated on the farm of

Hughes or one of the other growers in his co-op.

Hughes says he has much to be grateful for this Thanksgiving. But seven years ago, he was staring at possible financial ruin when the word came down that the poultry company he shipped to was shutting down its processing plant in Hinton, Va., leaving him with few other marketing options for his birds.

Stunning news

When he first heard the news in April 2004, that the Pilgrim's Pride turkey processing plant would be closed in just five months, Hughes wondered if it would be the end of his Rivermont Farm. There was only one other turkey processing plant in the area, but after it signed up a dozen or so of the 160 Pilgrim's growers, it had all the turkey supply it needed. That left Hughes and the vast majority of other growers out in the cold, without a home for their birds.

"I didn't know what to think at first; it was like, well, what can I do?" Hughes recalls of that fateful day. Chickens were the only other "crop" his four poultry houses could be efficiently used to raise. But new feeding, watering and ventilation systems would have been needed.

"The conversion cost was astronomical," he says. "People also suggested raising goats or calves, even catfish or tilapia; but I never considered any of those as serious options."

Although they were well aware that the plant had been losing money for some time, news of the looming shutdown was also a shock for plant management.

"Plant managers were called into a room and told that the plant would continue processing through September (when the last of the birds it was under contract for would be harvested) and would then be closed," recalls Charlotte Waller, director of quality assurance and technical services at the plant. "It wouldn't have surprised me to hear that the plant was being sold, but it was a shock to be told it was being closed."

Community leaders were also stunned. In 2004, a Virginia Tech study estimated that the turkey plant and all the farming and related businesses it supports were generating about \$200 million in annual economic activity in the region. Even with the rapid growth of James Madison University in nearby Harrisonburg and many other non-farm businesses and institutions, agriculture is still a cornerstone of the Shenandoah Valley economy. To lose such a critical

New contract was a cooperative effort

Nearly two years ago, work began on a new grower contract that would replace the contracts first signed when the Virginia Poultry Growers Cooperative (VPGC) was formed. The new contract, developed by the co-op's grower council, board of directors and management team, was completed last summer.

"More than half the committee members were growers," says Mickey Baugher, VPGC's complex manager. Growers also completed surveys to see what changes they hoped to see in the new contract. Members were given regular updates through the co-op newsletter and other means to keep them apprised of the progress.

"In the end, it didn't change a whole lot," Baugher says. "Growers wanted to be paid more if they did better. Our contract is probably still a little friendlier [for producers on the lower end of productivity] than you would find in non-co-ops. It's based on production cost. We have a prime cost, based on feed, medication and poult costs. If a grower does better than average, they make more money. But we put in a nice floor price, so you can only go down so far."

"I worked for integrators most of my career, and the big difference here is that growers not only participated in writing the contract, they all got copies before it was done and were able to comment," says co-op President Jimmy Mason. "That just doesn't happen in the integrator world. It's the first time I've ever seen that done."

The vast majority of growers on the committee did a good job wearing their co-op hat vs. their grower hat during the talks, Mason says.

"Different segments of growers wanted to see different things in the contract, sometimes unrealistic but other times very realistic things," says John King, vice president for sales and marketing. "No one got everything they wanted, but the collaborative process used was very educational for all."

"The old contract was pretty cut and dried," Mason says. "If you had a disaster on the farm that wasn't your fault, you still didn't get paid very much." Now pay will be based on a four-flock average – an idea put forward by a grower.

"It was important that everyone got to hear each other's concerns, and it was important that it was the growers themselves who said 'no' to a lot of proposals," says Charlotte Waller, the co-op's director of quality assurance and technical services. "Management's role was to be a facilitator and provide data. Growers had to ultimately decide what made sense and what didn't, and what the impact was on their co-op." ■

part of the ag industry would have dealt a serious blow to the economy.

Co-op saves the day

But the plant didn't close and the Shenandoah Valley did not lose one of its most important agricultural industries. It was saved when turkey farmers formed the Virginia Poultry Growers Cooperative (VPGC), forged in a matter of just five months from the initial growers' meeting to the day when co-op leaders signed the purchase agreement.

The effort involved strong support from local, state and federal government leaders, with crucial financial help coming from USDA Rural Development's Rural Economic Development Loan and Grant (REDLG) program. The plant began processing under co-op ownership on Nov. 29, 2004.

Seven years later, Hughes says he still feels a real sense of pride of ownership every time he drives into town and sees the plant humming like a well-oiled machine. Hughes was raised on a beef, dairy and pork farm, but decided to try raising poultry after he graduated from Virginia Tech. He says he finds being a poultry grower more enjoyable. He also belongs to farm supply, fuel and credit co-ops. "So I was very familiar with the concept of a co-op and how profits flow back to growers instead of to a CEO and distant shareholders."

Hughes has served two terms on the co-op's grower council, and "was there for the birthing process" of VPGC. "I helped write the code of best practices," he says, which addresses topics such as humane treatment of the birds. "Being on the council helps producers learn how the business works, and learn more about how we can work together to be successful."

Late last summer, the co-op completed overhauling the grower contract (see sidebar, page 5) for the first time since VPGC was formed. "I'm very satisfied with the new contract — it treats everyone fairly," Hughes says. "As grower-owners, we're no longer

looking at the business just as a matter of 'what's in it for me,' but rather 'what's in it for the co-op.' We want this co-op to succeed."

Controlling their own destiny

The ability to better control their own destiny through ownership of processing and marketing of their crops and livestock has always been the primary motivator for farmers to form co-ops. It was no different for the Virginia Poultry Growers Cooperative, although the urgency to form it in such a short timeline, and for such a large enterprise, is certainly remarkable.

"It was a risky venture," says

supplying the plant, most of them with farms within a 65-mile radius of the plant. "When the co-op started, we had 146 producers, but have since grown to 157," says Mason.

"If we hadn't got the REDLG loan from USDA, we wouldn't be here," Mason says. "We didn't have the capital, and banks would not go with us. Pilgrim's had been losing millions of dollars, so banks would say: how in the world are these farmers going to make a go of it when Pilgrim's couldn't do it?"

The co-op is still repaying the REDLG, but otherwise it has been able to operate using only member equity. "Right now, we are our own bank; we're



By focusing on tom turkeys weighing about 40 pounds for the further-processing food trade, the co-op has found a successful market niche.

Hughes. Growers had to invest equity in the co-op, based on the size of their operations, and many outside resources also had to be tapped, he recalls. "We eventually made it, but there were some sleepless nights, not knowing if I would have to put the farm on the market or not."

"All the growers were under a lot of pressure at that time — they initially didn't know whether there would be a co-op to keep the plant running," says VPGC President Jimmy Mason.

At the time of the announced shut down, there were 169 turkey producers

not financing with anybody," Mason says, adding that "the co-op is always evaluating market conditions and capital requirements."

More focused industry niche

The co-op processes about 250 million pounds of turkey annually, up from 180 million pounds when it started in 2004. One of the main ways VPGC has been able to turn the plant into a money maker is by focusing on a narrower niche of the industry, Mason explains.

Co-op producers are growing bigger

Co-op rail facility boosts feed security

If you're in the turkey business, you are also in the corn business, whether you grow corn or not. Corn-based feed is the "fuel" that poultry farms run on, and the Virginia Poultry Growers Cooperative (VPGC) goes through about 125,000 bushels of it each week. It mills corn into turkey feed at its feed mill in Broadway, Va., where it is mixed with soybean meal, vitamins, fat, trace minerals and protein supplements, in varying formulas.

The vast majority of that grain is delivered via the Norfolk-Southern Railroad.

Until a few years ago, the co-op received grain deliveries via trucks from another local integrator. The co-op management did not feel comfortable with this arrangement long term, says Mickey Bauger, complex manager for VPGC.

In 2007-08, the co-op spent \$10 million to build a grain-unloading and storage facility at Linville, Va., about 8 miles from its feed mill. The facility has enough rail siding to handle a 125-car train. It can unload 75 cars in 16 hours. The 80-acre site has space to add a feed mill or for other expansions in the future, Mason notes.

The co-op needs a delivery from a 75-car unit train (or 300,000 bushels of grain) about every eight days, so it also built two, 300,000-bushel grain silos at the site. Using shuttle cars, grain is then transported to the co-op feed mill and to other grain customers, which pay the co-op a handling fee.

The Broadway mill makes about 5,000 to 6,000 tons of turkey feed per week. The co-op had looked at replacing the facility, but the cost would have been \$15 million to \$20 million. So it instead spent \$3 million to modernize the existing feed mill, Bauger says.

"Besides getting our corn a little cheaper with the 75-car discount rate, it also better secures our corn supply," Bauger says. "Railroads, good as they are, are not as

reliable as trucks. With a truck, if you tell them you need them here Wednesday morning at 9 a.m., they will be here. With rail, your delivery might show up Monday, or it might show up Friday. There are just so many more variables. So the extra storage gives us a buffer, because if we run out of corn, there is no way to feed our turkeys." ■

— Dan Campbell



The co-op's rail facility at Linville, Va., has enough rail siding to store a 125-car train. It can unload 75 cars in 16 hours.

birds these days, thanks to a combination of improved genetics, carefully formulated feeds and more comfortable housing conditions for the birds, which thrive best when not under stress.

Only large toms, weighing about 40 pounds, are grown and sent to the plant. That has helped increase tonnage and to produce the type of turkey cuts desired by further-processor customers, which are its sole market focus now. Birds of that size are too large for the retail trade, which usually wants smaller hens.

The narrower product mix allows the plant to operate with a smaller work force of about 500 (down from as many as 900 before the purchase). Because the co-op is not geared toward the holiday trade, it maintains a consistent volume flow through the plant all year.

“Pilgrim’s really was primarily a chicken company, and in this day it is very difficult to be both a chicken and a turkey company,” Mason says.

Citing high-debt level and soaring feed prices, Pilgrim’s Pride filed for bankruptcy in 2007 and was purchased in 2009 by JBS S.A., the Brazilian-owned food company that is the largest chicken producer in the United States. Now known as Pilgrim’s Corp., it continues to operate as a subsidiary of JBS.

Does being a co-op help with marketing?

“I think it does,” says John King, vice president for sales and distribution. “We do get questions about the make-up of the company, and we stress that we are a true co-op, with profits that flow back to our growers.” Customers seem to like that concept, he says. Supplying only further processors, not the retail trade, means VPGC is not in competition with its customers, something they appreciate, he adds.

The Pilgrim’s Pride operation included a turkey hatchery, but it was sold separately to AgForte. “That meant the turkey breeders had to follow the hatchery. Even though they work for AgForte, most of the eggs they produce still come back to the co-op,” Mason says, which helps the co-op with its “large toms-focused” business model.

Flexible business model

Having worked under both corporate and co-op ownership, the VPGC management team offers valuable perspective into the differences. A common criticism of co-ops is that they are slow to react to market changes, but the co-op’s management says its experience has been quite the opposite.

“The levels of authority above management have decreased a lot,” Waller says.

Management follows policy and directions as set by the board, but has leeway to make the day-to-day decisions in how to best run the operation.

“When a customer needs something,

room and lend a whole new perspective,” Mason says.

The grower board members represent broad diversity — both by production niche and geography — King says. Directors are elected to three-year terms, with a slate of four candidates nominated for every two seats on the board.

Board President Steve Bazzle is involved with member relations, fielding dozens of calls from members with questions during a typical week. “Members are welcome to call management directly, but most tend to go through the chairman,” Baugher says.



About 5,000 to 6,000 tons of turkey feed are produced every week at the co-op’s feed mill in Broadway, Va. The co-op spent \$3 million to modernize the facility rather than up to \$20 million to replace it.

we can usually give him an answer in five minutes,” Mason says. “Some of our corporate competitors might need five days to get that same answer. There’s just a lot less bureaucracy with this co-op — our corporate office is right here.”

The co-op’s nine-member board includes six growers and three “outside” members — one each representing the financial sector, poultry buyers and the county board of supervisors. “They bring so much expertise to our board

“Our member-growers feel the freedom to call and discuss any topic — and they do,” says Bazzle. “Some call to discuss the financial performance of the cooperative, while others will call to discuss the economic impact of recent changes on their farms, or even issues with their current flock.” Other producers call just to express appreciation for the cooperative or to compliment a particular employee, he adds. “The important take away is that the growers have the opportunity to

communicate and engage in the functioning of the cooperative.”

Plant improvements, audits

Plant improvements in recent years include a \$2.5-million project to reduce levels of phosphorous and nitrogen in wastewater discharges. Continual investments are made to improve food safety throughout the plant. “We are staying on the cutting edge of technology,” King says.

“Pilgrim’s left us a pretty good facility,” Baugher adds, noting that the prior owner made some major improvements to the facility before the sale. “Based on audits and feedback from customers, we feel our facility is in the top 10 percent of plants nationally.”

