

# Rural COOPERATIVES

USDA / Rural Development

March/April 2006

## Mission Critical:

Providing high-tech  
support for rural  
utilities, telecoms

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## Gene Ingalsbe: telling the co-op story

Many years ago, when clearing some copy for USDA's co-op magazine, a reviewer took offense at the statement that "co-ops unite producers to promote the general welfare." "Sounds like communism!" she huffed in a note. Gene Ingalsbe, ever calm and level-headed, responded with a copy of the source material quoted: the preamble to the U.S. Constitution! The reviewer withdrew her objection.

Mr. Ingalsbe, who devoted his life to helping farmers and other rural people improve their lot through the development and improvement of cooperative businesses, died March 2 after a long fight with cancer. Because of the work of Mr. Ingalsbe, countless people in the United States and around the world today know about the cooperative business structure: how they operate on the same principles of democracy that this nation was founded on, and how people can harness the power of free enterprise to meet their needs by building businesses they own and control.

Whether writing about how an effective co-op board should function or compiling an up-to-date profile of the nation's agricultural cooperative sector, Mr. Ingalsbe was often the central cog and connecting point between USDA's co-op program and the co-op sector. For many years, he held the dual position of director of information and education for USDA's Agricultural Cooperative Service (now part of USDA Rural Development). Before that, beginning in 1971, he was editor of USDA's *News for Farmer Cooperatives*, forerunner of *Rural Cooperatives*. Even after retiring in 1992, he volunteered to work on overseas cooperative development and other co-op projects.

Mr. Ingalsbe was writer and editor of numerous cooperative education publications still widely used nationally and around the world. He was committed to articulating the principles and distinctive features that guide successful cooperatives and saw communications and education as cornerstones of effective cooperatives. Without solid communication and education programs, he often noted, most cooperatives do



*Gene Ingalsbe brought insight into the world of cooperatives through his clear, concise writing.*

not survive from one generation to the next.

Mr. Ingalsbe was a graduate of the University of Missouri School of Journalism, and started his career working for newspapers in Iowa. It was there that he first encountered the concept of a cooperative when selling a newspaper ad to a local farmers' elevator co-op. He worked at Farmland Industries from 1957 to 1969 as managing editor of the co-op's member newspaper, and then spent several years in Cleveland as the editor of an agricultural trade magazine before heading on to USDA.

"Gene had a true grasp of cooperative operations, in part because of his previous work experience with Farmland, and the ability to write clearly and concisely about them," says Patrick Duffey, who

was magazine editor under Ingalsbe. "Through his magazine articles and other publications, Gene brought insight into the world of agricultural cooperatives. Throughout the cooperative community and within the halls of USDA, he was considered a master of the art of communications," Duffey adds, recalling Mr. Ingalsbe as "calm and patient — even in adversities — and a great teacher."

Mr. Ingalsbe was presented the H.E. Klinefelter award in 1980, the highest honor bestowed by the Cooperative Communicators Association (CCA), for his achievements and dedication to improving the communications programs of the nation's cooperatives. He referred to the award as his "doctorate degree." He was president of CCA from 1968-69.

Mr. Ingalsbe is survived by his wife, Joan Mae Ingalsbe of Moyock, N.C., daughters Linda O'Connor and Lisa Klein, sons Terry, Randy and Ted Ingalsbe, as well as his brothers Wayne and David Ingalsbe and five grandchildren. He is also, of course, survived by the rich legacy of his writings on cooperatives, which continue to inform and inspire. ■

— Dan Campbell, editor



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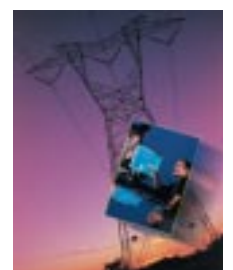
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Providing innovative information technology for its member electric and telecom co-ops is the mission of NISC, formed in 2000 through the merger of two technology co-ops. Article on page 4. Photos courtesy NISC



# The Edge

*High-tech co-op delivers cutting-edge computer services for rural utilities*

By Dan Campbell, editor



When a rural utility cooperative selects a computer information technology for crucial services such as customer billing and data protection, it may in effect be “betting the farm.” The goal is to find a competitive

edge, but a wrong choice can have a devastating impact. For most of the 40 years since its inception, National Information Solutions Cooperative (NISC) (and its predecessor co-ops) has been making the choice a pretty safe bet for members.

