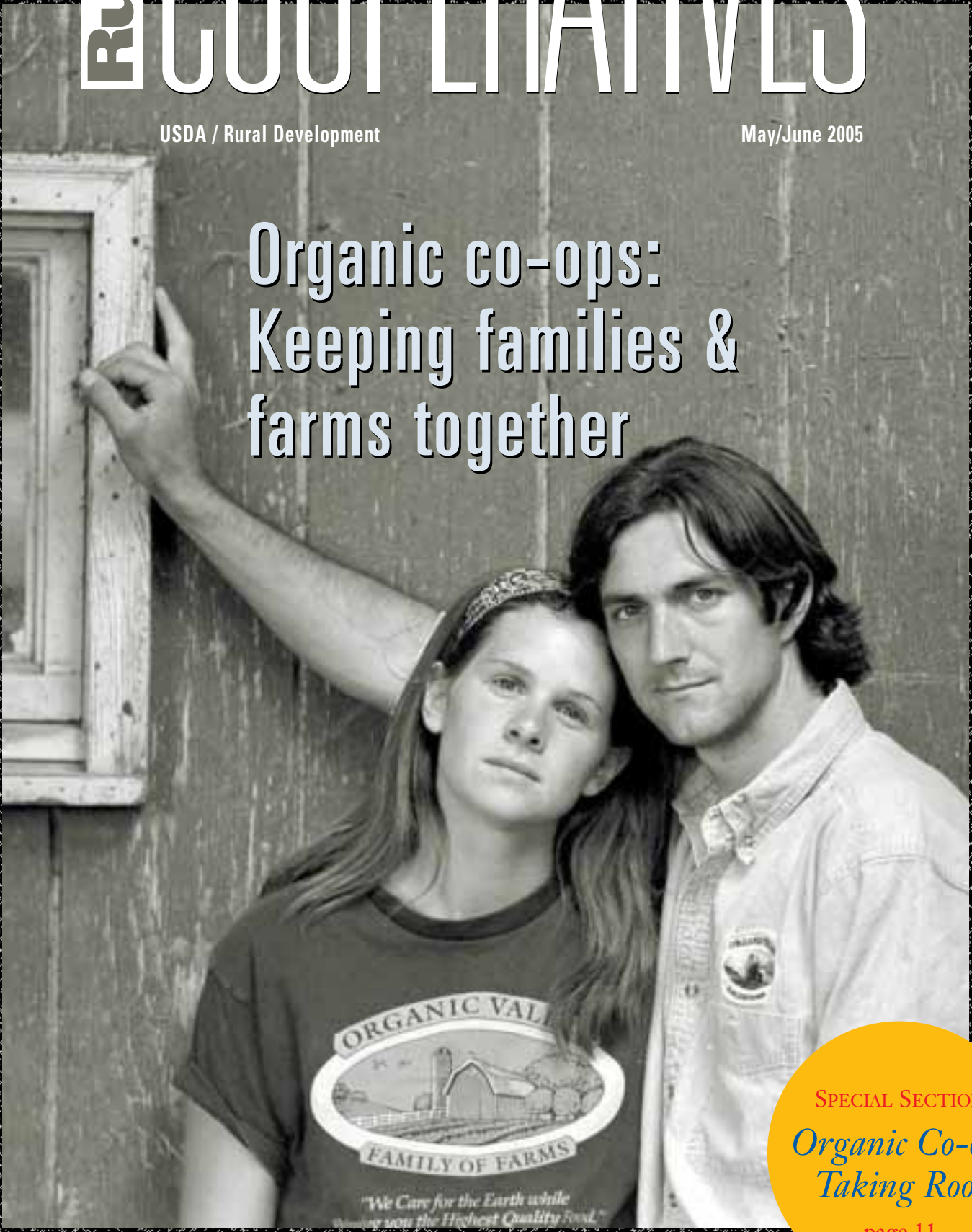
Rural COOPERATIVES

USDA / Rural Development

May/June 2005

Organic co-ops: Keeping families & farms together



SPECIAL SECTION

Organic Co-ops Taking Root

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Spreading the word

For 72 years, USDA (or, in its early years, the Farm Credit Administration) has been publishing *Rural Cooperatives* magazine to help increase public understanding of the co-op business model and to improve the operations of the nation's cooperatives. The name and format have changed over the years, but the mission has always been the same: to help strengthen rural America by ensuring that farmers maintain a significant ownership position in the marketing and processing of their crops and livestock, and in securing quality, affordable farm supplies and services for members.

Whether it's an article on good co-op governance practices, a Legal Corner about an important court decision impacting co-ops, a feature on an innovative co-op or an analysis of a co-op failure, each issue contains information that can help co-op leaders gain from the knowledge and experience of others. Since changing the name of the publication from *Farmer Cooperatives* in 1996, we've also included more coverage of rural utility and consumer co-ops, although the emphasis remains on ag co-ops.

Articles and photos are provided not just by USDA staff, but by co-ops, universities, co-op trade organizations, extension offices and commodity groups, etc. Thus, the magazine is a cooperative effort of USDA and the co-op sector we work so closely with.

With many organizations having scaled back or curtailed their co-op education efforts in recent years, this magazine has an even larger role to play than it has in the past. But it's all for naught if we don't get the information into the hands of the people who can most benefit from it: co-op directors and other leaders.

The magazine is a cooperative effort of USDA and the co-op sector we work so closely with.

To help increase readership among co-op board members, we can now offer seven copies of each issue (free of charge), mailed in a bundle, to your cooperative headquarters for redistribution to directors. See the back cover for details.

For those comfortable accessing large documents on the Internet, our new list-serve subscription service may be preferable. Each time a new issue is posted on our Web site, an e-mail will go out with a link to a PDF file. For those with broadband Internet service, this works particularly well.

You may request both the hard copy packs and the electronic subscription service. Typically, you'll get the Internet link about 10 days before the hard copy.

While the primary target audience for the magazine is co-op directors, managers, ag educators and other professionals who work with co-ops (including extension agents, attorneys and accountants), the magazine may benefit any co-op member or anyone else thinking of forming or joining a co-op. Consider posting a link to the magazine Web site on your co-op Web site: www.rurdev.usda.gov/rbs/pub/openmag.

Not only will you see the latest issue of the magazine posted there, but the previous six years of magazines are also on-line at that site, making this a helpful co-op education and research tool. Back issues are posted in both PDF an HTML versions. If you have any questions about either of these new services, please don't hesitate to call me at (202) 720-6483, or send an e-mail to: dan.campbell@usda.gov.

— Dan Campbell, Editor

Rural COOPERATIVES

May/June 2005 Volume 72 Number 3

Rural COOPERATIVES (1088-8845) is published bimonthly by Rural Business–Cooperative Service, U.S. Department of Agriculture, 1400 Independence Ave. SW, Stop 0705, Washington, DC. 20250-0705. The Secretary of Agriculture has determined that publication of this periodical is necessary in the transaction of public business required by law of the Department. Periodicals postage paid at Washington, DC. and additional mailing offices. Copies may be obtained from the Superintendent of Documents, Government Printing Office, Washington, DC, 20402, at $23 per year. Postmaster: send address change to: Rural Cooperatives, USDA/RBS, Stop 3255, Wash., DC 20250-3255.

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This publication was printed with vegetable oil-based ink.

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Travis and Amy Forgues, Vermont dairy farmers, say organic farming and co-ops play an increasingly important role in helping keep more family farms, such as theirs, in operation. Photo by Carrie Branovan, courtesy Organic Valley/CROPP

Innovation a necessity, not a choice, for 21st century co-ops

By Kimberly Zeuli, Assistant Professor; Judy Turpin, student researcher University of Wisconsin-Madison

Editor's note: This is the third of a three-part series of articles with highlights from the seventh annual Farmer Cooperatives Conference — Cooperative Innovation — *held in Kansas City in November.*

Most of the business innovation occurring today is in response to market pressure, according to Chris Peterson, a professor at Michigan State University. Co-ops, like their competitors, are being "forced" to innovate. In order to remain competitive, Peterson warns, co-ops should be implementing innovative ideas constantly. Florida's Nat-ural Growers is one cooperative that has clearly heeded this counsel.

The "grove to the glass" advertising and promotion campaign of the Florida's Natural citrus co-op, stressing the grower-owned nature of the business, has hit a receptive chord with consumers. This has helped the co-op compete with the giant beverage companies that dominate the nation's fluid orange juice trade. Photos courtesy Florida's Natural

Citrus co-op competes with beverage giants

About 1950, the chairman of Florida's Natural said: "It is most discouraging to do everything possible to maintain prices that will bring decent returns to our growers and then have these prices made meaningless by ruthless cuts of competitors." If anything, this situation is even more acute today.

Florida's Natural is pitted against the two biggest names in orange juice: Tropicana, owned by Pepsi, and Minute Maid, owned by Coca-Cola. As a result, the co-op faces continuous cut-throat competition while trying to maintain a high return for its members. According to Walter Lincer, vice president of sales and marketing at Florida's Natural, this is nothing new. As manufacturers of a retail product, Florida's Natural has always faced a challenging environment.

The really important innovation resources are internal. If none go into innovation, nothing will come out.

Florida's Natural has constantly revised and adapted its marketing strategy in an attempt to gain and keep customers. The acquisition of the Tropicana brand by Pepsi and Minute Maid by Coke was a "wake-up call" to the co-op. Suddenly, the relatively small co-op had to figure out how to compete with the deep pockets of the two giant soft-drink companies.

The mid-1990s brought increased retail consolidation and the co-op worked hard to maintain shrinking shelf space. Sales representation and suppliers have also dwindled in the past 20 years and the farmer's return on the retail food dollar has also declined sharply.

Florida's Natural decided to take advantage of its unique grower-owned status, a distinction that companies such as Pepsi and Coca-Cola can't claim. In 1987, it launched the co-op's first branded premium product: Fresh 'n' Natural orange juice.

The "grove to the glass" promise of Florida's Natural is what Lincer believes has made the company so successful that grocery stores want to carry its product. He also suggested that if co-ops work together, all would benefit from a stronger position in the market, a theme repeated by many of the conference presenters.

Most important innovation resources are internal

"Innovation happens because you intend it to," Chris Peterson said. "How are you going to innovate?"

Co-ops need to be prepared for innovation. Innovation can occur in products and services, processes and technology, competencies and markets. Echoing the same sentiments as Florida Natural's Lincer, Peterson reminded co-op representatives at the conference that "the really important innovation resources are internal."

If no resources go into innovation, nothing will come out. He recommended that cooperatives seek advice on innovation from universities, research & development firms, government agencies, trade organizations and consultants.

Cooperative leadership can make or break the business. Mike Toelle and Jim Rainey know this firsthand. Toelle, board chairman of CHS Inc., outlined the co-op's board priorities: professionalism, oversight, vision, accountability and commitment to communication. Although the traditional director roles and responsibilities will always be there, he argued that board members need additional skills and knowledge to "stay the course" in today's business environment. "21st century leadership requires cultivating a visionary, innovative and entrepreneurial mindset," Toelle said.

According to Toelle, the CHS board is always "in the process of learning." Being a board member with CHS cultivates a desire to gain knowledge and skills both in business and professional development. The CHS board hears presentations from outside experts four or five times each year on topics such as energy, health care and grain markets, among others.

Other professional development opportunities for board members include international exchanges and trips to Washington, D.C. In addition to in-house training, board members are required to attend external development workshops and conferences three or four times annually.

Jim Rainey, who has served on a number of boards throughout his career, retired in 1991 as CEO for Farmland Industries. He said he had learned many lessons over the years on how co-op leadership can be improved, but perhaps the most challenging issue is achieving and maintaining an effective board-management relationship.

Cooperative Innovation

Annual Farmer Cooperatives Conference

Evaluation of management essential

Rainey provided a list of what he considers 13 basic management disciplines, but he chose to focus on just three: accountability in management; strategic management and planning; and management of change.

He said evaluation of management is essential to maintaining integrity while also promoting constructive criticism and improvement in management techniques during a board's term. Audit committees are another way to evaluate management and provide feedback on improvements and changes.

The management of change is perhaps the most important element in co-op leadership, according to Rainey, and also the most difficult to achieve. Managing change means less surprises and a greater sense of trust among members, employees and management.

"It is imperative that management and the board become fully committed to recognition that survival will depend upon proactive change, Rainey said.

Strategic management planning should consist of a "timeline action plan" that separates short- and long-term goals, Rainey advised. An objective third party can help the co-op construct such a plan. The goals then need to be communicated to members and employees to help maintain trust and to gain additional perspectives on the viability of the plan. The action plan should be reassessed annually in order to make adjustments and additions.

David Barton, director of the Arthur Capper Cooperative Center at Kansas State University, closed the session by offering six keys to a successful board: (1) bring the right people together; (2) set high objectives and have an ambitious vision; (3) educate the board on how to work together; (4) set policy at the board level; (5) understanding is more important than speed — the board needs to get the decision right; (6) slow is fast and fast is slow in relationships. If you take the time, you will achieve more effective relationships.

Co-ops play important role in presidential swing states

Jean-Mari Peltier, president and CEO of the National Council of Farmer Cooperatives, reminded the group that co-op leaders should also maintain a dialogue with their local and national policy makers. She presented some data on the 2004 presidential election electoral map to illustrate how the "toss-up states" in the election were states with strong co-op roots, bringing co-ops to the attention of both candidates.

Many upcoming changes in the House and Senate will also be influential in deciding how agriculture and co-ops are treated in laws Congress will act on in coming years. Peltier suggested coalitions, education and grassroots activism as tools to combat the lack of knowledge on the overall benefits of co-ops for the economy.

Peterson's Resources for Innovation

A sampling of business/management books:

Senge, "The Fifth Discipline," Currency/Doubleday, 1990

McGrath & MacMillan, "The Entrepreneurial Mindset," HBS Press, 2000.

Godet, "Creating Futures," Economica, 2001.

Christensen & Raynor, "The Innovator's Solution," HBS Press, 2003.

"We must all hang together…or assuredly we shall all hang separately!" Peltier said, using the words of Benjamin Franklin to stress the need for cooperation among co-ops to ensure their future success.

William Nelson, president of CHS Foundation and The Co-op Foundation, wrapped up the conference by encouraging co-op leaders to "take the conference lessons with you," and not end their discussions when the meeting adjourned. He stressed the merits of bringing new ideas and perspectives to co-op boards from academics, industry, foundations and co-op councils. "Co-ops should be learning organizations," Nelson counseled, "with dynamic processes leading to constant innovation and revitalization." ■

No loafing

Booming business leads wheat cooperative to expand Gerard's Bakery to East Coast

By Tony Kindelspire

Editor's note: This article is reprinted courtesy of The Daily Times-Call, *Longmont, Colo. All rights and control remain with the* Times-Call.

A tour through Gerard's Bakery is like observing a carefully choreographed version of "The Nutcracker" — performed seven days a week, 365 days a year. The dough must be just the right consistency and temperature before it runs through the cutting and molding machines, which must be constantly monitored to make sure the resulting hoagie rolls or hamburger buns coming out the other end are just right for baking.

Meanwhile, at the other end of the plant, while the loaves rising in the proofing ovens must be removed at the precise time, the packaging department is running like a well-oiled machine. "We make 150 different types of breads and rolls out of this plant," said Gary Knight, Gerard's president and CEO.

Since the co-op purchased the bakery in '96, growth has been explosive: 20 percent per year.

The bakery makes what are known as "artisan breads." Unlike mass-produced breads bought in the grocery store, the bread batches are smaller and the ingredients are much higher quality. But you couldn't walk into a store and buy a loaf of Gerard's if you wanted to.

The company's customers are primarily restaurants, wholesalers and franchises; Quizno's and IHOP are two of its better-known clients. Though the client base already spreads from coast to coast, it's about to get a lot bigger: Gerard's has just invested $7.5

Mario Orozco takes bread dough off a giant mixer hook at Gerard's Bakery. The bakery, owned by wheat growers through their Mountain View Cooperative, is investing in a North Carolina plant to bolster its Colorado and California operations. Photo by Joshua Buck, courtesy Longmont Times-Call

Bread is moved to a cooling room at Gerard's Bakery in Colorado.

million in a plant in North Carolina as a counterbalance to its West Coast presence in Livermore, Calif., just outside Oakland, which opened in 2001.