Plant audits (or inspections) are an increasing part of life for meat processors today. USDA has four full-time inspectors stationed at the plant, and many customers, animal welfare organizations and others want to do their own plant audits. “We average six or seven audits each year, and have achieved 95 percent or better scores on all of them,” Waller says.

“We are very proud this year that we passed an audit conducted by Silliker for BRC (British Retail Consortium) certification,” Waller says. BRC is part of the Global Food Safety Initiative, and passing the audit means the co-op adheres to International standards, she adds.

Even more audits are now conducted in the field, King says. Animal welfare audits look at the conditions the birds are raised in on the farm.

VPGC has a certified organic program, and although still a small part of the business, it is growing. All of the organic growers are in Pennsylvania, where they must pass an audit and be certified by Pennsylvania Certified Organic.

VPGC also has a much larger antibiotic-free program. “If a bird in this program gets sick, it is treated, but it is then out of the program,” says King. “The co-op absorbs the cost of moving these birds into our conventional program.”

Baugher says plant jobs pay better than most people think. “Base wage for a processing line worker is \$11.15 per hour, with the chance to earn premiums,” he notes. For example, workers who handle live turkeys make \$15 per hour. More highly skilled workers, such as those who maintain plant machinery and refrigeration systems, earn from \$16-\$22 per hour. “We also offer a 401-K plan, paid vacations and a very competitive health insurance plan,” Baugher notes.

The co-op spent \$100,000 the past several years on scholarships for grower and employee family members. It supports United Way, Relay for Life



Co-op managers such as Mickey Baugher, left, say they have greater flexibility now to run the operation than under corporate ownership.

and other local charities.

“We were emphasizing our commitment to the local community long before the ‘local movement’ really caught on,” King says. “We try to buy as much as we can locally, and strive to do business with minority-owned businesses when we can.”

It all starts on the farm

All the progress that has been made in the plant and with the co-op marketing efforts won’t add up to much if the members don’t produce quality turkey. As with any agricultural co-op, success starts on the farm.

Back on Hughes’ farm, he says there has been a big push to improve the comfort of the flocks. “When we

started, it was like the dark ages compared to now.”

The biggest improvement in the poultry houses is the installation of tunnel ventilation. Hughes points to seven, 52-inch fans at one end of the poultry house that can completely exchange the air inside in only about a minute. This system replaced a single row of smaller fans hanging from the center of the roof.

“The only birds that benefitted from that were the ones right in front of a fan.” Hughes plans to improve cooling further this year with the installation of foggers which emit a high-pressure mist in the houses.

Keeping the birds cool in summer is a much bigger challenge than keeping them warm in winter, he says. But great progress has been made there, too. In the past, area heaters were placed in the center of the houses with fans blowing both ways, but that wasn’t very effective or energy efficient. “Now we have space heaters around the houses that keep them uniformly warm in winter.”

Litter quality has also been improved, and the feeds are continually rebalanced based on the age of the birds.

“Animal welfare is huge with us — you can tell just by looking that these birds are comfortable,” he says.

Modern poultry production is highly automated, so much so that Hughes needs only two helpers to produce 108,000 pounds of turkey per year. While feed and watering systems are automated, drive belts can break or other things can go wrong, causing a feed line to stop or watering troughs to overflow.

Frequent walk-throughs of each house are thus a must, he says, because if the birds aren’t comfortable, the growers won’t be for long either.

“The formation of the co-op was a god-send for growers,” Hughes says, looking back at the past seven years. “I tell everyone I can about the co-op, because it is a true, grassroots success story. Many others would like to do something similar.” ■

Minnesota home to largest number of ag co-ops; Iowa tops for business volume

By E. Eldon Eversull, Ag Economist
Cooperative Programs, USDA Rural
Development

Editor's note: For USDA's annual look at the top 100 ag co-ops, see the Sept.-Oct. 2012 issue, available online at: www.rurdev.usda.gov/BCP_Coop_RurCoopMag.html.



Minnesota continues to be home to more agricultural cooperatives than any other state, a distinction it has held since 1900 (according to the first USDA survey of cooperatives in 1913). In 2011, Minnesota had 203 ag cooperatives headquartered within its borders, ranging in size from 14 cooperatives on the top 100 ag co-op list to much smaller local farm supply and grain co-

ops. Texas ranks second among the states, with 187 cooperatives, followed by North Dakota with 159 farm co-ops. (figure 1).

There are about 2,200 U.S. agricultural cooperatives in USDA's data base.

The top 10 states for number of agricultural cooperatives has remained the same since 2007, with the exception of the No. 4 and No. 5 slots, where California and Illinois have twice traded places. California, with 120 ag co-ops,

Figure 1 — Top 10 States' Number of Cooperatives, 2011

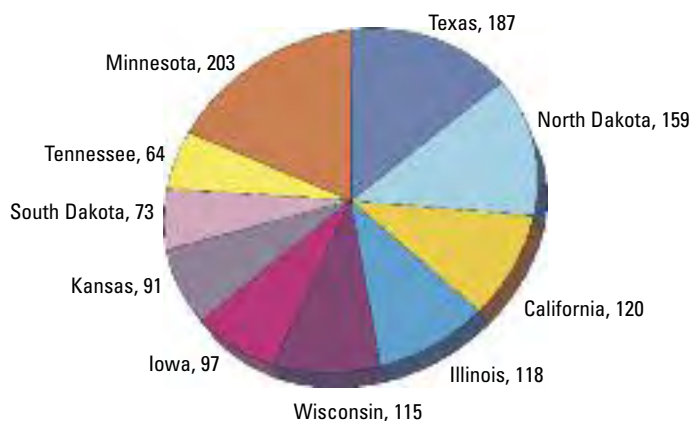


Figure 2—Top 10 States' Cooperative Gross Business Volume, 2011 (billion \$)

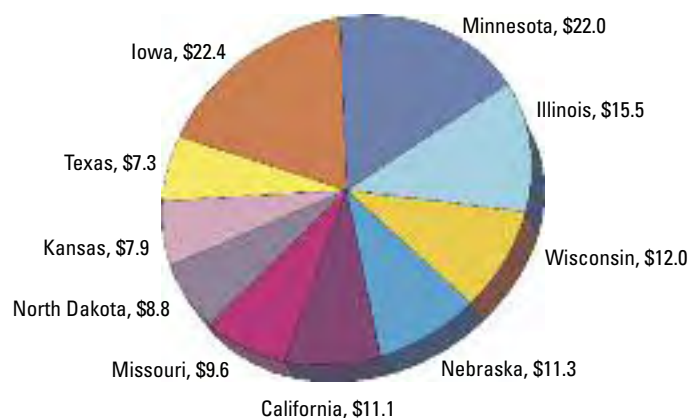


Table 1—Top 10 States by Number of Cooperatives, 2011-2007

2011	2010	2009	2008	2007
Minnesota	Minnesota	Minnesota	Minnesota	Minnesota
Texas	Texas	Texas	Texas	Texas
North Dakota	North Dakota	North Dakota	North Dakota	North Dakota
California	California	Illinois	Illinois	California
Illinois	Illinois	California	California	Illinois
Wisconsin	Wisconsin	Wisconsin	Wisconsin	Wisconsin
Iowa	Iowa	Iowa	Iowa	Iowa
Kansas	Kansas	Kansas	Kansas	Kansas
South Dakota	South Dakota	South Dakota	South Dakota	South Dakota
Tennessee	Tennessee	Tennessee	Tennessee	Tennessee

is currently ranked 4 while Illinois, with 118 ag co-ops, is now No. 5. (table 1).

Iowa No. 1 for business volume

Iowa leads all states with \$22.4 billion in gross business volume generated by ag co-ops (this includes sales to other cooperatives for resale) and also has 14 cooperatives in USDA's top 100 ag co-op list. Minnesota, which had ranked No. 1 the four previous years, was a close second in 2011 (figure

2) with \$22 billion in gross business volume.

The top 10 states account for about 60 percent of sales by agricultural cooperatives.

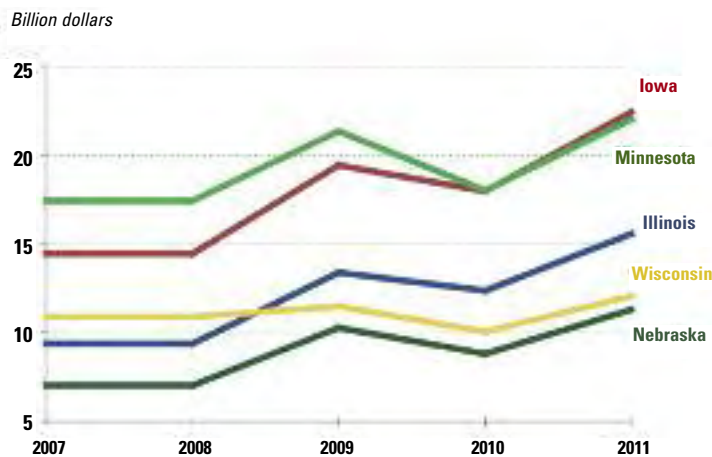
There is a \$15 billion difference between the No. 1 and No. 10 ranked states on the business volume list.

Numerous position changes occurred on the co-op business volume list between 2007 and 2011, with only North Dakota holding steady at No. 8 and Kansas at No. 9 (table 2).

Minnesota had been ranked No. 1 the four previous years. Texas has moved steadily up the list, from No. 13 in 2007 to No. 10 in 2011.

Gross business volume of the top five co-op states is shown in figure 3, with all five having record volume in 2011. Iowa and Minnesota had almost equal sales volume in 2010, while Iowa holds a slight volume advantage in 2011. Illinois trailed Wisconsin in 2007 and 2008 but pulled ahead in 2009 and widened the gap in 2010 and 2011. ■

Figure 3—Top 5¹ Cooperative State Gross Business Volume, 2007 – 2011



¹ Top 5 based on 2011 cooperative gross business volume

Table 2—Top 10 States by Cooperative Business Volume, 2011-2007

2011	2010	2009	2008	2007
Iowa	Minnesota	Minnesota	Minnesota	Minnesota
Minnesota	Iowa	Iowa	Iowa	Iowa
Illinois	Illinois	Illinois	Wisconsin	Wisconsin
Wisconsin	California	Wisconsin	Illinois	Illinois
Nebraska	Wisconsin	California	California	California
California	Nebraska	Nebraska	Missouri	Missouri
Missouri	Missouri	Missouri	Nebraska	Nebraska
North Dakota	North Dakota	North Dakota	North Dakota	North Dakota
Kansas	Kansas	Kansas	Kansas	Kansas
Texas	South Dakota	South Dakota	South Dakota	South Dakota

Utility Co-op Connection

The First Fuel: co-ops view energy efficiency, conservation as priorities

By Anne Mayberry,
USDA Rural Utilities Programs

Editor's note: Energy efficiency will be among the many agricultural and rural development topics addressed during USDA's 2013 Ag Outlook Forum, Feb. 21-22, in Washington, D.C. For details, visit: www.usda.gov/oce/forum/.



Can energy efficiency programs reduce consumers' electric bills, curb billion-dollar investments in power generation for rural utilities and boost the economies of rural communities? Rural electric cooperatives nationwide say that these programs have been doing that for years. They're also paying close attention to a proposed rule that would increase investment in energy efficiency programs.

"Investment in energy efficiency can save money, curb emissions and help boost rural economies," says Dallas Tonsager, the U.S. Department of Agriculture's under secretary for Rural Development. "Our rural electric co-ops are leading the way in implementing energy efficiency programs and have accumulated extensive data that demonstrate the benefits of these programs."

Most co-ops promote energy efficiency

Currently, 96 percent of rural electric cooperative utilities have some form of energy efficiency program and 70 percent offer financial incentives to promote energy efficiency, according to

the National Rural Electric Cooperative Association. Many of USDA's Rural Utilities Service (RUS) borrowers — predominantly rural electric cooperatives — have a history of offering energy efficiency programs to reduce costs for their business, farm and residential members, helping them better manage power use during periods of peak demand while also offering new efficiencies for utilities.

Rural communities may see an increase in energy efficiency programs because of a proposed regulation to help fund affordable, energy efficient improvements for rural business and residential consumers. The proposed rule would allow the Rural Utilities Service of USDA Rural Development to finance energy efficiency improvements that are aligned with USDA's Rural Economic Development Energy Efficiency Effort (REDEE). This effort is designed to create jobs in the energy efficiency market by building on rural electric cooperatives' programs that help consumers — including homeowners, farmers and ranchers and other business owners — improve their energy efficiency.

The proposed rule stems from the 2008 Farm Bill, which identified energy efficiency as an eligible purpose for RUS funding. As a result, RUS electric borrowers may be able to use their loans to fund energy efficiency projects for their business and residential consumers.

Designed to leverage and expand energy efficiency programs for existing RUS borrowers, the proposed rule includes a re-lending program that



enables rural utilities and cooperatives to lend to homeowners or businesses. Eligible projects include efforts that improve consumer energy efficiency, modifications that reduce electricity consumption, that increase use of renewable fuels, or that increase the efficiency of electric generation, transmission and distribution.

