

Rural COOPERATIVES

USDA / Rural Development

July / August 2009



Hard Lessons of a Co-op Developer

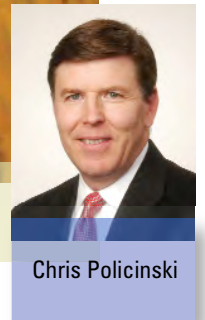
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Commentary

Growing world population presents challenge and opportunity for U.S. farmers



Data: American Farm Bureau Federation



Chris Policinski

By Chris Policinski, President and CEO
Land O'Lakes Inc.

Editor's note: This commentary is based on Policinski's address at the 2009 USDA Agriculture Outlook Forum. Land O'Lakes is a farmer-owned food and agricultural cooperative with annual sales of \$12 billion.

The extraordinary increase in agricultural productivity is one of America's greatest — yet least acknowledged — success stories. It's a story of creating opportunity for U.S. producers, while also meeting our responsibility to feed a hungry world.

For nearly 90 years, Land O'Lakes has been involved in both sides of this story. As a producer-owned cooperative, Land O'Lakes has been working to build agricultural productivity and create opportunity for American farmers since we were founded in 1921. On the global stage, for nearly three decades, we have worked to alleviate the devastating effects of hunger around the world through the efforts of our International Development Division.

All of this has given Land O'Lakes a unique vantage point and, as we look ahead, it's clear that continuing to increase agricultural productivity is a critical imperative. Today, the

world's population is nearly 6.8 billion people. By 2050, that number is expected to surpass 9 billion. Given this rate of population growth, world food production must double by 2050 to meet the increasing demand, according to the United Nations' Food and Agriculture Organization (FAO).

Meeting the challenge

Providing food for an expanding population is the long-term challenge before us. The key to meeting this challenge is for U.S. agriculture and agribusiness to lead the way in promoting continued productivity increases. Our extraordinary track record demonstrates that we have both the capacity and the commitment to accomplish this ambitious goal.

Just consider, in 1930 the average U.S. farmer fed 10 people, according to the American Farm Bureau Federation. In 1960, that farmer fed two dozen people. By 1990, the figure reached the 100 mark. Today, the number is 155.

Looking specifically at some key areas of production, average corn yields in the U.S. have increased from 20 bushels an acre in 1930 to more than 150 bushels today; wheat yields have tripled since 1930; and per-cow milk

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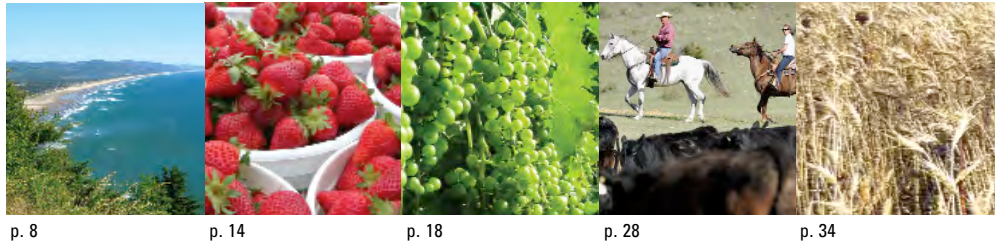
Dallas Tonsager, Under Secretary,
USDA Rural Development

Dan Campbell, Editor

Stephen Hall / KOTA, Design

Have a cooperative-related question?
Call (202) 720-6483, or email:
coopinfo@wdc.usda.gov

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ON THE COVER:

Volunteers fill sandbags to help hold back flood waters near Winfield, Mo., in 2008. In this month's cover story, co-op developer Bill Patrie says such efforts symbolize the type of united cooperative effort needed for agricultural co-ops to succeed. Photo by Jocelyn Augustino, courtesy Federal Emergency Management Agency (FEMA)



Dairy co-ops maintain



steady market position

By Charles Ling, Ag Economist
USDA Rural Development

Editor's note: This article is based on RR 218, Marketing Operations of Dairy Cooperatives, 2007. To order a free copy, e-mail: coopinfo@wdc.usda.gov, or download it from the Internet at: www.rurdev.usda.gov/rbs/pub/research.htm.



Dairy cooperative members in the United States marketed more than 150 billion pounds of milk in 2007, maintaining a steady market share for co-ops during the five-year period between 2002 and 2007. This and other findings are the results of a survey of all dairy cooperatives conducted by the Cooperative Programs of USDA Rural Development. The survey is done every five years, with the most recent questionnaire collecting information on the milk-marketing operations of dairy cooperatives for fiscal 2007.

The 152.5 billion pounds of milk that dairy co-op member-producers marketed in 2007 was 9.6 percent more than in 2002. This volume represented 82.6 percent of the total milk marketed by farmers nationally, a slight increase in market share from 82.4 percent recorded five years earlier.

The number of dairy cooperatives during this period decreased from 194 to 155. There were 45 cooperatives that processed or manufactured dairy products, the same number as in 2002. Twelve cooperatives only operated receiving stations, while 98 co-ops had no milk-handling facilities. Most of the latter 98 performed bargaining functions; a few others were “check-off” co-ops that provided milk testing and other services.

Fewer farms, more milk

The 2007 survey shows that there has been no slowing of the trend toward fewer farmers producing more milk, nor in the westward drift of the dairy industry.

In 2007, there were 49,675 co-op member producers who marketed milk in the United States, 19 percent (11,715) fewer than five years earlier. The greatest declines were in the East North Central and West North Central regions, each of which had 4,000 fewer member-producers.

The two North Central regions and the North Atlantic region together accounted for 85 percent of all member producers, but had only 51 percent of cooperative milk volume. The South Atlantic region had the fewest cooperative producers, being home to 2,118 members.

With the exception of the South Atlantic, milk volume marketed by cooperative members in all regions was greater than five years earlier. The largest increase, up 9 billion pounds, was in the Western region, which remained the top source of cooperative milk volume. Cooperatives in this region marketed 58.1 billion pounds of member milk (38 percent of total cooperative milk).

The East North Central region accounted for 25 percent of total cooperative milk, the same share as in 2002. The North Atlantic and West North Central regions each supplied 13 percent of the milk marketed by cooperative members.

Milk deliveries per member-producer were up in all regions during the five-year period. Nationally, the average per-producer delivery increased 35 percent, from 2.3 million pounds to 3.1 million pounds. Per-member

Dairy producers Michelle and Scott Herber of Altura, Minn., are member-owners of AMPI, one of 49 dairy co-ops operating in the West North Central region. Photo by Sheryl Meshke, courtesy AMPI. Facing page: Hungry Tennessee Holsteins dig in. Photo by Mark Johnson, courtesy Tennessee Farmers Cooperative

delivery was highest in the Western region, at 21.2 million pounds, a 56-percent increase from 13.6 million pounds in 2002. This was more than 12 times that of the North Atlantic region in 2007.

Steady share of milk

As in 2002, there were four cooperatives that each handled more than 6 billion pounds of member milk in 2007. These four co-ops accounted for 49.2 percent of cooperative milk volume in 2007, the same share as reported for 2002.

The number of cooperatives in the next size group (3 billion to 6 billion pounds of milk) increased by one, to eight co-ops in 2007. The milk volume of this group accounted for 22.9 percent of all cooperative milk, an increase of two points from 2002. The 2-billion- to 3-billion-pounds group declined by one cooperative since 2002, and the group's share of cooperative milk decreased by 2.3 points, to 8.2 percent in 2007.

Together, the 17 cooperatives in the above three size groups had a very slight, 0.3 point decrease in their share of cooperative milk. Their share declined from 80.6 percent in 2002 to 80.3 percent in 2007.

The number of cooperatives in the 1 billion- to 2 billion-pounds group more than doubled (from 5 to 11), as did the group's milk volume (from 7.1 billion pounds to 15.4 billion pounds), during the five-year period from 2002 to 2007. This group showed the most significant increase in the share of total cooperative milk volume, climbing from 5.1 percent in 2002 to 10.1 percent. This increased share came mostly at the expense of the groups of cooperatives with smaller milk volumes.

In terms of milk volume, the relative



Dairy co-op financial performance

Complete financial data for 2007 submitted by 94 dairy cooperatives to USDA show that:

- Total assets for fiscal 2007 were \$12 billion (\$8.41 per hundredweight (cwt));
- Total liabilities were \$8.7 billion (\$6.09 per cwt);
- Members' equity was \$3.3 billion (\$2.32 per cwt), with 82 percent of the equity allocated to members.
- Net margin before taxes was \$404 million (28 cents per cwt), a return on equity of 12.2 percent.
- Together, these 94 cooperatives marketed 94 percent of total cooperative milk volume.

position of dairy cooperatives to the rest of the industry has been remarkably stable. The largest four dairy cooperatives had only a slightly higher share of the nation's total milk supply, moving up from 40.5 percent in 2002 to 40.7 percent in 2007. Broadening the focus to the largest eight and the largest 20 dairy cooperatives, both groups also saw little or no change in their shares of milk.

Co-op share of dairy products

Volume of butter and nonfat and skim milk powders made by cooperatives increased from 2002 to 2007. Cooperatives' share of butter, at 1.087 billion pounds, remained at 71 percent of U.S. production, and their share of nonfat and skim milk powders, at 1.444 billion pounds, was an overwhelming 96 percent.

However, cheese made by cooperatives dropped substantially, decreasing by 15 percent from 5 years earlier, to 2.513 billion pounds. This accounted for 26 percent of total U.S. production, compared to 34 percent in 2002. Cooperatives' share of dry whey products also declined, from 52 percent to 42 percent.

Sales of packaged fluid milk products by cooperatives increased both in volume and in market share. The 4.035 billion pounds marketed was 7.4 percent of the nation's production, up

from 7 percent in 2002. The co-op share of ice cream increased from 3 percent to 4 percent, while their share of ice cream mix increased from 6 percent to 13 percent.

In 2007, cooperatives marketed 11 percent of the nation's yogurt, 14 percent of the sour cream and 20 percent of the condensed buttermilk.

Plant operations and employees

Dairy cooperatives owned and operated 193 plants in 2007, more than half of which were in the two North Central regions.

A plant may perform more than one marketing function. Among the 123 plants that reported receiving and shipping milk as a part of their plant operations, 17 were receiving stations that had no other marketing activities. The other 106 plants also manufactured one or more dairy products, in addition to receiving and shipping milk.

Dairy cooperatives engaged in the production of various dairy products. Most notable were: American cheeses were manufactured in 34 plants, Italian cheeses were made in 17 plants and fluid milk products were packaged in 49 plants. Twenty-four plants churned butter, while 39 plants made dry milk products (other than whey products). Whey products were dried in 24 plants.

Sixty-five dairy cooperatives

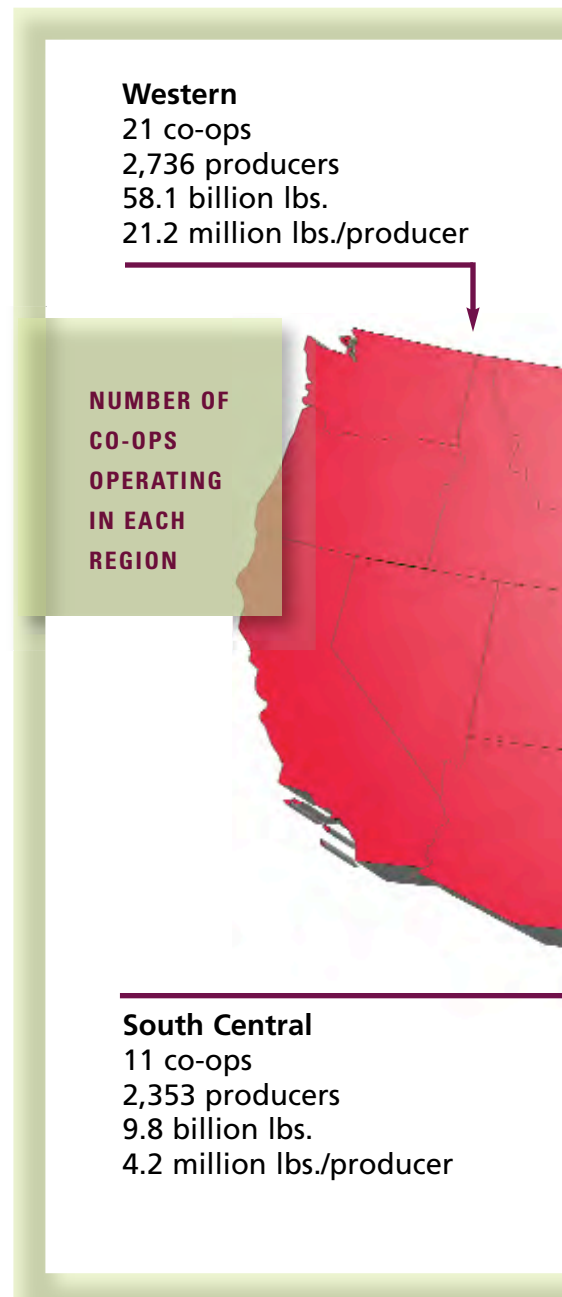


TABLE 1 SIZE OF DAIRY COOPERATIVES IN TERMS OF MILK MARKETED BY MEMBERS, 2002 AND 2007

Milk marketed by members	Cooperatives		Member milk		Share of co-op milk	
	2002	2007	2002	2007	2002	2007
	Number		Million pounds		Percent	
More than 6 billion pounds	4	4	68,499	75,089	49.2	49.2
3 to 6 billion pounds	7	8	29,040	34,899	20.9	22.9
2 to 3 billion pounds	6	5	14,615	12,504	10.5	8.2
1 to 2 billion pounds	5	11	7,120	15,439	5.1	10.1
0.5 to 1 billion pounds	13	8	9,101	5,176	6.5	3.4
100 to 500 million pounds	30	32	6,761	6,740	4.9	4.4
Less than 100 million pounds	129	87	4,063	2,681	2.9	1.8
Total	194	155	139,199	152,528	100.0	100.0

West North Central

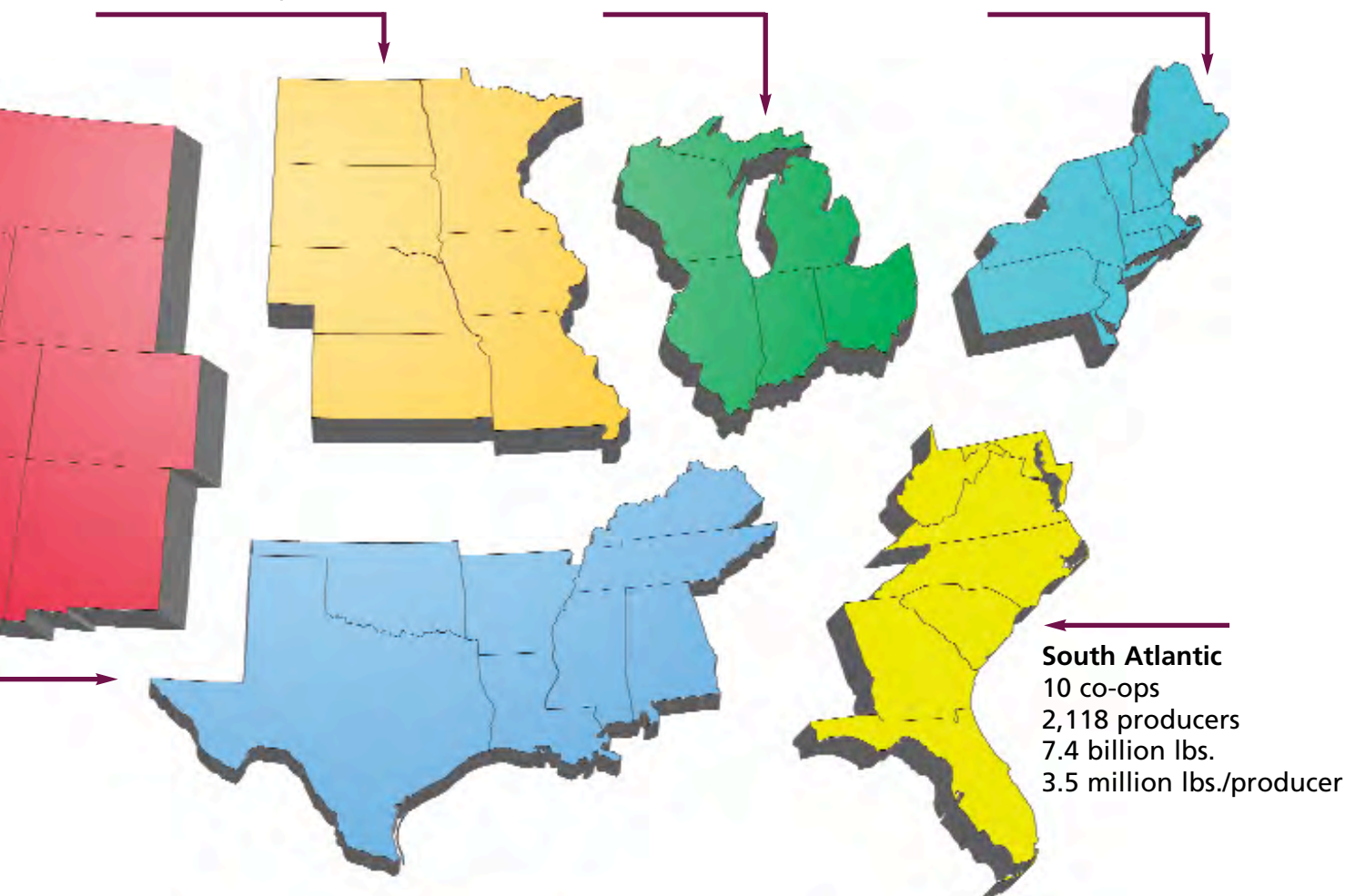
49 co-ops
 10,135 producers
 19.2 billion lbs.
 1.9 million lbs./producer