The company will keep its headquarters here [in Colorado], on the Interstate 25 Frontage Road, but expansion into larger population areas is a natural evolution of the company, Knight said.

And the growth has been explosive. Since Gerard's French Bakery — a longtime local staple — was bought by Mountain View Harvest Cooperative in 1996, the company has grown 20 percent a year.

In 1999, Gerard's had about $12 million in sales, a figure that had grown to between $25 million and $30 million last year, Knight said.

"We have been growing so fast that most of our capital goes into buying new pieces of equipment so we can make another piece of bread," he said. The Mountain View Co-op, a group of Colorado wheat farmers who were interested in forming a value-added co-op, rose from the ashes of the bankrupt Farmer's Marketing Association (FMA).

"The whole value-added part of it is farmers trying to get away from simply producing generic quantities of commodities," said Dave Carter, one of Mountain View's founding board members. A national agricultural consultant on co-op development and organic production, Carter was president of the Rocky Mountain Farmer's Union at the time of Mountain View's inception.

By making the co-op value-added, Carter said, "the farmer maintains control throughout the whole process. In the traditional systems, the farmer gets cut out very quickly. They're on the bottom rung of the ladder."

Mountain View has 232 members, or shareholders, most of whom are wheat farmers, Knight said. Carter is no longer involved with Mountain View, other than as a shareholder.

"One of the initial challenges that we faced was that when producers stepped into this value-added business, there was the feeling that there would be a quick turnaround in (return on investment)," Carter said, explaining that it took time to grow and any profits had to be put back into the business.

"I think that was a real turnaround for the cooperative, when the shareholders said, 'Look, we are going to be patient, and we're willing to put in the time it's going to take to build this into a successful business,'" he said.

At the time it was moving away from the FMA and becoming Mountain View, the board received a grant from the U.S. Department of Agriculture to study the feasibility of a co-op run by wheat farmers.

The study they commissioned had two main recommendations. One was to partner with an existing company, in this case Gerard's, which had been around for decades. The other recommendation was to specialize in what are called "par-baked breads," basically high-quality breads and rolls that are baked almost to completion and then frozen for distribution. The end user — a Quizno's, for example — will complete the baking, ensuring a fresh taste every time.

Four years ago, the Mountain View board of directors tapped Knight, a veteran of the food industry who had run his own $100 million company and a $1 billion division when he worked for Frito-Lay, to come in and run the company.

Knight said the thump-thump-thumping of the dough mixers through the walls was music to his ears. The fact that Gerard's is a smaller, leaner company with the ability to make decisions quickly and room for an added emphasis on customer satisfaction has a great deal of appeal, he said.

The American Institute of Baking, he said, conducts 5,000 audits a year worldwide, and only 3 percent of the companies audited receive a "superior" rating.

"This one's gotten those nine years in a row," Knight said with pride.

Gerard's employs about 170 at its headquarters, 40 in administration and the rest in the 19,000-square-foot bakery portion of the plant — which doesn't include freezer space.

About 100 more are employed in California, and the North Carolina plant is expected to add 108 jobs over the next three years.

The company's current locations — here and Livermore — produce about 350,000 bread items every day. If one of the three lines that runs continuously is putting out baguettes, it's making 2,400 of them an hour. For hoagie rolls, that number is 7,200. "It takes about four hours from the time the ingredients are mixed to the time the product is finished," Knight said.

He said that in Europe, he's been to bakeries roughly the same size that are fully automated, every step of the way. Unlike at Gerard's, all of the ingredients and spices are not mixed by hand. The temperature of the dough is not monitored by humans. And the cornmeal on top of the hamburger buns is not put there by hand.

But Knight said the dance will continue as it has at Gerard's, and customers will continue to be the better for it.

"We don't have the demand for automation, and we want to have the flexibility in what we do," he said. ■

USDA helps Colorado farmers cook up profitability

By Dave Carter

Editor's note: Carter is one of Mountain View's founding board members and a national consultant on co-op development and organic production.

More than a decade has passed since a small group of farmers huddled around a breakfast table in a Denver area café to discuss opportunities to develop a new value-added business. These farmers understood the difficulties facing producer-owned businesses because they all served on the board of directors of a grain handling and feed milling cooperative that had been forced into bankruptcy from a series of disastrous events. Yet, they were confident that a new producer-owned venture could capitalize upon the emerging opportunities in value-added agriculture.

The question they asked at the breakfast was: "Which opportunity?" Discussion ranged from grain milling to straw fiberboard processing. They realized they needed help in finding the answer. With the assistance of the Rocky Mountain Farmers Union, the group approached USDA Rural Development and received a $100,000 Rural Business Enterprise Grant, which they used to finance a feasibility study into 14 potential opportunities for value-added processing for Colorado wheat farmers.

The studies funded by USDA Rural Development concluded that emerging developments in the baking industry presented a strong opportunity for a farmer-owned enterprise. The studies also encouraged the producers to partner with an existing business rather than construct a new facility.

Armed with the feasibility results and an ensuing business plan, the key leaders organized a new cooperative in 1996 as Mountain View Harvest. They located an existing state-of-the-art bakery north of Denver and successfully negotiated an arrangement to purchase the business. An equity drive conducted between November 1996 and March 1997 generated $5 million in producer capital, and on April 15, 1997, Mountain View Harvest Cooperative formally purchased Gerard's Bakery.

Gerard's was a small regional company producing roughly $6 million in baked goods that were sold primarily in the food service channel. Under the ownership of 225 Colorado wheat farmers, Gerard's generated $26.8 million in sales and earned a net profit of $1.2 million for its shareholders in 2004.

But that growth didn't come without pain.

At the time of purchase by the cooperative, the majority of sales from Gerard's went to one foodservice outlet. As that outlet grew rapidly, the bakery cooperative struggled to keep pace. Every dollar earned by the new cooperative was poured back into expansion. And, because of the low-margin business, the bottom line suffered significantly.

Again, the wheat farmers turned to USDA Rural Development. In 2002, Mountain View Harvest successfully applied for a $342,210 Value-Added Producer Grant (VAPG) to finance the expansion of its product line and to fund marketing efforts to diversify its customer base. With the assistance of the VAPG funds, the board and management were able to establish new products and outlets that helped transform a $1.3 million operating loss in 2001 into a $1.4 million net profit in 2003. ■

Web-based ag\co-op law library puts valuable resources at fingertips

By Donald Frederick
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It is often said that a person can find almost anything on the Internet, if you just know where to look. Finding information on cooperative and agricultural law is now easier, using the restructured and expanded Web site of the National Agricultural Law Center: www.NationalAgLawCenter.org.

Congress authorized creation of the National Agricultural Law Center in 1987, which is part of the University of Arkansas School of Law in Fayetteville, Ark. The Center has been funded with federal appropriations through the National Agricultural Library, an entity within the USDA Agricultural Research Service. The Center conducts legal research and provides information on agricultural and food law. It is staffed by a team of law and research professors, lawyers, other specialists,

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Co-op payments to patrons subject to self-employment tax

Internal Revenue Code section 1401 imposes a self-employment (social security) tax on the net earnings of individuals who are in business for themselves as sole proprietors, partners or independent contractors. The U.S. Tax Court has reaffirmed its position that cooperative member-patrons must pay self-employment taxes on distributions they receive from their cooperative. (Eric Fultz v. Comm'r, T.C. Memo 2005-45 (March 10, 2005); Dennis Fultz v. Comm'r, T.C. Memo 2005-46 (March 10, 2005)).

In these cases, a cooperative made two payments to its member-patrons after the end of its fiscal year. One was categorized as a payment to a patron for the value added to the patron's product during its processing by the cooperative (a "value-added payment"). The other was called a patronage refund.

Some patrons did not report the value-added payments for self-employment tax purposes. The Internal Revenue Service challenged the patrons' position and the dispute wound up in court. The patrons argued that the "value-added payments" were investment income not subject to self-employment tax.

However, the court determined that the payments were income derived from business conducted with the cooperative and subject to self-employment tax. The court also rejected an argument by the patrons that since they had assigned the right to the funds received from themselves to a family corporation, they were no longer the recipients of the income for self-employment tax purposes.

Some tax advisers have suggested that similar payments from an LLC to a member are not subject to self-employment taxes. But the courts have looked at the nature of the income (business, not investment income), not the structure of the business, in holding cooperative distributions to patrons are subject to self-employment taxes. So, it seems possible that they would also hold that payments from an LLC to a member, related to product delivered for processing and resale, are subject to self-employment taxes. ■

Organic Co-ops Taking Root

The organic food market has expanded and matured into a $10 billion industry, with sales growing about 15 to 20 percent each year. Once the preserve of natural food stores, even most mainstream grocery stores now have organic food shelves or sections. And increasing numbers of restaurants are buying organic foods.

Many of the early co-ops that sprang up to serve the market have also matured, while new co-ops continue to be formed to meet the growing demand for organic foods. In this special section, we profile a number of organic co-ops that are finding success in the marketplace. While organic farms come in all shapes and sizes, some of these co-ops say they are proudest of the fact that they facilitate alternative production strategies that help keep more small, family farms viable and supporting their rural communities.

Going with the grain

New Mexico organic wheat cooperative provides lift to farmers, rural economy

By Catherine Merlo

Every day, 200 to 300 customers line up at the Cloud Cliff Bakery and Café in Santa Fe, N.M. They come to dine on the popular eatery's cinnamon rolls, the roasted ancho chile rellenos, the strong coffee. But mostly they come for the bread.

The crunchy sourdough loaves are made by hand and baked daily on a stone hearth, giving the bread a flavor similar to that cooked in a wood-fired oven. Known as artisan bread, the dough is made from water, salt, yeast and a special organic wheat flour. Cloud Cliff's specialty is "Pan Nativo," Spanish for native bread.

Pan Nativo has been Cloud Cliff's best-selling product for several years, accounting for up to half of Cloud Cliff's wholesale income. The flour it's made from is high in protein and gluten, and it comes from one place only: the organic wheat fields of the Sangre de Cristo Agricultural Producers Cooperative.

Co-op helps boost rural incomes

One hundred miles north of Santa Fe, along the New Mexico-Colorado

Del Jimenez, agricultural specialist with New Mexico State University's (NMSU) Cooperative Extension Service, examines wheat grown by the Sangre de Cristo Agricultural Producers cooperative in Costilla, N.M, north of Taos, just before harvest last November. The organic wheat is milled into flour and sold to local bakeries and restaurants. Photos courtesy NMSU

border, members of the Sangre de Cristo Agricultural Producers Cooperative have just planted their 11th grain crop. From September's expected harvest, they hope to produce a record crop of more than 400,000 pounds of organic wheat, which will be milled into flour and sold to local bakeries and restaurants like Cloud Cliff.

The co-op has come a long way since it was formed in 1995 with help from New Mexico State University and the New Mexico Department of Agriculture. Organized to improve economics and reintroduce grain production in the sparsely populated Costilla Valley, the co-op has done more than revive local wheat farming. It has boosted incomes and hope in rural Taos County, where the median household income is less than $27,000 per year and nearly 21 percent of the population lives below the poverty line.

Unlike the co-op's early years, when members irrigated their fields from ditch systems (or acequias), the nine current co-op members now water most of their fields with a center pivot. They've also learned to use modern tractors and combines, with assistance from Costilla and Questa.

Flour mill adds value to crop

The co-op has also just purchased its own whole-wheat flour mill (albeit used). Now, instead of paying to have someone else mill their wheat, they add value to their crop by grinding and bagging it themselves. They've seen production rise from 60,000 pounds the first year, and watched their co-op's revenues climb to $100,000 last year.

But what hasn't changed is the co-op's commitment to organic, chemical-free, wheat production. It's proved to be a bonanza for the tiny co-op. Each month, it sells 18,000 pounds of organic wheat flour, including 10,000 pounds to Cloud Cliff, its best customer.

"We chose to produce and sell an organic product because that's what's happening all through this area," says co-op president Gonzalo Gallegos, who farms 40 of the co-op's 120 acres near Questa. "Much of this land had been fallow for so long, and people had never used chemicals on it. Our water comes directly from the mountains. What better place could there be to grow organic?"

By offering a locally grown organic product, the co-op enjoys a profitable niche market. Organic wheat here sells for 11.6 cents a pound, compared with about 3.3 cents a pound for conventionally grown wheat. The co-op mills all of its wheat into organic flour, which is sold to New Mexico customers at 30 cents a pound. After deducting production, operating and transportation expenses, co-op members earn a net profit of 16.6 cents a pound for their organic wheat flour.

"That's more than five times the amount conventional growers earn selling wheat on the open market," says Del Jimenez, agricultural specialist for New Mexico University's Cooperative Extension Service.

Jimenez has worked with the co-op, named after the nearby Sangre de Cristo Mountains, from its beginning. "We never thought we'd get this far," he says.

"Demand for our flour is growing, which is why we're working so hard to increase our production," Gallegos says.

Organic food sales growing at 'breathtaking' speed

New Mexico's wheat growers are not alone in seizing opportunity in the organic foods market. Burgeoning consumer interest in organically grown foods has not only opened new markets for farmers, but is transforming the organic foods industry.

"Organic foods have penetrated conventional supermarkets with breathtaking speed since the late 1990s," says Catherine Greene, agricultural economist with USDA's Economic Research Service. "Sales have grown by 17-20 percent per year since 1997."

Like the members of the Sangre de Cristo Agricultural Producers Cooperative, many small organic farmers also are selling directly to high-end restaurants, she adds.

"Retail sales of organic foods totaled an estimated $10.4 billion in the United States in 2003," Greene says, citing the Nutrition Business Journal, a nutrition industry publication.

That's almost three times as much as the $3.6 billion sold in 1997.

Produce remains the biggest category of organic retail sales. Soy beverage and organic dairy products (see page 15) have been among the fastest-growing segments.

"The increasing availability in conventional supermarket channels has played a major role in expanding organic food sales," Greene says.

Through the 1990s, natural foods stores were the dominant venue for purchasing organic foods. "Today, conventional supermarkets sell as much organic product as the natural foods sector," says Greene.

Direct marketing of organic produce is still a vibrant segment of organic foods distribution, she adds.

"Organic food remains a bright spot of opportunity for farmers," says Greene.

For more information, visit: http://www.ers.usda.gov/briefing/organic/. ■

—Catherine Merlo

Proud of their product

Like many locals, Gallegos, 54, holds two to three jobs to support his family. He has seasonal work as a meat-cutter, high school football coach and physical education instructor. Like other locals, he could have left for better-paying jobs in Santa Fe, Albuquerque, Los Alamos or Denver. But he stayed, and Sangre de Cristo Agricultural Producers Cooperative has rewarded him in ways he never imagined.

"This experience has meant quite a bit to me," says Gallegos, once an inexperienced farmer. "It's put food on people's tables, but it's also the quality of our product that I like. We got people together. And it's taught me a lot about running a business."

Through the Sangre de Cristo Agricultural Producers Cooperative, members have added roughly $12,000 extra to their individual yearly incomes.

Cloud Cliff produces 8,000 to 9,000 loaves of its Pan Nativo each month, which it sells for a wholesale price of up to $3 a loaf to natural food stores and other retailers in northern New Mexico. Cloud Cliff owner Willem Malten thinks there's room for growth in the Sangre de Cristo Agricultural Producers Co-op.

"It's taken them a long time to get where they are now," Malten says. "It's been quite a learning curve for them. Now, they're taking a harder look at it as a business."

Malten has offered ideas to the co-op: figure out a way to sell organic wheat berries; think about growing different varieties of wheat, such as spelt, amaranth or quinoa; look into the use of straw for the region's popular straw-bale housing; consider growing rotational crops.

"They're still trying to find their bearings," Malten says. "But I'm glad they're still motivated to remain in business. That, in itself, is a success."

Reviving northern N.M. ag

Jimenez would like to see the co-op eventually produce its own unique product, probably bread. "It would be ideal to have an integrated system," he says.

The co-op has brought more than a high price for the locally grown organic wheat. It's revived farming in northern New Mexico, a major wheat-growing area before World War II. It's improved incomes and added jobs here.

"The co-op has done wonders for the community," says Jimenez. "Every dollar that comes into northern New Mexico is turned over seven times in the community."

The co-op has received significant financial support, Jimenez says. The New Mexico Legislature has given some $50,000 in funding over the years to help the co-op operate. Expertise has not only been provided by Jimenez, but also by the New Mexico Department of Agriculture through staffer Craig Maple.