Improving home energy efficiency is expected to boost energy savings and expand job opportunities in rural areas.

"Rural electric cooperatives have been promoting energy efficiency programs for eons," notes Aaron Ridenour, manager of marketing and economic development at Prairie Power Inc., a rural electric generation and transmission cooperative in Illinois. "A meeting of our distribution co-op members' marketing staffs led to our focus on how we could help consumers address energy costs."

Energy walls show the way

As a result of that meeting, the cooperatives built two "energy walls," complete with doors, windows, ducts, light fixtures, various types of insulation and other features designed to show how becoming more energy efficient is a wise investment.

"The energy wall travels to annual meetings and actually shows consumers real life examples of how co-ops can help save energy," Ridenour explains. "The energy walls have been to 22 different venues, including annual meetings, community colleges, expos, state fairs, farm progress shows and schools. The display has even been to



The co-op built two “energy walls” — with doors, windows, ducts, light fixtures and various types of insulation — to show consumers how energy efficiency is a wise investment. Photo courtesy Prairie Power Inc.

the U.S. Senate to help explain the value of energy efficiency to members of Congress and their staffs.”

Over 912,000 people have been exposed to the energy wall this year, he says. “During the past 2 ½ years, about 2.7 million consumers have seen the wall.”

One of the more popular features of the energy wall demonstrates the value of cellulose, or foam insulation, Ridenour says. While air blows through fiberglass, foam fills cracks and helps save heating and cooling dollars.

“The value of the energy wall is that once people see the difference, they get it. The response to the wall has been terrific.” Ridenour says that his statewide co-op conducts training, including how to audit for energy efficiency, what’s needed to apply for a rebate and certification of the results.

The expense of energy improvements often prevents homeowners and businesses from investing in cost-effective, energy efficiency upgrades, Tonsager says. “This rule will help make those costs more affordable through increased availability of financing.”

The Eastern Illini Electric Cooperative’s energy efficiency program provides loans for up to \$10,000 for the purchase of a geothermal power unit. The units can help customers reduce heating and cooling costs by about \$1,200 annually. The loan cost is recovered in nine years.

Why co-ops want to lower demand

Why would a rural electric cooperative promote energy efficiency if it results in reduced demand, which results in reduced revenue? In South Carolina, once energy efficiency programs are fully operational, they are expected to help rural electric cooperatives avoid having to build or invest in costly new generation facilities. The potential result is a savings of \$4 billion during a 10-year period — that’s one-half the cost of a new nuclear unit.

Mike Couick, president and CEO of the Electric Cooperatives of South Carolina, credits members as a driving force in South Carolina rural electric utility cooperatives’ investment in energy efficiency programs.

Energy efficiency programs can help rural electric utilities avoid buying or building additional electricity, which can be expensive. Ridenour explains that if the average home uses 1,000 kilowatts (kw) per month, or 12,000 kw per year, the energy efficiency projected from this program would be enough to provide electricity to another 125 houses each year. “That’s the significance of this program,” he says.

Energy efficiency is typically defined as the use of technology to reduce energy use, while energy conservation refers to changes in behavior to reduce energy consumption. At the national level, an energy efficiency program can

help remove one of the barriers to efforts to reduce energy use and waste in rural areas. Tonsager is optimistic that the new source of funding can help rural consumers reduce energy costs and boost rural economies through increased purchase of goods and services to implement energy efficiency. “For example,” Tonsager notes, “projects to conduct home energy audits and finance improvements necessary to reduce energy use would be eligible for financing, as would demand side management projects that are designed to more efficiently control the use of electricity during peak periods.”

Great River Energy, a generation and transmission cooperative utility that provides electricity to its 28 distribution member cooperatives in Minnesota and Wisconsin, included energy efficiency in a plan filed with the Minnesota Public Utilities Commission four years ago. The plan identifies the need to meet members’ increasing demand for electricity with aggressive conservation and efficiency. It says reducing future electricity demand needs to be their “first fuel.”

Increasing electric grid reliability while reducing greenhouse gas emissions and lowering energy costs for consumers are benefits of energy efficiency programs. Ridenour puts it another way: “The cheapest kilowatt is the one that you don’t purchase or build. So we work hard to save it.” ■

Co-ops & Community

Land O' Lakes' nutrition program helps thousands in Pakistan

By Sarah Ali, Ag Economist
Cooperative Programs
USDA Rural Development

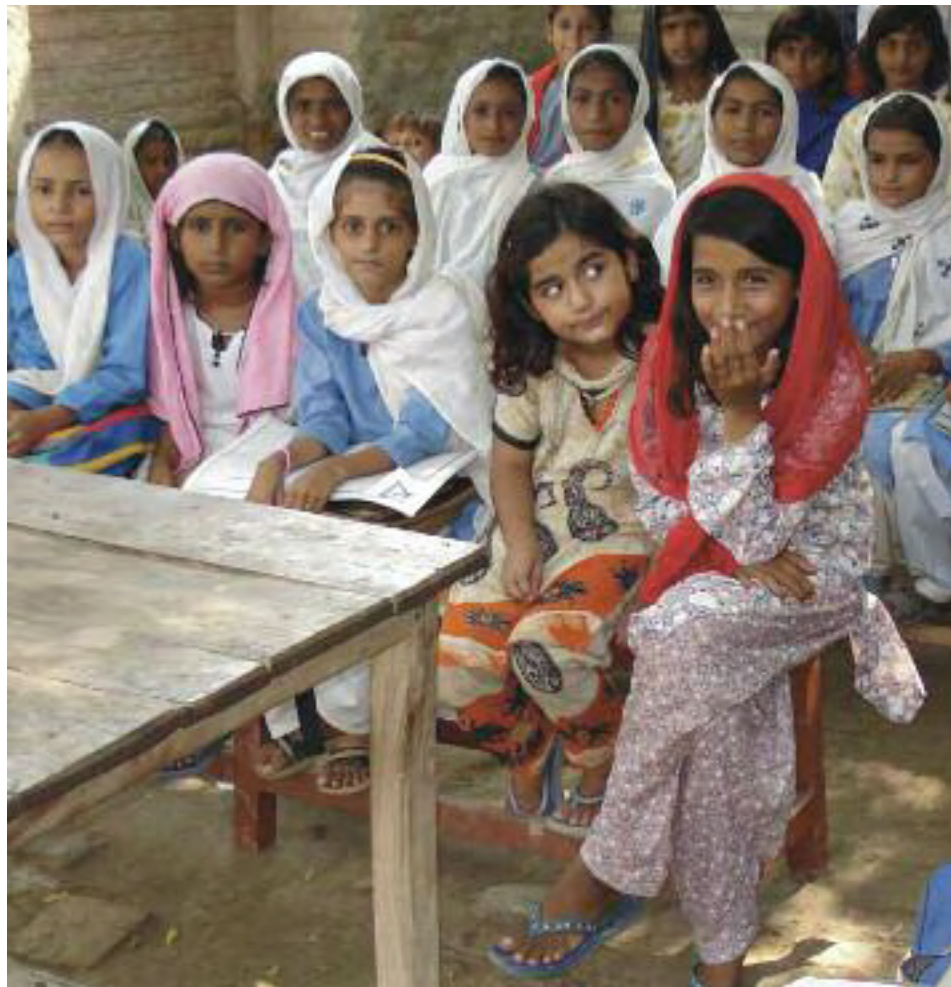
Editor's note: The "Co-ops & Community" page spotlights co-op efforts that fulfill the mission of "commitment to community." Regardless of whether these efforts make a co-op's home town a better place to live and work, or are helping people on the other side of the world, co-ops are reaching out to make a difference. If you know of a co-op, a co-op member or co-op employee whose efforts deserve to be recognized on this page, please contact: dan.campbell@wdc.usda.gov. Reprint articles from co-op publications are welcome.



and O'Lakes — the nation's third largest cooperative, with annual sales of \$13 billion — has made international development and aid to struggling farmers one of its top corporate responsibilities. Farmers in developing countries face many critical problems, such as a scarce amount of arable land (compounded by rising populations in many areas) and lack of access to sources of credit.

Other challenges include lack of access to fertilizer, crop protectants and other farm inputs; inexperience in marketing; and the need for general agricultural skills training, among other barriers to production efficiency and market entry.

Most of the co-op's international aid efforts have focused on areas where these problems are most dire: Sub-Saharan Africa, South Asia and South-east Asia. The emphasis of Land O' Lakes' aid initiatives has been on: agricultural productivity and



Students in classrooms such as this are benefiting from the Pakistan School Nutrition Program, a three-year effort centered in the Sindh province. The Jacobabad area of the province suffered severely in the floods of 2010. Photo courtesy Land O' Lakes

competitiveness; business and cooperative development; improved food systems and food safety; food security; and nutrition and health.

Subsistence farmers often need agricultural training or extension-like services to help them adopt improved agricultural technologies and practices. The services that Land O'Lakes provides to subsistence farmers are one of the many ways that these farmers are learning about new farming techniques

and gaining a greater understanding of how to increase their agricultural productivity. When their production rises, they are more likely to have a surplus (beyond their own family's needs) that they can market, leading to increased incomes and a better quality of life.

Pakistan floods create critical needs

In March 2010, Land O'Lakes

USDA program helps expand ag production in Malawi

Land O'Lakes International Development recently launched a new USDA-funded Food for Progress Program, as well as a "Buy Malawi" public awareness campaign designed to boost domestic demand for locally grown and processed farm products. Representatives from Malawi's Ministry of Industry and Trade, the U.S. Embassy to Malawi and Land O'Lakes International Development all spoke at the launch event in Blantyre, Malawi.

The nearly four-year program will work to improve agricultural productivity in the Nkhotakota and Salima districts by expanding irrigation opportunities and taking private sector-led approaches to revitalizing how rice, cassava and small livestock are farmed. Valued at \$18 million, the Food for Progress program will train 51,000 farmers, particularly female farmers, on best production practices, improved farming technologies and the importance of maintaining a diverse diet.

"More Malawian investments need to be locally owned, and more local entrepreneurs need to be at the helm of businesses that employ locals as they prepare for growth," says Nebert Nyiranga, principal secretary for Malawi's Ministry of Industry and Trade.

Building on Land O'Lakes' agribusiness cooperative heritage, more than 200 farmer associations will be trained in International Development's AgPro

methodology through the program. AgPro is a training tool that strengthens the efficacy, as well as the organizational and financial management, of farmer-owned producer groups and cooperatives. It was developed by Land O'Lakes under the United States Agency for International Development (USAID)-funded Cooperative Development Program.

Strengthening farmer groups, associations and cooperatives will enhance commercialization capacities and market linkages, giving farmers greater negotiating power. The program will also engage financial service providers in increasing access to insurance, credit and other financial services for smallholder farmers.

As insufficient domestic demand for local products remains a key constraint to agricultural production, the event in Blantyre also launched a Buy Malawi campaign. Employing TV, radio and billboard ads, in-store events and social marketing tools and tactics, the campaign will be followed by three other campaigns that specifically target rice, cassava and small livestock value chains.

On Aug. 5, U.S. Secretary of State Hillary Rodham Clinton announced a \$46 million expansion of U.S. government investment in Malawi during a visit to the Lumbadzi Milk Bulking Group, one of 23 dairy producer groups assisted. ■

initiated a new food security program: the Pakistan School Nutrition Program. This three-year program is centered in the Sindh province, district of Jacobabad, and has been pursued in conjunction with the USDA's Food for Education Program.

Jacobabad suffered severely in the floods in 2010, which left many families displaced. According to the nation's Office for the Coordination of Humanitarian Affairs, 70 percent of district villages in Jacobabad were flooded and 95 percent of the population was affected. Nearly 9,300 livestock were lost due to floods. Many children were not able to attend school due to infrastructure damage.

Under the Pakistan School Nutrition

Program, female students and teachers take home a ration of soybean oil each month if they meet the program's attendance requirements. This gives them an incentive to stay in school, rather than working at home or outside the home as domestic servants. The soybean oil is also given to pregnant and lactating mothers who opt to participate in a health program.

Land O'Lakes first started school nutrition programs in Pakistan in 2002 and it has implemented similar programs in Bangladesh, Colombia, Honduras, Indonesia, Malawi, the Philippines, Uzbekistan and Vietnam. The Pakistan School Nutrition Program aims to assist about 30,000 students, 700 teachers and 2,500 preg-

nant women; 141,000 family members will benefit from the distribution of cooking oil.

In the short run, food assistance programs help alleviate some of the uncertainty and improve societal welfare. In the long run, the governments of countries such as Pakistan may need to develop more programs and cooperation with local residents to tackle the problems. Land O'Lakes is committed to leveraging its expertise in agriculture and investing time and money in programs such as The Pakistan School Nutrition Program to improve the quality of life for people in developing nations. ■

Capper-Volstead protection and co-op supply management

By Alan Borst, Ag Economist
Cooperative Programs
USDA Rural Development



When the Capper-Volstead Act was passed in 1922, agricultural producers were facing severe economic hardship. They were small and numerous relative to the few large firms to which they had to sell their commodities. Farmers also produced relatively uniform commodities, and were rarely involved in the value-added processing that many farmer co-ops are engaged in today. A market power imbalance thus prevailed in which farmers had little market leverage. Stronger buyers used their power to pit farmers against each other in a “race to the bottom.”