East North Central

47 co-ops
 20,255 producers
 37.7 billion lbs.
 1.9 million lbs./producer

North Atlantic

62 co-ops
 12,078 producers
 20.4 billion lbs.
 1.7 million lbs./producer

**South Atlantic**

10 co-ops
 2,118 producers
 7.4 billion lbs.
 3.5 million lbs./producer

TABLE 2 SHARE OF MILK MARKETED BY MEMBERS OF DAIRY COOPERATIVES, 2002 AND 2007

Category	2002	2007
	Percent	
Share of cooperative volume		
4 largest cooperatives	49.2	49.2
8 largest cooperatives	62.9	62.3
20 largest cooperatives	84.0	83.7
All dairy cooperatives	100.0	100.0
Share of total U.S. volume		
4 largest cooperatives	40.5	40.7
8 largest cooperatives	51.8	51.5
20 largest cooperatives	69.2	69.2
All dairy cooperatives	82.4	82.6

reported having a total of 21,475 full-time and 2,938 part-time employees in 2007. These cooperatives marketed 127.4 billion pounds of member milk, or 84 percent of cooperative milk.

Six other cooperatives each had only one part-time employee. Another 15 cooperatives reported having no employees. These 86 reporting cooperatives represented 55 percent of all dairy cooperatives and marketed 86 percent of cooperative milk. The remaining 14 percent of the milk was handled by the 69 dairy cooperatives that did not supply employment information to USDA. ■



Unbroken chain: For nearly a century, the fortunes of the Hurliman family have been tied to the co-op that it is a member-owner of: Tillamook County Creamery Association (TCCA). Above, family members pose with their herd in 1915; their descendants (from left) Carl, Kenny and Nick Hurliman returned to the same spot in 2008. Photos courtesy TCCA

By Anne Todd
USDA Rural Development



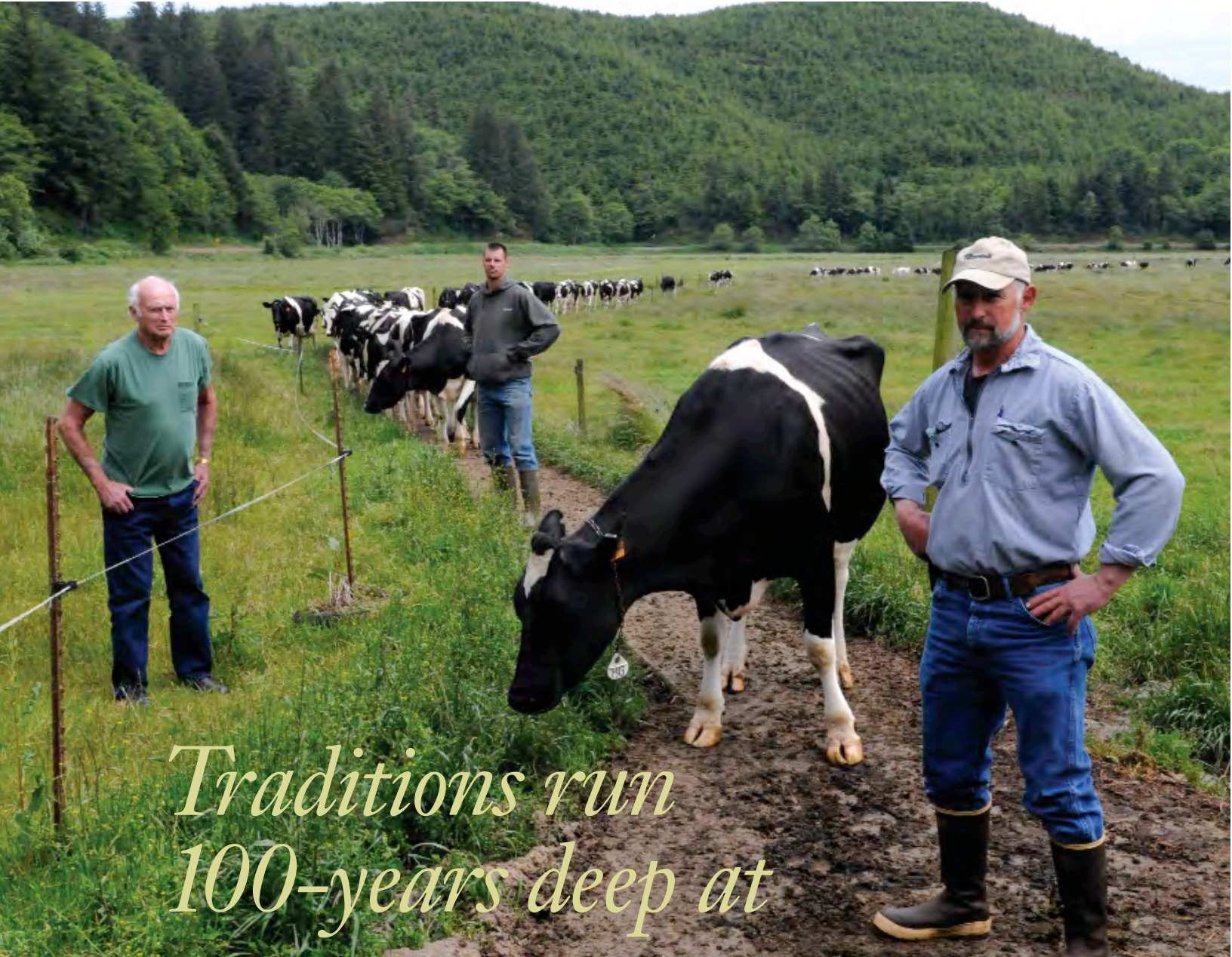
he two photos were taken 93 years apart. But the grainy, black-and-white photo taken on the Hurliman dairy

farm in 1915 and the color digital photo snapped at the same location in 2008 tell a story of an unbroken chain of traditional, pasture-based dairy farming and cooperation among producers in the Tillamook Valley of northwestern Oregon.

For 100 years now, the story of dairy

farming in this beautiful slice of coastal Oregon has been the story of the Tillamook County Creamery Association (TCCA), a dairy cooperative that is celebrating its centennial anniversary all year long.

The technology in the milking parlor may have changed greatly over the



*Traditions run
100-years deep at*

Tillamook County Creamery

years, but it all still boils down to dairy farmers who know their craft and maintain well-cared-for dairy herds that produce high-quality milk, then processing it into a line of award-winning cheeses sold under the farmers' own brand.

Nick Hurliman's family has a

relationship with TCCA that stretches back four generations, almost to the very beginning of the cooperative. In 1915, Hurliman's great-grandfather and his two sons bought their dairy farm in Woods, on the northern coast of Oregon, about a mile from the Pacific shore and 20 miles south of Tillamook.

TCCA was formed in 1909, just six years before the Hurlimans started their farm. At the time, many small, independent cheese plants dotted the county. Ten of these independent cheese producers founded TCCA, deciding to join forces in a farmer-owned cooperative that could control



Good neighbors: The beautiful Oregon coast (USDA photo by Dan Campbell) is just a few miles away from the Tillamook cheese plant. Photo courtesy TCCA

cheese quality.

Another goal of the new co-op was to market cheese as a product coming from the county itself, instead of one coming from the various individual plants.

The Hurlimans' farm is pasture-based, as are most of the co-op's dairy farms. Cows graze outside and are milked twice daily. The family milks about 80 to 85 cows, mostly Holsteins, and has 120 acres of bottomland, 90 acres of hill land and rents 80 acres from neighbors.

Like other dairymen across the country, Tillamook farmers have been affected by the steep drop in milk prices this year and the overall economic downturn. "Obviously, we're not making as much as we have in past years," Hurliman remarks. "But we live conservatively and we'll get through it. Farming has always been an up-and-down occupation."

Early days of co-op

The TCCA story begins in the 1850s, when the first settlers arrived and began establishing farms. But it took a giant leap forward in 1894, when a successful dairy entrepreneur named T. S. Townsend started the first commercial cheese plant in Tillamook. He took 30 orders for cows from local farmers, then went to Portland, Ore., to

purchase the cows and equipment he would need to start a milk pool and run a cheese plant. He also hired Canadian cheesemaker Peter McIntosh, who was experienced with the cheddaring process and brought a recipe for cheddar cheese with him.

By 1909, when the TCCA cooperative was launched, Tillamook County was already well known for its cheese. Although Townsend was the first in the county to establish a commercial cheese plant, other organized, commercial cheesemakers settled there too. By 1904, cheesemaking in Tillamook County had advanced in quality to the extent that a cheese from Tillamook County won first place at that year's St. Louis World's Fair.

In the late 1940s, four of the larger independent plants in the county merged. In partnership with TCCA, they built a large, centrally located plant north of the town of Tillamook. This plant is still part of the TCCA facility today.

By 1968, all of the smaller local cheese plants in the county had merged and consolidated their operations under TCCA and had moved their cheese production to TCCA's central plant. This marked the beginning of the cooperative's operations as a single unit with all of the smaller plants unified as

one organization.

Hurliman's grandfather, father and younger brother have all served on the Tillamook board of directors at various times in the past. Hurliman, an avid outdoorsman, attends all member meetings and says he feels that his voice is heard on important issues. "We get very good communication from Tillamook. They have a really good management team," he says.

Marking the anniversary

Little did the 10 producers who banded together in 1909 to protect the quality of their Tillamook cheese know that they were creating a cooperative and product that would grow over the years into an award-winning, nationally recognized brand.

TCCA has scheduled events throughout the year to mark the centennial. The co-op launched a new website, TillamookFanClub.com, that is an on-line resource center and community for fans of Tillamook products. They also launched an on-line store that offers cheese, Tillamook apparel and other gifts. It is also offering a special limited-edition anniversary cheese.

"The name Tillamook is pretty famous," says Hurliman. "I feel privileged to belong with Tillamook. It's farmer-owned, dependable and gives



A sampling of award-winning Tillamook cheeses (photo courtesy TCCA); a replica of *The Morning Star* — a two-masted schooner launched in 1855 to ship cheese to Portland, and still depicted on the co-op's label — rests outside the cheese plant. USDA photo by Dan Campbell

Tillamook's commitment to community includes environmental stewardship

Tillamook County Creamery Association's commitment to maximizing the potential of its members' dairy farms would mean little were it not for its equal commitment to their communities and the environment. Indeed, corporate America, for the most part, has a long way to go before it will ever match the type of commitment to community practiced for so long by cooperatives such as Tillamook. These member-owned businesses have long realized that their co-ops are only as strong as the local communities in which their members live and work.

The cornerstone of Tillamook's commitment to the community is the cooperative's "no-net-loss of farmland" policy.

"This is a rural county and we are committed to sustaining it," says Tillamook CEO Harold Strunk. "We also believe in the stewardship of the natural resources in our community, so we partner with our local Soil and Water Conservation District, the Watershed Council and the Tillamook Estuaries Partnership to improve water quality and salmon habitat and to mitigate flooding. We do this through leadership opportunities and funding."

For the past 20 years, the co-op board has funded an environmental stewardship program that finances individual projects to protect the environment. This April, the State Land Board presented a streamside project award to TCCA, the Tillamook Estuaries Partnership and four other partners for a joint project to remove the Coal Creek Dam, owned by TCCA, and to

restore more than two miles of stream habitat.

"We are also committed to supporting the youth in our community," says Strunk. "One of our more exciting partnerships involves inviting students to use our wetlands property as an outdoor classroom to study and prepare for a career in the science and environmental field. We also offer five, \$2,000 "Excellence in Leadership" scholarships to students in Tillamook and Morrow counties each year to encourage higher education.

TCCA is the largest employer in Tillamook County and, counting the 110 independent family-owned dairies that dot the countryside, it has a large impact on the local economy and its ability to thrive.

"You can also look at our impact from the standpoint that the city of Tillamook is able to host a hospital and other basic services for its citizen because of our employee base," Strunk says. "The farms support the veterinarians and the equipment dealers and employ workers as well. We are also

large contributors to the nonprofits in the county," he adds, noting that the co-op has a long-standing relationship with the local food bank and its member dairy farmers and employees are among the largest contributors to the United Way.

"It is also important to factor in the impact of tourism on the local economy," Strunk says. "The Tillamook Cheese Factory Visitors Center draws approximately 1 million visitors to the Visitors Center annually. This impacts local restaurants, hotels and other recreational activities in the area."

High school students take water samples on TCCA-owned wetlands.



us good prices.”

Today, the TCCA cooperative is owned and operated by 110 family dairy farmers living in the Tillamook region, such as the Hurlimans, who work the land, milk the cows and set the policies and direction. Profits from the cooperative go back to the farmer-owners to help them keep their dairies economically sustainable.

In addition to its premiere cheeses — including several varieties of cheddar, mozzarella, colby, flavored cheeses, Monterey jack, pepper jack and colby jack cheese — TCCA has expanded its dairy offerings to include ice cream, butter, sour cream and yogurt. Tillamook cheese is available in

groceries throughout the United States, but availability of other products currently is mostly limited to the western states.

Significant plant improvements were made in the 1990s, including the addition in 1990 of a new cheesemaking room and the transition to a new, fully automated cheddaring system known as the “Cheddarmaster,” a stainless-steel piece of equipment that drains the whey from the curd and aids in the cheddaring process.

State-of-the-art visitors center

Tillamook is also home to the Tillamook Cheese Factory’s Visitors Center, the most visited tourist

attraction on the Oregon Coast, according to the Tillamook Area Chamber of Commerce. It started in the 1950s when the co-op added a small cheese shop for visitors at the plant.

In 1979, TCCA opened an expanded Visitors Center for the public, which provides an observation area, an educational slide show, a museum, deli and fudge counters, and an ice cream-dipping counter.

The Visitors Center accommodates nearly 1 million tourists each year.

TCCA’s farmers strive to produce the highest quality milk possible. In order to achieve this, they must meet many rigorous quality requirements set by their co-op. One major factor that has led to the co-op’s success in meeting this objective is its focus on animal care.

All Tillamook cheese and other dairy products are produced with milk from cows that are not supplemented with artificial growth hormones (rBST).

In keeping with Tillamook’s guiding principles, Hurliman considers himself a good steward of the environment. “Lately, farmers have been ‘branded’ as the problem, but farming is environmental,” he says. “If you don’t take good care of your cows and your land, you don’t make any money.”

The Tillamook tradition

TCCA considers cheesemaking an art form, and the co-op works hard to carry on the traditions and values started by its founders many generations ago. The co-op is also committed to improving the economic, social and environmental well-being of the communities in which it operates.