Even so, the co-op has had its share of troubles, Jimenez admits. "Our biggest challenge is getting cooperation within the group to follow the same procedures and growing techniques," he says. "We have had some leadership problems and the growing pains every group goes through."

Drought is a regular visitor to the area, making water a valuable, precious resource. "We've been hit hard by drought three out of the last 10 years," says Jimenez.

For Gallegos, marketing the co-op's product and name has been one of the hard parts. But he is taking a business management class and preparing to help draft a business plan for the co-op "to turn this into a real business," he says. "It may take a couple of years, but we are going to expand." ■

Cloud Cliff bakery owner Willem Malten (left) and baker Luis Chavez make Pan Nativo (Native Bread) from organic wheat flour supplied by the Sangre de Cristo Agricultural Producers cooperative. Pan Nativo is Malten's best-selling product, accounting for one-third to half of the Santa Fe bakery's annual sales.

Cream of the CROPP

Demand outstripping supply as CROPP organic dairy products go prime time

By Dan Campbell, editor

Travis Forgues, who with his father runs an 80-cow dairy farm near Alburg, Vt., can still recall the dire warnings they heard after deciding to have their farm certified organic in 1997. Too many dairy producers were going organic, and the market would soon crumble, they were told.

But the Forgues were undeterred, having been virtually organic since 1991 anyway. "'Trav,' my dad said, 'we are going to get on this mule and ride it until it's done.' Well, we're not riding a mule anymore; now we're on one of those big Budweiser Clydesdales, and we're enjoying the ride," Forgues says. "The market is screaming for more organic milk."

Indeed, with an annual industry growth rate of 20 percent, organic dairy foods seem to be on the verge of busting out of niche-market status. There were maybe 30 organic dairy farmers in the state when they went organic, vs. about 100 today.

The Forgues belong to the nation's largest organic co-op, CROPP (Cooperative Regions of Organic Producer Pools), which outpaced the category's envious growth rate, with its sales surging 36 percent last year. Overall sales of the co-op's Organic Valley Family of Foods label are projected to hit $265 million for 2005, up from $204 million for 2004.

About 85 percent of CROPP's sales are fluid milk, although it also markets other dairy products, eggs, orange juice, produce and meat. The LaFarge, Wis.-based co-op owns only one plant, a butter factory in Chase-burg, Wis., which produces an unsalted, Swiss-style butter. Otherwise, it co-packs with other dairy co-ops and companies around the nation and contracts with them for milk hauling and related services.

Travis Forgues and his family not only love life on their organic dairy farm, but the premium price they receive allows them to support two families with only 70 cows in their herd. Photos courtesy Organic Valley

Nationally, CROPP has more than 500 dairy producer-members who belong to one of 24 milk pools nationally. It added two new pools in the past year. In December, it opened for business in the Fort Collins, Colo., area and in April started its first pool in Texas (see sidebar, page 19).

Economics and philosophy contribute to going organic

The Forgues' motivation for going organic was "probably driven 75 percent by economics, 25 percent by the philosophy of it," Travis recalls. He was 23 at the time, just out of college, "and the idea of owning our own brand of organic milk was really cool."

The biggest attraction was that they were guaranteed a stable price of $18 per hundredweight (cwt) for two years. "That was really exciting — to not have to worry about the hills and valleys of milk pay prices." That remains the main selling point helping CROPP recruit about 100 dairy farmers per year.

"Our claim to fame as a co-op is stable milk prices," says CROPP Chief Marketing Director Theresa Marquez. "When farmers started the co-op in 1988 that was the goal, and stable pricing remains a steadfast rule today. It was unheard of at that time, but it has worked."

CROPP started out offering $2 or $3 per cwt more than the market for conventional milk and has been gradually pushing up the differential ever since.

This year, Forgues averaged $24 per cwt for his milk vs. $15 for conventional milk. That was earned on a $22 base price in Vermont, plus about $2 per cwt in various incentives.

The biggest downside to producing organic milk is that for those farmers who have to buy feed, the cost of organic grain is much higher — about double the cost of conventionally grown grain in Vermont, Forgues says.

Drought in portions of the Midwest and some other regions this year drove up organic grain prices. "Producers who don't grow most of their feed

have been hurting a bit," Marquez says.

Less stress boosts herd health

Forgues does not push his cattle to try to squeeze every last drop of milk out of them. Keeping them under less stress helps keep the herd healthier, he believes. That is doubly important on an organic farm, since antibiotics cannot be used (unless an animal's life is threatened by sickness; if treated with drugs, the cow then has to be moved to a conventional dairy farm and cannot return).

This approach also keeps cows in production longer than on most conventional dairy farms. His annual cull rate is only about 8 percent of the herd vs. an industry average of close to 30 percent, he says.

The average cow on his dairy is six years old, and he has a number of cows still in production that are 10 or older. "And no, we don't wait for them to become a broken-down animal that is all used up before we cull them," Forgues says, although he admits that the older cows require a bit more patience.

This approach makes good economic sense, he says. "When you figure out the cost of replacement cattle, it's pretty darn expensive to cull cows after two or less lactations."

Forgues' herd average is about 40 pounds (of milk per cow per day), the same as before the family went organic. "There are other organic producers around us averaging 70 pounds. It all depends on how you want to run your farm; we like a low-input approach and we're very happy with what we are earning."

While his herd is just slightly larger than the co-op's average of 65, the co-op has members with as many as 500 cows.

Prior to Organic Valley, the Forgues were members of St. Albans Cooperative, which Travis calls "a great cooperative." He still considers himself part of St. Albans, since CROPP contracts with it to truck and lab-test member milk. "They do our paperwork and we still use the co-op store," he says.

Pam and Jeff Riesgraf say what they like best about being CROPP members is the stable milk prices they receive, which has allowed them to accurately budget for the needs of their family and farm.

Minn. organic dairy was ahead of curve

CROPP's stable milk pricing policy is also what Pam and Jeff Riesgraf like best about the co-op. The Riesgrafs keep their 60 cows on 50 acres of pasture most of the year, and also grow corn and alfalfa near Jordan, Minn. Their herd average is about 50 pounds, but they too say their management style is "to not push the cows too hard; we believe they stay healthier when on pasture and can get their own feed," Pam says.

The co-op's base price in the Upper Midwest is $19.20 but will soon bump up to $20. With various incentives, the Riesgrafs earned $23 per cwt this year.

"With stable pricing, we can set a pretty accurate budget," she says. And with the farm supporting a family of five (her eldest son recently got married and moved to Florida), that's important.

"CROPP re-evaluates pay price at the end of every year," says Riesgraf, one of the co-op's seven board members. "The farmer always has a voice in what pay price is going to be," she adds.

The farm has been organic since her father-in-law bought it about 1950. "My father-in-law didn't even know what "organic" meant. It was just the way he farmed because he didn't believe in farming with chemicals. He instilled that in Jeff, and we've carried on that tradition," Riesgraf says.

Most of those years, the farm's milk netted no more than conventional milk. "It wasn't until the late 1980s that we even realized there was a market out there that would pay us more for our milk," says Riesgraf.

The Riesgrafs grow most of their own feed, but their farm was impacted by drought this year, forcing them to buy more organic alfalfa hay at inflated prices. Organic corn and soybean prices were also up sharply this year. In addition to drought, more organic beef and poultry is being raised in the Midwest, which further increases competition for organic feed grains.

"High-cost feed grain definitely puts a dent in your paycheck," Riesgraf says. If there is a bright side to the feed situation, she says, it is that it may trigger more interest among grain farmers in converting acres to organic. "I think we'll see corresponding growth in the organic grain industry."

Another type of growth Riesgraf is less fond of is the urban growth coming their way. "We're starting to get crunched from two sides," Riesgraf says. "The city [Jordan] sent out a notice three years ago that city limits will be moving out to the back of our farm by 2015. We hope we can hang on to the farm for the kids if they want

to farm [and it appears that at least some do, she says]. If not here, hopefully we can set them up somewhere else."

Under a program of the Minnesota Dept. of Transportation, the Riesgrafs have set aside 18 acres of the farm as wetland wildlife habitat, which is home to ducks, geese and other wetland critters.

"The best thing about farming is what it offers our kids — a chance to be outdoors, to explore and enjoy the environment and spend time with the animals. Most kids do not have that opportunity."

Co-op mentoring program

The Riesgrafs participate in CROPP's farmer-to-farmer mentoring program to help conventional farmers transition to organic. "Jeff and I have been mentors, not just to help Organic Valley farmers, but any farmers who want to transition to organic." The co-op encourages farmers interested in organic farming to talk to producers who have already made the transition.

"This helps them better understand what organic dairy farming is all about and its economic and environmental benefits, says Riesgraf. "Any farmer can do it if the desire is there. The best thing they can do prior to making the transition is educate themselves about USDA organic standards, (for more information on USDA's organic marketing programs, visit: http://www.ams.usda.gov/nop/ProdHandlers/ProdHandhome.html).

Transition rules include adhering to a three-year period with no pesticide applications on crops or pasture, no use of antibiotics or hormones in the herd for one year, compiling a log of all farm invoices and related records for the previous five years, and developing an organic farm plan. There's also an annual inspection to verify organic standards are being adhered to.

If a cow is organic from birth, it can be sold for organic meat when culled. But if it was transitioned into organic, it cannot be sold as organic.

Organic Valley is marketing organic beef, with a 1-pound pack of its branded hamburger now available in most Safeway stores. Marquez calls beef the toughest market to crack for organics.

Organic Valley products are made in 60 plants, including 10 cheesemaking plants in Wisconsin. "Our business is keeping a lot of small cheese plants operating, which in turn is important to the economies of many rural towns," Marquez says. "That too fulfills our mission, which is about far more than organic food — it's about keeping rural communities healthy and keeping more families on their farms."

Produce sales totaled just under $1 million last year, but that was double the year before, and sales are expected to double again this year. Marquez says some exploratory talks are underway about a possible produce-marketing federation with a Central American co-op to supply year-round produce.

But fluid milk remains CROPP's main engine. There are two lines of Organic Valley fluid milk: ultra pasteurized (52 percent of all sales) and high temperature, slow time (or HTST) pasteurized, which is 12 percent of its business. Cheese and butter represent 10 percent of sales and eggs 6 percent. About 13 percent of its business is private label.

Organic Valley last year introduced a soy beverage. It is just a blip on the radar screen at this point — sales are only 0.2 percent of the co-op's total. But interest is growing. "We're not looking for a huge market share with our soy milk, but we offer it as a compliment to organic milk for lactose intolerant people." Soy beverage cartons have a code on them that can be typed onto a Web page, which will then pull up a page about the farmer who grew the beans it was made from.

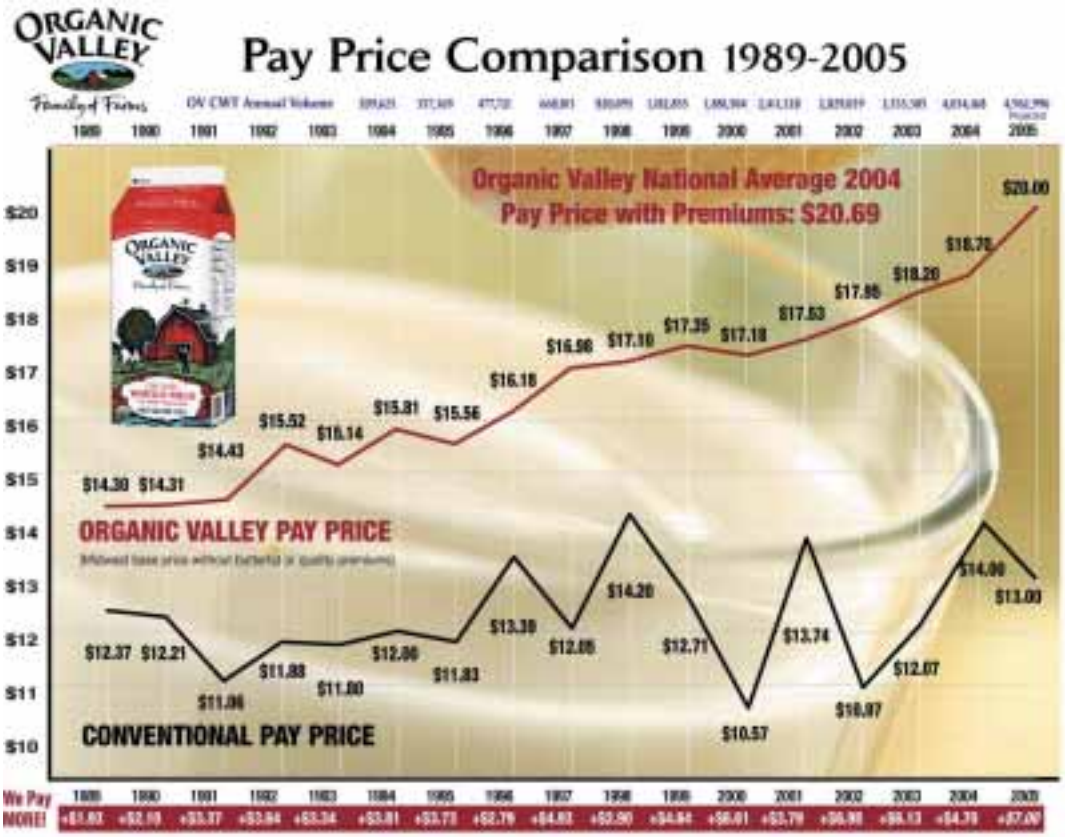

Chart and data provided by Organic Valley/ CROPP

Competition welcomed

One sign of the health of the organic dairy market is the rising interest of large dairy foods corporations in it,

Marquez notes. Dean Foods has acquired the Horizon organic brand, and HP Hood has the Stonyfield brand.

"This has pluses and minuses for us," Marquez says. It is obviously harder to set the category price with more players. "But you need players to make a category. So it's nice to see some big firms entering it — it shows that you have arrived as a real category that is here to stay.

"Our competition is probably outspending us 10-1," Marquez says. "But we view competition as healthy. It's reality and it's the American way. If you can't get in there and duke it out with the best of them, then you probably shouldn't be in business."

Right now, the biggest competition is for farmers. All organic brands are looking for more milk, Marquez says. "This is the first time demand has outstripped our ability to convert farmers. It's an unprecedented time for us — we've never hit up against a wall this hard before. We took on 100 more farmers last year but can't convert them fast enough to meet demand."

CROPP is in the design stage of building a 100,000-square-foot distribution center, with occupancy targeted for January 2007. The same site may also become the home of a fluid milk bottling operation in 2010.

It also has a brand new headquarters in LaFarge, which USDA Rural Development helped provide financing for (see "Inside Rural Development" column, page 43).

Offering farmers & consumers an option

Forgues makes one trip a month promoting the co-op and its products as a member of Cropp's farmer ambassador team. "I love bringing more farmers into the co-op," he says.

The fact that organic producers can make a living on smaller farms helps keep more farms in business and supports more rural communities, Forgues says. "We're giving more farm kids — and I'm one myself — a chance to come back to farm who might not otherwise be able to. We're offering them an opportunity."

At this point, rather than growing his herd, Forgues says there is much he and his father can do to improve their herd average by trying different forages, etc. "That's the fun part of farming — trying different things and seeing how the cows respond.

"I don't feel pressure to have to grow the farm. I'd get out of farming before I'd go down the road of industrial farming; it just wouldn't be worth it. When Dad and I can't do the work, or if our children don't want to do this, we're not going to bring in labor. Do that, and then you've got to milk an extra 50 cows to pay the labor. And then you need a bigger parlor — there's another $200,000 loan. That's the trap — they got you.

"I feel very happy and blessed to be in the position we are, being paid like we are, in a market that is growing with stable farm prices." ■

Executive committees key to CROPP governance

CROPP is directed by a seven-member board, all of whom are farmer-members elected at large. Elections are strictly one member, one vote.

Key to the co-op's functioning are eight executive committees (ECs), one for each of the primary commodities CROPP handles (dairy, eggs, beef, pork, poultry, soy, juice and produce). The ECs in turn make recommendations to the board. Representation on the ECs is by region, based on (in the case of dairy) being in one of 24 regional milk pools.