Capper-Volstead was passed to increase agricultural producer market power by enabling farmers to engage in “collectively processing, preparing for market, handling and marketing” their products.

Capper-Volstead has a long history of being the target of legal and political challenges that have clarified its boundaries. This dynamic process has continued into recent times, with new questions rising and old questions evolving. One of the most salient recent legal questions has been the question of whether a cooperative can lawfully limit its membership’s production.

The term “supply controls” in the context of U.S. agriculture has usually been associated with a history of mandatory or voluntary federal farm programs involving allotments, set-

asides, planting restrictions, diversions, buy-outs or quotas. These programs were controversial and are mostly gone, but the term is also being applied to cooperative efforts to limit member production.

Cooperatives in the egg, potato, mushroom and dairy sectors have all been subject to recent antitrust suits that have challenged their supply management activities. Antitrust plaintiffs have argued that these efforts to limit production are not “processing, preparing for market, handling, and marketing” activities protected under Capper-Volstead.

Cooperatives have responded by saying that such activities — which enable them to function as a unified business in pricing and marketing — necessarily provide for the ability to limit member production in order to influence pricing. Thus, the cooperative has the same right as a corporation to engage in advance planning and agreement among its membership for the amount of product that it will produce and market.

A fundamental part of a cooperative’s mission is securing better prices for its membership. An individual corporation can adjust its production to serve its economic interests, and cooperatives have argued for the same right. The case has also been made by some that because members in a cooperative can work together on price with Capper-Volstead protection that they should also be allowed to restrict production.

Some cooperative advocates have argued that “preparing for market” inherently includes making decisions about what quantity to produce.

Supporters have made the argument that cooperative efforts to limit member production to a level that serves member’s economic interest is more economically efficient and less wasteful than these other activities. The argument is that if Capper-Volstead protection is lost, it would limit cooperatives’ ability to avoid economically inefficient and wasteful production decisions.

Cooperatives and their membership face considerable uncertainty at the present time as to whether or not the protection of Capper-Volstead extends to their supply management programs. In the 90-year history of Capper-Volstead, there has been no definitive answer to this.

In USDA’s 2002 publication, “Antitrust Status of Farmer Cooperatives: The Story of the Capper-Volstead Act” (Cooperative Information Report 59), Donald Frederick, then an attorney with USDA’s Cooperative Programs, examined some of the same arguments that are being made today about what the legislation allows. The entire publication is posted online at: www.rurdev.usda.gov/rbs/pub/cir59.pdf. For a hard copy, send e-mail to: coopinfo@wdc.usda.gov, or call: (202) 720-8381. The remainder of this article is excerpted from Frederick’s report.

“One way to raise prices in the marketplace is to reduce available supply. Certainly a cooperative entity, whether selling raw product it controls or processed products made from raw commodities provided by its members, has the right to resell its inventory whenever it chooses. But it is less clear whether producer members can,

through the mechanism of a producer association, agree among themselves to withhold product from the market to force buyers to pay a higher price for their products.

“One administrative opinion interpreting the Fisherman’s Collective Marketing Act suggests cooperative members may limit production. The Washington Crab Association was organized to negotiate higher prices and fairer terms of trade for its members from the processors who purchased their catches. When a stalemate developed, the fishermen “sat on the beach” for nearly a month, refusing to fish.

“FTC Chairman Paul Rand Dixon found nothing wrong with the cooperative members limiting production, either by refusing to fish at all or by sending only a few boats out each day on a rotating basis to supply those processors willing to pay the association’s requested price. He wrote: “To be sure, this is a “limitation on production” and, except for the

exemption afforded... by the (FCMA)... would be a per se violation of the Sherman Act and the Federal Trade Commission Act... Thus, so long as the members of a cooperative are acting pursuant to an agreement voluntarily entered into among themselves, they are to be considered a single entity for antitrust purposes, the same as an ordinary business corporation with a number of divisions. There is no obligation on the single corporation to produce at capacity; it may produce any volume that it likes and allocate production among its several divisions in such proportions as it sees fit... We see nothing unlawful in their limiting production by agreement among themselves, or in their “boat rotation.”

“Another case involved a dairy producers’ association that sponsored a two-week milk withholding action to attempt to raise the price of milk for its members. The 8th Circuit Court of Appeals determined that since no member was coerced into participating

and the action was not intended to eliminate competition, it fell within the scope of conduct protected by the Capper-Volstead Act.

“In another action against crab fishermen, the U.S. Department of Justice said that commercial crab harvesters who simply agree among themselves to refrain from fishing while negotiating prices with buyers were engaged in a conspiracy to restrain trade in violation of Section 1 of Sherman. However, such conduct was protected by the Fisherman’s Collective Marketing Act if the commercial crab fishermen formed a fishermen’s marketing association before agreeing to limit production.

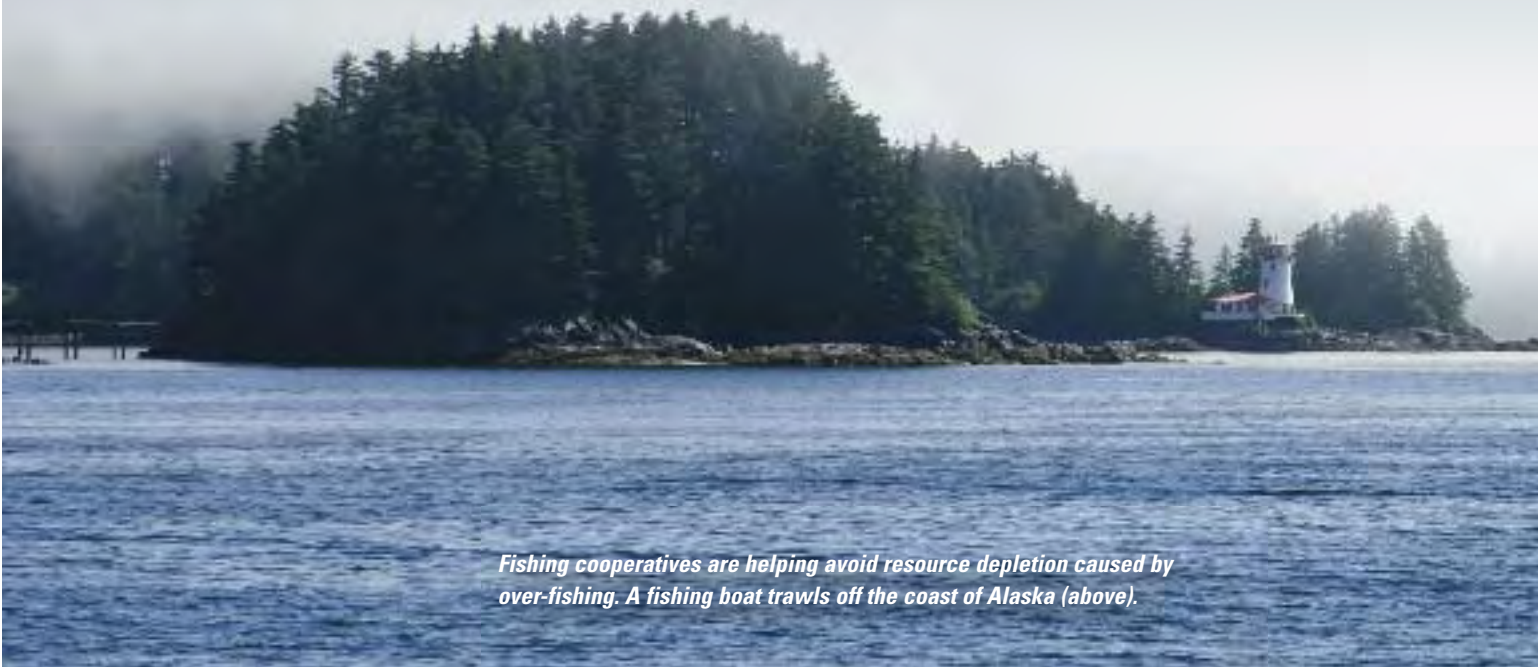
“Using the rationale of Chairman Dixon, a value-added cooperative can, just like its non-cooperative competitors, limit the amount of product it offers for sale.” ■



President Warren G. Harding signs the Capper-Volstead Act, which provides farmer cooperatives with limited exemptions from anti-trust laws in marketing their products.

Preserving Common Ground

Co-ops play key role in preserving shared grazing and fishing resources



Fishing cooperatives are helping avoid resource depletion caused by over-fishing. A fishing boat trawls off the coast of Alaska (above).

Bruce J. Reynolds and Alan D. Borst
Cooperative Programs
USDA Rural Development



Preserving common-use agricultural resources, such as grazing lands and fisheries, for current and future generations is an intractable challenge, often referred to as “the tragedy of the commons” (see sidebar, page 23, for background). Despite the pessimism implied by this term, local stakeholders can successfully coordinate their individual interests in ways that improve the quality and economic value

of a community resource.

Group action for resource preservation often takes the form of a cooperative or a nonprofit association that usually has a cooperative form of governance. Cooperatives manage the shared use of common-pool resources for the benefit of their members’ own agricultural and fishing enterprises. Controlled group use of a resource is combined with sharing operating costs. Cooperatives can even manage controlled use of a resource, along with other joint business activities, such as marketing and purchasing.

Democratic governance is the key attribute for successful management of

common-pool resources. Grazing associations and fishery cooperatives are two general types of local democratic governance that are having a positive impact.

Livestock grazing presents the classic, and perennial, challenge for sustaining a common-pool resource. Cooperatives have been involved with grazing for many decades and continue to be a key institutional stakeholder in conserving America’s grasslands.

Fishing cooperatives are an example of local governance of common-pool resources that operate within relatively complex and changing regulatory institutions. This article provides a



summary of the role of grazing and fishing cooperatives.

Grazing cooperatives

Public interest in preventing over-grazing of America's vast grasslands became a federal government policy with the issuance in 1897 of the USDA Forest Service (FS) directives for grazing permits. The Taylor Grazing Act of 1934 provided a grazing permit system administered by the U.S. Bureau of Land Management (BLM).

An ancillary objective of these regulations was to reserve public grasslands for controlled use by local ranchers. During the late 19th and early

20th centuries, large cattle companies grazed vast herds across multi-state regions, crowding-out local ranchers and resulting in over-grazing (for more background, see: www.fs.fed.us/rangelands/uses/allowgrazing.shtml). Several western states also issued regulations for their grasslands and supported the organization and incorporation of grazing cooperatives during the 1930s and 1940s. Some of the western grazing areas can accommodate only very few, often relatively large, ranchers. So, they operate as direct recipients of permits from the FS and BLM.

Today, 60 grazing associations are FS

permit holders, many of them incorporated as cooperatives. They receive an allotment of permits which are allocated among their members. The associations coordinate both public land use and access to other lands, either through leases, grazing agreements or, in some cases, cooperatives purchase pastureland.

Grazing cooperatives typically have between 30 to 100 members. They not only implement controlled grazing but also oversee grassland maintenance projects. These co-ops share the costs of range riders, who move herds in a rotational grazing system, and for the provision of water and minerals. The

cooperatives are also a conduit for implementing technical information and recommendations from USDA's Natural Resources Conservation Service (NRCS).

There are variations in how grazing cooperatives operate based on institutions, markets and grassland conditions in different localities. Many co-ops operate controlled grazing in areas under conservation easements held by various entities, such as NRCS, or in land trusts owned by environmental groups, such as The Nature Conservancy.