TCCA has reaped many dividends from its business practices and commitment to its members and the community. For example, the cooperative won six awards for its cheddar cheeses at the 2008 National Milk Producers Federation annual cheese contest. For the third year in a row, TCCA was recognized by the Portland Business Journal as a Most Admired Company in Oregon for

continued on page 43

100-Year Milestones

- 1909** Ten cheese factory operators form Tillamook County Creamery Association (TCCA) cooperative to control product quality.
- 1911** TCCA starts cow testing to ensure use of clean, healthy cows, remove poor quality ones and help with feed rations and breeding.
- 1917** TCCA hires ad agency and starts campaign in Los Angeles, San Francisco and Portland. Credited as first community to advertise cheese under a brand-name.
- 1921** The Tillamook brand is on all cheese and trademarked.
- 1946** TCCA starts making rindless cheese.
- 1947** TCCA starts bottled milk production.
- 1949** Four TCCA factories consolidate and build new central plant.
- 1966** TCCA redesigns packaging for better recognizability.
- 1968** Seven cheese factories consolidate and move operations to Tillamook central plant. This brings all formerly independent county plants into TCCA.
- 1972** TCCA starts a Premium Ice Cream line.
- 1978** TCCA starts using refrigerated trucks to haul products to market.
- 1979** Tillamook opens Visitors Center.
- 1990** TCCA starts new automated “Cheddarmaster” cheddaring system.
- 1994** TCCA expands Visitors Center to accommodate more than 900,000 annual tourists. Starts low-fat yogurt line.
- 1998** TCCA starts fat-free yogurt line.
- 1999** Co-op launches www.tillamookcheese.com Web site.
- 2001** Co-op expands facilities and doubles cheesemaking capacity.
- 2005** Co-op starts another expansion to increase output by 50 percent. Launches yogurt smoothie and vintage, 100-day-aged white medium cheddar products.
- 2006** TCCA completes expansion project. The new vintage white cheddar takes top honors at National Milk Producers Federation cheese contest.
- 2007** TCCA introduces three new flavored cheddars. Names Harold Strunk as president/CEO.
- 2008** TCCA launches two more flavored cheeses.
- 2009** TCCA celebrates 100 years as a farmer-owned co-op.

A conversation with Tillamook President/CEO Harold Strunk



■ **Question:** *How important has the co-op business structure been to the long-lasting success of Tillamook? What do you consider to be the greatest strength and weakness of the co-op business model?*

Harold Strunk: “The cooperative has allowed the dairy industry to survive in Tillamook County. Absent the ability to band together and produce a high-quality dairy product under a brand name, the dairy industry in the county would not have been able to survive.

The weakness is that given the strong brand that has developed, the co-op structure provides some constraints to growth. The members have the burden on their shoulders of carrying the capital requirements for growth. The members have an investment in the operation of their own farms and the capital required to operate the creamery.”

■ **How has your marketing strategy evolved or changed in recent years? Do you have any new products or marketing efforts planned for the start of your second century?**

“The Tillamook brand marketing strategy is evolving significantly heading into our second century. Our strategy recognizes that Tillamook plays a very important role in the lives of people...as both a lifestyle brand and a great-tasting food product. To capitalize on this, we are utilizing two key marketing programs that allow us to build direct, personal relationships that have an impact with our targeted consumers: social media and grassroots events.

In recognizing the power of the Internet, we are connecting daily with current and potential Tillamook users via direct, one-on-one social media web programs. These programs include our Tillamook Fan Club website, Facebook, Twitter and YouTube. The information we share about our brand via these web tools inspires people to become brand enthusiasts; they then motivate others to connect with us.

We have built an extremely unique, customized experiential tasting program that will excite both consumers and our retail customer-partners. We will put our great-tasting cheese in the mouths of hundreds of thousands of people via a national tour that launches in August 2009 and will run throughout 2010.”

■ **With only 110 members, you probably know virtually every one of them on a first name basis. Does**

that make member relations and communications easier than for a co-op with, say, 1,000 members?

“Yes, it is easy to keep your finger on the pulse of what is going on. Conversely, members are very interested in the detailed workings of the company, which means we have 110 bosses. A large part of our communications is keeping our members informed about the constantly changing business environment.”

■ **You are celebrating the co-op’s 100th birthday in a year that has seen milk prices plummet severely. What’s the situation there in the Pacific Northwest?**

“Yes, it is difficult in the Pacific Northwest, as it is everywhere in the country. Milk prices are below production costs. We have been fortunate that the Association has been able to maintain a good financial performance due to strong performance of the Tillamook brand.

This has allowed us to pay our members a substantial premium for their milk. However, it is still not enough of a premium to cover their production costs during this very low milk market.

It is hard to celebrate such a milestone in our co-op’s history when the situation on the farms is so tough for our members. However, we feel it is very important to celebrate this achievement. The co-op, during its history, has done a great job looking into the future and has made good business decisions, which allowed TCCA to reach our 100-year anniversary, and for that they should be proud. This is a great cooperative with a strong and growing brand.”

■ **The co-op has a state-of-the-art visitors center and gift store adjacent to the main plant in Tillamook. Does that generate much profit for the co-op, or does it fall more under the realm of promotion and advertising?**

“The Tillamook Cheese Factory Visitors Center is for-profit, but it is a minimal profit. The Visitors Center is our most important and effective marketing resource. It is the epicenter of our brand, where our consumers and fans can enjoy a rich and multidimensional brand experience.

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Ripe Time Delivery

Carolina growers form co-op to supply farm-to-school market

By Bill Brockhouse

Cooperative Development Specialist
USDA Rural Development/Cooperative Programs

Bruce Pleasant

Cooperative Development Specialist
USDA Rural Development/North Carolina



North Carolina has 2,513 elementary and secondary schools with 1.44 million students. That's a lot of hungry mouths to feed. These schools are increasingly turning to North Carolina produce growers for a wide variety of nutritious, freshest-possible foods, such as watermelon, broccoli and cabbage.

The farm-to-school program in

North Carolina originated in 1997 through a partnership between the U.S. Department of Defense and the Markets and Food Distribution Division of the North Carolina Department of Agriculture and Consumer Services (NCDA&CS). The first effort involved supplying apples to schools in western North Carolina. The initial success resulted in the program expanding throughout the state, with participation growing every year.

There are more than 2,000 farm-to-school programs operating in 39 states. They bring healthy food from local farms to children's plates at school. This also helps provide a market for local farmers and reduce the distance food is shipped.

In 2004, 60 school districts in North

Carolina used the program. The number increased to 67 school districts in 2008, which made record purchases of \$700,000 through the program during the 2008-09 school year, up from \$502,000 in 2006-07.

Birth of the cooperative

The North Carolina Farm-To-School Cooperative was incorporated in 2008, born out of producers' desire to supply fresh, healthy produce to the school children of their state. The co-op and its mission have been a source of pride for the state's produce growers ever since.

"The schools' participation in the program allows the producers to diversify their sales and provides a healthier diet for the children." says



Bursting with just-picked flavor, North Carolina strawberries are harvested, shipped and served within 48 hours to hungry students in one of the 67 school districts being supplied by the North Carolina Farm-to-School Co-op.

cooperative President James Sharp. “This is also an opportunity to educate children through promotions about the origins of their food.”

In addition to providing fresh produce, the program teaches elementary and secondary school children about North Carolina produce and how it is produced. This educational effort involves posters in school cafeterias, lesson plans and coloring activities for younger children. NCDA&CS tractor-trailers are rolling advertisements that display images of school children enjoying North Carolina strawberries. This year the group will consider using promotional “tent cards” on cafeteria tables and other educational items to help increase students’ understanding of North

Carolina agriculture and good nutrition.

Grower/suppliers pay an assessment of 50 cents per case of produce delivered to the schools to help fund promotions and to pay for educational materials.

The cooperative has 30 members who supply 12 commodities. These include eight varieties of apples, seedless watermelon, cabbage, broccoli crowns, sweet potatoes, apple slices, strawberries and blueberries.

“You can’t get any fresher produce than this,” says Tommy Fleetwood, agricultural marketing supervisor with the NCDA. “It is delivered to the schools two days after harvest,” he notes, compared to at least a week for produce shipped in from the West

Coast. He says if the schools add a summer feeding program, produce could be supplied year round.

The most recent Farm Bill gives schools the option to purchase produce from local farmers. A month before each commodity offering is in peak season, a memorandum is sent electronically to all the Child Nutrition Directors with an order form. Upon receipt of the solicitation, the schools place their orders electronically, guaranteeing the delivery of the freshest produce available when promised. In the past, they were not able to indicate a geographic preference, due to procurement regulations, explains Marilyn Moody, senior director for Child Nutrition Services for Wake County Public Schools. “This allows us

to get fresh produce at the peak of ripeness on the lunch tray,” Moody says.

Food distribution network

Farm-to-school program delivery is made possible with the help of a unique food distribution service through NCDA&CS, which maintains a network of 14 trucks and 30 trailers. It also has facilities for storing and cooling commodities, helping to ensure that produce is the freshest possible when it is served to students.

This fleet of trucks, along with two warehouses with coolers and freezers, is believed to be the only food distribution network in the nation operated by a state department of agriculture. NCDA&CS collects the orders from school nutrition directors. Produce is then picked up at three grower delivery points. From there it is hauled to one of the warehouses, where orders are processed and the produce is then trucked to the schools — all within 48 hours.

This past year, 13,000 flats of strawberries were provided to schools by the cooperative. That represents about 100 acres of strawberries, Fleetwood says.

The cooperative has a board of seven growers, most of whom also serve as representatives of statewide commodity organizations. Three NCDA&CS representatives serve the board as non-voting advisors. It is aided by a five-member advisory committee, comprised of child nutrition directors, which meets two or three times each year. The committee helps test new products and provides feedback to the cooperative regarding the success of trial products.

Boosting quality and distribution

The cooperative’s main purpose, in terms of its members’ operations, is to improve the quality and facilitate the distribution of members’ produce. Until the cooperative was formed, NCDA&CS was responsible for program operations, from farm-gate to schools. NCDA&CS still has many responsibilities, but is sharing more of them with growers.

Reasons for using the cooperative business structure included the desire to provide growers with control of marketing, to increase coordination and efficiency of operations and to comply with existing federal cooperative laws.

As member-owners of the business, growers have responsibilities to their cooperative. This includes signing a marketing agreement which contains requirements for produce they deliver. Requirements include the volume and type of produce, cooling, grading, washing and packaging. They also elect a board of directors and keep informed about how their cooperative is performing.

The road ahead

As with any cooperative, organization does not guarantee a market for the members. A supplier meeting for each commodity is held each year prior to bidding on the farm-to-school contract. All members participating as a commodity

supplier must have a representative present at the meeting, where discussions are held regarding price, volume, varieties, grade standards and packing methods.

In late July, the NCDA&CS solicits bids on behalf of Child Nutrition Services for North Carolina Schools. Produce must be North Carolina-grown and certified as meeting USDA’s Good Agricultural Practices (GAP) food safety guidelines.

Successful bidders must also be able to provide all commodities listed and provide a \$2-million liability policy. In its first year, the cooperative’s bid was chosen, and it has enjoyed a successful year with a high volume of high-quality produce.

Because of its low overhead and experience in feeding the state’s school children, the cooperative has a unique opportunity to keep fresh produce at the “peak of ripeness” in North Carolina schools. ■

Grower control and responsibility

All North Carolina Farm-To-School Cooperative members must be growers who are using the cooperative to market through the farm-to-school program. Thus, they have responsibility for monitoring operations, establishing standards and controlling the overall strategic direction of the cooperative.

The cooperative’s objectives are to:

- Supply locally-grown fresh fruits and vegetables to school systems throughout North Carolina;
- Promote healthy eating to school students across the state to fight childhood obesity;
- Provide nutrition education concerning fresh fruits and vegetables to students throughout the state;
- Support organizations that complement the interests of the organization and its membership;
- Promote North Carolina farmers and agriculture.




Truck trailers display promotions for the farm-to-school produce program.

Legal Corner

Capper-Volstead, Revisited

By **Stephanie M. Smith, Senior Legal Adviser**
Cooperative Programs, USDA Rural Development

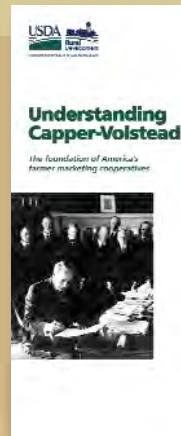


In today's uncertain times, the Capper-Volstead Act is not without reach of legislative change. Capper-Volstead was enacted to address economic issues that faced agricultural producers. It gives agricultural producers a limited antitrust exemption to market their production on a cooperative basis, which legally permits reduction of competition among agricultural producers when they join and act in the marketplace, in effect, as one farmer. Summarized below are highlights of possible legislative and judicial responses to Capper-Volstead.

In 2002, Congress created the Antitrust Modernization Commission (AMC) to examine whether the antitrust laws should be modernized and to submit its findings to Congress and the President. The AMC is a 12-member, bipartisan commission consisting primarily of antitrust lawyers with large law firms and major corporations. The commissioners originally planned to complete a draft report by the summer of 2006 and to submit a final report in the spring of 2007. At this time, a final report is still being drafted for recommendation by commissioners appointed to several working groups to decide on antitrust immunity legislation, such as Capper-Volstead. Information about the AMC, its commissioners and the initial reports of all working groups are available at: <http://www.amc.gov>.

In December 2004, the Department of Justice ("Justice") simultaneously filed an antitrust lawsuit against the Eastern Mushroom Marketing Cooperative (EMMC) of Kennett Square, Pa., while also entering into a consent decree settling the case. EMMC, in an attempt to limit mushroom production by non-members of the cooperative, purchased and leased land capable of producing mushrooms and placed deed restrictions on the titles to the land. The deed restrictions barred mushroom farming on the land, in perpetuity.

At this time, Justice did not challenge the Capper-Volstead status of EMMC. Rather, Justice asserted in its complaint that the Capper-Volstead Act does not protect members of a cooperative who conspire to prevent independent, non-member farms from competing with the cooperative or its members.



Essential reading for co-op directors

USDA's Capper-Volstead brochure is back in print, with minor updates. To order copies, send e-mail to: coopinfo@wdc.usda.gov, or call 202-720-8381.

Under the terms of the consent decree, EMMC agreed to remove all restrictions on producing mushrooms from the deeds and to restrain from similar activity in the future. No fine or other additional punishment was levied against the association or its producer-members.

Thus, EMMC members may continue to agree on prices and otherwise market their mushrooms through their cooperative. A consent decree does not set a judicial precedent in the same way a court decision can. However, this case should put marketing associations on notice that the Justice Department may intervene when it believes a cooperative's actions artificially reduce the acreage and facilities available to non-members to grow and market the same product as the cooperative's members, thereby depriving consumers of the benefits of competition.

And the beat goes on...

On March 26, 2009, All American Mushroom Inc., Robert Altman and Associate Grocers Inc., filed an action against EMMC related to the same issues brought by Justice. In this case, however, the court ruled against the cooperative, saying that it is not entitled to the Capper-Volstead antitrust immunity. The court found, on cross-motions, for summary judgment that the cooperative's admission of a non-farmer member with voting rights destroyed its antitrust immunity.

The cooperative and its members have filed a notice of appeal in the Third Circuit and the plaintiffs have filed their opposition to the appeal. If the appeal is denied, the case will be remanded back to the District Court for further review of antitrust violations and other issues.

Producer-owned marketing cooperatives will want to keep abreast of legislative and judicial actions and be ready to defend their antitrust protections if necessary. ■



Wine co-op helps transition from tobacco while boosting agri-tourism

New life for an old town



By Stephen Thompson, Assistant Editor
e-mail: stephena.thompson@wdc.usda.gov



In the picturesque farmland of historic St. Mary's County in Southern Maryland, a cooperative of wine-grape growers is working to build a new industry that can help take the place of a lost cash crop.

For centuries, the agricultural lifeblood of the county was air-cured tobacco. It grew well in the sandy soil and hot, humid climate and it provided a good living from as little as 30 acres. Fortunes were made from it. In colonial times, tobacco was Maryland's prime export, and its leaves even served as currency.

the small average size of land parcels raises the costs of cultivation and harvesting.