Each dairy pool averages 30 farmers. Their milk is loaded onto the same truck and delivered to the same plant. CROPP's Dairy EC holds monthly conference calls and meets face-to-face at least annually, sometimes twice each year.

They discuss everything from farm pay price, to feed cost, to herd health issues, to proposed changes to national organic standards. Co-op Marketing Director Theresa Marquez says it is unusual for the board to reject an EC recommendation. "But it does happen. Then they go back and forth."

"It's like our own House of Representatives," says Travis Forgues, a former Dairy EC member from Vermont. "We talk things out every month. It really is the voice of the farmers that makes this co-op run."

Having both a CEO (George Siemon) and board chairman (Wayne Peters) who are active farmers helps build trust and understanding between headquarters and the members, Forgues says. "George came to Vermont and helped get our first milk on the truck,"says Forgues.

Members' equity investment in the co-op is one month of their estimated annual sales, or 8.3 percent of projected annual income. "That investment goes into a CD, with the initial investment earning 8 percent interest," Marquez says. Equity is paid to members upon retirement or upon leaving the co-op.

With few physical assets to maintain, the co-op business philosophy is based on paying the best upfront milk and crop prices it can, Marquez says. Patronage is thus less than with many co-ops.

At the end of each year, 1.25 percent of co-op income goes back into the co-op to cover debt service, inventory, etc. Between 1.25 and 2 percent of income goes into patronage and profit sharing, allotted: 45 percent to farmers, 45 percent to staff and 10 percent to the community. Local scholarships and county fairs have benefited from these community investments, and more than a million dollars has been donated to children's health organizations. ■

Texas dairy farmer 'puts joy into his work'

Editor's note: This article is reprinted courtesy Organic Valley Family of Farms.

When Organic Valley dairy farmer Harry Lewis tells the story of how his family's 287-acre Texas dairy farm came to be, it's clear why he's so passionate about preserving it today.

It started with a stroke of luck in 1940. The United States government had purchased about 1,575 acres of farmland near Sulphur Springs for nine African-American families, who would produce food for World War II troops.

Harry's father, a newlywed looking to get his own start in farming, happened to be plowing his family's land when government officials drove up and offered him a farm.

"He got the land, the feed and the dairy cows," Harry recalls.

"The only thing he had to buy was sugar and flour. My father and his farm were just as much a part of the war. It was a service."

"Something in me said this is the right thing to do," says Harry Lewis, with his wife, Billye, and grandchild.

One generation to the next

Harry's family, including his brother, Robert, survived the ups and downs of farming in the 1940s, 50s and 60s: a war effort that provided income; larger, mechanized postwar farms that started to squeeze out small family farmers; and Texas drought.

Both Robert and Harry left the farm at different times to pursue their own careers. Robert moved to California and Harry attended Texas Southern University. But both men eventually returned to the farm, where they worked together. Harry also married his wife, Billye, and the couple raised their children: Annette, Angela, Erica and Wynton. Robert passed away in 2000.

By 2001, like many farmers in his community and across the nation, Harry was frustrated by fluctuating prices for the conventional milk produced by his 75-cow herd, as well as the increasing role of large corporations in agriculture, which he feels threatens farmers' independence.

Eager to make a change that would keep his family's farm intact, Harry had his own stroke of luck.

Organic Valley: ensuring the future

In 2002, representatives of Organic Valley visited Texas to recruit farmers to produce and sell milk in the region. Harry attended the presentation and accidentally left behind his tape recorder.

After he arrived home, two men from Organic Valley — CEO George Siemon and Wayne Shaker — were standing on his doorstep with his recorder. They had surveyed Harry's beautiful land, which for years, in keeping with the practices of his father, had been farmed without herbicides or pesticides. The men told Harry it would be easy to transition his farm to organic.

"Something in me said 'this is it, this is the right thing to do,'" Harry recalls. "Then they explained how I could do it. They didn't lie, they didn't manipulate me, and I liked that."

By Jan. 1, 2005, Harry's herd and land were certified organic. Since April, his cows' milk has been sold under the Texas Pastures™ label throughout most of Texas.

Organic ambassador

These days, Harry is a proud Organic Valley farmer-owner and organic "ambassador," spreading the word about the co-op, organics and its environmental benefits among his community and the state of Texas.

"I'll do whatever I possibly can to get organics in Texas," Harry says. "My county was once called the 'Dairy Capital of the State of Texas.' My plan is to bring it back as the 'Organic Dairy Capital of the State of Texas.'"

Most importantly, Harry is happy knowing that he and Wynton, 20, who will someday take over the farm, can continue farming the way the family always has. "We put in our work, but we also put in joy," Harry says. "And that's what we receive — a rewarding, wholesome organic lifestyle for my family and grandchildren, Joush and Kandis."

"We won't make millions," Harry continued, "but it's a great way of life." ■

Local-based, alternative-marketing strategy could help save more small farms

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Author's note: This article draws heavily upon Growing Home: A Guide for Reconnecting Agriculture, Food and Communities, *by Joanna Green and Duncan Hilchey, Cornell Community, Food and Agriculture Program, Ithaca, N.Y.*

The long, historic trend in U.S. agricultural development has been toward ever-fewer, larger farms — a process some have likened to being on a treadmill. Cycle after cycle, fewer farmers on larger farms account for increasing proportions of total production. The process has been fueled in-part by continued adoption of various mechanical and chemical innovations.

These innovations (including increasingly large tractors and machinery, pesticides, herbicides and fertilizers) permit greater tracks of land to be farmed more intensively by fewer farmers.

The sheer volume of products produced from this system has been so large that, even in the face of population expansion and exports, prices have tended to remain level or decline.

Historically, farmers not able, or unwilling, to get on the "industrializing treadmill" have found survival difficult. Many of these farms go fallow, or are bought out by neighboring farmers.

As an aftermath of these processes, farm families displaced from their farms tend to leave the local community.

Cut flowers proved to be a popular item at this stall at a New Orleans farmers' market. USDA photos

Many producers want to remain in farming, but not if it means industrial-scale farming. There are alternatives.

An alternative path

Many rural sociologists — including Thomas Lyson, Green and Hilchey of Cornell, Steve Stevenson and Fred Buttel of the University of Wisconsin, Larry Yee and Gail Feenstra of the University of California-Davis, among others — say that an alternative to this technologically intensive path of farming began to emerge in the late 1970s, called "alternative agriculture."

This alternative farming path provides strategies linking local production to local and regional consumption, without employing technologies that require an increasing scale of production. Ultimately, these approaches seek to keep as many family farmers operating as possible by improving their economic returns.

Less emphasis is placed upon production of commodities (de-commodification) and on diversification (less specialization). It involves finding local and regional market niches, rather than national and global markets. This approach is often pursued with an emphasis on producing nutritious, safe food in a manner that is environmentally sound. Explicit consideration is given to the social, environmental and economic links to the local community.

This article has a twofold purpose: 1) to review some of the marketing strategies used in these alternative approaches, and 2) to draw implications for cooperative organization.

Following are some alternative farm marketing approaches being used successfully:

- **Community supported agriculture** — involves individual consumers in a local community who pay an annual membership fee to contract with a local farmer, or farmers, for a share of their harvest. Typically, this is for fruits and vegetables, but may also be for meat. This involves forging a direct market link from the farmer to the final consumer.

  Supporters of this approach suggest products can be harvested at peak readiness (for flavor, texture, vitamin and mineral content) for consumption, and delivered within hours of being picked. Farmer and consumer come to know each other and can develop mutual trust (and a personal relationship) concerning product quality, quantity, consistency and predictability. Those consumers wanting special handling and organic production have much greater assurances they are getting what they pay for.

  Ideally, the farmer reaps the greatest return of value from the consumer, not having to pay wholesalers or retail middlemen.

- **Restaurant (or culinary) agriculture** — refers to a food supply relationship between individual farmers and managers, owners and chefs of restaurants. The relationship is parallel to that described above between farmers and final consumers. This linking can be particularly lucrative for the farmer when restaurateurs are looking more for quality and are less concerned about price.

  However, the farmer must be able to provide products of top quality, on short-notice and in a reliable manner. Produce, meat, baked goods and flowers are examples of local goods restaurants may want.

- **Institutional food service & farm-school suppliers** — Many communities across the nation have helped local agriculture and their citizenry by developing links between farms and schools, hospitals, prisons and nursing homes. Emphasis on nutritious food, and children's health, has been particularly useful in forging direct links between farm and school lunch programs.

- **Farmers' markets** — Less formally organized than farm stores, farmers' markets are generally held at designated locations within a community — such as a community building, village square or parking lot. Local farmers, processors, artisans and craftspeople bring their wares to sell at designated times. Farmers' markets have advantages over supermarkets in that food grown and harvested locally is likely to be at a peak for freshness and nutritional value.

Local farmers retain greater value by selling directly to the consumer. Farmers' markets can also provide a test market for new products that, if successful locally, might be expanded to a larger market.

- **Cooperative farm stores** — More prevalent in Europe and Canada than the United States, cooperative farm stores are small grocery stores oriented to carrying local products from farmers and food processors. Products carried may include dairy foods, meats, fresh and canned fruits and vegetables, root crops, mushrooms, dried beans and other legumes, wine and liquors, fresh-baked goods and condiments. These stores are generally owned by 10 or fewer farmers. Most numerous in France, these stores are vehicles for supporting and enhancing the local culture with local products, such as Roquefort cheese from Roquefort, France, and Kona coffee from Hawaii.

- **Produce auctions —** While not a new innovation, produce auctions have made resurgence in recent years, with many filling a niche demand for organic foods and fresh, local food production. Customers of these auctions are frequently roadside stands, grocery stores and restaurants. The auction houses typically provide not only the facilities, but grading services, pre-boxing and/or pallets, as well as collections and overall management. They represent an intervening link between producers and consumers, though they seek to emphasize localism.

- **Cooperative marketing —** Green and Hilchey argue that traditional agricultural cooperatives (meaning those formed in the 1930s and 1940s) have not been the choice of farmers seeking alternative agriculture strategies. In order to compete with large multinational investments firms, many older cooperatives increased scale and geographic reach. This has occurred to the degree that many have become large, bureaucratic organizations.

  Size and bureaucracy tend to not easily lend themselves to experimentation with new "alternative agriculture" farm production products. However, new and much smaller cooperatives (those with less than $500,000 in gross sales, for example) are being formed in response to the mutual interests producers have in developing markets for crops and products that are out of the mainstream of usual production, Green and Hilchey note. This is particularly the case for fruit and vegetable production in the Northeast.

Produce auctions, farmers markets and community-supported agriculture efforts are all well-adapted to the producer-owned, co-op business structure.

- **Value-added activities —** Value-added activity, in which farmers retain ownership of the product post-processing, can enable farmers to keep more value for their products. Value-added activities may range from capital-intensive ethanol plants and sugarbeet processing plants — which require relatively large investments from farmers and large workforces — to mobile meat processing units and "kitchen incubators," requiring much smaller investments and, typically, less than 10 employees.

- **New-generation cooperatives —** These co-ops are a relatively recent phenomenon, most being formed in the past 10-15 years. They generally are formed by farmers who want to process locally produced commodities, although not necessarily for local markets. Examples include ethanol and corn syrup from corn, biodiesel from soybeans, sugar from sugarbeets, pasta and bread from wheat, and beef and bison processing plants. Output of these firms may go into regional, national and international markets.

  Heffernan of the University of Missouri estimates there are approximately 200 of these plants in the United States. They tend to be associated with industrialized agriculture and farming systems that have historically involved increasing scale and use of technology. It is a strategy that seeks to provide outlets for commodity production while retaining value (obtained from processing) for the local farmer.

The local advantage

Nearly all of these activities involve some aspect of localism. Community supported agriculture, restaurant agriculture, farmers' markets and farm-to-school and institutional buying programs all typically have strong "buy-local" themes. Buy-local campaigns seek to expand the consumption of local products, thereby bringing greater economic returns to the local area, rather than sending those same consumption dollars "out of town."

Farmers selling their products directly to consumers do not have to share value with middlemen. Dollars spent locally for local products multiplies the economic benefits of this spending.

It also draws out the creativity of local people. Part of buying locally

may also involve products that are almost emblematic of shared local values. For example, a rural town may be known as the "pumpkin or blueberry capital" of its state; or the highlight of a town's annual events calendar may center on hosting the state's sweet potato, almond or turnip festival. In some states, these are important tourism events. Crops can become a primary focus of community identity — one which the entire population wants to preserve.

This local identity can sometimes be expanded to a regional or statewide identity with a great deal of consumer value. Green and Hilchey note such marketing messages as: your family-farm neighbors; keeping dollars in the local community; knowing the farmer who produced your food; preserving open space in the community. These types of appeals may be combined with such regional identifiers as: Pennsylvania Dutch, Appalachian, Blue Ridge, Low Country, Up-Country, Down East, Eastern Shore, Twin-Lakes, and countless others.

Role for co-ops

While many of these strategies do not rely on formal cooperative organization in their development, cooperative formation could be quite useful in resolving some of the difficulties and challenges.

Cooperatives have been successful in agriculture because relatively small producers with similar production operations and output had a strong common need for marketing services and production supplies. Farmers marketing to schools, nursing homes, hospitals and restaurants face similar product assembly, marketing coordination and standardization problems. These market niches require timely, dependable and reliable delivery of high-quality products. They also require a diversity of products — fruits, vegetables, dairy and meats. However, the vagaries of farming — weather being the largest — can make the best of these links tenuous.

A local cooperative organization can provide a mechanism for drawing upon several farmers for a variety of products, while providing for assembly, delivery and standardization that ensures quality. This same cooperative might also provide a bargaining function.

The larger the volume, the greater the number of customers and cooperative members, the more formal relationships become. Beyond a certain size — often thought to be about 100 members in a cooperative — relationships become much more "business only," and much less personal. Developing trust with chefs and school administrators, for example, becomes more difficult.

Smaller scale allows for more personal relationships, the development of trust and true "localism." However, larger-scale operations may allow for greater flexibility in terms of both product diversity and processing.

New-generation cooperatives are slightly different from the above activities in terms of localism. They are generally organized for much larger markets than those found locally. They are less experimental, in that they focus on the development of new markets for traditionally produced commodities. However, they are oriented to capturing more value for the local farmer and often do so while emphasizing the regional and local identity of the product.

Lyson, and others, argue that any of these alternatives should be pursued for a number of reasons, not the least of which are the rural development goals of economic growth and quality of life enhancement (see sidebar below on community benefits).

This article has suggested possibilities for smaller cooperative organizations. However, larger cooperatives — even if only in support of the activities of others — could help pursue alternatives that are more directed toward maintaining farmer traditions and the survivability of farmers as a group while sustaining small rural communities. ■

How small farms benefit communities

Preserving small farms provides numerous benefits for rural America. They help maintain the population base necessary to keep local schools, churches, restaurants and retail stores operating. Green and Hilchey summarize this series of benefits of alternative agriculture development. They note that local farms:

1) Provide jobs and purchase inputs and services from other local businesses. They achieve a high "economic multiplier effect" by recirculating dollars in local economies.

2) Preserve open space, beautify landscapes and attract tourists, providing further economic benefits.

3) Provide fresh, wholesome foods with excellent taste and nutrition.

4) Benefit the environment by protecting watersheds and enhancing wildlife habitats and biodiversity.

5) As independent small businesses, they contribute to a strong middle class and a healthy civil society.

6) Provide a wonderful environment for raising families.

7) Connect all people with the rich cultural heritage of rural communities. ■

A Fresh Advantage

Co-op helps small farms market produce to high-end restaurants

By Pamela J. Karg

Editor's note: Karg is a Baraboo, Wis.-based communicator who specializes in agriculture and cooperatives. She also serves as the Sauk County volunteer citizen on the Southwest Badger Resource Conservation & Development Council.

While on a business trip for her off-farm job, Laurie Moore was reading an airline magazine when she came upon a restaurant review of an eating establishment back home. When she returned home to Woodland, Ala., Moore stopped to see the chef and talk some business. The meeting was the start of a business relationship that allows Moore and her husband, Will, to sell fresh farm produce directly to high-end restaurants, where chefs are committed to "slow foods" cooked from scratch with the freshest, locally grown ingredients.