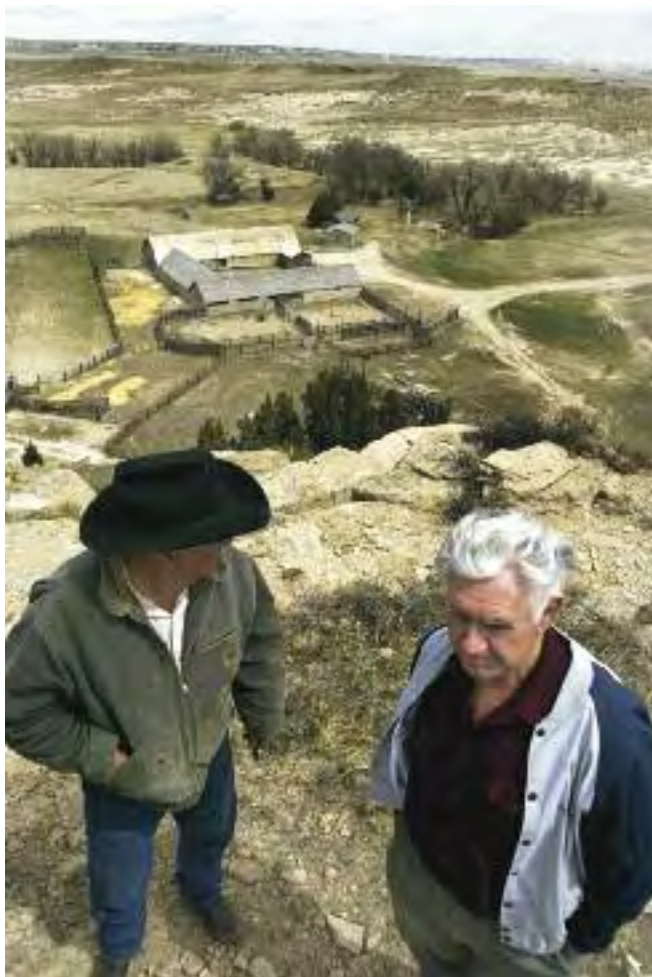
Grazing cooperatives also provide members with organizational capacity to negotiate long-term leases on private lands. Some cooperatives have purchased grasslands that member ranchers could not afford on their own. An example is the Chimney Canyon Grazing Association in Iliff, Colo. An article in the *Denver Post* about the association was reprinted in *Rural Cooperatives*, March/April 2001 issue (see magazine archives web page at: www.rurdev.usda.gov).

The association purchased 37,000 acres in Logan and Weld counties in 1965. It provides opportunities for many of its members to expand their ranching enterprises, not only by having access to more grassland but also by sharing operating costs, such as herd grazing management expenses.

Some of the association's 37 members grow crops on their individually owned land and rely on the association manager to tend to their livestock in the grasslands. About five years ago, the association paid off its loan and took out another loan for buying an additional 6,000 acres.

Governing the ocean commons

Over-fishing of the oceans will eventually lead to a global "tragedy of the commons" (see page 23), some resource scientists predict. Traditional management of fisheries has been described as a derby, or Olympic-like event, characterized by short seasons and extreme competition for fish. This often results in low profits and harvests



Some cooperatives, such as the Chimney Canyon Grazing Association in Iliff, Colo. (above), have purchased grasslands that member ranchers could not afford on their own. Photo courtesy Denver Post

that exceed sustainable levels.

Individual operators face an incentive to harvest as many fish as quickly as possible in order to preempt the activities of other operators. Such fisheries are inherently inefficient and wasteful, as fishing industry participants over-invest in harvesting and processing capacity in an effort to maximize resource capture. The result is a

"fractionalized fishing derby."

Catch share

"Catch share" is a general term used in fisheries management strategies that dedicate a secure share of fish to individual fishermen, cooperatives or fishing communities for their exclusive use.

At the state level, the Wisconsin Great Lakes Individual Transferrable Quota Program was the first catch-share program, started in 1971 and is still operating. The first program of this type in U.S. federal fisheries was an individual fishing quota program for the Mid-Atlantic Surf Clam and Ocean Quahog Fishery, implemented in 1990. Currently, six of the Regional Fishery Management Councils have adopted 15 catch-share programs across the country.

Individual fishing quotas (IFQs) are one kind of catch share, a means by which governments may regulate fishing. The regulator sets a species-specific total allowable catch (TAC), typically by weight and for a given time period. A dedicated portion of the TAC, called quota shares, is allocated to individuals.

Quotas can typically be bought, sold and leased, a feature called transferability. Concerns about distributional impacts led to a moratorium on moving other fisheries into IFQ programs that lasted from 1996 to 2004.

Harvesting cooperatives

Harvesting cooperatives are another type of catch share in which groups of organized fishery participants jointly manage secure and exclusive access to fishery resources. In return for this privilege, cooperatives are accountable for operating a sustainable fishery



Common resources, such as pastureland and fisheries, can be sustainably managed by local stakeholders using cooperative governance.

within the scientifically determined catch limit or dedicated area.

Harvesting cooperatives form when the government directly allocates shares to a group of fishermen or when individual fishermen pool existing individually allocated shares. Cooperative members usually share a common feature, such as vessel type, location, community affiliation or target species.

Harvesting cooperatives provide a second type of catch share program. The first of these — the Yaquina Bay Roe-herring Cooperative Program — was organized at the state level in Oregon in 1989 and is still operating, according to Donald Leal, research director for the Property and Environment Research Center. Fishermen, who had been operating in a limited-entry fishery for several years,

in 1989 concluded a private harvest agreement and formed the cooperative Yaquina Herring.

As a result, the “catch race” among members has stopped, their season has been lengthened and members are able to more optimally time their fishing. There have also been significant cost savings, with less race pressure to upgrade vessels and equipment and less need for gear and labor.

The first harvesting cooperatives to be organized as Federal Catch Share programs were the Pacific Whiting Conservation Cooperative in 1997 and the Bering Sea Pollock Cooperative in 1998. These cooperatives were organized under the North Pacific Fishery Management Council.

In May 2010, New England’s groundfish fleet shifted from days-at-sea controls to sector management —

an output-control regulatory system that allocates a portion of the TAC to harvest cooperatives. The Northeast Council has enabled groups of fishermen to apply for allocations of catch (based on history) and to develop their own plans for managing those catches within those allocations.

Individual quotas vs. harvest co-ops

The Catch Share Design Center of the Environmental Defense Fund compared the outcomes associated with IFQ programs with those of harvesting cooperatives (also see: http://blogs.edf.org/edfish/files/2010/07/CSC_Cooperative-Introduction_July-2010.pdf). This report identifies these advantages of harvest cooperatives:

- **Coordinating efforts and sharing information.** Many cooperatives

effectively coordinate participants' efforts, including managing the timing, location and amount of each harvester's catch. Prior to implementing a cooperative, the Alaska offshore pollock fishery experienced intense harvesting that led to a glut of product. Since the cooperative formation in 1999, the season has slowed and participants have increased the amount of product recovered from landings by over 50 percent, reducing biological waste and increasing fishermen revenues.

- **Improve sustainability.**

Cooperatives often coordinate the effort of participants to ensure the sustainable use of fish stocks, reduce waste and improve fishery research and data. Both the Pacific Whiting Conservation Cooperative and the Pollock Conservation Cooperative pool real-time bycatch data through a third-party vendor, Sea State Inc., which in turn uses this information to advise vessel captains where bycatch hot spots are likely to occur, so that they can avoid these areas. Cooperatives in the Northeast Multispecies Sector Management Program can choose to pool quota of depleted stock.

- **Economic viability of fishing communities.**

By receiving a secure share of fish, a community may be able to enhance its economic viability. The Community Development Quota (CDQ) program of western Alaska allocates a portion of the catch limit to community cooperatives to promote jobs and economic development. The Central Alaska Rockfish pilot program divides catcher vessels and the catcher-processor vessels into separate cooperatives, with restrictions on trading.

- **Cooperative governance.** Well-run cooperatives can perform many functions of traditional government and ultimately reduce management costs. The Northeast Multispecies



Federal Catch Share programs involving harvest cooperatives

- 1997 — Pacific Whiting Conservation Cooperative (cooperative)
- 1998 — Bering Sea & Aleutian Islands American Fisheries Act Pollock Cooperatives (cooperative)
- 2001 — North Pacific Scallop Cooperative (cooperative)
- 2005 — Bering Sea & Aleutian Islands Crab Rationalization Program (IFQ and cooperative)
- 2007 — Central Gulf of Alaska Rockfish Pilot Program
- 2008 — Groundfish (Non-Pollock) Cooperatives (cooperative)
- 2010 — Northeast Multispecies Sectors (cooperative)
- 2011 — Pacific Groundfish Trawl Rationalization Program (IFQ and cooperative)
- 2011 — Central Gulf of Alaska Rockfish Program (cooperative)

Sector Management Program requires each sector to coordinate its own monitoring and catch reporting. This requires increased effort by the cooperatives, but has reduced the government's role in administering the fishery.

The economic successes of quota-based harvest cooperatives highlight the potential for more extensive forms of collective behavior afforded by the Fishermen's Collective Marketing Act (FCMA) of 1934. The lack of controls on entry and harvests in the mostly open access fisheries has limited the full potential of the FCMA. With more fisheries now being managed by limited access and quotas, fishery cooperatives will be better able to reduce fishing costs and increase the value of their

catch. They can also minimize the transaction costs of negotiating, monitoring and enforcing contracts among themselves.

Co-ops help find common ground

Cooperatives are involved in managing the use of many types of agricultural resources, in addition to grazing and fish harvesting. The challenges of sustaining common agricultural resources require users to work together and share information. The capacity to resolve member differences and implement unified planning is one of the strengths of democratically controlled cooperatives that favor a long-term view in preserving common resources. ■

Making the case for democratic governance of the commons

Protecting agricultural resources from over-use is a perennial challenge. While there is general agreement on the benefits of controlled use of common-pool agricultural resources, there are conflicting ideas about best practices and the theories behind them. One of the contending ideas is to have stakeholders organize cooperatives or similar types of associations to democratically control utilization of local resources.

At least one barrier to wider application of cooperatives for resource preservation is a general lack of understanding of how local users can organize and govern the use of resources. Cooperative education to remedy this weakness has taken a back seat in academic circles after several decades of contentious debate, starting in the late 1960s, between advocates of privatizing public resources vs. those defending government regulation (Demsetz, Alchian and Hardin).

This debate has been named after the so-called “tragedy of the commons” history lesson. This “tragedy” is based on a much-debated history, spanning more than three centuries, about the failure of English villagers to preserve their common lands from over-grazing, excessive hunting or forest clearing.

The extent that rural villagers over-used the commons has itself been a long-standing debate and is often incorrectly linked with the transition from open field farming to the fencing of individually owned farm land (Thirsk). Nevertheless, the term “tragedy of the commons” lives on as a slogan for skepticism of any attempt by local users to share and conserve resources.

Elinor Ostrom

The narrow debate between government regulations vs. private property rights for preserving common-pool resources began to open up to more alternatives to these polar extremes during the late 1990s, thanks in large part to the late Elinor Ostrom (Carson). She produced an extensive body of research on local collective action for managing shared use of resources. Ostrom received the Noble prize in economics in 2009 and passed away in June of this year.

Her major work, *Governing the Commons: The Evolution of Institutions for Collective Action* (1990), applied economic theory to examples of group formation

to ration use without either concentrating decision-making power in either individual property rights or in government regulations. The field studies by Ostrom and colleagues are from foreign countries, but the United



Elinor Ostrom

States also has a long history of collective action strategies for preserving common-pool resources.

U.S. cooperatives have been organized for managing several types of resource-using activities, such as grazing, timber harvesting, irrigation and fishing. See page 18 of this issue for a small sampling of U.S. experience with some of the grazing cooperatives and the burgeoning application of cooperatives for addressing the critical issue of preserving the coastal stocks of seafood.

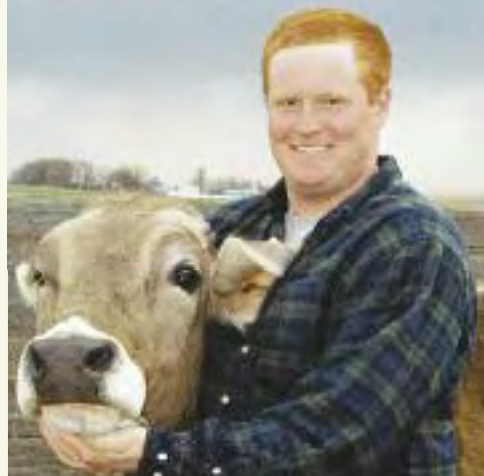
— By Bruce Reynolds

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The Many Faces of Cooperatives



By Charles Ling, Ag Economist

Cooperative Programs

USDA Rural Development



Cooperatives are a model of business that are owned, controlled and used by members and that accrue benefits to members. Outwardly, cooperatives may seem to be all alike, except in the products (commodities, supplies or services) handled or provided. In reality, the cooperative business model has many variations.

This article briefly describes dairy cooperatives to showcase the cooperative business model; other types of cooperatives are then shown to be variations of the model. Dairy cooperatives have been previously demonstrated to exemplify the attributes that are prescribed by classic cooperative theories (*Ling, The Nature of Cooperatives, CIR 65, pp.10-15*).

Uniqueness of cooperative model

Cooperative organizations represent the aggregates of economic units (Emelianoff). In the agricultural sector, cooperative associations are aggregates of member-farms. The intrinsic cooperative structure entails the uniqueness of the cooperative's organization, governance, equity financing and operation.



Unique cooperative structure — Dairy cooperatives represent aggregates of dairy farms, organized to market milk produced by members. Members' farming operations are not under the cooperative's administrative control. Therefore, the cooperative is neither a horizontal integration of its member-farms nor a vertical integration between member-farms and the cooperative. It is a third mode of organizing coordination (Shaffer).