So, with the demise of tobacco, local farmers and rural planners have been searching for high-value cash crops that can take its place. One that offers some hope, interestingly, is catnip. Another is wine.

Vines replace tobacco

Rich Fuller is a retired civil servant who worked at Patuxent Naval Air Station, on the banks of the Chesapeake Bay in St. Mary's County. He now volunteers at Summerseat Farm, a historic former tobacco plantation, owned by a nonprofit organization, near the county seat of Leonardtown. He's also president of the



Facing page: Symbolic of the changes occurring in Maryland agriculture, an old tobacco barn provides the backdrop for a vineyard. Above: A site plan for a development that includes not only the co-op's winery (upper right corner), but a park with water access for kayaking and canoeing. USDA photos by Stephen Thompson

But in 2004, the federal tobacco price-support system came to an end, and with it a way of life. The Maryland cigarette restitution, or "buyout," fund provided 10 years of payments, starting in 2000, to compensate farmers for the loss of their protected tobacco allotments and help them make the transition to new crops. St. Mary's County had the largest number of participants in the program.

Today, only one year before the buyout program begins to expire, tobacco has all but disappeared from the Southern Maryland landscape, with less than 100 acres planted in St. Mary's County. The auction houses that were centers of the industry and of cultural tradition are all closed. The only hint of the crop's former importance is the many curing barns now standing incongruously among fields of corn and soybeans.

But the trouble with corn and other grains is that they are low-value crops, requiring much larger acreages to be profitable. Corn yields are not especially high in the area, and

Southern Maryland Wine Growers Cooperative, an association of 15 viticulturists who are pioneering local wine production.

The cooperative was formed in 2007, after political officials from Leonardtown and the county came to a local group of winegrowers with an offer. They would provide funding and a building for a winery. In return, the winegrowers would help develop wine as a commercial industry — not just as a new livelihood for farmers, but also as a means of making the area more attractive to tourists.

Wineries have proved to be valuable tourist draws in nearby areas. In neighboring Virginia, wine festivals, tastings and vineyard tours draw thousands of visitors every year. Next door to St. Mary's, Calvert County, Md., has established the Patuxent Wine Trail, a tour of five vineyards.

As a tourist attraction, St. Mary's County has a lot going for it. It's only an hour drive from Washington, D.C., and boasts beautiful scenery and a historic past. It includes St.

Mary's City, the first capital of Maryland and the fourth-oldest English settlement in North America. It is also home to a number of other charming small communities. Old lighthouses, plantations, bed-and-breakfasts and small museums dot the landscape.

A sizeable Amish colony adds to the atmosphere, and the wide highway shoulders built for their horse-drawn wagons and carriages attract large numbers of bicyclists every year for the Amish 100 bicycle tour.

The building offered by the town for the winery is a former state highway department maintenance shop. It's located next to an undeveloped park, on the banks of a picturesque creek.

Winery to anchor park/market development

Laschelle McKay, the town administrator, is supervising the renovation of the building and the development of the property. The plan is to make the winery the anchor of a beautifully landscaped park with a picnic area, nature walk, a demonstration garden and a canoe- and kayak-launching area. A canoe-tour company has announced plans to launch trips from the park, which McKay sees as a welcome complement to the winery (see illustration).

The park will complement other efforts by the town to draw tourists, including the redevelopment of the waterfront; the town originally served as a tobacco port.

Leonardtown boasts a number of restaurants, galleries, shops and a photogenic town square. It also hosts a number of special events throughout the year, including a county fair, a classic car show, crab and oyster festivals, an antique show, a bluegrass music festival and other events that could benefit the winery project — and vice versa.

McKay's current goal is to get the winery operating in time for this year's harvest in September. The landscaping and other construction will take a little longer. She seems proud of the cooperation between county, town and winegrowers in getting the project off the ground. "It's taken us years to get to this point," she says. "But it's finally coming together."

Bob Schaller, in charge of business development for the county and a close collaborator with McKay on the project, shares her satisfaction in the results of the collaboration. The county has put up \$535,000 and the town added \$35,000 for the winery, including the vats and other equipment. To develop the park, a grant of \$200,000 was obtained from the state, matched by \$200,000 from the town.

"We need to diversify our economic base, and agri-

tourism is one way to do that," says Schaller.

This isn't the first agricultural development project on which the county has embarked. The Loveville Produce Auction, also a recent county initiative, is located a few miles down the road. Operated by members of the local Amish community, it is used by more than 50 Amish farmers as a market for their vegetables, cut flowers, nursery plants, firewood, hay, and other products.

Schaller says the auction is succeeding in its goal of encouraging the development of agricultural cash crops to replace tobacco, as it is hoped the winery will do.

Co-op experimenting with varieties

With the infrastructure taken care of, the co-op's side of the bargain is making the winery work. Each member has contributed a \$2,000 stake and pledged to help run the facility. A \$2,000 investment may not seem like much, but most of the members have up until now been little more than hobbyists, some growing only an acre or two of grapes. For them, going "professional" is a big step.

The vintners did the research and located a source for the winery equipment, but there remains the problem of how to find grape varieties that will grow in local conditions and produce a decent wine.

"This isn't the easiest part of the world to grow wine grapes," Fuller says. "There are a lot of varieties that just don't work. Syrah vines just die. Riesling grapes grow, ripen and then rot immediately. Cabernet Sauvignon vines grow really well here, but they continue to grow late in the fall, and then freeze and die back to the ground when the cold weather comes.

"So, it used to be that people who grew grapes here used hybrids that did well in the climate, but didn't make the best wine," Fuller

continues. "They just got used to the way the wine tasted."

The hot, humid climate also encourages insects, various kinds of fungus, and other pests. Fuller says that precise and timely application of crop protectants is vital for a successful harvest. An untimely rain can disrupt the application schedule and lead to losses. Summerseat farm is currently trying out 15 different vine varieties supplied by the University of Maryland's Cooperative Extension service in a search for the best compromise between hardiness and flavor. All of them must be grafted to resistant American rootstock to survive soil pests. The types that seem to work out best, Fuller says, are those from Italy, including the popular Sangiovese grape,



Co-op members Gerald Byrne, Carolyn Baldwin and Rich Fuller inspect one of Byrne's vineyards. Growing grapes successfully in the region requires vigilance against pests.

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Building a better rural America: Dallas Tonsager (left) helps participants in a USDA-sponsored self-help housing program build a home in Delaware. Under the program, low-income people invest "sweat equity" for their downpayment on a new home. USDA photos by Bob Nichols



Rural advocate
Dallas Tonsager

to lead USDA Rural Development

By Dan Campbell, editor



Dallas Tonsager, a South Dakota farmer with wide-ranging experience working with agricultural cooperatives and in key government positions, is the new under secretary for USDA Rural Development.

Tonsager will oversee a total portfolio of more than \$100 billion that USDA has invested through 40 different Rural Development programs to make rural America a better place to live and do business in. Rural Development has more than 6,000 employees in some 500 offices across the nation and in U.S. territories.

Tonsager is a well-known champion of rural America who has a keen interest in cooperatives — especially for the role they play in uniting producers and other rural people in order to develop their own value-added businesses.

Prior to his new appointment at USDA, Tonsager was a board member of the Farm Credit Administration (FCA), to which he was appointed in 2004 by President Bush. FCA is

responsible for regulating and examining the Farm Credit System, a nationwide producer-owned cooperative financial system that meets nearly one-third of the credit needs of the nation's farmers and ranchers. He also served as a board member of the Farm Credit System Insurance Corporation.

Before joining the FCA, Tonsager was executive director of the South Dakota Value-Added Agriculture Development Center, where he helped producers develop value-added agricultural projects and to increase the consumer appeal of agricultural products.

This is the second major office Tonsager has held at USDA. Under President Clinton, he was state director for USDA Rural Development in South Dakota. He is thus well versed with the agency and its work to support and develop rural business and cooperatives, rural utilities, rural housing and community development. As South Dakota state director from 1993-2001, he oversaw a diversified loan portfolio of more than \$100 million. In 1999, he was recognized as one of Rural Development's two outstanding state directors.

In the late 1980s and early 1990s, he gained insight into

the needs of family farmers while serving two terms as president of the South Dakota Farmers Union. He also served on the board of National Farmers Union Insurance. During that same period, he was also a board member of Green Thumb Inc., a nationwide job-training program for senior citizens.

From 1990-1993, Tonsager was a member of the advisory board of the Commodity Futures Trading Commission, the federal government's watchdog agency that oversees the

“Co-ops need to constantly examine themselves to ensure they are reflecting their members’ needs.”



Dallas Tonsager discusses USDA's housing programs during a National Housing Month event in Delaware.

trading of futures for oil, precious metals, grains, currencies and other commodities. It also regulates trading in derivatives linked to stock indexes and bonds.

Tonsager grew up on a dairy farm, and along with his brother (Doug) he owns Plainview Farm in Oldham, S.D., where they grow corn, soybeans, wheat and hay. He earned a BS degree in agriculture from South Dakota State University in 1976.

Tonsager and his wife, Sharon, have two sons.

The following conversation took place in June a few weeks after Tonsager had settled into his new office at USDA headquarters in Washington, D.C.

Q. With your background, you seem to be ideally suited for the position of Under Secretary for Rural Development. Are you feeling pretty excited about it?

Tonsager: Sure, it's a great opportunity and something I've been contemplating for some time. I do have some concerns about the agency, which has seen reductions in staffing levels and has shifted its focus from direct to guaranteed loans. I plan to fight to get more emphasis back on the direct loan programs and to grow the Cooperative Services program.

We have in Agriculture Secretary Tom Vilsack a leader who cares a great deal about rural development. At the same time, the economic downturn has resulted in an economic stimulus package being approved by Congress that includes extra funds for some of our programs, such as broadband, water and wastewater development. I feel fortunate to have arrived here at a unique time when Rural Development is getting a lot of attention and has some extra resources to work with.

Q. The Cooperative Services program has declined sharply in terms of staffing and therefore output (co-op educational

materials, technical assistance, co-op development, research, etc.) during the past decade or so. Do you see a chance to rebuild the program?

I certainly hope so. I am a strong proponent for cooperatives. I like what co-ops do and I grew up in a co-op culture. It is the right kind of business model for this time. Some creative things have been done with co-ops during the past decade. This has allowed additional capital to flow into co-ops. The idea of producers investing to create ventures to add value to what they grow is so important to the rural economy. So I will be a strong advocate for the growth of Cooperative Services to better support and work closely with cooperatives. I'm quite excited about the prospects.

Q. Can co-ops play a major role in the revival of the rural economy?

Absolutely, and they are playing an import role in it every single day. We have rural co-op electric systems, co-op rural water systems, co-op telephone systems, co-op farm supply systems and co-op marketing systems. They are fundamental to agriculture and to life in rural America. Value-added co-ops — be they new-generation or traditional model co-ops — are essential to the rural economy and will play an important role in rural stimulus. We will look to support them in every way we can.

Q. Any specific sectors where you see special potential for co-op growth?

I think the local foods movement — “know your farmer, know your food” — is something that really lends itself to cooperatives. Producers of local foods can associate with other producers to pursue this market, and in many cases they already are. It just makes a lot of sense.

Rural electric co-ops are also well positioned to help with economic stimulus. Many rural electric co-ops are using USDA's Rural Economic Development Loan and Grant

Program to support economic development activity in their communities. This often involves setting up revolving loan funds for projects. Co-ops have also been very active in renewable energy development, including wind energy.

We've had a strong period of developing value-added businesses, especially alternative energy. Renewable energy has gone through some cycles, but I will be a strong advocate for using co-ops to continue building energy ventures and other value-added projects. I am also a very strong supporter of USDA's Value-Added Producer Grant Program (VAPG).

Q. As you mentioned, biofuels have certainly been through some huge swings in fortune during the past few years. Are you still optimistic about this sector and its potential for producers to benefit from it?

Absolutely, although we have to pursue it thoughtfully and on a sound economic basis. I've grown up in country where I can see the direct economic benefits that have accrued to producers from biofuel programs. But we must also be cognizant of the impact that biofuels have on livestock producers.

That said, the livestock sector also has opportunities with renewable fuels. I was just at a biogas conference in California, where they are very excited about the opportunity of producing methane gas and biogas from waste products. We need to be looking very hard to see how we can help the livestock sector get more involved in alternative energy. USDA has done 120 projects so far just in the biogas area – some really great demonstration projects.

Q. How important is it that members be active in their co-ops?

By definition, co-ops are meant to help people assist themselves by working together. The more attention people pay to their local co-ops and participate in them, the more their co-op will reflect their needs. If co-ops have a weakness, it is that sometimes when they are working really well, people stop paying attention to them; they take the co-op for granted and think they no longer need to be active participants.

If co-ops are to be relevant in their communities, members must go to co-op meetings and participate in the life of the co-op. And they must communicate to the co-op what they expect from it. Co-ops need to constantly examine themselves to ensure they are reflecting their patrons' needs. When that stops happening, co-ops get into trouble. When co-ops start focusing on things that do not necessarily serve their patrons, they have a problem.

Q. Tell us more about your co-op roots.

My family belonged to a dairy cooperative; we got our electricity from a rural electric co-op; we were served by a local co-op elevator and we got our oil and fuel from a supply co-op. Co-ops touched virtually everything we did, and to a large extent they still do. My brother [with whom Tonsager

still owns a farm] sells corn to ethanol plants and sells soybeans to a processing co-op. So co-ops have always been major players in the daily life of my family.

Q. Any specific projects you worked on during your years with the South Dakota value-added center or with Farmers Union that you think exemplify projects that can be replicated elsewhere?

Even prior to being at the co-op center, I worked on a contract to develop a blue cheese processing plant in Wisconsin. That kind of artisan cheese-processing makes a lot of sense in many areas. Much of my work in South Dakota revolved around ethanol and biodiesel, and those types of projects certainly can, and are, being replicated in other parts of the country. Another project involved organic flaxseed processing and marketing. Another involved processing soybeans into a food-grade product.

The idea is to create products for specialty markets, adding value to a locally produced commodity. The more value-added centers and co-op development centers can facilitate these kinds of businesses, the better.

Q. From the vantage point of your years at Farm Credit, what major lesson do you think the nation should have learned from what has been called "the excessively reckless, speculative" climate that reigned for so many years on Wall Street and has been widely blamed for leading us into the worst recession since the 1930s?

The Farm Credit System (FCS) is quite conservative. Even predating my tenure on the board of the Farm Credit Administration [FCA, which regulates the FCS], they maintained a very basic regulatory process that requires system institutions to keep set amounts of capital on hand. If their capital eroded, we pulled them back and said: "no, you shouldn't be doing that; you need to maintain a more sound capital base."

As the regulator of the Farm Credit System of financial cooperatives, we at FCA would send in examiners to make sure that the underwriting practices at the member institutions were good and that that they stayed in a safe zone. Farm Credit has been a very good model of making sure that the capital of the owners and investors in those co-ops was looked out for, and that the underwriting of loans was done in a safe and sound manner.

My sense is that these other large financial institutions that got into so much trouble were allowed to reduce their capital levels very significantly. I'm very disappointed with how this happened and how these financial institutions over-leveraged themselves. I wish that they had been regulated in a stronger manner, which I believe could have prevented this from occurring.

The Farm Credit System learned lessons from its period of distress in the 1980s, and worked to put itself in a much stronger position after that, with a fiscal policy that is

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Creating Co-op Fever: Hard Lessons Learned

Editor's note: This commentary is excerpted and adapted from a longer paper that presents 14 lessons Patrie learned during his many years devoted to starting cooperative enterprises in his home state of North Dakota. The title refers to his 1998 publication (published by, and available from, USDA) "Creating Co-op Fever," about a surge of new co-ops and producer-owned businesses in North Dakota and neighboring states. From 1990 until 2006, he worked on 104 development projects that represented \$800 million in investments. Of those businesses, 30 are still operating, generating hundreds of millions of dollars in new revenue and employing several thousand people. For the complete text of his paper, e-mail Patrie at: bill@cedc.coop.

By Bill Patrie, Executive Director
Common Enterprise Development Corp.