In fact, the Moores grew their business to the point where Laurie quit her off-farm job to work full-time on the sixth-generation, 65-acre farm and cattle operation that has three acres planted to produce. By 2003, their income had reached about $10,000 per acre for that portion of the farm planted to serve the specialty produce marketplace.

Production did not keep up with demand, however. That's when they decided to form a cooperative — Farmer's Fresh Food Network — to help small Alabama and Georgia farmers tap into this growing, niche-marketing trend.

Co-op spreads benefits

Proprietary businesses have their advantages: no board; no bylaws. A person can see a need and respond quickly. Owners can retain earnings. There are many other reasons the Moores could have kept the business for themselves.

Laurie and Will Moore wash and bag 'certified naturally grown' produce from their farm for delivery to restaurant chefs who appreciate the quality, flavor and nutritional value of their crops, often delivered within hours of harvest. Photo by Von Williams, courtesy Birmingham News

Atlanta Chef Joey Masi shares cooking tips with the Green Market at Piedmont Park. Photo courtesy Green Market at Piedmont Park

"We've thought about the decision to form a cooperative many times while developing bylaws, electing a board and so on," she says. "There are times when another [business] option would have been personally easier for us. But I think the cooperative was the right way to go because it will benefit local farmers. What we've gone through so far are just the initial steps of putting everything together, but once we're through that, we think it will prove to be a good move," she adds.

The Network is just one example of farmer cooperatives forming across America to meet the needs of small farmers who want to serve specific market niches. In fact, the Network itself grew out of several local initiatives specifically started to help the area's smaller farmers deliver their goods to unique marketplaces.

Marketing bolsters farmland preservation

In a region where agriculture is experiencing pressure from urban encroachment, higher property taxes and limited marketing opportunities, there is a trend of farmland loss, says Cindy Haygood, executive director of Rolling Hills Resource Conservation and Development Council, which operates under USDA's Natural Resources Conservation Service. Farmers in the area, especially those with small operations, say they want to keep farming.

This trend resulted in the creation of a locally led farmland preservation effort. It has made great strides in preserving farms and educating people on the importance of farmland preservation.

"But once you preserve farmland, then what?" asks Haygood. "The group decided it also needed to create marketing opportunities for local producers."

That's when they created Cotton Mill Farmer's Market, in Carrollton, Ga., which today attracts hundreds of customers. With its success came more discussions and brainstorming ideas that led to the Moores cooperating with other producers to create the Network to serve their growing list of Atlanta-based chefs.

Through the Network, farmers pool products to market to restaurants, as well as educational and medical institutions. Farms eligible to participate in the cooperative are located in and around the Carroll County region, including some counties just over the state line in Alabama.

Moore says the farmers involved tend to have between three and five acres of produce crops in production. The goal of the Network is to "keep it local," she adds.

Amy Bentoski of D & A Farms is one of many farmers who market fresh Georgia-grown produce to urban consumers through Green Market at Piedmont Park, Atlanta. Photo courtesy of Green Market Piedmont Park

'Smart farms'

Moore describes these small farms as 'smart farms,' and says they are being operated by a new breed of farmer. "We use technology that will allow us to make a living from the land, even when we get to be 70 and older, without killing ourselves. On our farm, for example, we literally have no tractor. We use a mulch composting system and have a very low impact on the environment. That's how many of these farms are operating."

Moore says members are reducing their household living cost and simplifying their lives. "We believe you cannot just look at the land and the soil as what it can do for you today without putting anything back into it for the future. So our over-riding goal with the Network is to allow small, sustainable farms to make a living by supplying the community with quality products."

The farmers trade food to feed their families. In addition, they're working with human services departments to allow low-income families and the elderly to use existing food stamp vouchers to purchase fresh fruits and vegetables through the farmers' market or Network.

The Moores have also joined the Pepper Place Saturday Market in Birmingham, Ala., a farmer's market which attracts up to 3,000 people weekly. That gives Laurie 200 to 300 additional customers per week. Through the Network, the Moores and other cooperative members also continue to participate in the Piedmont Park Greenmarket in Atlanta.

USDA, other funds bolster co-op

In early 2004, the Rolling Hills RC&D acquired a $2,500 grant from the West Georgia Community Foundation to get the Network started. In the fall of 2004, Rolling Hills acquired a $105,000 grant from USDA's Community Foods Grant Program. The funding helped meet start-up needs for the Network for the first three years. Purchases included a refrigerated truck, walk-in coolers, a commercial-grade salad spinner and other equipment.

The RC&D Council administers the funds for the Network. In addition, the Network uses the services of the University of Georgia's Center for Agribusiness and Economic Development to provide board training to its directors.

Combined with the increasing number of farmers' markets in the area, along with trading between producers, the Network has added a community-supported agriculture (CSA) component to the mix to allow some producers to extend their seasons. Under the CSA arrangement, customers buy subscriptions in the farms for fall or winter; subscribers share in the bounty as crops are harvested.

Moore says the Network has also attracted a few farmers with pasture-fed beef, eggs and greenhouse operations. These allow the Network to market a greater variety of products for a longer timeframe throughout the year.

In its first year of operation, the Network marketed some $30,000 in products. As the newly hired project manager for the Network, Moore anticipates that figure will grow to $100,000 this year. ■

"Our over-riding goal with the Network is to allow small, sustainable farms to make a living by supplying the community with quality products."

Wendy Crager, who owns Crager/Hager Farm in Bermen, Ga., grows strawberries, garlic, lettuce, mesclun greens, potatoes, tomatoes, blueberries, peas and beans which are marketed through Farmer's Fresh Food cooperative network. The Cragers plan to make Gonzo Gourmet Pesto and other sauces when the area's certified kitchen is built at the agriculture center in Carrollton. Photo courtesy Farmers Fresh Food Co-op

Slice of the market

Penns Corner, Tuscarora co-ops target growing restaurant trade

By Stephen A. Thompson
Assistant Editor

Many mainstream farmers see organic growers as little more than hobbyists, depending on ladybugs, manure and luck to grow crops. But successful organic producers make their own luck. They are coming into their own by using innovative agricultural techniques to protect their crops while also developing their business skills. Many are finding small, but profitable, niches by growing high-quality crops and catering to restaurant chefs and other customers who demand the best.

Pennsylvania is home to a growing number of such farmers who have joined forces to make their operations work with the help of niche-marketing cooperatives. The Tuscarora Organic Growers Cooperative, based in Hustontown, sells mainly in the Baltimore-Washington area to restaurants and some small high-end retail outlets. Growing for markets in the Pittsburgh area are the members of Penns Corner Farm Alliance, a co-op that does not exclusively sell organic produce, but which shares Tuscarora's commitment to high-quality products and sustainable agriculture.

Harvesting coordination crucial to co-op success

Tuscarora Organic Growers Cooperative was organized in 1988, when Jim Crawford, the owner of an organic operation called New Morning Farm, decided to spin off his produce wholesaling business, and to build new markets for his crops and those of his neighbor organic producers.

In the beginning, members had little idea how to make the operation work. The cooperative puttered along for a few years, selling "a few cases of this and that," says Tony Ricci, sales and marketing manager. What was needed was a comprehensive marketing and organization plan. They got it when they hired Chris Fullerton as general manager. Fullerton's efforts turned the co-op into a professional organization with a constantly-growing customer base and sales.

The heart of the operation is a system under which each of the 17 member farms commits to supplying a certain amount of a given crop at a given time. During the winter, Fullerton talks with each farmer; together they draw a plan based on the producer's past record, preferences, projected demand, etc. A grower's commitment may include new crops, and it may make up only a portion of his projected output, since each member is free to sell produce through

Heirloom variety tomatoes, such as these, are in demand by a number of chefs who look to co-ops such as Tuscarora and Penns Corner in Pennsylvania for their supply. Photos courtesy Tuscarora Organic Co-op

other channels.

Growers' commitments are loaded into a computer relational database, which every week generates a list of the crops expected from each grower. "We had to get the database developed especially for co-op," says Ricci. "Nobody offered a database system that did what we needed." Off-the-shelf systems were centered on keeping track of available produce, but didn't keep track of individual growers.

The custom-built database was put into service 10 years ago, but was given an overhaul beginning in 2002, using lessons learned in the interim. The revamped system was inaugurated the following year. The new database has turned what used to be a headache into easy work. "We used to do everything using spreadsheets," Ricci says.

Once commitments are entered into the system, they are not carved in stone. The co-op keeps in constant touch with members, and figures are updated as necessary.

"We have to be flexible," says Ricci, "so we can deal with changes in the market and with our own changing conditions." If the co-op is unable to sell all of the committed produce, the loss is split evenly among the growers.

Quality, reliability are co-op's lifeblood

The ability to present customers each week with a list of available products is a big advantage. Another is the high quality of the co-op's produce. "We sell quality, not quantity," Ricci says.

The co-op's focus on building close, one-on-one relationships with its customers is another strong point. As the person in charge of marketing, Ricci spends much of his time cultivating his relationships with chefs and other buyers.

Part of building those relationships is providing what they ask for, even if the co-op doesn't currently have it. "If we don't have what they want, we get it from somebody else," says Ricci.

The decision to keep the co-op open all year has also been key in maintaining its customer base, says Ricci. "Staying open means we keep the trucks running, and our customers loyal."

The problem is what to sell during the lean winter months. Winter root crops take up some of the slack, and some of the members have greenhouses. The co-op also sells mushrooms from a Pennsylvania grower, citrus fruits from Florida and even organic olive oil.

> *"Organic farming is one of the most innovative sectors of agriculture. New products are coming out all the time."*
>
> *—Tony Ricci*

The ultimate goal is to run the co-op in the black in the winter — a goal that remains unmet. But last winter's figures were conspicuously better than those of the winter before, with sales higher every week — and one week showing an increase of 40 percent over the same week a year before.

Along with the professionally-run marketing operation, the growers use the latest in certified organic pest- and disease-control methods. "People don't know it," says Ricci, "But organic farming is one of the most innovative sectors of agriculture. There are new products coming out all the time."

The secret to successful organic farming, according to Ricci, is to maintain a proper environment in the fields, and to not depend on "quick fixes." Instead, he says, organic farmers monitor the conditions of their fields and attempt to keep things in balance. When problems do occur, there are products available, such as a hydrogen peroxide mixture, that control bacteria and fungus while still meeting organic standards.

"A lot of people think we just howl at the moon and hope for the best," Ricci chuckles. "But we just use different tools."

Ricci believes that operations like Tuscarora can offer desirable alternatives for farmers who today find themselves caught in the price-cost squeeze endemic to mainstream farming. "There are too few options for farmers due to all the consolidation and centralization," he says. "We don't depend on government guiding the market; we take the risks ourselves."

So far, the approach seems to be working.

Penns Corner co-op pleases choosy chefs

About 70 miles to the north, the members of Penns Corner Farm Alliance are using a similar approach. Penns Corner was founded after current president Pam Bryan and other produce farmers in the State College, Pa., area attended a meeting held by the Pennsylvania Association for Sustainable Agriculture (PASA) to discuss a proposed local farmers market.

The upshot of the meeting was that such a market would be about five years away. Bryan and her friends were disappointed. "We wanted to sell things *now*," she remembers.

They found start-up funding from PASA, but with a catch. PASA would not fund a purely organic organization. The result was that, while most of the cooperative's members are certified as organic, the co-op is open to other farmers that practice sustainable agriculture.

After the co-op's launch in 1999, the next step was pure serendipity. At a PASA meeting, Bryan met the executive chef for a large Pittsburgh restau-

rant chain called (The Big Burrito.). Bill Fuller was looking for a source of high-quality fresh produce. Trained in California, Fuller had returned to his home state only to run into trouble trying to find good-quality vegetables for his dishes. It was a match made in heaven.

Fuller, says Bryan, "took us by the hand." He suggested crops to grow, and offered business advice. They also received technical assistance from the Keystone Development Center — a cooperative development service, which, among other things, paid for Tuscarora's manager, Chris Fullerton, to come out and talk about his co-op's marketing database system.

The co-op offers an interesting variety of produce in addition to the familiar vegetable staples. Edible flowers are produced by one operation, including nasturtiums and squash blossoms. Bryan sells young whole plants called "micro-greens" and "demi-greens." Growing and packaging the tiny plants is labor intensive she says, but customers pay a premium for these top-quality additions to salads and other dishes.

Customers request new crops

Other items sold by the co-op include free-range eggs, turkeys, grass-fed lamb, honey, blueberries, asparagus, and even pasta and tofu, which along with mushrooms are supplied by outside sources. Some of the crops were originally unfamiliar to co-op members when asked for by customers.

Others were all too familiar. "We found that people were asking for things we thought of as weeds," Bryan says. Those edible "weeds" include chickweed, lambs quarters and stinging nettles.

About six years after its founding, the cooperative has 14 members located in nine counties surrounding Pittsburgh. The co-op's customers are a little more varied than Tuscarora's. They include about 19 restaurants and other establishments — some of them members of the "slow food" movement — and the Pittsburgh Food Bank.

But the co-op also sells through a kind of "produce basket of the week club." Part of a nation-wide movement called Community Supported Agriculture (CSA), the program allows individuals to buy subscriptions to four or eight weekly deliveries of fresh produce, usually beginning in June. Other sales venues include a farmers market in College Station, begun when a friend of the co-op invited members to use the parking lot of building he owned, and local country and golf clubs.

Eric Lichty, a member of Tuscarora, based in Hustontown, Pa., delivers his organic watermelons to customers throughout the Baltimore-Washington, D.C.-area.

Like the Tuscarora co-op, Penns Corner stays open in winter, and for the same reason. "We originally wanted to close during the winter, but Big Burrito convinced us that staying open would help us keep customers," says Bryan. Some members sell most of their produce through the co-op; others use it mainly as a backup when they're unable to sell their entire output to regular customers or other venues.

Bryan believes that future growth will come mainly from CSA subscriptions. "We can drop off a lot of boxes at one point, she says, "and if we have a crop failure — say, due to deer — we can substitute another crop." The main problems with the program, she says, are the logistics of putting the boxes together and keeping everything refrigerated until delivery.

Things are going well enough that Penns Corner recently hired a full-time manager, with an eye to expanding sales. "If we can sell all we grow," she says, "we can double our sales." ■

Who you gonna call?

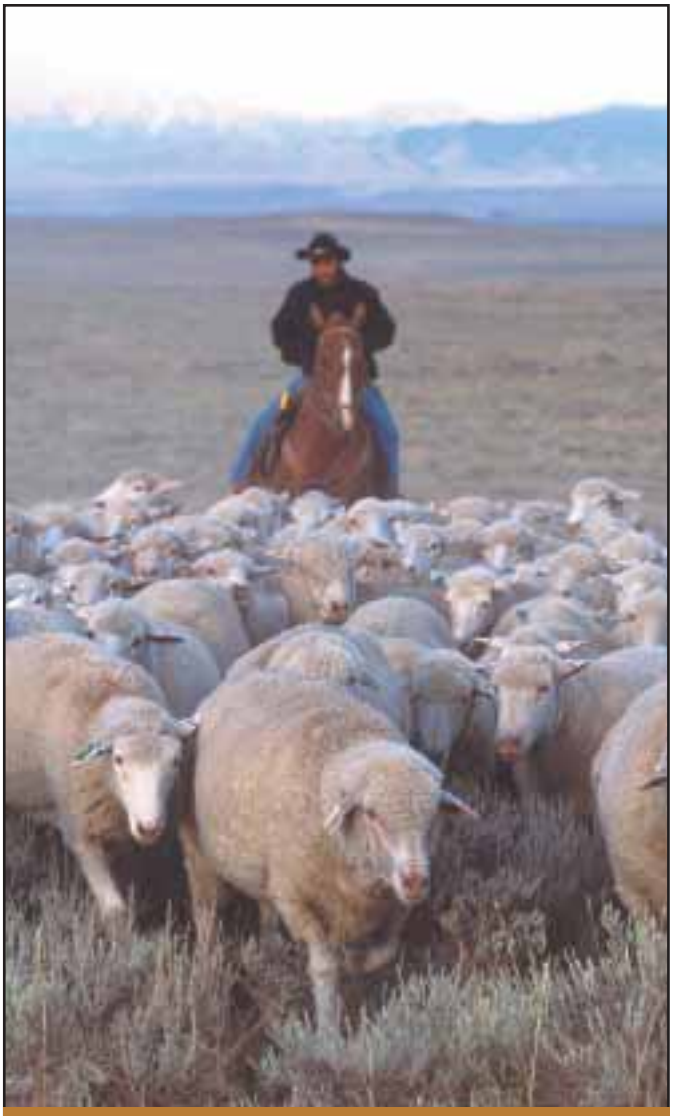
ATTRA output helps low-input agriculture expand its market niche

By Paul Williams, ATTRA Publications Editor

An Amish farmer in Iowa drives his buggy to the nearest pay phone and orders the latest free publications about organic pest control for corn and soybeans. A peanut grower in Georgia dials the same number to find out how to get by using fewer purchased inputs, such as pesticides, herbicides and fertilizer.