The idea behind NISC was originally conceived in the early 1960s by the Rural Electrification Administration (now the Utilities Program of USDA Rural Development). The goal was to help smaller, rural electric distribution co-ops better compete with larger utilities by developing jointly owned information technology support centers. Starting with three members in 1964, NISC has grown into an organization with 473 rural utility and telecom members that provide service to 7.2 million electric consumers and telecommunications subscribers. The co-op generates \$85 million in annual sales, most of it from leasing computer software and support services to members.

NISC operates in an industry known for very thin margins, in which efficiency at all operational levels is crucial. As a mark of its reputation in this regard, NISC also provides services to a number of Fortune 500 companies, on a non-member basis. This helps generate a revenue stream that subsidizes the fees charged to members. The co-op provides billing and other services for customers such as AT&T, Wal-Mart and GTE, also helping some of them analyze energy-consumption patterns to help with energy conservation efforts.

“There hasn’t been one year in our 40 years that we have failed to add members and increase revenue,” says Vern



*“Members belong to our co-op because they need mission-critical software to run their businesses.”*

*“There hasn’t been one year in our 40 years that we have failed to add members and increase revenue,” says co-op CEO Vern Dosch (above), framed by strands of fiber-optic cable. Photos courtesy NISC*

Dosch, the co-op’s president and CEO. “This is a very volatile business. Technology, energy and telecommunications have all been in turmoil, particularly during the last 10 years. Yet, when you look at the history of this organization, you see very steady, stair-step growth. We are adding 10 to 12 new members per year and revenue goes up every year. Not one year in the past 40 has our revenue or membership declined.”





NISC's Mandan, N.D., office (above) is home to about 280 of its employees. It also has 250 employees in Lake St. Louis, Mo.

NISC membership includes about 44 percent of its potential market of 800 rural electric cooperatives and 8 percent of the nation's 1,300 rural telecommunications co-ops and privately held companies (the latter are typically family-owned).

### Expanded broadband facilitates merger

REA's original plan had been to create six regional information technology

cooperatives to serve the rural utility sector. Computers were just coming onto the landscape in the early 1960s, and rural electric and telephone businesses were still largely handling billing and accounting by hand. REA leaders met with statewide utility co-op associations, promoting the idea that these associations were in the

perfect position to serve as business incubators to foster this type of cooperation among co-ops.

It made no sense, REA said, for each electric distribution co-op to buy a mainframe computer at a cost of more than \$1million, hire their own programmers and develop their own software (which could not be licensed at that time). "Even in '64, they recognized that the technology business was all about

economies of scale," Dosch says.

The North Dakota statewide co-op association took the lead with the concept, and, ultimately, two co-ops sprung out of the original data processing business venture: the North Central Data Cooperative (NCDC) in Mandan, N.D., and the Central Area Data Processing Cooperative (CADP) in St. Peters, Mo.

"Perhaps the greatest driver behind the success and growth of NCDC, CADP and NISC during the last four decades has been the steadfast relationships built with members," noted Joe Harris, chairman of the NISC board of directors. "The fact that all but two of the original 17 member systems are still with us today speaks volumes about our commitment to people, processes and technology."

For most of their business lives, CADP and NCDC provided very similar services to rural utilities. In 1999, both were looking at the need for multi-million-dollar investments to re-engineer their software products. This

## Attracting a skilled rural workforce

As an intellectual-property company, NISC's lifeblood is largely the intellect and innovation of its employees. Wouldn't it be much easier to attract these types of highly educated workers in Silicone Valley, Boston or one of the nation's other computing hotbeds rather than in rural areas like Mandan, N.D., and Lake St. Louis, Mo.?

"Easier to hire them, yes, but not necessarily easier to keep them on board," says NISC CEO Vern Dosch. In many urban environments, it is easier to find workers, but it is usually more challenging to find employees who will make a commitment to not just work for a company, but to become an integral part of the business.

"Here, we talk about creating careers, rather than jobs," Dosch says. "We feel that our rural locations are actually one of our competitive advantages." NISC has an annual staff turnover rate of just 4-5 percent, and has about 75 staff members who have been with the co-op for more than 20 years. "Most of our staff come and stay."

A number of employees are refugees from the big city, who have moved to North Dakota or Missouri to escape the congestion, pollution, crime, high cost of living and failing schools of many cities. Some are outdoor sports enthusi-

asts and looking for the friendlier, more relaxed pace of rural life.

"Some of our best employees grew up in the Midwest, have gone to the bright lights of the big city, but are now raising a family and they want to come back to rural North Dakota or Missouri, where we don't have to lock the doors all the time and where the school systems consistently score higher than national averages.

