Co-ops must capitalize on new opportunities

Editor's Note: *The following speech was delivered in October by Thomas C. Dorr, USDA under secretary for rural development, at the 8th annual Cooperative Development Forum. The event was sponsored by the National Cooperative Business Association in Minneapolis, Minn.*

I bring you best wishes from President Bush and Secretary of Agriculture Ann Veneman, whom I have the honor of working with to strengthen the economy by creating jobs and improving the quality of life—both urban and rural.

A couple of months ago, President Bush held an economic forum in Waco, Texas, to talk about the fundamentals of the American economy and his vision for economic growth. At that forum, the president said, "The fundamentals of the American economy are strong. Yet, the only purpose of a strong foundation is to build on it."

Thomas C. Dorr

A very critical part of that vision is our rural economy. And, as undersecretary of agriculture for rural development, it's my job to help realize that goal for rural America.

I'm a farmer who has spent nearly my entire life in rural America—Cherokee County in northwest Iowa. I've seen first-hand the challenges facing our rural areas—and the amazing opportunities that we have there as well.

Those of you who live, work or grew up in a small town or on a farm know well that our country's rural communities have faced significant challenges over the last century. From shifting populations to the "brain drain" to the farm crisis of the 1980s, we've faced some tough times.

But I believe we're on the verge of a new era for rural America. The outstanding quality of life combined with new information technology, advancements in agriculture and new business opportunities open the door for an unparalleled period of growth.

Farming and agriculture will always be a major and important part of the rural landscape in America. But traditional agriculture alone will not be the driving force of future development.

There are a couple of significant factors impacting our rural economy today. The past several decades have seen major changes in U.S. and world production agriculture and rural structures. These shifts have shown us that although our farm commodity programs have been critical in keeping U.S. agriculture competitive in the global economy, they aren't geared toward rural development and don't have the impact that our communities need.

Consider these facts for a moment. There are 65 million Americans living in rural areas. Of these, only about 2 million are engaged in farming. That leaves 63 million Americans who have needs for basic services, homes, jobs, education and healthcare.

Focusing solely on agriculture will not develop rural areas. We need to look to other markets—technology, manufacturing, and recreation to name a few.

To be successful, we must have a clear understanding of where we want to go. To me, the vision of rural development—and the goals that drive our efforts at USDA—focus around two components: increased economic opportunities and improved quality of life.

- First—we must increase economic opportunities throughout rural America by improving the flow of capital, hastening the use of technology, furthering the rapidly growing links between agriculture and energy and strengthening the infrastructure, which will increase opportunities of all types in rural America.
- Second—we need to improve the quality of life by improving the basic needs of adequate food, water and housing, the essential needs of education and health care, and addressing the necessary needs of cultural and recreational experiences.

I'm sure some of you remember the movie "Field of Dreams." Those of us from Iowa enjoyed it because it popularized the saying, "Is this Heaven? No, it's Iowa." But it also had a larger message: "If you build it, they will come." That simple sentence describes much of what we're trying to do at USDA Rural Development—and most of what we must do.

Diversification—both economically and culturally—will enable our rural communities to attract new jobs, families, investment and growth.

At USDA, we do a great deal of work that focuses on three main areas:

- Homeownership assistance that helps low and middle income Americans build equity and gain the security and pride of owning their own home;

• Infrastructure development, such as expanding bandwidth capacity and technology for communities to grow; and

• Financing rural entrepreneurial and innovative rural activities such as value-added industries.

Cooperatives can be, and will be, a vital part of seizing these new opportunities. As a farmer, I've had a lot of experience with cooperatives. I have sold to them, bought from them and competed with them. My experiences have been both good and bad, and those experiences have taught me a great deal about the cooperative concept.

Like all of you, I know that cooperatives can work very, very well—and I firmly believe that they are a valuable tool in rural development and many other areas. But as we all know—and many have experienced—they are not always the answer. And it is important for those of us in the business of cooperative development to know the difference.