In Oklahoma, a group of Cherokee ranchers goes online at *www.attra.ncat.org* to learn how goats can be used to reclaim grazing land. In California, Montana, New York — all across the United States — farmers and ranchers are looking for reliable information on sustainable and organic agriculture, on how to qualify for government programs that reward land stewardship and resource conservation, or on how to pursue profitable niche markets, such as organic meats and grains or ag tourism.

The answers to these and many similar questions are theirs free from the ATTRA National Sustainable Agriculture Information Service — a project of the nonprofit National Center for Appropriate Technology (NCAT), headquartered in Butte, Mont.



Sheep ranchers can learn about controlling noxious weeds from ATTRA. USDA photos

Since 1987, ATTRA has been providing American farmers, ranchers, Extension personnel, educators and others involved in commercial agriculture with information and research services related to low-input, sustainable and organic production. Thanks to continued support from USDA Rural Development, ATTRA can offer all its publications and services for free.

How ATTRA works

NCAT employs about two dozen specialists in agronomy, horticulture, animal science and health, soils, water, food systems, agricultural energy and economics. These specialists research and write ATTRA publications that feature the latest developments in sustainable agriculture, leading-edge research and the results of studies and practical innovations from America's most progressive farms. Many of NCAT's ag specialists are themselves farmers and market gardeners who apply the practices and information on their own farms that they suggest to others.

While ATTRA's publications and other services are only offered to American producers, the scope of ATTRA research is worldwide. Its specialists travel to Europe, Asia and South America to study advances being made there and to determine how these practices may be adapted to the needs of American farmers and ranchers.

ATTRA has about 250 publications and other materials (such as PowerPoint slide shows and CD-ROMs) that cover a wide variety of topics, including horticultural crops, field crops, soils and composts, pest management, water quality and conservation (including irrigation), and livestock (cattle, hogs, small ruminants, and poultry). Other publications address grass farming, marketing and

business strategies, risk management and agricultural energy. All of these publications share a common perspective: sustainable farming for a sustainable future in rural America.

While these publications are ATTRA's mainstay, there is another ATTRA service that is unique: a toll-free helpline —1-800-346-9140 (English); 1-800-411-3222 (Spanish) — that producers can call to talk to an ATTRA agriculture specialist. Often, a caller's question can be answered by one of the ATTRA publications. But when it cannot, a specialist takes the question, researches it, and sends the client a report on the findings, including sources of more information. The process usually takes a week or less.

ATTRA has a Web site, *www.attra.ncat.org*, which was redesigned two years ago, and has evolved into a robust, interactive Web resource. You can read or download all the ATTRA publications, find breaking news and sources for grants and other funding and find announcements for conferences. It contains hundreds of links to other ag-related resources. You can even submit questions about sustainable agriculture on-line, through the "Ask a Sustainable Agriculture Expert" feature.

In 2004, the NCAT staff working on the ATTRA project wrote or updated more than 50 of their publications and responded to some 35,000 questions and requests for materials, while visitors downloaded more than 300,000 publications from the ATTRA Web site.

Other NCAT activities

In addition to publications and research, NCAT's ATTRA project can provide speakers (English, Spanish and Laotian) for conferences and workshops. ATTRA is also translating many of its publications and field-ready pest management materials into Spanish.

Research projects include whole-farm planning for grass-based beef production and how to protect water quality while using chicken litter fertilizer. NCAT's ag-energy program is researching issues that surround the emerging markets for biofuels (ethanol, biodiesel, methane) and what they mean for rural development and sustainable farming, with plans underway for a national conference on agricultural energy in 2006.

Low-tech hoop houses help vegetable farmers extend their growing season.

To find out more about ATTRA's publications, research services, and other NCAT resources, call (toll free) 1-800-346-9140, or visit the ATTRA Web site, *www.attra.ncat.org*. ■

Cattle waiting to be rotated to a fresh grazing paddock.

Trading places

Fortunes of California rice co-ops took opposite trajectories; as RGA faded, FRC ascended

By Jennifer J. Keeling and Colin A. Carter

Editor's note: Keeling is a Ph.D. candidate in the Dept. of Agricultural and Resource Economics, University of California, Davis. Carter is a professor in the Department of Agricultural and Resource Economics, University of California, Davis.

Farmers Rice Cooperative (FRC), with the Sacramento skyline on the horizon, is California's largest rice processor and marketer. Photo by Don Satterlee, courtesy FRC

After nearly 80 years of operation in California's Central Valley, the Rice Growers Association of California (RGA) closed its doors in August 2000. Once a dominant cooperative that handled more than 70 percent of the total California rice crop, RGA's market share had dwindled to just 5 percent in its last year of operation.

While RGA's performance and market share began to decline in the early 1980s, the cooperative's primary competitor and sometimes ally — Farmers' Rice Cooperative (FRC) — steadily increased in size and significance in California. This article is based on interviews with members and management of the failed RGA and the surviving FRC. In addition, historical documents and comparative financial analyses were used in recounting the story of two cooperatives and explaining what factors may have contributed to FRC's success and RGA's closure, while operating side-by-side.

Shared history

In the spring of 1912, USDA sent agriculturalist Ernest L. Adams to California's Central Valley to develop a commercial rice variety. By 1915, a strain of short grain rice was profitably grown in California, and regional rice growers had formed a marketing cooperative known as the Pacific Rice Growers Association (PRGA). Fractionalization of the membership eventually led PRGA to reorganize in 1921 as the Rice Growers Association of California (RGA). In its first year of operation, RGA marketed 43 percent of the California rice crop; by 1926, nearly 75 percent of the California rice crop was grown by RGA members.

The young cooperative experienced tough times during the Depression, when RGA lost its first mill to a fire. To complete a second mill, growers were charged higher fees, resulting in the defection of many Depression-weary members. Once the new mill was brought on line, RGA began an advertising campaign to increase domestic demand for its rice. The campaign only met with limited success. Most consumers preferred the fluffy, long-grain rice that was produced in Southern states, to the sticky medium- and short-grain rice grown in California's Central Valley.

Following the unsuccessful domestic promotion attempts, the co-op began to focus more attention on Pacific Rim markets, Puerto Rico and Hawaii, as well as the domestic brewery and breakfast cereal markets. These channels would eventually become important market outlets for RGA.

Following the end of the Depression, RGA experienced several years of sales and membership growth

that eventually prompted RGA's board to cap the cooperative's membership. In part due to these restrictions, a group of RGA members left the co-op in 1944 and formed the Farmers' Rice Cooperative (FRC), along with other Central Valley rice growers. Through the 1950s, RGA built or purchased a number of rice processing facilities. However, it was RGA's purchase of the S.S. Rice Queen vessel in 1960 that marked the cooperative's integration into the shipping industry.

Model of success

By 1965, then RGA president and San Francisco mayor Joseph Alioto reported that "RGA's sea-going vessels have transported 9.3 million hundredweights of milled rice" and contributed to the creation of "the largest milling organization in the world" (Westlund, 1968). Affirmation of RGA's influence came in 1971, when Eric Thor, then administrator of the Farmer Cooperative Service of USDA said "RGA is one of the leading cooperatives in the United States today. The leadership of RGA is a model for all cooperatives to follow" (Westlund, 1971).

Rumors of a possible RGA/FRC merger surfaced in mid-1970. Reportedly, only informal conversations between management and board members of each organization occurred, but a joint statement released by management of both cooperatives initially seemed to express a favorable view: "For some years we have been making shipments of rice in the same vessels and, by arrangement, have been using the same loading and unloading facilities. As a result of this close association, it is only natural that some thoughts should be directed towards merging operations" (Grundmand, 1970).

In addition to sharing facilities and shipping expenses, RGA and FRC routinely brokered their rice through the same agent, Grover Connell of Connell Rice & Sugar. However, no merger occurred, and the two cooperatives remained separate entities.

War, drought and flood-damaged crops in Asia during the 1973-74 and 1974-75 crop years ensured RGA of good export sales through the Food for Peace, or PL-480, program. In fact, demand for rice was so great that, in his 1973 annual meeting address, RGA Executive Vice President Robert Freeland said "demand far exceeds supply."

Former managers often said the RGA board was passive and ill-equipped to scrutinize the complex business decisions it was charged with supervising.

However, the elimination of U.S. domestic acreage controls in 1975 resulted in an estimated California surplus of 18-23 million hundredweight — or more than 50 percent of total U.S. medium-grain rice production. By 1980, RGA's members were again enjoying good returns and prices that were described by one manager as "The best we've had. The best in the industry. The best in the world"(Kirk, 1981).

Surpluses create challenges

Without acreage controls, however, large rice surpluses accumulated once again in the early 1980s. RGA entered this critical decade by warehousing rice in whatever space was available. At times, these locations included a vacant Safeway shopping center and an idled Libby's canning plant.

Piles of rice contributed to the development of an international scandal that became known as "Koreagate." Comet Rice, a private mill in Colusa County, contracted with the South Korean government to deliver 370,000 tons of medium-grain, 1981-crop rice, but the firm only had 120,000 tons available. The only other firms that had sufficient stocks of this type of rice were RGA and FRC.

The two cooperatives refused to sell rice to Comet unless Grover Connell was allowed to act as their agent. However, the Korean government declined to do business through Connell because he had earlier accused a high-ranking Korean official of taking bribes.

A two-year stalemate ensued, ending in 1983 when Ralph Newman, the newly hired president and CEO of FRC issued a public apology to the Korean government and brokered a deal through a third party. By breaking ranks with RGA and negotiating the sale of rice without the involvement of Connell Rice & Sugar, the tradition of collaboration between FRC and RGA ended and a new era of competition began.

Soon after the resolution of the situation in Korea, RGA purchased the facilities of Pacific International Rice Millers Inc. (PIRMI) of Woodland, Calif. However, an anti-trust suit filed by the Department of Justice "(sought) to prevent RGA's acquisition of the PIRMI rice milling facility and other assets." The Department of Justice argued that RGA and PIRMI represented two of the five largest rice mills in California and RGA's purchase of the PIRMI facilities would "substantially increase concentration in the purchase of paddy rice in California" (U.S.A v. RGA). RGA lost the case on grounds that it had violated Section 7 of the Capper-Volstead Act and was forced to promptly divest itself of the mill.

FRC's new strategy

While RGA dealt with the fallout from antitrust violations, FRC developed a new strategic direction that

focused on providing higher returns to its membership. To meet that goal, FRC's management implemented new programs in marketing, finance, accounting, manufacturing, field services and communications.

As part of the renaissance at FRC, the cooperative eliminated its dependence on the Calrice Transport (CRT) vessel that it jointly leased with RGA. This proved to be a sound move, as the ship became increasingly troubled by maintenance problems. FRC also ended "costly and ineffective discount programs," increased emphasis on medium- and short-grain rice production and "established direct sales relationships with all international trading firms and major foreign buyers of U.S. rice" (FRC Annual Report 1983-1984).

Over the next few years, FRC prospered and was compelled to limit its membership in 1985 as "any significant additional volume will potentially have to be allocated to lower return markets: it could also require additional plant capacity" (FRC Annual Report 1985-1986). In contrast, RGA closed a large mill in Biggs and, as a result of poor sales, bills were issued in lieu of a final pool return for growers' 1985 crop. By 1987, RGA's management announced a change in its marketing focus from bulk to value-added packaged rice products. Shortly after the statement was made, RGA defaulted on a $1.4 million lease payment on the CRT shipping vessel.

By 1989, RGA's deteriorating financial condition and shrinking membership numbers obliged the cooperative to mothball or sell facilities in Williams, West Sacramento, Westside and Willows. Meanwhile, FRC decided to close an unprofitable operation in Puerto Rico, which was consistent with the cooperative's stated goal to change from being "primarily an export-oriented seller…to a sophisticated marketing firm concentrating in stable, value-added, high-volume U.S. markets" (FRC Annual Report, 1989-1990).

In this same year, as the last CRT-related lawsuits were resolved, RGA was sued by PIRMI for trademark infringement and Cal Rice Bran Inc. sued the co-op for contract violations. In 1989, David Long replaced outgoing president and CEO Mike Cook.

The next year, RGA was nearly forced into receivership when the cooperative's major lender, CoBank, moved to close the firm after stating, "We believe it would be better to have an outside party assume control of the company" (Martin, 1990). RGA's line of credit was cut off, preventing RGA from paying dozens of employees and leading to a protest outside the Sacramento CoBank offices. CoBank alleged that RGA owed $42 million in overdue debt and interests. In order to stave off imminent closure, RGA sold assets in Puerto Rico, West Sacramento, Biggs and Cheney.

If others are able to identify and address these problems and issues in their own cooperatives, they may avoid the same fate as RGA.

Bill Ludwig assumed the presidency of RGA in 1993 after David Long was terminated. RGA's workforce was substantially cut and the cooperative was estimated to control just 5-10 percent of the California rice crop, down from 70 percent just 10 years earlier. RGA's membership now numbered 250, compared to 2,200 in early 1986. In contrast, FRC's membership had grown over time from an initial base of 60 members in 1944 to 1,350 in the cooperative's 50th year.

RGA clings on with niche plans

In 1996, a new Farm Bill stipulated an end to "government-bankrolled crops and direct grower subsidies by 2002" (Gardner, 1996). Growers at the FRC's annual meeting were warned by Ralph Newman to reduce planting by at least 25 percent or "go out of business" (Gardner, 1996). At the same time, Central Valley rice farmers were dealing with increased costs of rice straw disposal, decreased water availability and sagging world prices.

While market conditions eroded, RGA tried to stay alive by exploiting a niche-marketing strategy. In February 1997, RGA announced that it would form a business, Ap-Rice, with Applied Phytologics Inc. (API) of Sacramento. As part of the agreement, some RGA growers would produce genetically modified (GM) rice that would be milled and malted so that proteins could be extracted for industrial and medical use. Amid controversy, RGA reportedly ended the agreement for undisclosed reasons, but API continued to contract with independent growers in the Sacramento Valley.

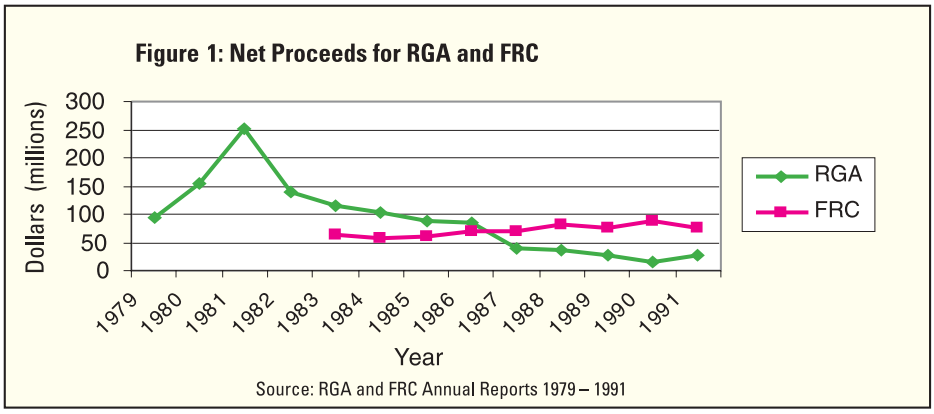
Over the next three years, RGA's membership base continued to decline; by May 2000, only 120-150 members remained. During this time, RGA maintained its focus and marketing efforts on supplying niche markets. In mid-2000, the cooperative announced that it had reached a series of novel trade agreements with the Philippines. The deal had two parts, the first part stipulating that RGA would help the Philippines grow organic rice, which RGA would then buy and resell in the United States. The second part of the deal required RGA to ship processed rice to the Philippines, where it would be traded for canned fruit, fruit juices, tuna and other agricultural products, which RGA would then sell in America.