Without a compelling vision, co-ops are not sustainable

A vision (according to Peter Senge in "The Fifth Discipline") is the answer to the question: "What do you want to create?" That is a very positive question. It implies that you can create something.

It asks you a deeply personal question as if the answer really matters. It does matter, because if you and I and many others want to create something very badly, and we are willing to invest our energies to make it become reality, there is a good chance we will.

Images of the future really matter.

My son, a student at Minnesota State University at Moorhead, Minn., and 10,000 other volunteers (many of them college and high school students), worked around the clock in a fevered,

but well-organized, effort last spring to build a levy of sandbags when the Red River reached a record high of 41.6 feet.

There were two images of the future of Fargo, N.D., at this time. The national media portrayed a flood as inevitable; state emergency agencies developed relocation plans changing all four lanes of Interstate 94 to west bound for evacuees.

The other image was held in the minds of those tired college and high



wrong. They ask negative questions, such as: “What is wrong with us? Who screwed up?”

A steering committee for an emerging cooperative that does not have a vision of its own success embedded in the minds of the chair and the board is not likely to survive. In my view, a deeply held positive image of the cooperative’s future is a more important asset than balance sheet equity.

There is no easy “cookie cutter” approach to creating cooperatives

As co-op developers and educators, we are always looking for that “northwest passage” to reduce cooperative development to a routine. But all co-op development efforts are

As a co-op organizer, if I can’t find trustworthy, electable leaders to serve on the steering committee to study the feasibility, I stop. Not everyone does.

A rural electric cooperative bought a processing plant, put money into it and attempted to sell it to the growers who sold oil seeds to it. The growers were also members of the electric cooperative; they didn’t understand why they needed to take the rural electric cooperative off the hook (to finance the start-up), since they owned the electric cooperative as well. They didn’t buy it.

Many co-op developers will be tempted to violate this lesson. Don’t!

A vision or a dream is an image of the future that we deeply desire. Martin Luther King did not say: “I have a strategic plan.” Instead, he spoke

“To a cooperative developer, the first job is getting the right local leaders. Fail this test, and nothing else matters.”

Sandbag dikes such as this — built in a fevered, round-the-clock effort by students and other volunteers — helped the people of Fargo hold back the swollen Red River early last spring. Photo courtesy Daniel Reetz

school students and the mayors of the cities of Fargo and Moorhead. That image was stated quite simply by Sen. Byron Dorgan who, when he was asked by the media why the federal government didn’t order an evacuation, replied: “The people of Fargo and Moorhead think they are going to win — and I won’t bet against them.” They won.

Organizations that have a negative image of their own future cannibalize themselves as they try to fix what is

still dependent on local cooperative leadership.

Here is the lesson: Don’t ever start a cooperative without trustworthy local leadership already in place. This is indeed a hard lesson and it leads to bitter arguments. I have lost those arguments numerous times. But I am sure about this.

I have seen the other side — where a developer (usually with the best of intentions) gains control of a property from an owner and re-develops it with the intention of forming a cooperative and selling it at a profit to the cooperative. This methodology requires inordinate faith in someone’s ability to recruit and train cooperative directors. It also requires the potential co-op members to see the financial value of joining. But they may not.

Because cooperatives are democratic organizations, they will elect their own leaders, not leaders selected by experts.

personally about the kind of future he wanted. That vision had power.

There is no surrogate for local leadership

Cooperative educators and developers must find ways to work on the local level. University- or capitol city-based development programs that can’t get their staff to meetings in farmhouse kitchens will not likely understand how this works.

While the Extension Service is one of the most successful programs in history at helping to diffuse innovations (see “Diffusion of Innovations,” Everett Rogers, 1995, The Free Press, Simon and Shuster), it has not yet learned how to capture innovations that come from the ground up.

The Extension agent is an information provider and problem solver, but only in rare cases are they agents of change. Land-grant

universities teach local leadership in carefully designed curricula to carefully selected potential leaders. Unfortunately, local leaders are selected by community members — often with different criteria.

The answer is real-time leadership training for leaders who have already been elected. This training may occur at board meetings or community meetings, but it needs to occur in the community.

The trainer of local leadership is more like a 4-H leader than a university-based leadership expert. The leadership trainer is actually a coach,

strategist, confidant and listener who models good leadership skills.

Jim Collins, in his book “Good to Great,” makes an excellent point: getting the right people on the bus is the CEO’s first job. To a cooperative developer, the first job is getting the right local leaders. Fail this test, and nothing else matters.

This is especially difficult, because the co-op educator or developer doesn’t control the local leadership selection — but only influence it. Finding a trustworthy, already-busy person who can commit to a long-term “servant-leadership” role is asking for miracles.

The Madison Principles

Editor’s note: These professional standards for cooperative development practitioners were written by the members of CooperationWorks! — a national network of cooperative developers — in Madison, Wis., in 1995.

1. Individuals providing technical assistance subscribe to the highest level of ethics and shall declare any conflict of interest, real or perceived, so that they can be a credible source of objective feedback and an articulate advocate of the project as needed.
2. Cooperatives are tools for development and should promote both social empowerment and economic goals.
3. Applied appropriately, cooperatives have value to all population groups and for all businesses and services in the public and private sectors.
4. Each cooperative responds to its unique economic, social and cultural context; as a consequence, each cooperative is different.
5. There are essential steps that must be taken in a critical path to succeed.
6. An enthusiastic group of local, trustworthy leaders is a prerequisite for providing technical assistance. The effective cooperative development practitioner nurtures that leadership by helping them shape a vision that will unite members and provide ongoing training.
7. Cooperatives only work when they are market driven; the development practitioner seeks to ensure that accurate market projections precede other development steps.
8. Member control through a democratic process is essential for success.
9. Success also depends on the commitment of the member’s time and financial resources.
10. There must be tangible economic benefits for members.
11. The cooperative’s products and services must generate sufficient revenue so that the effort can be financially self-sustaining. Provisions must be made to share any surplus equity.
12. Market opportunities exist throughout the world. Cooperatives and market development should transcend national boundaries.
13. Successful, established cooperatives should assist emerging cooperatives to develop. New and emerging cooperatives should be encouraged to communicate with and learn from successful cooperatives.

They do happen.

There are no perfect leaders

John Calhoun supposedly said of Henry Clay that although Clay was brilliant, he was also corrupt and “like a rotten mackerel in the moonlight, he both shines and stinks.”

I have learned that to be true in today’s leadership ranks as well. I have worked with men and women whose skills and character were just what the new enterprise needed. But what is more common is a mixture of brilliance and stupidity. It is tempting to exaggerate the virtues of the leader and attempt to minimize the weaknesses. However, local people will not be fooled since they know their leaders.

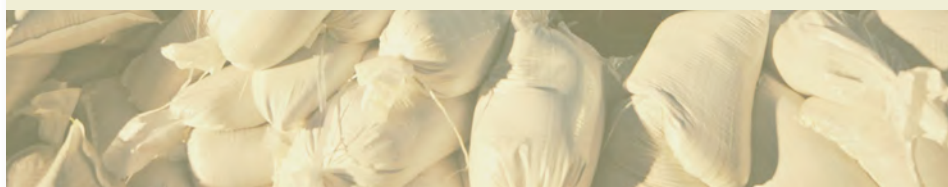
Patience and “just-in-time” leadership training can go a long way toward converting a solid community member into a good leader. It is essential, however, to have that leader in charge of the project. If local leadership is not available, stop the process until it is.

Discipline is essential

There is not yet a recognized body of knowledge that defines the standards for co-op development practitioners to follow. CooperationWorks! (a national training network for co-op developers) has published the Madison Principles (see sidebar) to guide cooperative developers, but there is no enforcement mechanism for those who violate them. Federal agencies that provide financial support for cooperative development should agree on something like a “best practices” statement.

Contractors, lawyers, doctors, accountants and many other professions have standards of conduct that if violated can cause individuals to lose professional standing. That is not true in the cooperative development world in the United States.

In the work of co-op development, a long-term view is generally needed. The Bank of North Dakota took 10 years from inception to funding. A power plant takes 10 years to permit and site. New ideas can transform rural





Bill Patrie meets with U.S. and Canadian pork producers in Minot, N.D., to discuss buying a hog processing plant.

economies, but the process is evolutionary not revolutionary.

Discipline is needed to adhere to a reliable set of principles — such as the Madison Principles — by cooperative developers who must not become corrupted by the lure of quick fixes. One-hundred years after the idea of the Bank of North Dakota was first advanced, that institution is providing financing to farmers to join cooperatives. But there had to be a great deal of discipline along the way to keep the bank from going broke.

Likewise, a cooperative must have internal discipline.

At an organizational meeting for Northern Plains Premium Beef, a rancher from Saskatchewan protested the idea of having to place a Northern Plains ear tag on each of his calves. But this was essential, because the co-op had committed itself to being able to identify all meat products it sold all the way back to the ranch where a calf was born. Jim Rainey, a former CEO of Farmland Industries who was acting as our executive advisor, was normally a soft-spoken man, but in response to this rancher's comment he banged the table with the palm of his hand and said: "Discipline, gentlemen, discipline."

Without the discipline of source identification, Northern Plains Premium Beef was just another cattle company. The non-complying rancher was asked to leave the cooperative, and he did.

I have learned that if members are not capable of the necessary disciplines inherent in running the cooperative, it will not last.

Courage and intelligence outweigh charisma as a leadership trait

Jim Collins in "Built to Last" and Peter Senge in "The Fifth Discipline" all came to this same conclusion. As I look around at the cooperatives that last, I see board chairs and managers who have remarkable humility. They are focused on delivering a member benefit in a clear, straightforward way.

In most cases, they have placed their egos out of the way, have learned to take unfair criticism and have come to understand the unique aspects of the economic sector they work in.

Farmers Union Marketing and Processing Association (FUMPA) was formed in the 1920s. It operates rendering plants in Redwood Falls and Long Prairie, Minn. The co-op picks

up dead stock from farms and renderable materials from packing plants in a four-state region.

FUMPA recently added a biodiesel facility to its Redwood Falls plant and has added a line of kitty litter to its product line. It has also established a foundation that helps establish other cooperatives. This co-op has paid millions of dollars in patronage to its members.

FUMPA has experimented with mobile facilities and more energy-efficient processes. Co-op leaders always have time to talk with you and give you a tour. It is one of the most financially healthy cooperatives I know of, but I have never once heard the chairman or the CEO brag.

These types of people are the kind of folks I look for to help start new cooperatives.

Rekindling the dream

If people do not share a dream, they have no sense of place and are not a part of something larger than themselves, Kent Kedl, an associate professor at South Dakota State University, wrote in the December 1984 issue of "Small Town." The role of the cooperative educator and developer is to rekindle the dream.

The world is turning our way. It doesn't always seem that way — but people really do want to cooperate. They want better lives, they want to live in peace and they want their children to be secure. Ideology and partisanship and egotism have imprisoned us, but we can get out. We can rekindle the dreams of a better life, and people will use that dream to change the world and make it better.

We can learn to treasure our neighbors and facilitate the cooperation that leads to a better life. We can enjoy and practice this life-giving skill we have been given, so that long after we are gone and our awards are packed away in dusty boxes, there will be people living happy and prosperous lives — and they will say: "We did it ourselves." ■

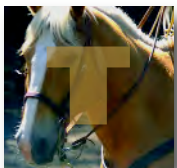
City Slickers



Co-op boosts Montana ranches that offer working vacations

By Donna Healy

Editor's note: this article is reprinted courtesy the Billings Gazette. To see other photos and video footage, visit: <http://billingsgazette.com>.



Trained by lone riders, the black Angus cattle came together along the grassy bench in slow-moving dribs and drabs.

In the valley below, a creek, muddy with runoff, cuts through a band of brush and trees. A panorama of snow-capped mountains ringed the horizon, the craggy Crazy Mountains to the northwest and the Beartooth and Absaroka ranges curling around from the south and west.

The Metcalf Ranch, along Lower Deer Creek, sits a few miles south of Interstate-90 off the Greycliff exit, east

of Big Timber. But the top-of-the-world view from the bench above the ranch house seems like a holdover from another century.

As the cattle came together, the pace quickened. Riders veered off to chase errant cows, loping away from the herd. More riders turned the herd of about 200 mother cows back in the right direction when they overshot the gate and moved them slowly down the road.

Among those riders was a lithe 32-year-old wearing a crisp white polo shirt and tight jeans. For Christine Ortjohann, from Cologne, Germany, the chance to herd the ranch's cattle at a late May branding fulfilled a life-long dream.

"I have a lot of good pictures in my mind," she said, her words nearly drowned out by calves bawling for their mothers.

In Germany, Ortjohann sells

newspaper printing ink for a living. She also spends the equivalent of about \$570 to board a horse in Germany, an expense she equates with the cost of a rental apartment.

At the rope-and-drag and into-the-fire branding in the Metcalf's corrals, the ranch's other paying guest, an ag student from a farm in Tennessee, wrestled several calves to the ground while Ortjohann watched from the sidelines.

"I don't really know how to do it," she said. "I will keep on watching and stay in the background a little bit."

But, a short time later, ranch owner Remi Metcalf, who usually prefers to let his wife, Susan, and 20-year-old son, Bret, take care of the ranch guests, steadied Ortjohann's hand as she burned the Metcalf's brand on three calves.

After many years of taking in ranch

Facing page: Rancher Remi Metcalf helps Christine Ortjohann of Germany brand a calf at the Metcalf vacation ranch in Big Timber, Mont. Below: Metcalf and Ortjohann round up cattle for branding. Lower: Kyrk Stenberg of Big Timber ropes calves prior to branding. Photos by David Grubbs, courtesy Billings Gazette



guests on their own, last year the Metcalfs joined Montana Bunkhouses Working Ranch Vacations, a cooperative of more than 20 cattle ranches.

A handful of those ranches are clustered around Big Timber, although three of those ranches have temporarily stopped taking guests, in the aftermath of the Derby fire. Some of the ranches are in decidedly less touristy spots, including Harlowton and Musselshell.

The first 10 ranches banded together in 2002 to offer guests a realistic view of ranch life.

Karen Searle, the galvanizing force behind the cooperative, describes herself as a matchmaker, pairing ranch families and travelers. Searle, a former hospital administrator in Livingston, earns a commission for handling the marketing booking and some accounting chores.

The former director of a national center for cooperative business development credited Searle as having



put together the first agri-tourism cooperative of cattle ranches in the United States.

The co-op, which is actually a limited liability company, was formed after Searle returned in 2002 from a World Congress on Rural Women and Rural Issues in Spain. It's modeled along the lines of European farm holiday programs.

The basics were hashed out around a kitchen table by 10 Sweet Grass County ranchers, none of whom had ever hosted guests.

One common thread was the authenticity of the ranches, Searle said.

"We started with ranches that had been in families for generations," she said.

To keep it real, they didn't want anyone to hire wranglers to care for guests or to build a lodge to house them.

The co-op's members saw agri-tourism as a way to help preserve family ranches and to narrow the divide between ranch and city dwellers on land use and wildlife issues. Those goals have put them in the forefront of a trend in the travel industry labeled "geo-tourism."

The term describes travel that sustains or enhances the character of a

place, helping to preserve its heritage, habitats and scenic beauty. It fosters small-scale operations that strengthen local communities and tends to view family ranchers and farmers as stewards of the land.

While eco-tourism uses tourism revenue to help promote conservation, geo-tourism extends that conservation ethic to culture and history, Searle said.

In March, National Geographic launched an interactive map highlighting geo-tourism in the area surrounding Yellowstone National Park. The map includes the Bunkhouse Cooperative.

It's an attempt to spread the spotlight beyond the park's boundaries to the communities and lifestyles that help forge the character of the place, Searle said.

"The travel industry coined a word for something we've been doing forever," Susan Metcalf said. "They just kind of put into words what we've been doing: trying to keep families on the ranches and trying to preserve the integrity of the ranches and trying to teach people about our way of life and our viewpoint and struggles."

In addition to hosting guests, Metcalf works part-time as the Sweet Grass County superintendent of schools and writes a column for the *Western Ag Reporter*.

"You have to do every job you can to keep the ranch going," she said. "Last fall, we had \$4 fuel and 90-cent [a pound] calves, and that just doesn't pay the bills. You gotta do it some other way."