"I really can't think of any big disadvantage of having a technology company in rural North Dakota, other than maybe that travel in and out is a little more expensive. Since there are no constraints in our ability to secure Internet bandwidth, there is a lot less need for business travel than there used to be," he adds.

NISC is hesitant to use "headhunters" to pull workers from other technology businesses. "Our goal is to grow our own. We encourage personal development, technical and interpersonal skills. When you get an employee with good aptitude and attitude, we aren't afraid to put some money into them to develop the skills we need. If we need someone with a Masters' degree, the co-op will pay for the education." ■

led to merger discussions, and the consolidation was consummated in 2000.

The development of broadband Internet service greatly facilitated the merger, making it possible to seamlessly integrate the two operations, despite being separated by more than 1,000 miles.

The co-op now has about 280 employees based in Mandan, and 250 more at its new Lake St. Louis facility (about 40 miles west of St. Louis). In May of last year, NISC completed the 135,000-square-foot facility, allowing all of its Missouri employees to work under one roof. The co-op also has about 26 “virtual” employees scattered about the country. Services include Internet bill payment and presentation; graphical and mobile mapping systems; activity-costing systems; energy deregulated and diversified billing, including propane, water, gas, etc., and telecommunications switch provisioning, among others.

#### Reinventing the co-op

It is usually difficult to quickly put aside the competitive inclinations of businesses involved in a merger, and that was the case here. “We had been fierce competitors, then suddenly one day we were best friends and cohorts,” recalls Dosch, who had been with NCDC prior to the merger, which he joined in 1986 as business manager before moving up to CEO of NISC 4

years ago.

After the merger, the two staffs immediately began working jointly on a major development project for a new product called iVUE, intended to help move the co-op’s software into “a dynamic, open systems arena, away from the proprietary servers of the past,” Dosch says. More than anything else, this collaborative project — which lasted over 2 years — helped to cement the two organizations into one co-op.

“I can’t say it was easy,” Dosch recalls. “We had to literally reinvent the organization from the bottom up.” Often in a merger there is a dominant partner which says: here is how we will

*“We’re not constrained by a mentality of: ‘we’ve got to push this software out the door, even though it’s not ready’...”*

operate, like it or leave. “That was not at all our approach, because this was a consolidation of equals. Every policy had to be rewritten; new vice presidents were selected. We were very similar, yet there were differences in business strategies and cultures.”

It was worth the effort. NISC has been “built to lead” the rural utility industry on the technology front, Dosch says. The organization has matured since the consolidation, and now has more employees with “deeper skill sets,” which is creating new opportunities, he adds. “The ability to deliver robust, scaleable technology that meets the needs of a diversified group of utilities and telecoms has grown by leaps and bounds just in the last year. Both offices today work collaboratively on software development, installation and support.”

#### Ultimate test

In the mid-1960s, the entire thrust of the business was to automate billing products. Large, main-frame computers were used to calculate, process and print bills in a central location. But 40 years on, NISC is essentially a software house that develops products it licenses to members.

From a single billing product in the early 1960s, it today offers a full suite of more than 100 software products and services. These include billing, accounting, engineering and ancillary products,



CEO Vern Dosch (back row, third from left) with the co-op’s vice presidents.



such as electronic bill presentment and payment, interfaces for automatic meter reading, etc.

“We’ve essentially become the outsourced Information Technology (I.T.) department and help desk for our members,” Dosch says. “We are able to handle as little or as much of their I.T. solutions and services as they require.”

NISC also provides disaster recovery and business continuance service. With the worst hurricane season on record last year, this part of the business has proven to be a lifeline for some members. Indeed, Hurricane Katrina became the ultimate test of NISC’s business continuance capability.

The co-op’s disaster recovery staff carefully monitored the progress of Katrina early on, plotting the path of the storm and determining which mem-

bers would be in harm’s way. Two or three days before the storm hit land, NISC was communicating with those members and backing up their data. “This is an easier task today than in the recent past, because hardware is really just a commodity now — you don’t have large centralized service bureaus any longer,” Dosch says.

The co-op’s disaster team identified 40 members in the path of the hurricane, but in the end, just five of them were severely impacted. NISC’s support for those co-ops ranged from going on site and helping to rebuild their networks and infrastructure, to backing up their data and providing access to it via the Internet.