Unique cooperative organization — Cooperatives are business organizations of member-patrons. They can be of any size and can be local, regional or national in scope. All dairy cooperatives in the United States are known to be centralized organizations with direct members.

Unique cooperative governance — Members of dairy cooperatives exercise ownership and business controls through a board of directors that is elected from among member-farmers. The board makes major decisions, sets the policy and determines the overall direction of the cooperative for the management to follow in its day-to-day operations. Effective communication with members to foster sound governance is emphasized.

Unique cooperative equity financing — Equity for dairy cooperatives is supplied and owned by members. It can be grouped into four categories (percentages are averages as reported by 94 cooperatives (*Ling, 2009*)): common stock (0.1 percent of total equities) is for witnessing membership and carries nominal value; preferred stock (7 percent) is mostly for witnessing retained patronage refunds; retained earnings (10.8 percent) could be earnings from incidental non-member businesses and net savings yet to be allocated; and allocated equities (82.1 percent) include retained patronage refunds, capital retains and/or base capital.

Unique cooperative operation — Being an aggregate of member-farms usually requires the cooperative to be the exclusive marketing agent of members' milk. This operating mode entails its own unique economics (*Ling, CIR 65, pp. 16-20*) that comprises the following elements: (1) the milk volume the cooperative has to handle continually fluctuates; (2) the cooperative does not have its own milk production functions, milk production cost curves, or milk supply curves; and (3) the mismatch between seasonal milk supply and demand requires cooperatives to handle the inevitable seasonal surplus milk volume at a substantial supply-balancing cost.

Cooperative roles in transaction governance

In marketing members' milk, dairy cooperatives interact with other market participants to bring about mutual adaptation so that transactions can take place in the most economical and mutually advantageous way; the transactions are under all possible governance modes listed in table 1 (see page 27). (For a concise explanation of table 1, see *Ling, CIR 65, pp. 21-24*.)

Spot milk sales and retail dairy product sales are most likely under transaction governance Mode B — where a competitive market without credible contractual safeguards may expose members' investments to unrelieved hazards. Regular milk marketing is usually conducted under the credible contracting mode (Mode C) in order to stabilize the

relations between the cooperative and the milk buyers (processors) and to protect members' investments. If a dairy cooperative forward-integrates into processing dairy products, the processing enterprises are under the cooperative's hierarchical administrative control (Mode D). Most wholesale dairy product sales are under credible contracting, but some may be under Mode B (unrelieved hazards).

Variations on the cooperative model

Different commodities have their own characteristics, and different types of cooperatives have their own special features. They all represent variations on the cooperative business model.

Marketing cooperatives — Marketing cooperatives share the uniqueness of dairy cooperatives in structure, organization, governance and equity financing that stems from their being aggregates of member-farms. The unique economics of dairy cooperative operation is applicable in the situation where the cooperative is the exclusive marketing agent of the milk produced by members.

Other agricultural commodities (such as fruits, vegetables, nuts, poultry, sugar, etc.) that exclusively rely on a cooperative to market members' products would have unique cooperative operations similar to that of dairy cooperatives. However, they differ from dairy cooperatives in some important aspects.

For example, milk is produced every day while other farm commodities are harvested in concentrated time spans of several weeks or months toward the end of the growing season. In the economic analysis of the supply and demand situation of milk marketing operation, the unit of time used is per-day (cwt/day). The same analysis of other commodities has to use a unit of time that is appropriate for a particular commodity.

Some producers of commodities that are storable and have a long marketing season (such as grains and oilseeds) may view the cooperative as but one of multiple outlets and market through it only if the cooperative offers the best terms and services among all alternatives. In such a case, the cooperative may still maintain its uniqueness in its cooperative structure, organization, governance and equity financing. Its marketing operation, however, is not different from other (non-cooperative) marketing firms.

New-generation cooperatives — Many new-generation cooperatives were formed in the 1980s and 1990s in the belief that this form of cooperative organization would solve the problem of depressed farm income by engaging in value-added processing and capturing processor margins.

A distinct feature of the new-generation cooperative is its equity financing method. It is unique even among cooperatives:

- It requires significant equity investment as a prerequisite to



membership and delivery rights to ensure that an adequate level of capital is raised.

- The delivery right is in the form of equity shares that can be sold to other eligible producers at prices agreed to by the buyer and the seller, subject to the approval of the board of directors — to satisfy members' desire of having the freedom to cash in on the hoped-for increases in the value of the cooperative.

A new-generation cooperative is organized to market members' commodities through its main function of value-added processing. By bringing processing functions under internal administrative control, the cooperative's transaction governance mode is Mode D (table 1). For wholesale distribution of finished products, transaction governance is usually Mode C (credible contracting) but some may be Mode B (unrelieved hazard).

The delivery right is instituted to ensure that the capacity of the processing plant is fully utilized. A member delivers to the cooperative according to the volume conferred by such right, which may be more or less than the volume the member produces. Under such terms, the cooperative is not an exclusive marketing agent of members' total production.

Though the cooperative is still an aggregate jointly owned and operated by members to process and market their farm production, the volume the cooperative handles is predetermined. This should minimize the cooperative's volume variation uncertainties.

Purchasing cooperatives — Farm supply cooperatives are organized to procure production supplies and services for sales (mainly) to members. Many also handle farm and home items, such as heating oil, lawn and garden supplies and equipment, and food. Most supply sales to farmers are at the retail level by local cooperatives that are centralized organizations with direct members.

Many local cooperatives also federate with other cooperatives to form regional cooperatives to achieve economies of scale in sourcing major supply items, such as



Table 1—Transaction governance modes and attributes

Transaction governance mode	Asset specificity	Investment hazard safeguard	Incentive intensity	Administrative control	Contract law regime
A: Unassisted market	0	0	High	Little	Competitive norm
B: Unrelieved hazard	>	0	<	>	Legal rules contract regime
C: Hybrid (Credible contracting)	>	>	<	>	Credible contracting
D: Hierarchy (Administrative)	>	>	Low (Pricing for successive stages is cost plus)	Considerable (by fiat)	Internal implicit contract law (Forbearance)

Source: Adopted from Williamson, 2005, Figure 1: Simple Contractual Schema.

Note: ">" indicates a mode having a higher intensity of the particular attribute than the mode above it.

"<" indicates a mode having a lower intensity of the particular attribute than the mode above it.

seed, feed, fertilizer and petroleum products. Some federated cooperatives also have individual farmers as members and are, therefore, a hybrid organization of centralized and federated forms.

Many supply cooperatives also market members' crop and livestock production, just as marketing cooperatives may also have supply and service businesses. Supply cooperatives share marketing cooperatives' unique structure, organization, governance and equity financing. However, their operations are unique in their own way, because supply cooperatives' main business of procuring supplies for members operates on the buying side of market transaction. Transaction

governance mode for sourcing products is most likely under credible contracting (Mode C).

Here, they serve as focal points for credible contracting with suppliers and economizing on transaction costs on behalf of individual members. If they integrate upstream and bring the business of producing supply items under the cooperative's administrative control, then the mode of transaction governance for this part of the operation is Mode D.

Their transaction governance mode in selling products to members depends on the degree of member loyalty. If members are loyal patrons, or if the cooperative is the only

store in the relevant market area, the cooperative would resemble a buying club. Utility cooperatives and many service cooperatives are also in this category.

If member loyalty is low, then the cooperative would operate as any other firm in selling supplies, although it may still maintain its uniqueness in its cooperative structure, organization, governance and equity financing.

Consumer cooperatives and credit unions are similar to supply cooperatives, except that consumer cooperatives' main business is in consumer products: foods, groceries, etc., while the business of credit unions is satisfying members' credit needs. There are many more types of purchasing cooperatives.

Local-food cooperatives — In recent years, consumers have shown increasing interest in locally produced food. Because production of locally marketed food is more likely to occur on small farms located in rural regions near metropolitan areas, local-food cooperatives may have a limited geographical scope. However, they should be classified as marketing cooperatives.

Multi-stakeholder cooperatives — Along with local food demand, some multi-stakeholder cooperatives have been formed that comprise everyone who has a stake in the local food chain, including farmers, processors, distributors, truckers, buyers, etc.

On the surface, this brings together the successive stages of the transaction into the organization and appears to be Mode D transaction governance. In reality, members are economic units that independently operate their respective business. The importance of their stakes in the cooperative to their economic well-being may vary widely.

By organizing all stakeholders in the successive stages of the supply chain under one roof, the cooperative becomes a framework for mutual adaptation and for multi-party, multi-stage credible contracting among members (Mode C) only when they deal with each other in attending to the cooperative's business of moving products from farmer-members to buyer-members. The durability of the cooperative is dependent on the stability of the collective credible contracting relationships.

Farm production cooperatives — Several farmers can form a co-op and pool resources to operate a farm. This is one way of organizing and managing inputs for production at a larger scale than the members could as individuals.

The structure, organization, governance and financing may be the same as a cooperative. Its operation, however, needs to have overall coordination for it to be a coherent and efficient production entity. Management oversight and administrative control over members' participation in the farming operation is necessary, although the management and administrative rules may be determined by members themselves.

Members cannot make farming decisions independent of the farm, and they do not represent independent profit

centers. In essence, the production operation is a vertical integration between producer-members and the cooperative.

Cooperatives with non-patronage members — Some states have enacted new cooperative laws in recent years that allow cooperatives to have non-patron members (investors) as well as patron members. These laws vary from reserving the voting power only for member-patrons to setting a minimum level of voting power for member-patrons. Requirements regarding earning distribution between patron members and non-patron members also differ substantially.

Differences in governance and earning distribution rules and the type of non-patron members involved (for example, for-profit investors, nonprofit economic development organizations, community supporters, etc.) will cause the cooperative's structure, organization, governance, equity financing and operation to deviate in various ways from the uniqueness of the cooperative model that was described earlier in the article. These organizations have to be analyzed case by case because of the variety of state laws.

Conclusions

Variations on the uniqueness of the cooperative business model are summarized in table 2, using dairy cooperatives as the reference "point" for the model.

Laying out each type of cooperatives (or, for that matter, each cooperative) in the format of table 2 provides a comprehensive view of their respective structure, organization, governance, equity, and operation, and their similarities and differences from one another:

- **Structure:** Cooperatives are aggregates of economic units. However, the economic units can come in many "stripes." Also, the coordination between the economic units (members) and the cooperative and between members through the cooperative can vary substantially.
- **Organization:** Cooperatives are organized by members to serve some specific purposes, and the purposes can be very different from one cooperative to another. Cooperatives may have different sizes and geographical scopes. They may be centralized, federated or hybrid organizations.
- **Governance:** The directors of cooperative boards are supposed to be elected from among members, although different cooperatives may have different election procedures. Each cooperative may also see the responsibilities of the board and the roles of management somewhat differently. The degree of transparency and accountability of the board and management to membership may also vary.
- **Equity:** The composition (categories) of the equities, the proportion of equities that is owned by members, the rights that are bestowed on equity ownership and the mechanisms that are employed to ensure that ownership is in the hands of current members can vary among cooperatives.

Table 2—Variations on the uniqueness of the cooperative business model

Type of cooperatives	Structure	Organization	Governance	Source of equity	Operation
Dairy cooperatives ¹	Aggregates of economic units	Centralized member organizations	Member- governed	Members	Members' exclusive marketing agent—unique economics
Marketing cooperatives ²	Aggregates of economic units	Mostly centralized member organizations; some are federated	Member- governed	Members	Unique economics if exclusive marketing agent; otherwise, like other firms
New-generation cooperatives	Aggregates of economic units	Centralized member organizations	Member- governed	Members; tied to delivery rights	Business volume defined by delivery rights
Purchasing cooperatives ³	Aggregates of economic units	Local (retail) cooperatives are centralized; many federated with other locals; federated cooperatives may have direct members	Member- governed	Members	Sourcing supplies or services for sale to members and patrons
Multi-stakeholder cooperatives ⁴	Aggregates of economic units	Centralized member organization	Member- governed	Members	A framework for multi-party, multi-stage credible contracting among members
Farm production cooperatives	Aggregates of economic units that are not independent in production operation	Centralized member organization	Member- governed	Members	A vertical integration between members and the cooperative in production
Cooperatives with non-patronage members	Mixture of patron and non-patron members	Defined by state laws	Defined by state laws	Defined by state laws	Defined by state laws; most likely member-patrons' business

¹ Separately listed due to dairy cooperatives' role in explaining the cooperative business model.

² Include local-food cooperatives.

³ Include farm supply cooperatives, utility cooperatives, service cooperatives, consumer cooperatives, credit unions, etc.

⁴ As defined in this article.

- **Operation:** The products handled or provided by various cooperatives are very different and, therefore, the cooperatives' operations can vary widely. They source their products differently, prepare the products for the market differently, and adapt to their respective market differently. The variety of cooperative operations can be discerned through the lens of transaction governance (the transaction cost economics approach advanced by Williamson and schematically adopted in table 1). ■

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Mine tailing sites tested for growing miscanthus grass for biofuel

Editor's note: This article was provided by MFA Oil Biomass and the Doe Run Company.