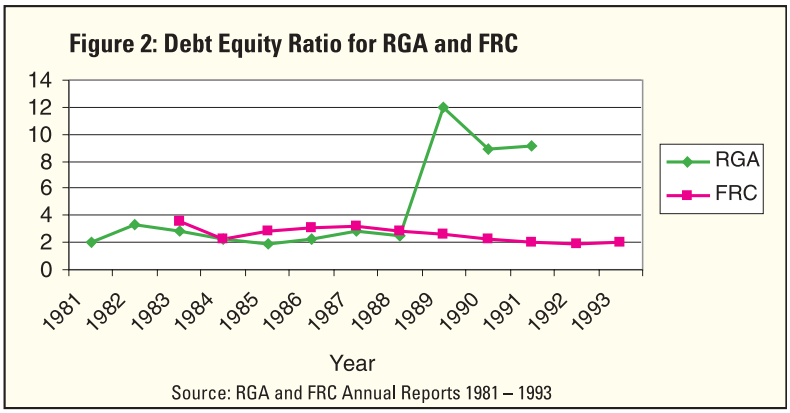
Benefits from the trade agreement likely came too late for RGA. In August 2000, RGA announced that it had missed payments to employees due to credit-line problems. Later that month, Bill Ludwig announced that the cooperative was going to be dis-

solved and restructured as a "for-profit" company, a move managers of the cooperative had reportedly been considering since 1997.

Ludwig said that the cooperative was simply unable to compete in the marketplace and he aimed to re-open the new company in November of 2000. However, prior to the proposed restructuring, several lawsuits would need to be resolved. Among the pending lawsuits were claims by L&S Distributors, RGA's largest California distributor, that it was owed $51,000. The California Rice Commission also alleged that it was owed more than $100,000 in back assessments from the 1995-96 crop years. Takenaka and Co., an investment-consulting firm from Los Angeles, also sued the cooperative for $15,000 in unpaid expenses.

In November, Pacific Basin Rice Products LLC agreed to buy RGA's Woodland mill and rights to the Hinode brand name. Upon the dissolution of the cooperative he had run since 1993, Bill Ludwig summed up the struggles of RGA stating, "There is no future and no ability to truly make a profit in the rice industry in California" (Ferraro and Schnitt, 2000).





Financial consequences

Effects of the very different goals and business strategies pursued by the RGA and FRC boards and management are evident when financial records for the two cooperatives are compared. Analysis of financial statements from the critical 1980s shows the different paths that the cooperatives embarked on.

A measure of net proceeds — the amount of money received from sales after deducting all transaction costs — is regularly used to evaluate cooperative performance; it is the closest co-op figure to business profits. In Figure 1, net proceeds for both FRC and RGA are compared from 1983 to 1991. After 1983, RGA's net proceeds continually decreased as the co-op lost business and gave-up market share in California to FRC.

In 1990, RGA's net proceeds were just 1/16th the size of a decade earlier. During the same period of time, FRC's net proceeds steadily increased at an annual rate of 10.82 percent, and remained relatively stable compared to RGA. Increases in net proceeds at FRC were driven by gains in net marketing pool proceeds, a term analogous to RGA's net sales, indicating that growth in net proceeds at FRC were driven by increased sales and market share gain. Continued decreases in RGA's net proceeds may in part be attributed to the co-op's decision to implement a capital-intensive, niche-marketing plan in 1987.

Prior to RGA's decision to change its marketing focus to serving value-added markets, the cooperative's debt/equity ratio was relatively stable and low. To illustrate, between 1964 and 1982, RGA's average debt/equity ratio was 1.63, with a standard deviation of .79. However, in the decade that followed, RGA's average debt/equity ratio more than doubled, to 4.95, with a standard deviation of 3.9. Major sources of variation in the debt/equity ratio can be attributed to fluctuations in liabilities. RGA accrued a large amount of debt that was used to finance the co-op's value-added marketing plan.

A big jump in the debt/equity ratio occurred in 1989 when RGA divested itself of two valuable assets, one in Colusa County and another in West Sacramento, without paying down a significant portion of the co-op's debt. In addition, the cooperative lost several lawsuits, the most expensive of which required RGA to pay $4.5 million to settle a suit involving the CRT shipping vessel. These factors, in addition to an over-valuation of RGA's inventory, resulted in a very high debt/equity ratio that, among other things, prompted CoBank to attempt foreclosure of the cooperative in 1990.

FRC's debt/equity ratio between 1983-1991 is reminiscent of an RGA of earlier years, as the ratio was both relatively stable and low, averaging 2.73 (with an average standard deviation of .51). During the past 25 years, FRC's average debt/equity ratio has generally declined as strong sales have allowed the cooperative to pay down debt and an increased mem-

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Soybean extruder opens new doors for Dakota co-op

By Pamela J. Karg

Even large farms and organizations are finding they need to make changes to adapt to new market realities. Influences such as population patterns, transportation costs and weather trends were among the factors Cooperative Agricultural Services (CO-AG) in South Dakota started to examine in 2001. This study eventually led the co-op to add a soybean extruder to its operations to produce its own feed and oil. This not only helps to boost producer income, it is helping strengthen the local economy.

"Farmers were aging and retiring, and the next generation was moving elsewhere for non-farm jobs," says CO-AG feedmill manager Mike Bucher. "We needed to make some changes to keep farming viable in our area and to keep the economic infrastructure that was slowly crumbling away." He worked diligently on the project to bring it to fruition.

Soybeans are a good clean-up crop after corn. However, corn requires more water than soybeans. With parts of the area experiencing nine years of drought, the Ogallala aquifer (the underground water supply) is showing signs of decline. Water restrictions make the future of irrigation here iffy, at best, explains Duane Cheney, coordinator for the Western Prairie RC&D Area Council.

"We needed to make some changes to keep farming viable in our area …"

"I think we all saw a need for a change," Cheney says. "Even though there's an ethanol plant just down the road, we needed an alternate crop to corn that required less water as well as a way to add value to what we were producing here. With the majority of the soybean crop being exported from the area for processing, we needed to add something that would keep the dollars in our community."

The cooperative has always transported its members' soybeans 300 miles to a terminal. It then hauled soybean meal from 400 miles away to meet the needs of cattle feedlots, corporate hog farms and large-scale dairies in northwestern Kansas and eastern Colorado, explains Bucher.

At a board retreat, he suggested adding a soybean extruder to make soy meal and oil. The cooperative had room in its existing Grinnell, Kan., feedmill, which made it easier and less expensive to construct. But more research was needed to determine if it was the right investment for the area.

The co-op turned to the Western Prairie RC&D for assistance, which eventually garnered the cooperative nearly $1.2 million from a USDA Rural Development's Value-Added Producer Grant, and funds from the Kansas State Department of Commerce and Housing, and a local utility. About half the $1.2 million — $520,000 — came from USDA.

The money was used in part to study the market as well as the feasibility of converting an unused portion of the cooperative's existing processing facilities for bean crushing. The studies determined that soybean processing could be a solid business venture for the co-op.

Bucher and Cheney agree the extruder has not only helped the cooperative, but the economy of the entire area.

First, it helped farmers change their thoughts about what crops to plant at an important time. Now, with soybeans that require less irrigation and rain, farmers are hoping the odds are in their favor.

Second, the extruder allows producers and the cooperative to lower transportation costs and create jobs — it initially added four jobs in this town of 339 people. Bucher, the son of a retired truck driver, notes that while corn needs little or no processing for use as livestock feed, soybeans must be converted into a more edible form. Locally grown soybeans are now delivered to the local mill for processing.

"One of our concerns was how to slow down the outmigration we were seeing in this area," Cheney says. "Could we draw in big industry? That would be hard to do with little water to support it." But it can certainly support smaller, less-water-demanding industries.

Third, the extruder created more agricultural infrastructure to serve the livestock farms already here, as well as those looking to expand or even relocate to the area. As an example, Bucher points out that the cooperative's fleet of semitrucks now haul finished soy meal — rather than raw soybeans — 300 miles to eastern Colorado's expanding livestock farms.

"I don't know if this one project is saving the family farm," says Bucher. "It's going to take more than just this — like getting a break in the weather pattern around here. But I think the cooperative's move to put in the extruder is part of the solution for a lot of issues we're facing."

Compiled by Dan Campbell

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Work is progressing on the new DFA /Glanbia PLC cheese plant in New Mexico .

Record-breaking year for DFA

Dairy Farmers of America (DFA) payments to members increased 29 percent, to a record $5.8 billion in 2004, up from $4.5 billion in 2003. DFA also reported a record $8.49 billion in sales, up from $6.93 billion in 2003, for an increase of 23 percent. DFA marketed 57.2 billion pounds of milk for member and non-member dairy farmers in 2004.

For the sixth consecutive year, DFA's members shared in its earnings. Members received $25.1 million in patronage, with $6.6 million of it paid in cash to 16,501 farmers. The financial results for 2004 "demonstrate that we have the right strategy in place, and that it is being solidly executed by our talented, farmer-focused management team," DFA Chairman Tom Camerlo told delegates attending the co-op's annual meeting Kansas City.

Other financial highlights include:

- Cash flow generated from operations increased to $90.2 million, compared with an $800,000 use of cash from operations in 2003.
- Selling and administrative expenses decreased 9 percent, to $76 million, down from $83.1 million in 2003. As a percentage of revenues, selling and administrative expenses declined 30 basis points.
- Net savings grew 17 percent, from $55.6 million in 2003 to $65.1 million in 2004.
- Total members' equity increased 5 percent, to $691.1 million, compared with $656.5 million at the end of 2003. In 2004, DFA retired $21.1 million of equity.
- For the fourth consecutive year, DFA issued a special allocation to dairy farmers of $10 million from the gain on the sale of Suiza Foods Group, L.P., one of the co-op's fluid milk joint ventures.
- DFA ended 2004 with investment-grade credit ratings of BBB+ from Standard & Poor's and BAA1 from Moody's Investor Services, ensuring access to capital at competitive interest rates.

Camerlo challenged dairy farmers to tackle three new bridge-building projects in the coming years. The first is understanding and meeting the needs of the diverse DFA membership. He also challenged dairy farmers to lead the industry in creating alternative ways to price milk, acknowledging that this is a controversial issue. He expressed concern over the role world trade multilateral agreements will play in the way milk is priced and products marketed.

Cheese sales drive record AMPI revenue

Cheese sales drove a record $1.3 billion in total revenue for the member-owners of Associated Milk Producers Inc. (AMPI) in 2004. AMPI produced a record volume of natural cheese, AMPI General Manager Mark Furth said. "That volume, coupled with a record-setting cheese market, resulted in strong milk prices for our members — the highest ever," he told more than 500 AMPI member-delegates at the co-op's annual meeting in Bloomington, Minn.

The cooperative earned $4 million and revolved $10.6 million in equity, according to the audited financial statement. Earnings were impacted by a Dec. 1, 2004, fire that shut down the cooperative's butter processing and packaging plant in New Ulm, Minn. Construction of an improved facility on the same site is expected to begin this spring. The butter plant is one of 13 manufacturing facilities across the Midwest owned by AMPI members. The cooperative manufactures 80 percent of its members' milk and markets a growing share of it in consumer packages.

"We know the work to secure strong milk prices doesn't stop with dairy products," said AMPI President Paul Toft, a dairy producer from Rice Lake, Wis. "AMPI is active in the dairy policy arena. Curbing milk protein imports and securing a better dairy price safety net are top priorities."

Cairo Co-op building new elevator

Cairo Co-op Equity Exchange is building a new, 300,000-bushel grain elevator about seven miles north of Zenda, Kan. Co-op Manager Ed Laing says the new facility should be operating by July 1. It replaces an older elevator, the Cairo Co-op Calista facility, about seven miles further north.

"The old facility was on the edge of grass country, whereas the new one is right in the heart of wheat country," Laing says. "We're very excited about it. It's a fantastic place for an elevator." The new location is closer to Cairo

Co-op customers, and can facilitate getting grain trucks back into the fields faster.

The elevator will handle wheat and corn and can load 15,000 bushels per hour. It will employ five during harvest season. The new facility will bring the Cairo co-op's total storage capacity to 3.7 million bushels. Its elevators handle wheat, corn, soybeans, milo and sunflowers. The Cairo co-op has about 1,400 members and does about $25 million in annual sales. It operates in three counties in Kansas.

Dakota Prairie Beef to dissolve

Hampered by drought and the impact of the Canadian border closure on the calf market, the Dakota Prairie Beef Cooperative feedlot in Gascoyne, N.D., is dissolving, according to *Agweek* magazine. It reported that Lance Larsen, a board member from Dunn Center, N.D., confirmed that the membership voted unanimously to dissolve the cooperative in a Feb. 23 annual meeting. The 6,500-head capacity feedlot was launched to feed cattle with local feed, thus keeping more value in North Dakota, rather than shipping cattle to the Corn Belt for fattening. About 130 members bought some 8,000 shares at about $60 a share.

Two co-ops semifinalists for prestigious award

Harvard University's John F. Kennedy School of Government has announced the top 50 programs for the 2005 Innovations in American Government Awards. The School of Government released the list of "50 of the most creative, forward thinking, results-driven government programs at the federal, state, county and city levels."

The awards are often referred to as the "Oscars" of government prizes. Eighteen finalists will be chosen from the 50; on July 27 six winners will each be awarded $100,000 grants. Two cooperatives are among the 50 semifinalists, including the Teacher Professional Partnership in the Le Sueur-Henderson Independent School District, Minn. This is an unconventional program that challenges the traditional role of teachers as employees; it empowers teachers to organize and manage their school as a collegial group.

Cooperative Care, Waushara County, Wis., is a worker-owned home care cooperative that provides dependable, cost-effective care to the elderly and disabled while assuring the workers' living wages and access to benefits. Margaret Bau, USDA Rural Development's cooperative specialist in Wisconsin, has played a major role in the development of the cooperative.

USDA offers $22.8 million for renewable energy projects

Agriculture Secretary Mike Johanns in March announced the availability of $22.8 million to support investments in renewable energy systems and energy efficiency improvements by agricultural producers and rural small businesses. "Enhancing our energy efficiency is a key goal of the Bush Administration," said Johanns.

Wind power, biomass, geothermal, hydrogen and solar are all among the technologies eligible for funding under USDA's Renewable Energy Systems and Energy Efficiency Improvements loan and grant program.

"Renewable energy is an exciting growth frontier for American agriculture. Implementing an innovative energy policy, which the President has proposed, provides an opportunity to strengthen both our national security and the rural economy."

Section 9006 of the 2002 Farm Bill established the Renewable Energy Systems and Energy Efficiency Improvements loan and grant program to encourage agricultural producers and small rural businesses to create renewable and energy efficient systems. The funds will be available to support a wide range of technologies encompassing biomass (including anaerobic digesters), geothermal, hydrogen, solar, and wind energy, as well as energy efficiency improvements. To date, the Bush Administration has invested through this program nearly $45 million in 32 states.

The $22.8 million will be made available in two stages. One-half, $11.4 million, is available immediately for competitive grants. Renewable energy grant applications must be for a minimum of $2,500 and a maximum of $500,000. Energy efficiency grant applications may range from $2,500 to $250,000. The grant request may not exceed 25 percent of the eligible project cost. Applications must be submitted to the appropriate USDA Rural Development state office, postmarked no later than June 27, 2005. Detailed information about application and program requirements were included in the March 28, 2005 publication of the *Federal Register*.

The remaining $11.4 million will be set aside through Aug. 31, 2005, for renewable energy and energy efficiency guaranteed loans. Final details on how to apply for these funds will be published in the *Federal Register* later this year. Any funds not obligated under the guarantee loan program by August 31 will be reallocated to the competitive grant program as of that date. Further information on rural programs is available at local USDA Rural Development offices, or

by visiting USDA's Web site: http://www.rurdev.usda.gov.

Foremost sets sales/earnings record

Foremost Farms USA closed its tenth year of operations with record sales and earnings for fiscal 2004. Net income after taxes was $28.3 million, compared to $7.6 million in 2003. The Baraboo, Wis.-based dairy cooperative posted sales of $1.4 billion in 2004 compared to $1.2 billion in 2003.

Duaine Kamenick, vice president-finance, cited "unprecedented high market prices, a stronger economy and the business decisions of prior years," as contributing the co-op's strong showing. The cooperative's current debt-to-asset ratio was $1.48 in assets to $1 in liabilities.