She has gotten used to juggling conflicting schedules.

After the branding, she gave out diplomas at Greycliff School's graduation, then went to Springdale School's picnic. The previous week, on short notice, she entertained Anthony Bourdain, the chef and notoriously prickly host of the Travel Channel series "No Reservations," for a show focused on Livingston and scheduled to air in late August.

The Metcalfs offered working ranch vacations on their own for about eight

years starting in 1991. For Susan Metcalf, who grew up on her father's guest ranch at Augusta, taking care of guests was no big switch, but her husband, Remi, found it nerve-racking at first.

"It takes quite a bit of change to get used to having somebody tag along and ask questions," he said.

The Metcalfs bought the ranch on Lower Deer Creek themselves, but their son, Bret, represents the fifth generation on family ranches along the Musselshell River, where they summer cows, and in the Bozeman area, where they put up hay.

"Ranching's changing a lot. It's tougher and tougher for each generation to hang on," Remi Metcalf said.

This year, Bret put his "Lazy 4 Y" brand on cows he bought to start his own herd. The brand was passed down from his uncle, Elton "Shorty" Roberts, of Roundup.

Bret has wanted to ranch since he was old enough to walk, his father said.

"He'd make drawings of his ranch when he was a little bitty kid, of the house and corrals, the whole bit."

Agri-tourism is not a silver bullet that will keep family ranches going, said Bill Bryan, the director of the Rural Landscape Institute in Bozeman, an organization that examines agricultural policy issues.

For working ranches that depend on agriculture as their primary source of income, tourism is not usually a large source of revenue, said Bryan, who has been in the travel business for 24 years and co-founded the travel company Off the Beaten Path. It may generate enough income to allow a ranch wife to give up a part-time job in town or allow a son or daughter to come back to the ranch, Bryan said. Affordable liability insurance is often a major stumbling block.

Having several ranches work together on a common marketing strategy helps, Bryan said, because tapping into the right market can be prohibitively expensive. Bryan has worked on the idea of forming a seven-

state agri-tourism cooperative.

Montana Bunkhouses has a much better reach in the marketplace than would an individual ranch, he said. It offers travelers more choices and allows one person to promptly handle queries and bookings.

Although bookings through Montana Bunkhouse have fallen off significantly in the troubled economy, Searle sees encouraging signs for future growth, including the interactive map and a TV segment about the Padlock Ranch, which should air this winter, on "America's Heartland," a weekly public television program.

Bryan sees a niche for working ranches among travelers who want an authentic, meaningful experience and are trying to forge a connection to the West. He describes those travelers as looking for "transformational experiences," profound experiences that change their orientation to the world.

Although such geo-travelers make up a tiny fraction of tourists, Montana's rural, agricultural base plays a large role in attracting tourists to the state, said Victor Bjornberg, who directs the tourism development and educational program for the Montana Office of Tourism.

"It's those wide-open spaces," Bjornberg said. "We are the Alaska of the lower 48 states. What we have is the most unspoiled, wide-open spaces, unspoiled landscapes."

Agri-tourism fits into the branding effort to market the state's attributes.

Bjornberg dates the current interest in agri-tourism to the mid-1990s, triggered, as he sees it, by state-sponsored workshops on farm and ranch recreation businesses, the state's centennial in 1989 and the movie "City Slickers."

Though the movie portrayal was a far cry from the reality, city slickers seem to get a kick out of their up-close taste of ranch life.

Travelers come to the ranches as guests, Searle said. They go home as advocates for family ranching. ■

'09 Co-op Hall of Fame inductees played crucial role in co-op movement



Five cooperative business leaders were recognized at the annual Cooperative Hall of Fame dinner and induction ceremony at Washington's National Press Club in May.

The Hall of Fame, the cooperative community's highest honor, recognizes those who have made heroic contributions to cooperative enterprise.

This year's inductees are cooperative entrepreneurs Howard Brodsky and Alan Greenberg, student housing icon James Jones, Minnesota agricultural educator Edward Slettom and Mississippi co-op developer Melbah Smith.

"The profiles of these individuals reflect lifetimes of achievement as leaders, educators, advisors, innovators, and advocates for cooperative development, but particularly in their given sectors," says Steven Thomas, executive director of the Cooperative Development Foundation, which administers the Hall of Fame.

"The contributions of these five individuals provide solutions on how to succeed in any economic era, any region of the country, and any economic sector — which is especially instructive in a down economy."

Hall of Fame nominations are received from throughout the cooperative community and are screened by two committees of national co-op leaders. The final selection is made by the board of the National Cooperative Business Association (NCBA).

"The 2009 Hall of Fame class will join the 134 cooperative heroes already in the Cooperative Hall of Fame, whose lives and accomplishments provide historical examples for the cooperative community and serve as a guide for the direction of future cooperators in all sectors," Thomas says.

This year's inductees:

■ **Howard Brodsky and Alan Greenberg, CCA Global Partners**, were called "visionaries, leaders and teachers" who devoted their careers to making cooperative entrepreneurship a prosperous endeavor that offers small business owners the same advantages enjoyed by their national chain competitors. They created a co-op business model that is flexible and adaptable across industries, markets and countries and that fully integrates ethical and environmental responsibility. The organization they founded, CCA Global Partners, provides its member co-ops with tools for their entire business,

creating sustainability, growth and effective competition in the marketplace. Greenberg, who died in 2007, was inducted posthumously.

■ **James R. Jones, NASCO, Inter-Cooperative Council**, is a co-op educator, mentor and developer. He built NASCO's organizational capacity and financial sustainability and increased NASCO Properties' portfolio nearly three-fold. Under his leadership, the Inter-Cooperative Council at the University of Michigan became one of the largest student housing co-ops in the country. He has helped create dozens of student co-ops and inspired thousands of students and non-students to become involved with cooperatives.

■ **Edward E. Slettom, Minnesota Association of Cooperatives**, is an educator and co-op champion. He

served as secretary of the Cooperative Foundation and as Minnesota Deputy Commissioner of Agriculture and led the Minnesota Association of Cooperatives (MAC) for 30 years. His volunteer work integrated a cooperative perspective into each activity or organization. Under Slettom's leadership, MAC was expanded to more co-op sectors, became involved in legislation pertaining to cooperatives and started education and public relations initiatives.



Co-op Hall of Fame inductees include (from left): Ed Slettom, Howard Brodsky, Melbah Smith and Jim Jones.

■ **Melbah M. Smith, Mississippi Association of Cooperatives, Federation of Southern Cooperatives/Land Assistance Fund (FSC/LAF)**, was recognized for being a "visionary, cooperative developer, and leader." With FSC/LAF, she worked as a community organizer and co-op developer to bring healthcare, economic development and social justice to rural people in some of the poorest areas of the country. As executive director of the Mississippi Association of Cooperatives, she continued this work, helping to develop more than 25 co-ops in Mississippi and bringing both immediate assistance and long-term co-op education and development to areas devastated by Hurricane Katrina.

The Cooperative Hall of Fame was established in 1974 by NCBA and is housed in NCBA's offices in Washington, D.C. It can also be visited on the Web at: www.heroes.coop, or www.cdf.coop. ■

Co-op Development Action

Succession planning critical to future of small Iowa meat-processing plants

By Madeline Schultz

Iowa Alliance for Cooperative Business Development

The Iowa Alliance for Cooperative Business Development (IACBD) is introducing the cooperative succession model as a creative solution for dealing with the declining numbers of small meat-processing operations in Iowa. Cooperative succession involves selling or otherwise transferring ownership and management to employees and presents a strategy to maintain the longevity and vitality of small businesses that are crucial to the prosperity of rural communities.

The Small Meat Processors Working Group (SMPWG), established by the Leopold Center for Sustainable Agriculture at Iowa State University, identified succession planning as one of the key challenges facing the industry. There were 550 small meat processors in Iowa 40 years ago. Today, there are just 140 meat-processing businesses in the state. These processors are economically vital to their local communities because they provide much-needed services to niche marketers, local food producers and consumers.

Dr. Joseph Cordray, meat specialist at Iowa State University Extension, works closely with the SMPWG and the Iowa Meat Processors Association (IMPA) to help small meat processors produce quality products and operate successful businesses.

Reg Clause and Madeline Schultz, Extension Value-Added Agriculture Program team members and participants in the SMPWG and IACBD, presented a three-part succession planning workshop and training for meat-processing business owners and industry professionals during the 73rd annual meeting of IMPA, Feb. 20-21. More than 200 people attended the convention, including representatives from 41 meat plants and 36 supplier companies.

Business owners have many different goals when planning for succession. Allowing plenty of time to develop and implement succession strategies in a meat-processing business can alleviate stress, benefit the owners financially and generate greater long-term success for the business. Speakers used several worksheets developed by the Ohio Employee Ownership Center to guide the business owners through the process of understanding and documenting their succession



The co-op business model may be able to help stem the decline in the number of small meat-processing plants in Iowa. Above, Spillville Locker employees (from left) Matt Kulish, Bill Kuntz and Brian Scheidel prepare to go to work on a side of beef. Photo by Arion Thiboumery, courtesy Spillville Locker

planning goals.

The training included a panel of meat-processing business owners who shared their experiences working through the succession and business transfer process. Bill Dayton of Dayton Meats is the second generation of his family to manage and own the business and is looking for ways to transfer assets and management to a third generation.

“You’ve got to let the younger generation know they matter or they won’t be interested,” Dayton said.

Clint Smith, owner of Stanhope Locker, bought his meat-processing business outright from the previous owners. Smith, who formerly owned an auto parts store, told the audience: “Parts are parts; I knew I could manage a business, but I relied heavily on trusted employees for their meat-processing expertise.”

John Tiefenthaler, owner of Food Locker Service, started working for the previous owner while he was still in high school. During the 1980s, the previous owner knew he would have a hard time selling the business to an outside buyer, so he began a gradual transfer of the business to Tiefenthaler. “He was ahead of his time,” said Tiefenthaler. “I never could have done this without his mentoring.”

To complete the succession-planning workshop, Doug

Gross, attorney with BrownWinick of Des Moines, Iowa, and a former Iowa gubernatorial candidate, helped the business owners understand the legal and tax implications of business transfer. Gross discussed the steps required for transfer of assets and methods of sale for sole proprietorship, general partnership, corporation, ESOPs (employee stock-owned plan), cooperatives and other legal entities.

He also talked about the distribution of assets, capital gains, preferential tax treatment and other tax and finance issues. "Structuring the deal is important to meeting the business owner's goals," Gross said. He detailed the differences between an entity sale and an asset sale. He also reviewed the pros and cons of lump sum vs. installment payments.

Gross highlighted the unique aspects of selling the business to co-owners or employees, and making gifts. He encouraged business owners to develop succession strategies that will help maintain strong meat-processing businesses in small-town Iowa. ■

Webinar examines starting worker-owned cooperatives

CooperationWorks! — a national network of co-op development specialists — recently sponsored a four-part webinar series on the key aspects of starting a worker-owned cooperative. Worker cooperatives present an important business and job creation strategy that promotes job-stability and satisfaction.

The program is designed for cooperative business development practitioners, community economic development organizations and individuals/groups interested in starting worker-owned businesses.

The series was led by Tim Huet, an expert on developing new worker-owned cooperatives in the United States. Cathy Smith, executive director of the Keystone Development Center, and Audrey Malan, coordinator of the CooperationWorks! training programs, participated in the program.

The program addressed the key aspects of worker cooperative start-ups, including:

- Worker co-op structure and legal models;
- Development strategies, including new start-ups, business conversions, and innovative incubation approaches;
- Feasibility analysis and business planning;
- Co-op capitalization and finance.

For program highlights, see: www.cooperationworks.coop. For more information on CooperationWorks! programs and services, call Malan at 307-655-9162, or e-mail her at cw@vcn.com.

Dallas Tonsager

continued from page 23

practical and cautious. Hopefully, the same will prove true for these other financial sectors that are currently struggling.

Q. Of course, co-op programs are just one part of the huge agency you will now be administering. These programs touch just about every aspect of rural America: they fund rural electric, water and sewer systems, help rural people buy and build homes, build rural hospitals and fire stations, etc.

We have about 40 program areas, which truly reflect the theme that Secretary Vilsack is using: "USDA touches people's lives everyday, in everyway." We try to work with virtually every sector of rural America, from those who live fairly close to urban areas, to those who live in the most remote and impoverished rural areas. We have a wide variety of tools that can help. The 502 direct rural housing loan program allows us to work with people in rural areas facing significant challenges and allows people of limited incomes to get into a home.

We also have programs that can help create jobs that are based on generating sustainable income. We can help a venture create more wealth from something grown in rural America. I really see farming and the rest of the rural economy being integrated, because so many non-farm jobs are in some way connected to what is grown by producers.

The creation of the ethanol industry — all the jobs and wealth created that has stayed in rural America because farmers and other rural people invested in it — is exactly the type of rural economic development model we want to replicate. We need to do it in all kinds of ways, be it with livestock, forestry, or farming — a wide variety of ventures that create rural wealth.

Q. If you could change one thing about the American farmer, what would it be?

I would want them to take better care of themselves. Farmers tend to work extremely hard and devote themselves entirely to their farms and families — so much so that I worry about their physical health. Most farmers I know (including myself) have bad backs, bad knees and may have serious allergies from exposure to corn and hay molds. Some have lost a finger or two in machinery accidents.

Farmers need to take care of themselves physically in order to make sure they can continue to participate in this great endeavor of farming. We want them to live a long time, in good health. Most producers farm because they love it and will do just about anything to maintain that way of life, despite the hard work. They just need to be cognizant of the impact the work has on themselves and their families. ■

Thomas W. Gray, Ph.D.
Rural Sociologist
USDA Rural Development, Cooperative Programs

Editor's note: The author welcomes feedback from readers on the tradeoffs of a multifunctional agriculture and how cooperatives may be affected by these changes. Their thoughts may be used in future articles, and can be e-mailed to: Thomas.Gray@usda.gov.



uring the past decade, understanding the multifunctional nature of agriculture has emerged in scientific and farm policy debates. New language and new terms are emerging.

the local population, Ioari found that community acceptance of the biofuel plant was mixed.

More than 75 percent of those surveyed said the ethanol plant was important, or very important, for the local economy. The facility was credited for creating new jobs and helping to boost prices for local grain farmers. It was valued as well for helping reduce dependency on foreign oil. However, some of those opposed to the plant argued that ethanol is not as energy efficient as fossil fuels.

The most contentious issues revolved around the environmental impact. Those in support of ethanol saw it as environmentally friendly. However, nearly 60 percent of those surveyed said they had moderate-to-high levels of

Shift to multifunctional agriculture

Talk about MFA at farm meetings these days may not be referencing the Missouri Farmers Association, but rather a multifunctional agriculture (MFA).

No longer is agriculture solely about food and fiber production. While food prices have dropped recently, the price spikes of 2008 were at least partially influenced by agriculture's emergence as a developing source of energy. Mitigation of global warming, rural development and conservation of resources are other demands.

In a recent conference in Atlanta, a "Biofuels Symposium" was held in connection with the 2009 annual meetings of the Southern Association of Agricultural Scientists. A series of presentations was made on topics such as biofuels and rural development, anaerobic digestion, financial crises and biofuels, and shifts in emphases in farm bill legislation from trade to biofuels. This article presents some of the highlights of the symposium.

Rural development and the environment

Albert Iaori, a sociologist at Kansas State University, presented a case study on an ethanol plant in Russel, Kan., a rural community of less than 5,000 people. From a survey of

concern about the environmental impact of the local facility.

Nearly 90 percent said they believed biofuel production had already contributed to poor water quality. Others expressed concern about the diversion of water needed for alternative uses both inside and outside the city. Concern was also expressed about odors, air pollution, wear on local roads (due to truck traffic), increased traffic congestion and increases in local food prices.

Rural development and competing international interests

Theresa Selfa, sociology professor at Kansas State University, discussed the findings of her study: "Biofueling Rural Development: Prospects and Challenges, Locally and Globally." Selfa's work parallels Ioari's in documenting the positive impacts of biofuels development on rural employment and farm incomes.