MFA Oil Biomass LLC and the Doe Run Company are participating in a pilot project with Missouri University of Science and Technology (Missouri S&T) to help transform mine tailings sites into potential biofuel crop sites. In April, Doe Run planted a test plot of 11 acres of miscanthus grass at the company's Viburnum Mine 28 tailings site in Missouri. If the test plot grows successfully, additional acres will be planted next year at other closed tailings sites.

"Doe Run saw this test program as an opportunity to potentially bring new purpose and productivity to former mine sites," says Chris Neaville, asset development director at Doe Run. "This restoration approach may create new economic and environmental benefits and supports our commitment to operating sustainably."

MFA Oil Biomass LLC (a division of



Verdant stands of miscanthus grass for bioenergy production, such as this University of Illinois test plot (top), are the goal of tests being conducted to grow the grass on mine wastes. Miscanthus is irrigated after planting on mine tailings (lower photo).

MFA Oil Company, a Missouri-based fuel cooperative) is looking to miscanthus to eventually utilize land at mine tailings sites across Missouri. Since March, MFA Oil Biomass has planted more than 12,000 acres of miscanthus in Missouri and Arkansas. MFA Oil Biomass is working to secure federal grants to fund the expansion of miscanthus planting to other locations,

possibly including other Doe Run sites, during the next planting season.

"The energy market is changing, and it forces us all to find ways to decrease our dependency on foreign oil and turn to homegrown energy sources," says Jared Wilmes, project coordinator at MFA Oil Biomass. "Manufacturing fuels locally is a win-win situation: it

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Newsline

Co-op developments, coast to coast

Send co-op news items to: dan.campbell@wdc.USDA.gov

Beall named NCBA president

The National Cooperative Business Association (NCBA) has announced the appointment of Michael V. Beall as its president and CEO. Beall (pronounced *Bell*) was previously president and CEO with the Missouri Credit Union Association (MCUA). Beall has also held leadership positions in the state credit union associations in Maryland/District of Columbia and North Carolina, as well as the World Council of Credit Unions (an international credit union development organization).

“Mike Beall’s selection was based on several key factors: his extensive experience in providing advocacy and development services to credit unions through state, national and international associations; his familiarity with international development administration; and his transactional and business process experience,” says NCBA Chairman Wilson H. Beebe. “Combined with Mike’s demonstrated commitment to the cooperative principles of economic self-determination, his career background made him the outstanding and unanimous choice of the board of directors to lead NCBA’s revitalization of its domestic mission and the diversification of its work abroad.”

Beall brings to NCBA a broad understanding of the cooperative business model and a commitment to core cooperative principles, Beebe

notes. Beall has been a leader in credit union advocacy in the halls of government at both the state and federal levels. He also has been a driving force in the expansion of the credit union community’s Development Educator program, a professional development program that instills the cooperative principles in senior cooperative and credit union executives in the United States as well as abroad.

During his tenure as president/CEO of the Maryland and District of Columbia Credit Union Association, he presided over the first merger between state credit union associations.



Michael V. Beall

“I am honored by the NCBA board to be chosen to lead the organization towards stronger domestic development initiatives that support the strong cooperative business model so necessary for the success of the U.S. economy and working families,” Beall says. NCBA’s work during the next few years will focus on strengthening efforts to “cross-pollinate” business opportunities between cooperative sectors. Beall says the organization will also strive to raise awareness of the cooperative business model on Capitol Hill and throughout the federal government by showcasing the role cooperatives play in the domestic and worldwide economies and tying international cooperative development initiatives to the membership of NCBA.

“I look forward to enhancing the value of NCBA membership with all

sectors of cooperatives,” says Beall, who assumed his new duties Nov. 16.

Liz Bailey, who had been interim CEO and president, will continue to serve as NCBA’s vice president for public policy and domestic development, as well as executive director of the Cooperative Development Foundation (CDF).

Beall holds a bachelor’s degree in government and politics from the University of Maryland and a law degree from the University of Richmond, T.C. Williams School of Law. He is a member of the Virginia State Bar.

Liz Bailey honored as NAHC Outstanding Leader

Liz Bailey, who had been serving as interim president and CEO of the National Cooperative Business Association, has been recognized for outstanding leadership by the National Association of Housing Cooperatives. NAHC President Vernon Oakes presented Bailey with the NAHC President’s Award during its annual meeting in Reno, Nev.

“Liz has demonstrated outstanding leadership in engaging with the Obama administration over the role that all types of cooperatives play in our economic recovery,” Oakes says. “Her vision for the cooperative sector in the U.S. and her dedication in keeping the conversation going at the national level further demonstrate her dedication to cooperative enterprise.”

NAHC, founded in 1960, in particular saluted Bailey for taking 150 leaders of the U.S. cooperative

community to the White House on May 4 to let top-level administration officials know that co-ops are values-based businesses and engines of economic growth.

Accelerated Genetics launches international subsidiary

AGSP Global is a new, wholly owned subsidiary of Accelerated Genetics, a Baraboo, Wis.-based livestock genetics cooperative. The company will bring bovine health products, featuring both Accelerated Genetics and TechMix products, to the international marketplace.

“International product sales are not brand new to Accelerated Genetics; however, we defined the need to globally expand our product exposure and support,” says AGSP Global General Manager Jill Strangstalien. “In developing this subsidiary, our priority was to identify a business partner who shared our vision. Combining the specialty products of both AGSP Global and Tech Mix allows us to share technical expertise, manufacturing, distribution, sales and support efforts around the globe.”

“As a subsidiary of a leading AI [artificial insemination] organization, we at AGSP Global recognize the value of genetics and the importance of herd health,” Strangstalien adds. “Offering superior quality products to maximize production and reproduction is our primary focus.”

PCCA pays net margins despite drought

Plains Cotton Cooperative Association (PCCA) announced at the cooperative’s 59th annual stockholders meeting in Lubbock, Texas, that it will pay net margins of \$8.4 million from fiscal 2011-2012 operations despite an 80-percent reduction in cotton volume due to last year’s drought. Further cash distributions to members of \$13.6 million were made in September, comprised of \$6.8 million in cash dividends and \$6.8 million in

retirement of per-unit retains.

“We began planning ahead in early spring 2011 for the anticipated effects of the drought by cutting our budget 20 percent; at year-end, actual expenses came in even lower than that,” said PCCA President and CEO Wally Darneille. “There were some bright spots this year as both marketing pools paid out the highest equities in their histories, and the volume of cotton marketed over The Seam [an online marketing system that provides co-op members with access to a large number of cotton buyers] remained near the previous year’s level. This showed the value that our electronic platform provides to producers who wish to market some of their cotton at harvest or later.”

Darneille also reported the



Photo courtesy PCCA

Marketing and Warehouse Divisions came close to breaking even due to cost control. “Saving money can be equally important as making it.

“Our Textile and Apparel Division did not make money this year,” Darneille said. “However, over a three-year period, we have seen a net positive cash flow of \$14.8 million in this division due to depreciation and shared expenses. Innovation and our technological expertise continue to provide new opportunities.

“We now have jeans on the shelf at a major retailer with PCCA’s “total traceability” system on a hang-tag that enables customers to use a cell phone with a scanning application to track the

garment back to some of the farmers who produced the cotton.”

In other PCCA news, the co-op’s Denimatrix division recently was named Exporter of the Year in Textiles and Apparel for 2012 by the Guatemalan Association of Exporters (AGEXPORT) in recognition of the company’s 25 percent growth in the value of jeans exports.

Adelstein saluted for work as RUS administrator

Jonathan Adelstein in August left his position as administrator of the Rural Utilities Service of USDA Rural Development to take a job in the telecom industry.

“I want to thank Jonathan Adelstein for his stellar service as administrator over the past three years,” said Dallas

Tonsager, under secretary for USDA Rural Development. “His calm and steady leadership, especially through challenging budget times, and his remarkable telecommunications policy expertise have served us all well.”

Under Adelstein’s stewardship, RUS made historic investments in the deployment of broadband in rural America, which Tonsager said could be compared to the Rural Electrification Administration’s expansion of rural electric infrastructure in the 1930s that helped build the rural economy. “Beyond his rural broadband accomplishments, he led RUS to make unprecedented investments in critical rural water and waste systems, as well as

efforts to modernize the rural electric grid and expand investments in renewable energy, energy efficiency and the smart grid,” Tonsager said.

Adelstein has spent more than 25 years in public service, including 15 years as a staff member in the U.S. Senate, a seven-year appointment as commissioner on the Federal Communications Commission and the past three years with USDA Rural Development.

“Throughout his career, he has proven himself as a strong public servant and as someone you can rely on to do right by rural America,” Tonsager said. “As a fellow South Dakotan and as his colleague, it has been an honor to serve rural America alongside Jonathan.”

John Padalino, who had been acting administrator of the Rural Business-Cooperative Service, is now acting administrator of RUS. Lillian Salerno is the new acting administrator of the Rural Business-Cooperative Service.

AGP expanding operations at Dawson plant

Ag Processing Inc (AGP) has approved a multi-million-dollar capital project for construction of an AminoPlus production facility at its soybean processing plant in Dawson, Minn. AminoPlus is a patented, high-performance soy by-pass product that AGP produces and markets to the dairy industry. The project is scheduled to begin by winter (subject to gaining needed permits).

“The additional production capacity at our Dawson location will serve our expanding customer base in the upper Midwest, Canada and overseas markets,” says co-op CEO Keith Spackler.

The addition of AminoPlus production to the Dawson facility represents the fourth major production expansion for the product, which AGP currently manufactures at its soybean processing plants in Mason City, Iowa; Hastings, Neb.; and Sgt. Bluff, Iowa.

The AminoPlus expansion follows on the heels of another major plant improvement project recently completed at Dawson. That project included installation of new processing equipment, the addition of more storage capacity and expansion of plant handling capability. Operations at the plant will not be affected during construction of the new AminoPlus production line.

AGP is the largest farmer-owned soybean processor in the world, owned by 175 local and five regional cooperatives that represent 250,000 farmers.

Chelan Fruit Co-op acquires Orondo Fruit Co.

Chelan Fruit Cooperative in Chelan, Wash., has acquired the Orondo Fruit Co. packing plant in Orondo, Wash., from the Griggs and Clennon families. Along with this purchase comes the opportunity to pack and market the Orondo Ruby cherry, as well as some of the state’s premier Rainier cherries.

The Orondo Ruby cherry was discovered in 2001 and boasts early ripening, an exceptionally sweet, juicy and delicious flavor, with tremendous consumer appeal, according to the co-op. Chelan Fruit Cooperative will be packing and shipping the Orondo Ruby cherry in the summer of 2013.

Chelan Fresh Marketing, a major marketer of Washington state tree fruit, has marketed all of Chelan Fruit Cooperative’s tree fruits under the Trout Label for the past nine years.

CoBank announces board election results

CoBank — a Denver-based cooperative bank serving agribusinesses, rural infrastructure providers and Farm Credit associations throughout the United States — has announced results of shareholder elections for the bank’s board of directors. Nine seats were open due to the transition to a new governance structure adopted as part of the bank’s recent merger with U.S.

AgBank. The board will now have 24 elected directors from six regions, as well as between three and five appointed directors.

The winning candidates are: *East Region* — James Kinsey, owner/operator of a purebred Angus seedstock ranch in Flemington, W.V.; *South Region* — George Kitchens, general manager & CEO of Joe Wheeler EMC, Decatur, Ala.; Robert Behr, chief operating officer of Citrus World, Lakeland, Fla.; *Central Region* — James Magnuson, general manager and CEO of Key Cooperative in Sully, Iowa; David Kragnes, owner of a diversified grain, sugarbeet and soybean farm in Felton, Minn.; *Mid-Plains Region* — Clint Roush, owner of a wheat, alfalfa and stocker cattle operation in Arapaho, Okla.; Scott Whittington, general manager, Lyon-Coffey Electric in Burlington, Kan.; *West Region* — Jon Marthedal, owner of a grape, raisin and blueberry farm in Fresno, Calif.; and *Northwest Region* — Erick Jacobson, retired president and CEO of NORPAC Foods Inc. in Bend, Ore. Term expiration dates for these directors vary from 2013 to 2016.

CoBank also announced that Barry Sabloff has been re-appointed to a four-year term as an outside director. Sabloff was formerly executive vice president with Bank One in Chicago and is currently vice chairman of Marquette Bank, a Chicago-based community bank.

CoBank uses an independent nominating committee to develop a slate of qualified director candidates for each election. No current board member may serve as a member of the committee, and no member of management sits on the CoBank board.

Land O’Lakes helps fight hunger

The Land O’Lakes Foundation will donate \$150,000 to Indianapolis-area food-relief services over the next three years to help fight domestic and global hunger. The donation was announced in conjunction with FFA Rally to Fight

Hunger, held in October during the first day of the 2012 National FFA Convention and Expo, held Oct. 24-26. During the event, about 10,000 FFA members and volunteers from across the country packed 1 million meals to distribute through Gleaners Food Bank in Indianapolis. The other half was shipped for distribution in Haiti.