Foremost issued $23.9 million in 2005 patronage refunds, with $7.2 million in cash to member-owners who marketed milk through the cooperative in 2004. The remainder will be distributed in the form of allocated equity credits. The cash payments represent 30 percent of total patronage refunds. This year's patronage allocation is 3.04 percent of gross milk receipts.

"Our 2004 returns have allowed us to move more dollars into the hands of our present and past member-owners," President Dave Fuhrmann said. "We will continue to put emphasis on producing the right mix of dairy products for the marketplace and growing the cooperative's diverse business into the market of choice for dairy producers." Foremost manufactures a wide variety of cheese (representing 54.2 percent of sales in 2004), fluid and condensed milk products (20.3 percent of sales), packaged milk products (15.8 percent) and whey and whey ingredients (6.3 percent). It also produces sour cream, butter and chilled, ready-to-serve fruit juices.

Holstein-suited Foremost Farms USA volunteers pass out samples of Golden Guernsey chocolate milk. The Baraboo, Wis.-based co-op had record net income of $28.3 million, and record sales of $1.4 billion in 2004. Photo Courtesy Foremost Farms USA

The cooperative operates 20 manufacturing facilities and one milk transfer station for its 3,600 dairy farmer-members in Wisconsin, Minnesota, Iowa, Illinois, Indiana, Michigan and Ohio. Foremost employs 1,487 people.

Colorado local co-ops merge

M&M Cooperative Inc. and Horizon Co-op Inc. merged operations on April 1. The merger was approved by 89 percent of M&M members and 84 percent of Horizon members, according to the *Brush (Colo.) News & Tribune*. The paper quoted M&M executive Ben Weitzel as saying that many thousands of dollars in cost savings is expected to result from the merger, as well as additional marketing opportunities. He noted that the agriculture world continues to change, and that it is necessary to position the locally owned cooperatives beneficially to ensure its members with competitive prices and a more financially healthy company.

Court approves MCP settlement

A judge has approved a $5.75 million settlement of a class action lawsuit brought by farmers against executives of Minnesota Corn Processors, according to a report in the *St. Paul Pioneer Press*. The suit alleged the executives breached their responsibilities to the co-op's shareholders and misled them regarding the worth of Marshall, Minn.-based ethanol co-op during its sale to Archer Daniels Midland in 2002. The suit alleged that shareholders were not provided full details of how eight executives would personally benefit from the sale. The executives agreed to pay $5.75 million to end the dispute. Nine farmers had filed objections to the settlement.

Walnut growers to vote on co-op conversion

For 93 years, Diamond of California has been a processing and marketing co-op owned by California walnut growers. Today, its 1,800 members account for about half the state's crop. Later this summer members will be asked to vote on a proposal to convert the co-op into a publicly traded corporation. Backers of the proposal hope it will raise $70 million to $85 million through the sale of more than 5.3 million shares of stock at $14 to $16 per share; members will be offered an additional 6.7 million shares.

Members will have to weigh the incentive of a payout in company stock, which they could sell to "cash-out" of the co-op, vs. the prospect of having outside stockholders take control of a company they have directed for nearly a century. Filings with the SEC indicate that an estimated $18.6 million will go to growers who want cash rather than stock.

A letter to members from Board Chairman John Gilbert and CEO Michael Mendes says "the conversion to a corporation will allow Diamond to build a financially stronger company and issue equity to grower owners. It will enable Diamond to improve our ability to get the financial resources we need to meet the challenges of the future, to convert the ownership interests into transferable and marketable shares of stock in the new Diamond, and to provide cash to members."

Papers filed with the Securities and Exchange Commission say proceeds from the possible stock sale would also provide funds to pay down debt, develop new products or acquire other companies.

Diamond reported sales of $359 million for its last full fiscal year. It recently launched the Emerald line of snack nuts, which it hopes can compete against Planters for a larger share of the snack nut market. The co-op recently settled one of the longest protracted labor disputes in California history by agreeing to certify the Teamsters union to present employees at its plant in Stockton, Calif.

A series of member meeting were held in April to explain the proposal to members. Press reports out of California show mixed reaction by co-op members. *The Stockton Record* quotes Diamond member Kenny Watkins, of Linden, Calif., as saying "It is all going to come down to dollars and cents, and the faith the growers have in the leadership." *The Record* also quotes Stockton producer Jon Brandstad as saying "I went up to Linden to the hardware store and there were about four growers outside talking about that, and every one of them was against it."

The Fresno Bee quotes Richard Carstens of Fresno, a co-op member for more than 40 years, as saying "What bothers me about this whole thing is that if it happens, what say will the growers have? I'll be a stockholder, but will they listen to me anymore?"

Others have noted that the worse-case scenario would be growers losing control to outside investors who could choose to source walnuts from cheaper overseas suppliers, or even move the entire operation offshore.

Ocean Spray taps former Pepsi R&D chief to push innovation

Ocean Spray has chosen one of the food and beverage industry's leading product innovators — Dr. Geoffrey Woolford, who has held the top research and development posts at Pepsi-Cola and Mead Johnson Nutritionals — to help write its brand's recipe for a new generation of healthy beverages and snacks. Woolford joined Ocean Spray as vice president of research and development.

Woolford, a native of Great Britain who began his career at Quaker Oats in the late 1970s, was a driving force behind Pepsi's "total beverage company" strategy in the 1980s and '90s. He

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Trading Places *continued from page 35*

bership base contributed to the cooperative's growing equity.

Why did RGA fail as FRC succeeded?

By studying the history and finances of RGA and FRC, great differences in the management style and strategic direction become evident. The consequences of pursuing divergent plans are clear as one cooperative was successful while the other failed.

However, questions still remain about what specific factors led to the closure of RGA and how the same fate may be avoided at other cooperatives. For answers to these questions, former members and management of RGA were interviewed and surveyed.

Interestingly, several of the main reasons cited for joining RGA are directly related to what members perceive to be the causes of RGA's failure. This indicates a fundamental gap between what growers expected through cooperative membership and what was borne out in reality. For instance, some members indicated that RGA had an appealing, differentiated-product strategy. Ironically, former members cite poor decision making by management and the board — including the decision to pursue a differentiated-products strategy — as a chief contributor to RGA's failure.

Former affiliates also identify the high cost of maintaining both the cooperative's assets and the contract with the CRT ship as key factors in RGA's failure. Expenses from maintaining numerous assets and the problematic shipping vessel no doubt diminished the higher-than-industry-average returns that initially attracted members to RGA. Consequently, many members left RGA after realizing higher returns could be earned by marketing through competitors such as FRC, or through private mills.

Lack of attention by the board of directors was reported as another important contributor to RGA's decline. This survey finding was supported by interviews with former managers, who said the board was passive and ill equipped to scrutinize the complex business decisions it was charged with supervising.

Moreover, both members and former directors acknowledged that RGA's board was in need of greater management and financial expertise. Furthermore, our survey findings indicate that RGA's management was per-

led the development of Aquafina, the nation's No. 1 brand of bottled water and oversaw product innovations and introductions for Pepsi's domestic brands, including Lipton Iced Tea. In 1999 he went to Mead Johnson Nutritionals, where he led a series of innovations in infant formulas, other nutritional products and specialty packaging.

Ocean Spray has been the top-selling brand name in the bottled juice category since 1981. The co-op, owned by 800 cranberry growers, posted fiscal 2004 sales of $1.4 billion.

Sunkist marks 111th year with higher sales, grower pay

Citrus co-op Sunkist Growers' total revenues in 2004 topped $975 million, up 3.5 percent from 2003. The co-op marketed 71 million cartons of fruit, down 3 million cartons from the previous year. Payments to grower-owners jumped more than 11 percent.

In 2004, returns for most citrus crops were substantially higher. "While Mother Nature helped, to my mind this accomplishment was largely due to the improved sales and marketing, accomplished by Sunkist management pulling the industry together," Sunkist Chairman David W. Krause told the more than 800 Sunkist grower-owners attending the citrus cooperative's 111th annual meeting in Visalia, Calif. "The success can be seen in grower returns; in record royalties for Sunkist licensed products; in a growing list of customers, and in extremely strong market shares in major export markets. The Sunkist brand is the centerpiece of our cooperative, the most valuable asset we own."

Fruit shipments were down marginally, but Sunkist revenue climbed past $975 million and grower payments were up 11 percent in 2004. Photo courtesy Sunkist Growers

Sunkist President and CEO Jeff Gargiulo cited four new initiatives the citrus marketing cooperative is implementing: more consistent product quality; uncompromised food safety systems; aligning growers, customers and end consumers, and uniting Sunkist and the industry to grow the citrus category.

"Radical changes in the retail business — globalization, consolidation, technology-driven innovations, shifting buyer-seller relationships — require new business models to seize competitive advantages," Gargiulo said. "Sunkist is on the move with a new vision — making strategic changes to leverage its brand, expand global market share and increase grower returns."

"Long-term," he said, "Sunkist is dealing with the political dynamics of our world. We have completed a study of citrus production in China and are developing ways to address the opportunities and challenges there. We are sourcing global product to keep our customers supplied year round." 2004 saw the united effort of the California Citrus Growers

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ceived to have been deficient in the skills necessary to guide the cooperative through tough times that included periods of low world rice prices, industry scandals and high costs of maintaining the co-op's assets and shipping vessel contract.

Ultimately, the survey and interview findings support the notion that RGA's closure was primarily the result of a lack of board oversight and expertise coupled with an ineffective management. Other cooperatives may empathize with the experience of the Rice Growers Association. However, if these organizations are able to identify and address the above problems and issues in their own cooperatives, they may avoid the same fate as RGA.

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Association (CCGA) benefit both the consumer and the industry, Gargiulo added. The California citrus industry cooperated in strategically marketing the season's orange crops.

ACE Institute set for N. Virginia

"Cooperative Education: Understanding Cooperation as a Strategic Business and Community Asset," is the theme for the 2005 Association of Cooperative Educators Annual Institute, to be held Aug, 3-6, in Alexandria, Va. The ACE Institute is the only annual conference dedicated solely to highlighting innovative programs in cooperative education.

The conference provides a unique opportunity to network with educators across cooperative sectors and national boundaries. The institute results in a synergistic sharing of programs, experiences and ideas in the cooperative education arena. The event will include workshops, study tours and an awards banquet

The Institute is attended by about 100 cooperative educators and members; university faculty, researchers and graduate students as well as development specialists and government officials from Puerto Rico, Canada and the United States. The program is simultaneously translated in Spanish and English.

ACE is a membership organization that brings together educators and others across cooperative sectors as well as national boundaries. For more than 40 years, the resulting cross-pollination of ideas has enhanced cooperative development, strengthened cooperatives, promoted professionalism and improved public understanding.

For more information about ACE and attending the 2005 Institute go to: http://www.wisc.edu/uwcc/ace/ace.html

Legal Corner *continued from page 10*

and graduate assistants from the University of Arkansas School of Law's Graduate Program in Agricultural Law.

The Center's Web site offers a variety of resources that will be useful to both the lawyer and the non-lawyer looking for information on developments in agricultural and cooperative law. Key components of the library are described below.

Reading rooms

The heart of the new Web site is a series of subject-based "reading rooms" that provide access to a comprehensive list of electronic resources on agricultural and food law topics. The Cooperatives Reading Room, one of 28 such "rooms," provides links to 11 major statutes governing cooperatives, the regulations for Subchapter T of the Internal Revenue Service, Federal Register rules open for comment, recent court decisions impacting cooperatives, Center research papers on cooperative law and a variety of reference resources. Other reading rooms provide similar information on topics important to cooperatives, such as farm credit, food safety, international ag trade and marketing orders.

National AgLaw Reporter

The National AgLaw Reporter is a regularly updated electronic newsletter covering developments of interest to cooperatives and others in the agricultural and food law communities. It currently has four sections:

- ***In the News*** contains summaries and analysis of recent developments in agricultural and food law.
- ***Case Summaries*** describe recent judicial opinions in agricultural and food law.

USDA-supported Web site offers 28 legal 'reading rooms.'

- ***Federal Register Digest*** provides brief summaries and links to some of the more significant regulatory changes affecting agriculture published in the Federal Register since Jan. 1, 2002.
- ***Judicial Officer Decisions*** links the user to all major decisions rendered by the Office of the USDA Judicial Officer since January of 2002.

Other features

The library contains other sections that lead to legal research prepared by both the Center and other scholars working on agricultural and food law issues.

- ***Reference Desk*** has links to bibliographies, glossaries, law journals, trade associations, and other law school Web sites. It has a General Ag Resources area with links to additional federal agency and university sites, news sites, publications and sources of statistics.
- ***Farm Bills*** provides the text of all United States Farm Bills since 1933, legislative history of Farm Bills since 1973, and other resource links for the 1996 and 2002 Farm Bills.
- ***Congressional Links*** offers direct access to Web sites for the U.S. Senate and House of Representatives, the Congressional Record and other Congressional resources, including the Congressional Research Service and the General Accountability Office.

USDA B&I program supports growth of organic cooperatives

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

One of the foundations that helped build America has been cooperatives. The Pilgrims who settled in Plymouth, Mass., formed a cooperative to harvest the land in which the first Thanksgiving was celebrated.

Cooperatives have come a long way since the days of the Pilgrims, but what has not changed is the value that each cooperative brings to the local economy.

One such cooperative that USDA Rural Development's Business & Cooperative Service division has provided financial support to is CROPP (the Cooperative Regions Organic Production Pools Cooperative). Featured on the cover and page 15 of this magazine, CROPP was founded in 1988 by a group of seven family farmers who had a love of the land and believed in sustainable agriculture.

It has grown into the largest organic co-op in the United States, with 689 farmer members — including more than 500 dairy farm members — in 17 states. Its Organic Valley brand milk, cheese and other foods are sold nationally. What a success story CROPP has become!

On the dairy side of CROPP's business, farmers currently average $20 per cwt, far more than conventional farmers average. Co-op members are actively involved with the direction and decisionmaking of the company.

USDA helped finance the new CROPP headquarters in LaFarge, Wis.

USDA Business & Industry (B&I) Guaranteed loans financed about 70 percent of the capital needed to construct CROPP's new headquarters.

The first loan, for $4.2 million, was made in 2001 for working capital and refinancing of working-capital debt. The co-op had been experiencing rapid growth, but needed a long-term solution to its working capital needs. It requested a seven-year term loan to assist with these needs.

The second loan was made in 2004 for the construction of a new office building. As the co-op grew, it added personnel and rented more office space in LaFarge. The co-op offices were spread throughout LaFarge in various buildings and trailers.

Co-op leaders desired a more centralized location, and thus decided to build an office building to bring everything under one roof. The facility is a 70x200-foot, two-story building with a walkout basement. It gives CROPP 45,000 square feet of space.

The facility encompasses just under three acres and can accommodate up to 279 employees, which is the expected staff growth through 2008. There is ample parking.

USDA also provided a $500,000 Value Added Producer Grant in 2001 to the Organic Meats Co., a CROPP subsidiary.

In 2004, Rural Development made 463 loans worth $972 million in B&I guaranteed loans to support new and expanded rural businesses. This program stimulates rural economies and creates jobs. Under it, business owners (including cooperatives) arrange a B&I loan through a local, participating financial institution. USDA Rural Development then can guarantee up to 80 percent of the loan amount.

Loans of up to $10 million (more in some cases) can be guaranteed by USDA under the B&I program.

For more information on the B&I program and other USDA financial programs for rural businesses and cooperatives, I encourage you to visit our Web site at: www.rurdev.usda.gov, then click the "Business-Cooperative" program buttons. Or call (202) 720-4323 to be connected to your USDA Rural Development state office.

USDA Rural Development is committed to providing determined leadership to increase economic opportunities and improve the quality of life for citizens living in America's rural communities. With 47 state offices and 800 field offices, we look forward to working with you to bring opportunities to you, your cooperatives and businesses, and to your communities. ■

Get *Rural Cooperatives* Electronically!

Free electronic subscriptions to *Rural Cooperatives* magazine are now available from USDA

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

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

For co-ops that prefer hard copies for board members:

We can now send up to 7 bundled issues to your co-op headquarters to be redistributed to board members (there is no charge). Please supply information at right and FAX to: (202) 690-4083.

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