With members in 47 states, hurricanes are far from the only weather calamity members face; ice storms, tor-

nadoes and floods can all take their toll.

Utilities are also now considered part of the nation’s homeland security network, and security considerations have been ramped up considerably since the 9-11 terrorist assaults on America.

### Co-op advantage

The co-op business structure of NISC has contributed to his success, Dosch says. As a co-op, the company is better poised to pursue long-term goals.

“The Achilles heel of so many technology firms is that they are just looking to their stock price and what to tell the stock analysts this quarter. By contrast, our board understands the cyclical nature of this business as it relates to developing a new product and investing in it; they understand that revenues will

*continued on page 28*

## Importance of shared values

After the merger of the two co-ops that created NISC in 2000, employees were tasked with developing a statement of values that would become the cornerstone of the co-op’s business culture. “This was pre-Enron and World Com, before it was considered cool — or mandated by Sarbanes-Oxley — to have such a document that spells out the basic premise of the way we do business,” says CEO Vern Dosch. The unique thing about ours, and why it is so effective, is that it was not developed by the board or vice presidents and then forced down on employees. They wrote it.”

A group of employees was secluded for a couple of days, and came up with the statement. The vice presidents made only a few very minor changes and the board adopted it without change. It now hangs in every office and is part of the employee orientation and evaluation process.

### NISC Statement of Shared Values

*(Editor’s note: The following is slightly abridged, due to space limitations.)*

“At NISC, we believe in striving for excellence with a passion and determination that is founded on our shared values. These values will inspire us, guide us and determine the manner in which we will conduct ourselves in carrying out the business of our organization.

- Integrity — We hold ourselves to the highest professional, moral and ethical standards. We are committed to doing the right thing, always.
- Relationships — We believe people are the heart of

our organization. We are committed to building, nurturing and preserving lasting relationships with our member-owners, customers, partners, our families and friends, and one another. We are passionate about the service we provide and demonstrate that by being responsive to the needs of our customers and constantly striving to exceed their expectations... We support a healthy balance between work and family.

- Innovation — We promote the spirit of creativity and champion new ideas. We believe a passion for quality and the desire to constantly improve what we do is critical to our success...
- Teamwork — We exemplify the cooperative spirit by working together with respect for one another’s ideas and contributions. We believe in using our individual and collective knowledge and skills to improve our organization and agree to show support of all decisions once they are made...
- Empowerment — We believe individuals have the power to make a difference. We agree to be accountable and responsible in the decisions we make, use good judgment and take pride and ownership in our work.
- Personal Development — We believe the free exchange of knowledge and information is absolutely necessary to the success of each individual and the organization. We agree to work every day to learn new things and are committed to sharing our ideas with one another... ” ■

# Prospering in Rural America

*Rural development issues in spotlight at Outlook Forum*

By **Dan Campbell, editor**

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*Editor's note: For the complete text and webcasts of speeches made at the USDA Outlook Forum, visit: [www.usda.gov/oce/forum](http://www.usda.gov/oce/forum).*



very winter, USDA holds a little get-together for more than 1,200 national and international farm leaders at an event called the Agricultural Outlook Forum.

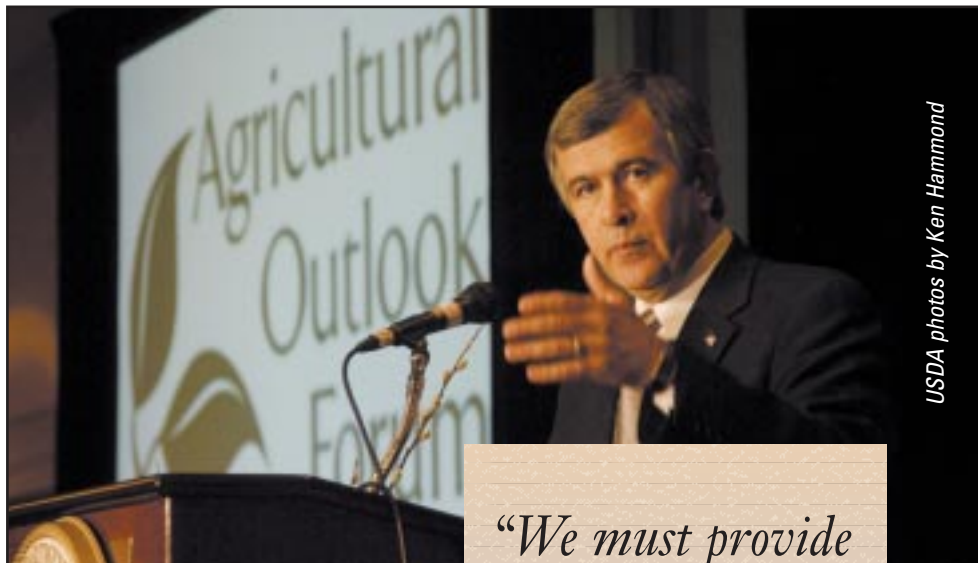
The two-day forum has grown into a world-class conference under the guidance of USDA's World Economic Outlook Board. Attendees get the inside track on what USDA and its invited guest speakers see as the shape of things to come on numerous fronts: crop and livestock markets, trade, technology, nutrition, food safety and security, farm policy and legislation, among many other topics that determine the state of the nation's \$260 billion agricultural industry.