In a study of two rural Kansas communities, nearly 70 percent of those surveyed said jobs at the ethanol plant were better than most, or among the best jobs available in the area. Biofuel facilities were seen as having secondary effects as well, improving economic diversification in rural areas and

generating additional jobs and incomes from supporting businesses.

However, future implications of biofuels' impact on food production and food prices are not clear. Brazil was the top producer and consumer of biofuels until 2006, when it was displaced by the United States. More than 20 industrial and developing countries have announced some type of biofuels incentive program. Brazil, Canada and the United States have mandated future biofuels consumption. China, India and the EU have set targets on consumption to be realized by 2022.

These pressures will have direct implications on what products are produced — food and/or fuel, for example — where products are produced, and who the beneficiaries will

refiner in North America, has since acquired seven of these plants). Further consolidation in the industry is expected.

Biodiesel production facilities are currently operating at only 25 percent of capacity. Their further development will be affected by competing prices for petroleum, alternative uses of vegetable oils, availability of various tax credit programs, resolution of technical problems concerning biodiesel's tendency to degrade rubber and plastic and political stability in the Middle East.

“On a much brighter note, cellulosic ethanol may have finally turned the corner,” Crooks said, adding that several cellulosic plants were currently slated to come on-line. Funding from the U.S. Department of Energy and USDA



complicates biofuels development

be. Global pressures may push production away from fuels that compete directly with food production (sugarcane, corn, wheat, barley, sorghum) and toward second-generation bioethanol and biodiesel production derived from biomass gasification (such as forestry products, grass and organic wastes).

Recession's impact on biofuel solvency

Anthony Crooks, an ag economist with USDA Rural Development, presented highlights from his study: “Renewable Energy and the Financial Crisis.” He provided a historical analysis of the interrelationships among the price of petroleum; commodity prices; vegetable oils; ethanol investment-stock prices and how they are coupled to commodity hedging; financial markets; and the collapse of mortgage-linked, derivative markets.

The coming together of these various factors with the collapse of major banks created what Crooks referred to as a “perfect storm” of financial pressure on the solvency of biofuels plants. VeraSun, one of the largest corn ethanol producers, and owner of 16 plants, filed for bankruptcy in November 2008. (Valero Energy Corporation, the largest

Rural Development has helped with the development of these facilities. Patent and intellectual property rights on the products used in processing may also provide some market protection, adding to the optimism for cellulosic biofuel development.

However, Crooks noted that total development costs are relatively high for these plants, and may only be affordable by larger corporations. And the vagaries affecting corn ethanol and biodiesel fuel — i.e., prices and demand for competing products, and international relations — will influence cellulosic development as well.

Anaerobic digestion

Carolyn Liebrand, an ag economist with the Cooperative Programs of USDA Rural Development, presented a paper on “Cooperative Approaches to Facilitate the Use of Anaerobic Digesters on Dairy Farms.” The report documents the outputs of anaerobic digestion (decomposition of manure by microbes that thrive in oxygen-limited environments) as biologically stabilized products (separated solids and liquid fertilizer) and biogas.

The solids produced can be used as bedding for livestock

and for gardening products, while the liquid is a fertilizer with fewer odor problems than raw manure. Biogas can be used for powering generators for electricity production and for fueling other farm equipment. The capture and destruction of methane gas (otherwise emitted into the atmosphere) may also qualify for carbon credits.

Liebrand said obstacles to development may include:

- Difficulties in adapting digesters to current manure-management systems and connecting to utility grids;
- Limits on time availability and farmer skills in the development and maintenance of digesters;
- A limited amount of available information on installing and operating the systems, given that there are only 98 digesters operating on U.S. dairy farms at this time;
- Difficulties working with utility companies and negotiating adequate buy-back rates for the electricity produced;
- Limited knowledge among farmers about procedures for marketing products: solids, gas, electricity and carbon credits.

Liebrand suggests that some of these obstacles might be overcome with cooperative organization. Given the membership base of cooperatives, they may be positioned to provide technical assistance, as well as such supporting services as back-up equipment, manure hauling and digester management.

Co-ops could also serve as aggregators of manure and developers of centralized digesters and gas plants, as well as marketers of “green electricity” and the solids produced. They might also serve as bargaining agents for farmers in securing fair prices and terms of trade with utility companies, digester firms and buyers of organic wastes, as well as for carbon credit trading.

Farm bill vagaries and biofuels

Nadine Lehrer, natural resource scientist at Washington State University, highlighted the importance of the political process in biofuels development. She noted that this trend can be seen in shifts in emphases from trade concerns to biofuels issues during the most recent farm bill debates.

Drawing upon the themes of news articles, personal observations at farm bill conferences and interviews with key decisionmakers, Lehrer documented how debate emphases changed during the most recent farm bill deliberations. Early in the process, farm bill debate was dominated by topics such as: “Outcome of World Trade Organization (WTO) will influence U.S. farm policy,” “Trade provision may cause change in sugar program,” and “Ag Secretary Johanns warns that farm bill writers can’t ignore WTO.” But after 2006, the emphasis on trade topics shifted to greater focus on biofuels, and topics such as: “Ethanol will be the driving force writing the farm bill.”

Lehrer suggested that in the context of the 2006 mid-term elections (and subsequent effects), this shift from trade to biofuels was driven by spikes in gasoline prices, demands to reduce reliance on foreign oil, the stalling of WTO

negotiations, budgetary shortfalls and greater awareness of global warming issues.

As an example of the shift, Lehrer referred to the observations of Phillip Brasher of the *Des Moines Register*: “This was supposed to be the year that international trade concerns would shape the farm bill. They didn’t.” Biofuels displaced the trade emphasis. The greater prominence of biofuels was supported, at least to some extent, by most farm groups, including sustainable agriculture and environmental groups, general farm organizations, commodity groups and agribusiness corporations.

Lehrer concluded that while policies can always shift in unexpected ways, fuel concerns have nevertheless become a major component and shaper of policy and decision-making processes. As such, agriculture policy can no longer be considered as a sector only for food and fiber production, but must instead also respond to fuel-related issues.

Co-ops within a complex environment

Cooperatives were among the first organizations to develop biofuels. In so doing, they helped move agriculture from an economic sphere of food and fiber production to one of food, fiber and fuel. It is a complex, multifunctional field with many aspects demanding consideration.

Development of biofuels industries can improve the incomes and job alternatives of both farmers and other rural residents. However, while displacing petroleum products with biofuels may reduce carbon emissions and ease global warming, the production plants themselves can cause local environmental stressors in water use, air pollution, local traffic congestion and road degradation.

Corn for ethanol and various feedstocks for biodiesel compete for food production resources. How much this competition affects food prices is often debated, but ethical questions are frequently raised in the face of events such as food riots in some third world countries. As Crooks documented, solvency and production feasibility questions are not insulated from the stressors of the larger national and global economy.

International demands for fuel in the emerging economies of Brazil, India and China — and for food globally — leave unanswered questions concerning which regions will have a comparative advantage for producing various products (such as food, corn-derived fuel, biodiesel fuels and cellulosic ethanol and biogas from anaerobic digestion).

The coming together of these various factors will likely effect future farm bill legislation. Just as past legislation has affected these numerous political, economic and ecological issues, future legislation will do likewise, potentially resulting in new pressures and further changes in emphases. Further cooperative development in the biofuels area will need to consider this complex, multifunctional and dynamic context, as the speakers at this symposium indicated. ■

Newsline

Co-op developments, coast to coast

Send items to: dan.campbell@wdc.USDA.gov



Highway signs popping up in Wisconsin are helping to direct motorists to filling stations where they can pump E-85, which helps improve air quality. Photo courtesy American Lung Association/Wisconsin Chapter

E85 signs sprouting along Wisconsin Interstates

Drivers heading for one of Wisconsin's biggest fun spots may notice a change along their route this summer. The first set of E85 highway

signs, sponsored by the American Lung Association in Wisconsin, was installed May 14 along Interstate 90 near the Wisconsin Dells. The signs alert motorists of retailers that offer E85 (containing 85 percent ethanol), as well

as regular unleaded fuel.

The Wisconsin office of the American Lung Association is paying for the production and installation of the signs, plus one year of rent under the state's Specific Information Sign (SIS) program. "The blue highway signs do a great job of alerting those passing through the area that E85 is available," explains Jackie Blackburn, clean fuels coordinator for the American Lung Association in Wisconsin. "Now, flex-fuel vehicle drivers can more easily incorporate E85 into their road trips."

E85 is an official Clean Air Choice of the American Lung Association in the Upper Midwest due to its proven role in reducing harmful emissions. It says motorists who use E85 reduce particulate and ozone-forming emissions by 20 percent.

Wisconsin co-op to link local farms and institutions

The Producers & Buyers Co-op was launched June 12 with an event at the Eau Claire County Exposition Center in Wisconsin. The co-op, which links local farms with institutions, shared an information booth with its business partner, Sacred Heart Hospital.

The co-op facilitates buying and selling for farmers in Eau Claire, Chippewa, Barron, Dunn, Pepin, Trempealeau, Buffalo, Clark, Jackson, Polk, Pierce and St. Croix counties. Sacred Heart Hospital is a founding partner in the project and committed 10 percent of its \$2-million food budget to purchasing local food products to help the organization get off the ground.

"Having a stable market price allows me to do more long-range planning with my farm operation," says Darrel

Lorch of Lorcrest Farms Inc., in Blair, Wis. Lorch also serves as an ad hoc member of the co-op board.

The co-op intends to bring new buyers on board as more products are sourced. It serves institutions such as: schools, universities and colleges, hospitals and businesses that provide



cafeteria services. The co-op is working to facilitate the production and purchase of locally produced: meats (beef, buffalo, pork, chicken and fish); fruits and vegetables; dairy and eggs; other locally produced food and dry goods.

“Co-op stocks are an opportunity to invest in the local community and to support sustainable products, local farms and jobs,” says co-op coordinator Mary C. Anderson, a value-added farmer with extensive direct sales experience. “Support of the co-op also helps rebuild the local processing infrastructure (for processing meats, dairy, etc.), and to expand local food production by providing a stable market.”

The idea for the co-op began in January 2008, when representatives from River Country RC&D and Sacred Heart Hospital met with area farmers at the Midwest Value Added Agricultural Conference and Wisconsin Local Food Summit. Barriers to purchasing local food (including seasonal production, quantity, transportation, processing, pricing and delivery) were discussed, and subsequent meetings focused on how to overcome these barriers.

In June 2008, Sacred Heart Hospital’s CEO Steve Ronstrom pledged to buy more local food for the hospital. A month later, Governor Jim Doyle visited Sacred Heart Hospital to announce the statewide “Buy Local, Buy Wisconsin” (BLBW) grant awards. Doyle chose Eau Claire to announce the grants due to the innovative local food partnership between the hospital and River Country RC&D Council. A

BLBW grant was awarded to River Country RC&D to pioneer the best way to get local food to local institutions.

After many planning meetings with local farmers, articles of incorporation were filed last March, creating the Producers & Buyers Co-op. To date, the co-op facilitated the purchase over 26,000 pounds of locally grown product from over 14 local rural communities.

“There have been profound changes over the past century for farm families and rural communities; in the 1990s alone, Wisconsin lost almost 40 percent of its dairy farms,” says Rick Beckler, co-op organizer and Sacred Heart Hospital’s director of hospitality services. “It’s our responsibility to buy local food to support our local agriculture industry. We have had an outpouring of warm compliments on our food from patients, our “Meals-on-Wheels” patrons and employees.”

United Co-op returns record \$2.37 million in cash to members

United Cooperative released a record \$2.37 million in cash to its patron members this spring. The refund resulted from a successful year that saw the co-op ring up \$429 million in sales and earn profits of almost \$15 million. United Cooperative is based in Beaver Dam, Wis., with locations throughout south-central Wisconsin.

The “drastic climb in commodity prices” during early 2008 and strong sales growth in many areas boosted the co-op’s performance, according to co-

op President and CEO David Cramer. “I know United Cooperative patron members will use their cash refund to stimulate business in their local communities, something much needed in today’s tough economy,” he says.

For 2008, United Cooperative refunded just over \$4 on every \$100 of purchases by members. Overall, United paid more than \$5.63 million to members during the past year in patronage refunds, stock (equity) revolved, estates settled and dividends paid on preferred stock.

In other news, United Cooperative’s agronomy facility in Pickett, Wis., has been selected as the Wisconsin winner for the Environmental Respect Award, sponsored by DuPont Crop Protection. United Cooperative, along with 19 winners from other states, was selected on May 7.

USDA offers \$25 million loan to reopen SoyMor Biodiesel

Agriculture Secretary Tom Vilsack announced June 24 that USDA Rural Development has approved a \$25 million loan to help a Minnesota biodiesel facility diversify its operations and significantly expand the production of advanced biofuels. “The investment announced today helps fulfill the Obama administration’s goal of increasing production of biofuels while securing jobs in the alternative fuels industry,” Vilsack said. “This is great news for a community that recently saw this company cease production of its operations due to tough economic conditions.”

Stacy Workowski unloads grain at Ripon United Cooperative last fall. High grain prices helped the co-op return record cash patronage to members for 2008. Photo by Dori Lichty, courtesy United Cooperative



NCBA supports role for co-ops in national healthcare reform

As Congress debates what shape healthcare reform will take, the cooperative business model has entered prominently into the discussion, a development that the National Cooperative Business Association (NCBA) is hailing. "Cooperatives save money for members by aggregating demand for specific services, whether it's health insurance, pharmaceuticals or hospital supplies," says NCBA President Paul Hazen.

For example, in a health insurance purchasing cooperative, consumers or businesses can band together to purchase private health insurance policies in bulk, passing savings along to members, he notes. Cooperative healthcare providers also save money for members because, in addition to buying in bulk, the not-for-profit cooperative does not answer to outside investors.

"The National Cooperative Business Association is a strong advocate for healthcare cooperatives, and we are now analyzing the specific proposals Senator Conrad has put forth to Congress," Hazen says. "

Cooperatively owned businesses represent a major contribution to the U.S. and world economy. Co-ops are businesses that are jointly owned and democratically run. People form cooperatives to fill their needs for services that, if obtained on an individual basis, would be unavailable or prohibitively expensive."

For more information about healthcare cooperatives, visit NCBA's website: www.ncba.coop.

The USDA guaranteed loan will allow SoyMor to purchase equipment to convert multiple types of feedstocks, including an unrefined corn-oil waste product from nearby ethanol facilities, into biodiesel. In its current configuration, the plant only has the ability to process soybean oil. High feedstock costs forced SoyMor to suspend operations at its Albert Lea, Minn., facility in the spring of 2008.

The loan is the second one USDA has made under the Section 9003 Biorefinery Assistance Program, created in the 2008 Farm Bill. The funding will have a significant impact on the nearby communities by restoring nearly 30 jobs and providing an additional value-added opportunity for the ethanol industry and bolstering the local economy. The plant opened in 2005 and has an annual capacity of 30 million gallons.

The Biorefinery Assistance Program promotes the development of new and emerging technologies for the production of fuels that are produced from non-corn kernel starch biomass

sources. The program provides loan guarantees to develop, construct and retrofit viable commercial-scale biorefineries producing advanced biofuels.

The maximum loan guarantee is \$250 million per project. The loan is contingent upon SoyMor meeting the conditions of the loan agreement.

AgStar sells three ethanol plants

AgStar Financial Services of Mankato, Minn., in May announced the sale of three of the six ethanol plants it acquired last March through the bankruptcy of VeraSun Energy. Neither sale involves new ownership by farmer cooperatives.

Green Plains Renewable Energy, Omaha, Neb., has agreed to purchase the production facilities located near Central City and Ord, Neb., which have a combined annual production capacity of about 150 million gallons of ethanol. Combined with its six other plants, Green Plains says this will boost

its total production to 480 million gallons per year, making it the nation's fourth largest ethanol producer.

Carbon Green BioEnergy is buying the former VeraSun plant in Woodbury, Mich., which can produce 40 million gallons of ethanol annually. The purchase represents the first direct ownership of ethanol production for Carbon Green, headquartered in Chicago.

AgStar and some other lenders provided Green Plains with \$123.5 million in financing for the acquisition, as well as a \$16-million seasonal revolving loan fund to help operate it. AgStar will also continue to lead a group of lenders financing Carbon Green BioEnergy.