Purina Animal Nutrition, a wholly owned subsidiary of Land O'Lakes, was honored with the FFA Distinguished Service Citation recognizing its 60 years of supporting agricultural education and leadership. FFA — formerly known as Future Farmers of America — works with agricultural education students to develop their leadership potential, personal growth and career success through agricultural education.

While donations play a role in fighting hunger, Land O'Lakes President and CEO Chris Policinski says it will take a broader effort. Speaking at "Feed the Future, Partnering with Civil Society," an event sponsored by the United Nations General Assembly in September, he stressed the importance of the private sector in creating shared value through hands-on commitments that simultaneously advance agricultural development, food security and investment opportunities for the private sector.

"It's about transitioning from writing a check to working in tandem with people around the world," Policinski said. "Land O'Lakes helps farmers in developing countries move from subsistence farming to farming as a business, helping the private sector gain traction and grow a reliable customer base. It's authentically sustainable corporate social responsibility — helping people move up the value chain and providing real opportunities for public-private partnerships that promote sustainable food security. The development community and private sector win."

The U.N. event was hosted by U.S.

Secretary of State Hillary Rodham Clinton and Malawi President Joyce Banda.

NMPF revitalizing REAL Seal

The National Milk Producers Federation (NMPF) is engaged in a revitalization and makeover effort for REAL Seal, a food label used to identify real, U.S.-made dairy products. The effort began with the launch in October of a revamped website: www.realseal.com. The previous website functioned primarily as a resource for dairy product manufacturers and marketers



interested in putting the REAL Seal on their packaging. The new website will contain more content to educate consumers about why they should look for the REAL Seal on the foods they buy, while also continuing to provide information for those companies using the REAL Seal to enhance their product marketing.

"Research has found that 93 percent of consumers know of the REAL Seal, and that many people find it useful in making buying decisions," says Jerry Kozak, president and CEO of NMPF. Management of the REAL Seal program was transferred from the United Dairy Industry Association to NMPF last March. The two organizations agreed that the transfer would create an opportunity to place a renewed emphasis on highlighting the importance and value of American-made dairy foods.

Kozak says use of the seal can help consumers differentiate between real dairy foods and imitation dairy products

that are not made from milk.

Washington meat co-op formed

North Cascades Meat Producers Cooperative, formed to provide processing and marketing services to pasture-raised livestock operations in Washington, is raising capital by selling member equity shares. It hopes to begin operations in the first half of 2013.

The co-op says it plans to initially offer slaughter and processing services to farm members and non-members for beef, pork, lamb and goat in Whatcom, Skagit and Island counties. Pat Grover, president of the Washington co-op, told the *Capital Press* that the co-op is looking to rent a facility that can be converted into a processing plant.

The co-op plans to do wholesale meat distribution under the North Cascade Meats brand. Products will include pasture-raised, grass-finished beef and lamb as well as pasture-raised pork. No antibiotics or hormones can be used by producers, and no petroleum-based fertilizers can be used on pastures. No detrimental impacts to riparian areas are permitted.

The cooperative plans to use a self-contained, mobile processing unit for USDA-inspected slaughter. The unit will be stationed at farms in Whatcom and Skagit counties six days per month. Finished carcasses will be transported in a refrigerated truck to the co-op processing plant.

Swiss Valley Farms sells Platteville facility

Swiss Valley Farms, Davenport, Iowa, has announced the sale of its Platteville, Wis., cheese manufacturing facility to Tritent International Agriculture Inc., which was effective Sept. 1. Details of the transaction are not being publicly disclosed. Operations were halted at the Platteville facility in October 2011 after Swiss Valley transferred production of its Baby Swiss wheels, loaves and no-salt-added Swiss blocks to White Hill Cheese Co. LLC,

Co-op Hall of Fame winners announced

Four outstanding cooperative leaders will receive the cooperative community's highest honor on May 8, 2013, when they are inducted into the Cooperative Hall of Fame. The induction ceremony will be held at the National Press Club in Washington, D.C. The ceremony will be preceded by a cooperative issues forum (for more information, visit: <http://heroes.coop/>).

The 2013 inductees are: credit union leader Joy Cousminer, worker cooperative leader Steven Dawson, cooperative financier Rebecca Dunn and cooperative educator Leland Ruth. These cooperative leaders will be recognized at the annual Cooperative Hall of Fame Dinner.

"The roster of the Cooperative Hall of Fame tells the story of the U.S. cooperative community through the lives and accomplishments of extraordinary individuals," says Gasper Kovach Jr., chairman of the Cooperative Development Foundation, which administers the Hall of Fame. "Induction to the Cooperative Hall of Fame is reserved for those who have made genuinely heroic contributions to the cooperative community."

Following are brief biographies of this year's inductees:

■ *Joy Cousminer* — Cousminer has spent 58 years breaking down economic and educational barriers for those in need and improving the lives of the people of New York's South Bronx, one of the most economically distressed urban areas in the country. First as a teacher, then as a founder and now president and CEO of Bethex Federal Credit Union, she helped bring banking to an area that had no banking facilities and no access to credit. The many innovative programs and partnerships offered by Bethex reflect her recognition of the financial, educational and business needs of the people of the South Bronx and her efforts to meet them. Her work embodies the ideals of community spirit, determination, vision and cooperation. She is a leader with a quintessentially cooperative spirit.

■ *Steve Dawson* — Dawson was a key figure in laying the intellectual and structural groundwork of the worker cooperative movement. He helped found two nationally significant organizations: the ICA Group, the first professional consulting group for worker ownership, and Cooperative Home Care Associates, the largest worker co-op in the nation. His work has changed the lives of

thousands of workers. Some of the foremost worker co-ops in the nation attribute their success to his influence. Dawson also understands that much of what affects the quality of work for direct-care workers emanates from public policy. He thus helped start the Paraprofessional Healthcare Institute, a national research, policy analysis and technical assistance organization that works for the benefit of all direct-care workers.

■ *Rebecca Dunn* — Dunn is a leader in cooperative financing, devising innovative products and methods that are useful to the entire co-op economy. During her 26-year tenure, she oversaw a fund that has grown from \$130,000 to almost \$15 million and has expanded from lending mostly to food co-ops to all types of co-ops — all while never losing an investor dollar. Her skills in banking, communication and borrower relations and development, her steady recruitment and training of outreach workers, her inclusive decision-making, her ability to innovate to address diverse and multiple needs and her dedication to the co-op model have been instrumental in starting many co-ops throughout New England. Most recently, she was responsible for the Cooperative Fund on New England's selection as one of 20 recipients nationally of the Small Business Administration's (SBA) pilot Intermediary Lending Program (ILP), a first use of SBA funds for the benefit of cooperatives.

■ *Lee Ruth* — Ruth's service on the Agricultural Council of California led to his commitment to the cooperative business model. He helped found the California Center for Cooperative Development — twice — and the California Association of Cooperatives. He has always used his service on various boards to promote the cooperative way of business. As co-chair of the national Rural Cooperative Development Task Force, he was instrumental in creating the Rural Cooperative Development Grant program, a USDA source of funding for rural cooperative development that now supports the work of 29 cooperative development centers across the country. Demonstrating commitment, innovation and leadership, he has mentored cooperative developers, started cooperatives, developed resources for cooperatives and won favorable legislation for cooperatives in California.

in Shullsburg, Wis.

Hispanic, women farmers may seek compensation

Hispanic and women farmers and ranchers who believe that the U. S. Department of Agriculture (USDA) improperly denied them farm loan benefits between 1981 and 2000 because they are Hispanic or female may be eligible to apply for compensation if:

1) They sought a farm loan or farm-

loan servicing during that period;

2) The loan was denied, provided late, approved for a lesser amount than requested, approved with restrictive conditions or USDA failed to provide appropriate loan service; and

3) They believe these actions were based on their being Hispanic or female.

To receive a claims package, visit: www.farmerclaims.gov, or call 1-888-508-4429.

For further guidance, you may contact a lawyer or other legal services provider in your community. USDA cannot provide legal advice. If you are currently represented by counsel regarding allegations of discrimination or in a lawsuit claiming discrimination, you should contact your counsel regarding this claims process. ■

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in Minnesota's Red River Valley, which also converted to farmer co-op ownership when faced with closure. Or visit the Cabot Cheese plant in Vermont, or any of the hundreds of

other state-of-the-art ag processing plants owned and operated by farmer co-ops across the nation.

Farm supply co-ops can provide just as many examples of "how a bunch of farmers can do it." The Seiver Farmers Co-op center in Seiver County, Tenn., (Jan.-Feb. 2012 issue) and Producers Cooperative Association supply

complex in Bryan, Texas, (Sept.-Oct. 2011 issue) show how co-ops are not just serving their traditional farmer-owners, but also successfully competing with the big box stores for the home, garden and ranchette trade.

So, how do farmers operate their own modern processing and supply operations? Very well. ■

Mine tailing sites tested for growing miscanthus grass for biofuel

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creates jobs and, in this case, puts these otherwise un-utilized properties to productive use while simultaneously improving the composition of the soil."

Miscanthus is proven to be one of few plants that can thrive in challenging soil conditions, such as tailings, which are the ground-up rock byproducts created when separating metal from ore during mining and milling. Miscanthus crops have been in development for 30 years as commercially harvested fuel crops and produce more biomass per acre than any other energy crop, yielding up to 15 feet of growth per year as a mature plant.

Because it is not needed as a food source, miscanthus offers an alternative to other biofuel crops, such as corn and soybeans. Miscanthus roots also penetrate deep into the soil and deposit nutrients, which restores soil over a 20- to 30-year span.

Working alongside Doe Run, Missouri S&T is examining the ability of miscanthus to restore nutrients to the soil at Mine 28. Missouri S&T is conducting further research to find the best methods to optimize the growth of miscanthus in tailings sites, to improve soil quality and to increase the soil's capacity to grow biofuel crops.

"While we've studied other processed biofuels, like corn ethanol and biodiesel, and biomass such as poplar and willow trees, this miscanthus study is the first of its kind at Missouri S&T," said Joel Burken, professor of civil, architectural and environmental engineering at Missouri S&T. "Growing miscanthus crops in the region could help develop industries to utilize the biomass fuel, which is efficient in terms of nutrient and water inputs."

"It takes organizations like Doe Run, which are deeply invested in their communities, to carry out this type of project successfully," Wilmes says. "We are excited to develop a long-lasting partnership with Doe Run in what we hope will be a series of renewable energy projects."

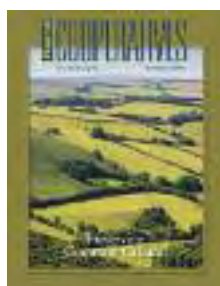
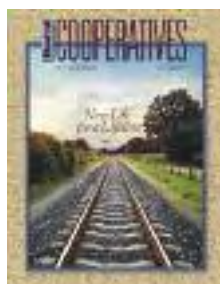
MFA Oil Biomass LLC, formed in 2011, is based in Columbia, Mo. MFA Oil teamed up with Altoterra Energy LLC to form a fully integrated biomass company that is involved in the research, farmer relationships and planting of the biomass crop all the way to the marketing and development of products manufactured from the biomass.

MFA Oil Biomass has three project areas in central Missouri, southwest Missouri and northeast Arkansas.

Based in St. Louis, the Doe Run Company is a privately held natural resources company and the largest integrated lead producer in the western hemisphere. Dedicated to environmentally responsible mineral and metal production, Doe Run operates one of the world's largest, single-site lead recycling facilities located in Boss, Mo. ■

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Northwest co-ops forge new links for local foods	Sept./Oct. 21

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Iowan shares skills with African farmers	March/April 30
Land O'Lakes' nutrition program helps thousands in Pakistan	Nov./Dec. 14
"The pillar of my home"	
Coffee co-ops brew better quality of life for Ethiopian farm families	Sept./Oct. 40

USDA program helps expand ag production in Malawi	Nov./Dec. 15	Creating a roadmap for food hub development	July/Aug. 18
Grains/Oilseeds		Farm co-ops set sales, income records	
Co-Alliance LLP		Number of full-time jobs up 1,800	Sept./Oct. 4
Partnership delivers returns for members of five co-ops	May/June 36	Largest 100 ag co-ops post near-record sales, margins	March/April 16
Comparative performance reports help co-ops learn from peers	July/Aug. 17	Minnesota home to largest number of ag co-ops; Iowa	
Co-op rail facility boosts feed security	Nov./Dec. 7	tops for business volume	Nov./Dec. 10
Feed mill seen as key to success of Amish dairy farms	Sept./Oct. 32	The Many Faces of Cooperatives	Nov./Dec. 24
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Public garden latest addition at resident-owned community		Louisiana co-op association helps fishermen, farmers	
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