But this year the program took on a distinctly new twist, with more general rural development issues than ever in the spotlight before a record crowd of more than 1,600. Agriculture Secretary Mike Johanns devoted a much of his keynote address to the impact USDA Rural Development programs are having on the rural economy. One of the five conference "workshop tracks" was devoted to rural development, with sessions ranging from the impact of e-commerce on rural communities to finding the next generation of farmers and skilled rural workers.

## Rural economy evolving

Johanns noted that just 160,000 of the nation's 2 million farmers, who work 33 percent of our farmland, are responsible for 75 percent of U.S. farm receipts. In 1987, it took 295,000 farmers to account for that much of the nation's crop and livestock production. That means 92 percent of ag producers, working two-thirds of U.S. farmland, rely heavily on off-farm income.

"They choose to carry on the great American tradition of agriculture, but they do not depend on it as the sole source of income or, in many cases, even as their primary source of income," Johanns said. "We must provide greater economic



USDA photos by Ken Hammond

opportunity for people to choose a rural quality of life, a lifestyle that upholds the values and principles upon which this great nation was truly built."

This trend is one reason why public testimony at the Farm Bill listening sessions around the nation in recent months has been so unanimously supportive of USDA Rural Development programs, Johanns noted. USDA hosted

52 listening forums, of which more than 20 were conducted by Johanns himself. The Secretary is well known as an intense listener who takes notes during most meetings. He recalled some of the key comments he heard regarding Rural Development programs:

- In Missouri, a producer told Johanns: "These Rural Development programs are what is keeping the heart-blood of the nation's business going and keeping us in a global economy and part of the edge of innovation."
- In Oklahoma, a man said, "100 rural water districts, small communities and towns [in the state] benefit from your programs. We were able to go out and train operators and bookkeepers and all sorts of things to upgrade the living standards of our rural population."

*"We must provide greater economic opportunity for people to choose a rural quality of life..."*

— Secretary

*Mike Johanns*



- In Nebraska, a female producer said of the Value Added Producer Grant (VAPG) program: “Those grants have led to the development of a very successful ethanol plant....I encourage you to keep that program up and to expand it, if you can.”
- A Minnesota resident said: “About three years ago, Sleepy Eye Medical Center took on a building expansion. We built a new clinic, a new emergency room and a new radiology addition. To help make this project a reality we obtained a \$4.5 million, low-interest loan from USDA Rural Development. We created new jobs and increased the quality of our health care. We're proud of our facility.”
- In Florida, there was praise for the agency's hurricane relief efforts, with one woman saying: “Equally important is the need to maintain a rental assistance program, which is currently assisting approximately 10,000 hurricane evacuees as well as tens of thousands of rural citizens on a regular basis.”

Johanns said the USDA Rural Development hurricane-relief team was one of the first on the scene “in the trenches, helping people find shelter.” He noted that Rural Development has invested \$239 million in housing, economic

What rural America most needs, Dorr stressed, is “viable businesses, self-sustaining communities and young families eager to build a future.” This job, he said, begins with identifying opportunities.

Dorr said he sees three primary areas of opportunity for the future of rural America:

- Place (the quality of life factors that make rural living attractive);
- Connectivity (primarily broadband and other technologies that will enable the nation to shift more jobs from central, urban centers to dispersed, rural locations); and
- Energy (ethanol, biodiesel, wind and other renewable fuels that will play an increasing role in helping to wean the nation from imported oil).

### The “place” to be

“Place,” Dorr said, “is peace and quiet, green fields and fishable streams. It's lower taxes and a lower cost of doing business. It's affordable housing and a big yard for the kids. It's the pace of life, low crime and good schools.”