Farmers have not used their asset base—their land—to its maximum return.

Cooperatives need to be businesses first. They must be soundly financed and built upon business plans that are well thought out and make sense. Cooperative members and boards of directors need to be knowledgeable and able to make wise business decisions. Education and equity are key.

Let me spend a moment on farmer cooperatives. We hear of several farmer cooperatives that are troubled. There's the bankruptcy of Farmland and Agway, the failure of Tri Valley Growers, and reports of troubles with several other large cooperatives. They are struggling—challenged to compete with the scale, technology and sophistication the market demands.

And importantly, at the center of the struggle is the lack of sufficient capital. Our typical farmer cooperative today is built upon a model that uses debt to finance itself. Some may call this an overstatement, but I don't think it is. When we look at the balance sheets of many local cooperatives, we see capital structures largely composed of equity.

Yet when we look underneath the numbers, we see that a lot of that equity is owed to members, many of whom have retired or are about to. Thus, the numbers mask a serious condition.

Recent failures are not failures of the cooperative model any more than the bankruptcies of WorldCom, Enron or U.S. Airways is a failure of the corporate model. It's how we apply the models that determine success or failure.

Many suggest that farmer cooperatives don't have enough capital because farmers don't have the capital to put into them. On the farm, we call that "bunk." The equity is there.

Farmers have not used their asset base—their land—to its maximum return. Instead of just rolling that capital into the relatively low returns from farming, they can move their capital to other areas. This will raise farm incomes—and enable more farmers to stay on the farm. Our farmers probably can't get much better at farming. They should, however, get much better at investing.

So when I hear people say farmers don't have the money to make major investments in cooperatives, I say that's wrong. The money is there. If the business plan is sound and convincing—and if farmers understand the untapped potential of their capital, they will invest.

The theories of Clayton Christian, in his book *Creative Deconstructionism*, suggest that institutions must be completely, rather than incrementally, reconstructed if they are to remain vibrant and relevant. This kind of reconstruction may just be what our farmer cooperative system needs.

We need to look beyond the conventional mold to build and support cooperatives that increase economic opportunities in our rural economy.

Rural communities can band together to increase returns to their taxpayers by providing basic services such as healthcare and education.

Rural small businesses can band together to make bulk purchases or provide better business services to remain competitive and to use the technology necessary in a retail world dominated by Wal-Mart.

The cooperative is a flexible concept that makes all these things possible.

We don't support cooperatives because of what they are—but because of what they can do. We support them because they are a method for local people, businesses and communities to take charge of solving their own problems—and opening their own doors of economic opportunity.

I recently had the opportunity to talk with NCBA CEO Paul Hazen and Communcations Director Jennine Kenney to discuss cooperatives and the role they can play in making our rural communities stronger, more vibrant places to live. We talked about rural healthcare, housing and community services. We talked about keeping the small business on Main Street alive—and thriving.

Cooperatives mean empowerment in accomplishing all of these things. We need to work together to make sure this important tool is used to its full potential.

We are challenged today to develop strategies for rural America that are effective and programs that make sense. We, in the public sector, simply have to do a better job. We have bound ourselves up with procedures, regulations and approaches that reflect a rural America of the 1950s, using definitions from the 1930s.

That has got to change. Rural America of the 21st century will look nothing like the rural America of the early 20th century. Our programs must stop looking back and start looking forward.

We have to work with our farmers to encourage them to use that untapped equity in their land to make serious investments in their local communities. This doesn't mean encouraging them to leave farming or to take senseless risks. It's just the opposite. By increasing their return on investment—the value of their land—their ability to stay in farming will be

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and Virginia Milk Producers, Lone Star Milk Producers, Southeast Milk Inc. and Arkansas Dairy Cooperative Association.

SMA is marketing 8.9 billion pounds of milk annually for 6,500 dairy producers. It is one of 11 marketing agencies-in-common operating in the United States. Administrator Jeff Sims said after its first quarter of operation, SMA had "already witnessed cost savings from driving efficiencies into the marketing process and working together to supply common customers."