"We believe the outlook for biofuels is solid and will improve over time," says Paul DeBriyn, president and chief financial officer of AgStar. A value-added financial services cooperative, AgStar serves 69 counties in Minnesota and northwest Wisconsin and is part of the Farm Credit System.

Fishermen create new CSF: Cape Ann Fresh Catch

Cape Ann Fresh Catch, a new community-supported fishery (CSF), was launched in June by a group of Massachusetts fishermen. According to an article in the Cape Ann Beacon, about 750 shareholders living from Jamaica Plain to Gloucester have signed up for fish deliveries from the co-op.

The Gloucester Fishermen's Wives Association, the Northeast Atlantic Marine Alliance and MIT SeaGrant helped to organize the CSF. The co-op sold all of its shares and has 500 people on a waiting list. A share costs \$360 for 10 pounds of fish delivered weekly during a 12-week period, the newspaper reported. A half share costs \$180, and is worth five pounds of fish each week.

Fish are delivered the day they are caught, and come whole — cleaned, gutted and packed on ice. Brochures are being distributed with recipes, and demonstrations are being held at each drop-off point on the art of filleting and cooking a whole fish.

DFA launches Texas plant expansion

Dairy Farmers of America Inc. (DFA) has begun a \$39.4-million project to expand and install new equipment at its plant in Schulenburg, Texas. A new packaging line will be added, nearly doubling the plant's capacity. The plant also is upgrading and adding equipment for its wastewater system. Construction, which began in May, is slated for completion in early 2010.

The Schulenburg plant is a leading manufacturer for shelf-stable cheese dips and salsa. Originally built in 1929 by Carnation Co., it was the first milk plant in the state of Texas.

The project also includes construction of a new warehouse, a boiler area and product cooling tunnel, expanded freezer space for raw materials storage and a processing kitchen for raw material handling. Docks and parking facilities also will be expanded. The project will result in 70



Project managers review blueprints for a DFA plant expansion in Texas.

new jobs at the plant, making DFA one of the largest employers in the community.

The City of Schulenburg contributed \$3.2 million in utility, street and waste water system upgrades. City officials also worked to create an Enterprise Zone City, which allows for a lower sales tax rate on the project. They also supported rezoning and temporary variances for construction.

"This expansion reinforces the cooperative's commitment to the

CWT removes 101,000 cows; NMPF launches new task force

In its most aggressive move yet to help bring milk supply and demand into better balance, Cooperatives Working Together (CWT) in May and June removed 367 herds in 41 states. These herds were comprised of nearly 101,000 cows that produced 1.96 billion pounds of milk.

CWT received 538 bids from 41 states during the bidding process in April. As was the case with previous herd-retirement rounds, most of the cows removed were in the western regions of the country. This round also removed 818 bred heifers.

"Even though this was by far the largest of CWT's seven herd-retirement efforts, we were able to move quickly in May and June to audit the participating farms," says Jim Tillison, CWT's chief operating officer. "The national dairy herd will be noticeably smaller this summer as a result of CWT."

On July 10, CWT announced the second herd retirement of 2009, with a shortened time-window for submittal of bids (the deadline was July 24).

The National Milk Producers Federation (NMPF), which administers CWT, has also launched a new task force to seek additional ways of addressing severely depressed on-farm milk prices. It voted in June to recommend available CWT funds be used to help CWT members access the Dairy Export Incentive Program (DEIP) to its fullest extent. During each DEIP marketing year, the program has the potential to export the equivalent of more than 1.5 billion pounds of milk. The NMPF board immediately approved the recommendation.

To address longer-term factors affecting price and volatility, the task force was to meet in Chicago during July with representatives from major dairy producer organizations with their own proposals on how to deal with the crisis. The objective is to engage in a detailed dialogue "to determine the economic and political feasibility of those plans, with the goal of achieving a common understanding of how best to tackle the problems of low milk prices and high input costs," says NMPF President Jerry Kozak.

NMPF has also issued a statement applauding USDA's decision to apply the dairy promotion checkoff to imported dairy products, 25 years after the national 15-cent checkoff was first applied to U.S.-produced milk. Kozak praised Agriculture Secretary Tom Vilsack for moving quickly to implement the assessment.

The proposal will assess the equivalent of 7.5 cents per hundredweight on all dairy-based imports, including cheese and butter products, as well as dry ingredients such as casein and milk protein concentrates. The money will be collected by the National Dairy Board to be used for nutrition research, consumer education, issues management, and other programs that build demand for dairy consumption.

communities it serves, and to delivering a strong return for our members," says Art Farris, chief operating officer of DFA's Ingredients and Contract Manufacturing division.

PCCA forms new company to produce fashion jeans

Plains Cotton Cooperative

Association (PCCA) of Lubbock, Texas, is purchasing key assets of Koramsa Corporation in Guatemala City, Guatemala, where it will produce fashion jeans under the auspices of a new company: DENIMATRIX, LP.

"DENIMATRIX [represents] the first fully-integrated, vertical supply chain — from raw cotton to finished

jeans — in the Western Hemisphere,” says Carlos Arias, president of DENIMATRIX. “We are very excited about the opportunity to partner with PCCA’s American Cotton Growers (ACG) denim mill. The synergies achieved by incorporating joint product development and design — from raw cotton all the way through finished apparel — will give us the flexibility to offer a broad range of quick-response fashion jeans and other apparel to our customers.”

PCCA President and CEO Wally Darneille echoed Arias’s sentiments. “Denimatrix will have the finest

and Middle Eastern supply chains will provide tangible, measurable value for apparel brands and retailers.”

PCCA is a producer-owned cotton marketing cooperative headquartered in the center of the “world’s biggest cotton patch,” representing 55 to 60 percent of U.S. cotton acreage in 2009.

Report: broadband critical to future of rural America

The Federal Communications Commission (FCC) issued a report in late May providing a starting point for the development of policies to deliver broadband to rural areas and restore

problems.

Broadband “is the interstate highway of the 21st century for small towns and rural communities, the vital connection to the broader nation and, increasingly, the global economy,” FCC Acting Chairman Michael J. Copps says in the report.

Secretary of Agriculture Tom Vilsack adds: “Providing broadband access to rural communities will not only enhance farmers’ and ranchers’ ability to market goods and enhance production, it will help residents in rural communities obtain needed medical care, gain access to higher education, and benefit from resulting economic activity and job growth.”

\$1 billion in USDA electric loans to strengthen rural infrastructure

Agriculture Secretary Tom Vilsack in June announced that 37 rural utilities and cooperatives in 29 states have been selected to receive more than \$1 billion in loans to build and repair more than 10,000 miles of distribution and transmission lines and make system improvements that will benefit 60,000 rural customers.

“President Obama is delivering on his commitment to invest in rural America’s infrastructure by funding upgrades to rural utilities and cooperatives,” Vilsack said. “Rural communities need affordable, up-to-date electric service in order to broaden economic opportunities. These loans will enable cooperatives to deliver improved service to more customers.”

Rural electric cooperatives are nationally recognized as leaders in energy efficiency and demand-management practices, he noted. To date, 402 rural electric cooperatives have used USDA Rural Development’s Energy Resources Conservation program to increase energy efficiency, conservation and demand-management initiatives.

Foster Farms bids on Humboldt

Foster Farms Dairy, a privately held dairy company based in Modesto,



Using double-needle sewing machines, workers in Guatemala City are producing fashion jeans for a new venture of Plains Cotton Cooperative Association. Photo courtesy PCCA

combination of facilities and capabilities in this hemisphere,” he says. “Those assets, along with PCCA’s access to raw cotton, ACG’s 34 years of experience in producing denim fabrics for a wide variety of customers and Carlos Arias’s team of creative and experienced people will make Denimatrix a truly unique operation.”

“We will continue to produce denim at our Littlefield, Texas, facility in the heart of cotton country and will deliver fabric to Guatemala,” Darneille continues. “This should allow us to shorten the supply chain further. Given today’s retail environment, the 60-90 day advantage we will have over Asian

economic growth and opportunity in rural America.

Recognizing that the need for broadband service in rural America is becoming ever-more critical, Congress in the 2008 Farm Bill required the FCC chairman, in coordination with the secretary of the Department of Agriculture, to submit a report to Congress describing a rural broadband strategy. “Bringing Broadband to Rural America: Report on a Rural Broadband Strategy” identifies common problems affecting rural broadband, including technological challenges, lack of data and high network costs. It also offers recommendations to address those

Calif., has tendered an offer to the U.S. Bankruptcy Court in Santa Rosa, Calif., for Humboldt Creamery's facilities in Fernbridge and Stockton. Its offer was selected from a number of bids submitted to the court during an auction in mid-June.

The creamery is presently owned by a cooperative of about 40 dairy farmers, while Dairy Farmers of America holds a 25-percent stake. Humboldt also has a facility in Los Angeles, for which bids are being sought.

The company's financial problems became apparent when the former CEO Rich Ghilarducci abruptly resigned last winter. It was then discovered that the company had \$60 million less than the board had thought.

According to an article in the *Times-Standard* newspaper, the creamery's bank could still bid on the assets using credit it is owed, and had not agreed to the sale to Foster Farms as of early July. ■

Wine

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used as the main ingredient in Chianti.

"There's nothing wrong with a decent Chianti," he says. "In any case, we won't be turning out wines in the \$60- to-\$70 range. More the \$10- to \$20-a-bottle kind — fun wines."

Much the same way the local Amish farmers help each other out, the co-op members take a communal approach to their business. Member Carolyn Baldwin, an experienced wine-grower, offers advice on disease prevention.

When member Gerald Byrne planted a new vineyard, Baldwin, Fuller and other fellow members turned out to help. "I had to be helped up at the end of the day," chuckles Fuller.

Fuller and his collaborators hope to see a picturesque winery in a gracious park, where canoeists, boaters and tourists can relax after seeing the sights and enjoy a refreshing glass of wine.

Commentary

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production has increased from 4,500 pounds per cow in 1930 to more than 20,000 today.

This dramatic surge in productivity has been driven by the adoption of modern production and business management practices on the farm, and the ongoing development and implementation of new agricultural technology. These advances have allowed us to expand productivity while protecting the environment, preserving precious resources for generations to come.

Telling our story

The story of American agricultural productivity is impressive, but ironically it remains largely untold. American farmers are an independent and humble lot, not given to beating their own drum. The fact is, if we'd seen this same kind of progress in the auto industry, we'd all be getting 100 miles per gallon — and we'd have heard plenty about it.

One of the ironies is that as we have learned to do more with less; only about 2 percent of the U.S. population is directly engaged in production agriculture. That means there are fewer people to tell this story. It's no wonder that there is a lack of public understanding about the issues that are critical to our industry.

Today, the discussion of agricultural issues is often driven by well-intentioned people who allow opinion, emotion and even nostalgia to fill "the information gap." As a result, even safe, proven technologies have encountered opposition.

Dr. Norman Borlaug, father of the green revolution and winner of the Nobel Peace Prize, put the situation into perspective. Dr. Borlaug believes technology can enable us to feed 10 billion people. But in his words: "The more pertinent question is whether farmers and ranchers will be *permitted* to use this technology." This is a troubling observation, given that 70 percent of the needed increase in global food production will have to come from advancing technologies, according to the United Nations' Food and Agricultural Organization (FAO).

To protect the ability of producers to use safe, proven technologies, those of us involved *in any aspect* of agriculture — producers, cooperatives, agribusinesses, industry organizations, government agencies, academia — must work to educate the public and policymakers about our industry.

As we work to realize the opportunities and meet the challenges ahead, I believe the most important step we can take is to tell our story. Education and understanding can drive public opinion and policy decisions that directly affect producers. It's our responsibility to ensure that these judgments are based on sound science and accurate data — not fads, emotion, politics or social agendas. ■

Hopefully they will buy some bottles of wine to take home.

"We're counting on selling 80 to 90 percent of our wine at the winery, and some more at local festivals and so forth," he says. "For a winery of our size, we wouldn't be able to make enough profit selling our product at wholesale prices, anyway." He foresees selling to a few local retail outlets, but

"more for publicity purposes," he says.

Schaller, McKay, and the local governments are betting that the winery's customers will also stop by to enjoy local restaurants and patronize other businesses in a revitalized Leonardtown and the surrounding area. It may seem a modest goal, but if successful, it could mean new life for an old community. ■

Traditions run 100-years deep at Tillamook County Creamery

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agriculture or forestry products.

The foundation for this century of success, of course, is the co-op's farmer-owners, such as Hurliman.

"Farming gets into your blood; it's what I know. I wouldn't know what else to do," Hurliman says. He hopes to pass

the family dairy tradition to his son, who is 34 and has two children of his own. "It's hard to think about it now, since things are tough right now," he says. But he is optimistic about the future of dairy farming in Oregon and of his co-op.

Asked if he thinks Tillamook County Creamery Association will still be around in another 100 years, Hurliman replies: "I hope so. I really hope so. A lot depends on the decisions made in

Washington. But we'll keep taking care of the farm for future generations, and Tillamook is a well-run co-op. So I think so."

For more information about TCCA, its centennial activities and products, visit its Web site at www.tillamookcheese.com or contact them at 4175 Highway 101 North, Tillamook, Ore. 97141, phone (503) 815-1300. ■

A conversation with Tillamook President/CEO Harold Strunk

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Visitors can see our cheese being made and packaged, sample our cheese and order meals prepared using our cheese. They can purchase any product that we market, including fresh cheese curds (which we only sell at the Visitors Center). Visitors can view our special exhibits to learn about the history of the co-op and the brand. They can also purchase branded merchandise that provides an on-going reminder of their Tillamook experience.

The popularity and success of the Visitors Center is exemplified by the nearly 1 million visitors who pass through the center annually."

■ *How is the cheese industry changing, and how is Tillamook cheese poised to change with it? What percent of your milk goes to cheese vs. other dairy products?*

"The artisan and craft cheese business is growing and consolidation of the larger players is taking place. Tillamook Cheese is a true niche player in the cheese category because we are a naturally aged cheese. It is a strong and growing segment of the market, which positions us well for growth.

About 85 percent of our business is cheese. We make ice cream at our Tillamook facility, but ice cream accounts for a very small portion of our

business. It is only distributed in Washington, Oregon and in some areas of Northern California."

■ *Like most co-ops, Tillamook has had to wrestle with the use of bovine growth hormone, ultimately deciding a few years ago to ban its use. Did you lose any members over that?*

"Ultimately, we did not lose members. However, it was a very controversial and emotional decision for our cooperative. If you look at where the market is today, we made a sound decision. It was the right decision to make given the expectations our consumers have for our brand."

■ *What is the turnover rate like among your 550 fulltime employees? How do you attract and keep qualified workers?*

"It is difficult to recruit employees to our facilities in both Tillamook and Boardman. In both cases, we are located in rural areas with limited amenities, and TCCA is one of the larger employers in the area. This means opportunities for a spouse to find work, other than with TCCA, are limited. You are asking recruits to make a lifestyle change in moving to a small, rural community. Some are willing to embrace that, others do not see it as a benefit.

However, with that said, we have a relatively low turnover rate in the non-manufacturing areas of both facilities. Our highest turnover rate is in our packaging operation in Tillamook."

■ *Some of your members have joined forces to operate a methane gas digester, to turn manure into renewable energy. How successful has that project been, and do you see the concept expanding to include more farmers?*

"Participation by some of our members in the community methane digester project is a good example of our member dairy farmers working proactively to address developing industry issues. In this case, several of our dairy farmers have partnered with the Port of Tillamook Bay to develop and operate an anaerobic digester that converts manure to energy.

The technology is working well, but the financial return to the participants is minimal. It is hoped that as the national cap and trade legislation develops these early adopters of green technology will benefit from the resulting carbon and greenhouse-gas markets. If the market for carbon credits and greenhouse gas offsets mature to the point that participation in the methane gas digester program is financially sustainable, I expect to see more farmers interested in participating in the program.

In a related effort, TCCA staff is working with the Port of Tillamook Bay to develop a business model that will expand the operation of the existing digester to include additional feedstock from non-dairy sources as well as additional manure from more dairy farms." ■

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