*“In this renewable energy economy, the question is: Will farmers and rural land-owners participate as vendors, or as owners and investors?”*

*— Under Secretary  
Thomas Dorr*

and community development recovery, and rebuilding efforts to “help rural families put their lives back together and their communities back together. We helped to place more than 10,000 evacuees in 45 states and helped 22,000 families literally pay the mortgage.”

### Market-driven strategy

The featured panel discussion during the opening plenary session was titled: “Rural America's New Economic Frontier.” During it, Under Secretary for Rural Development Thomas Dorr said that sustainable market development must be market driven, not program dependent. He said he sees USDA Rural Development's primary role being that of an investment banker and an “enabler” for rural America, rather than a central planner or lender of last resort.

He contrasted the rural Iowa landscape where he farms and was raised to the 5 years he has spent in Washington, D.C., now an urban metropolis of some 3.5 million people. “I've never seen a real estate ad in D.C., or any other city, boasting about a bigger mortgage for a smaller house, high taxes, noise, crime and a three-hour commute...We're not trying to run folks out of urban areas; but given the chance, people will vote with their feet. Our job is to help empower that choice by investing in the infrastructure and business development that makes it possible.”



Much of rural America has long suffered from a “brain drain,” in which it has produced well-educated young people who, after graduation, migrate to good jobs in cities. “Very few of the college graduates come back,” he noted. In his own class, for example, Dorr said he may well have been the only one (and certainly one of the very few) who returned home to a family farm (in Marcus, Iowa, in his case).

The goal must be “to create communities where our kids have a future; communities where the next generations have more and better choices than

The broadband revolution has intersected with this new world marketplace, meaning that “every person is going to be connected — more-or-less instantaneously — with everyone else,” Dorr said. “Whether we want to or not, we will be competing with everyone in the world with similar skill sets and a modem. The upside is that our potential customer base will be just as broad.”

Because data can be so easily shared across great distances and there is less need for shuffling paper from desk to desk in one office, “administrative structures, manufacturing, and distribu-

tion networks can be decentralized. To a degree unprecedented in history, people are going to have real choices about where to live and how to work.

“Broadband makes rural communities more competitive than they have been in generations. It opens the door to everything else.”



USDA Rural Development's Mike Kossey (left) answers questions about USDA's renewable energy and other programs in the Outlook Forum exhibit area.

we did. If our kids' hopes, dreams, ambitions and talents take them around the world, that's great. We want them to have that opportunity. But they shouldn't be forced to leave simply because there is nothing at home.”

### Getting connected

Advances in information technology — especially in broadband Internet service — have ignited a communications revolution, Dorr said. This is resulting in “the most radical decentralization of information in human history — and it's happening at a critical moment in history. Since the fall of the Berlin Wall, up to 3 billion people have joined the world market system. This represents both a new market and a new source of competition, he said, calling it “the greatest expansion of economic freedom and opportunity in human history.”

### Energizing the nation

Rural America may also hold the key to the nation's energy future, as biofuels and other renewable energy sources sprout into a major new cash crop, Dorr stressed. He noted that President Bush devoted a portion of his State of the Union Address in January to expressing his support for funding new research on wind, cellulosic ethanol, clean coal and new-generation nuclear power. “The commitment is there and, frankly, thanks to \$60 per-barrel oil, so is the opportunity.”

Dorr cited the following statistics to underscore how rapidly the renewable fuels industry is developing:

- U.S. ethanol production in 2005 exceeded 4 billion gallons. The 7.5 billion gallon renewable fuels standard in the Energy Bill will be met well ahead of schedule.

- Biodiesel usage has soared from about 5 million gallons in 2001, to 25 million gallons in 2004, to 75 million gallons last year.
- U.S. wind-power capacity by the end of last year reached 6,740 megawatts. Another 5,000 megawatts are currently under construction or in negotiation. The Department of Energy estimates that wind can generate at least 6 percent of U.S. electricity by 2020.

The nation is also investing in other biomass technologies, such as direct combustion and methane gas recovery, as well as solar, geothermal and hydrogen applications.

- Since 2001, USDA Rural Development has invested almost \$290 million in new energy sources, and energy will be a top priority for 2007.

“Energy from agriculture, in fact, offers the rural economy its biggest new market in history. But it's not automatic. We're talking about the emergence of a distributed energy system. That's something different. It's new. It will take some creative work to make it happen.