Calcot's Tom Smith departs

In his swan song annual meeting, marking the cooperative's 75th anniversary, Calcot President Tom Smith said the co-op returned nearly $450 million to its cotton growers despite a difficult year. Smith retired Oct. 1 after 25 years at the helm and 45 years with Calcot, Bakersfield, Calif. David Farley, Australian cotton executive who has succeeded Smith, praised him for his integrity on selling premium cotton and the fairness by which he treated the cooperative's members.

Chairman Bruce Heiden, a grower from Buckeye, Ariz., described the cooperative as "good and getting better." He said a thorny issue facing the cooperative was repayment of $25.3 million in advances to growers. He said it was time for a different look and different structure. Officials said the new season would be improved in part by the financial support to growers contained in the new farm bill.

Marketing Resource Center Website eyes value-added ag

The Agricultural Marketing Resource Center, a three-state university effort to enhance value-added agriculture, has launched a new website to provide education and research to producers about related business development and marketing. The site, www.AgMRC.org, contains contacts and directories, as well as new business development and commodity-specific information designed to help build successful value-added agricultural enterprises. The center works with leading agricultural economists and business professionals across the United States to provide applicable research and analysis on marketing and economic issues facing value-added business ventures. Co-directors are Mary Holz-Clause and Don Hofstrand.

"Beginning a new farming venture was overwhelming for our 24-member farmer cooperative," said Chris Henning-Cooke of the Greene Bean project at Jefferson, Iowa. "We wanted to grow specialty beans and needed product and market and production information. This value-added site was invaluable to us in our information search. They also provided training and outreach to producer groups like ours in communicating information about marketing our products and honing our communication skills," she said. The center is funded through a grant to Iowa State University, Kansas State University and the University of California from USDA's Rural Business-Cooperative Service. The center also may be a contacted toll free at 866-277-5567 or by email at agmrc@iastate.edu.

Court gives Farmland brief breather on reorganization

The deadline for a bankruptcy reorganization plan due from Farmland Industries in September has been extended to late November by U.S. Bankruptcy Judge Jerry Venters. Meanwhile, the cooperative in trying to restructure its fertilizer assets, the primary component of its crops production division, which lost $57.6 million in fiscal 2001 on sales of $745 million. The division represented 6.3 percent of Farmland's total sales of $11.8 billion.

CEO Robert Terry said selling or repositioning the fertilizer business would allow Farmland to significantly reduce its debt "and reduce or eliminate the cyclical business risk inherent in the fertilizer industry" so that the cooperative could concentrate more resources on its successful processed food business. Farmland owns 7 nitrogen fertilizer manufacturing plants and 19 fertilizer distribution terminals and has 531 employees in its crops sector. Additionally, the cooperative is a partner in phosphate manufacturing ventures in Wyoming and Utah. It is also joint owner (with Mississippi Chemical Corp.) of a nitrogen fertilizer manufacturing plant in Trinidad and Tobago.

The court has approved Farmland's request to sell its half interest in Farmland Hydro LP to Cargill Fertilizer Inc. in Florida.

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enhanced, not lessened. That age-old question of how to protect the family farm comes in diversification.

But, in order to do this, we also need to improve business knowledge and skills in rural America. Serious education on business strategies, finance, marketing and decision making will enable farmers, business and community leaders to lead dynamic, creative cooperative businesses that can succeed.

Most of all, we need to work together. Partnerships and collaborative approaches are how we make this vision of rural America a reality.

At all levels, we need to think differently and in ways that capture the spirit and values of rural America. We must act boldly.

Rural America is no longer just about getting grain from the farm onto railcars and shipping it away. It is about capitalizing on—and creating—opportunities that create jobs and grow communities.

We must allow ourselves to think creatively and differently. And that different thinking starts with how we think of rural development at the national level. We do not develop rural America—rural Americans develop rural America.

The foundation is there. Now, it is our challenge to build on it. ■