“The key issues will be ownership and wealth creation — and our goal must be to bring the benefits of this extraordinary new opportunity back home to rural America... Farmers and other rural landowners are on the ground floor.”

### Farmers need to be energy system owners

As great as it is for farmers to be netting an extra 5 to 10 cents per bushel of corn from ethanol, Dorr said, “the real return is downstream, in the value-added as a premium fuel.” In this renewable energy economy, the ultimate question is: “Will farmers and rural landowners participate as vendors, or as owners and investors?”

Business and investment models, including new tax and regulatory regimes, are needed to bring the benefits of new energy sources back home to rural communities, Dorr said. “This doesn't require more government



expenditures on subsidies. But it does require a strategy — new investment models and supportive regulatory and tax regimes — that permits distributed energy opportunities to be capitalized

by the existing wealth already distributed within rural communities.

“This will happen when not just farmers, but also the local dentist and the school bus driver, the shopkeepers

and school teachers, the mechanics and the retirees, all have a chance to participate in this extraordinary new opportunity to generate wealth in rural America.” ■

## Storms, disease and soaring fuel costs couldn't derail farm economy in '05

*Editor's note: The following is excerpted from Keith Collins' address at the 2006 USDA Ag Outlook Forum. You can read the full text, or view a webcast of Collins (as well as other plenary session speakers), on the conference website: [www.usda.gov/oce/forum](http://www.usda.gov/oce/forum).*

On paper, 2005 should have been a disaster for American farmers and ranchers. Just consider some of these negative factors checked off by USDA Chief Economist Keith Collins during his annual address at the USDA Agricultural Outlook Forum in Arlington, Va.:

- Near-record crops were harvested for the second year in a row (raising the specter of glutted markets);
- Multiple, devastating hurricanes pounded the Gulf Coast and shut down the central marketing infrastructure of the country;
- Energy prices soared, including diesel prices that hit \$3 per gallon and natural gas that rose to \$14 per million btu;
- There was continued loss of Asian beef markets (due to BSE concerns) and concern rose about the emergence of a possible global avian influenza epidemic.

Anyone who would have seen all that coming would have said the farm economy would be in “deep, deep trouble,” Collins noted. Instead, the farm economy seemed to respond with a: “What, me worry?” Domestic demand for farm products soared, exports set a record high, U.S. farm income was the second highest ever and farmland values and farm wealth reached new all-time highs.

“The reasons for this outcome include strong global demand for food, the flexibility of the agricultural system to rebound from shocks, a substantial increase in government support spending and cyclically tight markets for some commodities, such as meat,” Collins said.

“While demand remains strong, the farm economy will be challenged by large stocks of crops, built up from the abundant harvests the past two years, livestock expansion, higher interest rates and energy costs, animal disease issues and weather. While it is too early to be definitive, these factors suggest that farm income will likely drop in 2006 and the farm economy will contract,” Collins said.

“The forecast for farm exports in fiscal 2006 is a record-high \$64.5 billion, up \$2 billion from 2005's record. Imports are forecast at \$63.5 billion, up \$2 billion from USDA's last

forecast, leaving a forecast surplus of \$1 billion for FY 2006. The current period of strong foreign economic growth and continued effects of the decline in the value of the dollar from several years ago should show up in higher U.S. agricultural exports in the future and an improving trade balance. Projected economic growth suggests continued increases in agricultural exports and imports, with the agricultural trade balance forecast to be positive but less than in past years.

“Record or near-record production of major crops has added to the stock levels built up last year. As a result, U.S. supplies for feed grains, cotton and soybeans are at a record high this year, although not for wheat. But this picture of the crop sector moving toward the bottom of the cycle is not as transparent as it seems. Four factors suggest the prospect for divergent performances among the major crop markets over the next couple of years: (1) Global grain and oilseed markets are moving in different directions; (2) Biofuels may drive faster-than-expected demand growth. Indeed, ethanol — rather than China — could well be the No. 1 factor driving farm prices higher over the next few years; (3) Energy and interest costs are likely to be a rising challenge for many producers, and (4) Weather is already being disruptive for the upcoming crops.

“From indicators such as a return to average national farm income, lower enterprise and regional farm income, lower cash margins, higher net worth and greater utilization of debt repayment capacity, we can draw several conclusions for 2006. There is not an impending financial crisis in U.S. agriculture, yet there will be greater financial stress for an increasing number of crop producers in many regions. That stress will likely show up in tighter credit standards and delayed loan repayments and loan extensions.

“The coming year will present more of a financial challenge for U.S. agriculture than in recent years. In addition, agriculture will have to contend with questions over the effect of rising interest rates on the durability of the U.S. economic recovery, the value of the dollar, issues raised by the federal budget deficit, trade negotiations, bird flu, BSE, oil prices, Middle East issues and terrorism. Producers will likely need to draw more on their resiliency and managerial capabilities in 2006 than they did during the past couple of years of abnormally high farm income.” ■



# Ethanol plant to use new coal technology

By Stephen Thompson

Assistant Editor

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**B**ob Ferguson brandishes a sheet of paper. “Look at this,” he says. “Our corn basis is 44 cents. We just don’t have enough markets for our local production.”

Ferguson is a farmer and businessman near the small southern Minnesota town of Heron Lake. The corn basis he is referring to is the difference between the going price at the nearest New Vision elevator in Heron Lake and the top price paid in Chicago. Ferguson’s response to low prices was to help found Heron Lake BioEnergy LLC — a mainly farmer-owned effort to build a new 50-million-gallon-per-year ethanol plant to boost local corn prices and help revitalize the local community.

It’s a story being repeated across the Midwest as ethanol plant construction continues in high gear. But there is a twist here: the Heron Lake plant will not burn natural gas, as in the vast majority of ethanol facilities, but coal.

The cost of energy is critical to the bottom line of a corn-to-ethanol plant because so much is used. To prepare the corn for fermenting, it is blasted with steam. Fermenting and distilling require heat. Drying the distillers’ grains — the part of the corn remaining after fermentation — requires even more, as much as 50 percent of the entire fuel budget.

## Big savings over gas

The clean-burning coal technology will add to the price of the plant, but a study in 2004 indicated that it would cost 70 percent less for energy than using natural gas. Since then, coal prices have risen; however, gas prices have risen even more steeply, seemingly vindicating the decision to go with coal (see sidebar). “Coal is still an extreme bargain,” says Ferguson.

An LLC business structure was chosen because it was felt that it offered more financing alternatives than a pure cooperative. Heron Lake LLC financing is grounded soundly in the community, with the majority of its financing coming from farmers; much of the rest comes from local residents.

*Adam Schumacher, an investor in the ethanol project, runs a nursery operation just outside the town of Heron Lake. USDA photos by Stephen Thompson*







*Bob Ferguson, president of Heron Lake BioEnergy LLC, divides his time between farming and working on economic development through his involvement in local county government.*

“We have a sizeable investment from the four counties surrounding us,” says Ferguson, who is president of the company. Moreover, Minnesota law requires that all investors in the LLC must either be state residents or owners of property in the state. The Minnesota

LLC allowed local businessmen — who would not have been able to invest in a traditional co-op — to buy in.

The venture began in 2001, when a group of local farmers, led by Ferguson, formed the board of directors, each contributing \$10,000. The first concern

was providing necessary infrastructure, especially a reliable water supply.

“You can get held hostage pretty fast if you don’t do your homework,” says Adam Schumacher, one of the board members of Minnesota Soy Processors MNSP), another LLC. A well was drilled, and it promised sufficient water not only to feed the plant, but also to supply a biodiesel plant located about 11 miles south, operated by MSNP.

In a three-way agreement, the town of Heron Lake agreed to take over the well and finance it with a 15-year bond, which was to be paid off through fees from the plant and from a pipeline supplying the biodiesel operation. Mayor John Hay sees the agreement as vital to the interests of the town as a whole:

“We want business here that can attract jobs,” he says. “This will double our tax base to \$50 million and give us additional revenues to improve our school.”

#### **Option to stay**

Schumacher participated in the venture because he wants local children to be able to stay in the community instead

## **Technology reduces oxide emissions**

The use of coal in the Heron Lake BioEnergy plant depends on a new technology known as “fluidized bed” combustion. A fluidized bed boiler works by blowing high-pressure air through a bed of solid fuel grains.

The resulting turbulence suspends the fuel in the air, mixing both together thoroughly and allowing more complete combustion than other methods. This reduces or eliminates carbon monoxide and hydrocarbon emissions. At the same time, combustion temperatures can be regulated, keeping them below the level at which oxides of nitrogen form, thus eliminating an important cause of acid rain and “smog.”

Limestone powder, which absorbs sulfur in the coal, can be injected into the process, eliminating sulfur dioxide, another troublesome precursor of acid rain. Those features make expensive scrubbers and other equipment to clean the exhaust from the boiler unnecessary.

#### **Biomass applications**

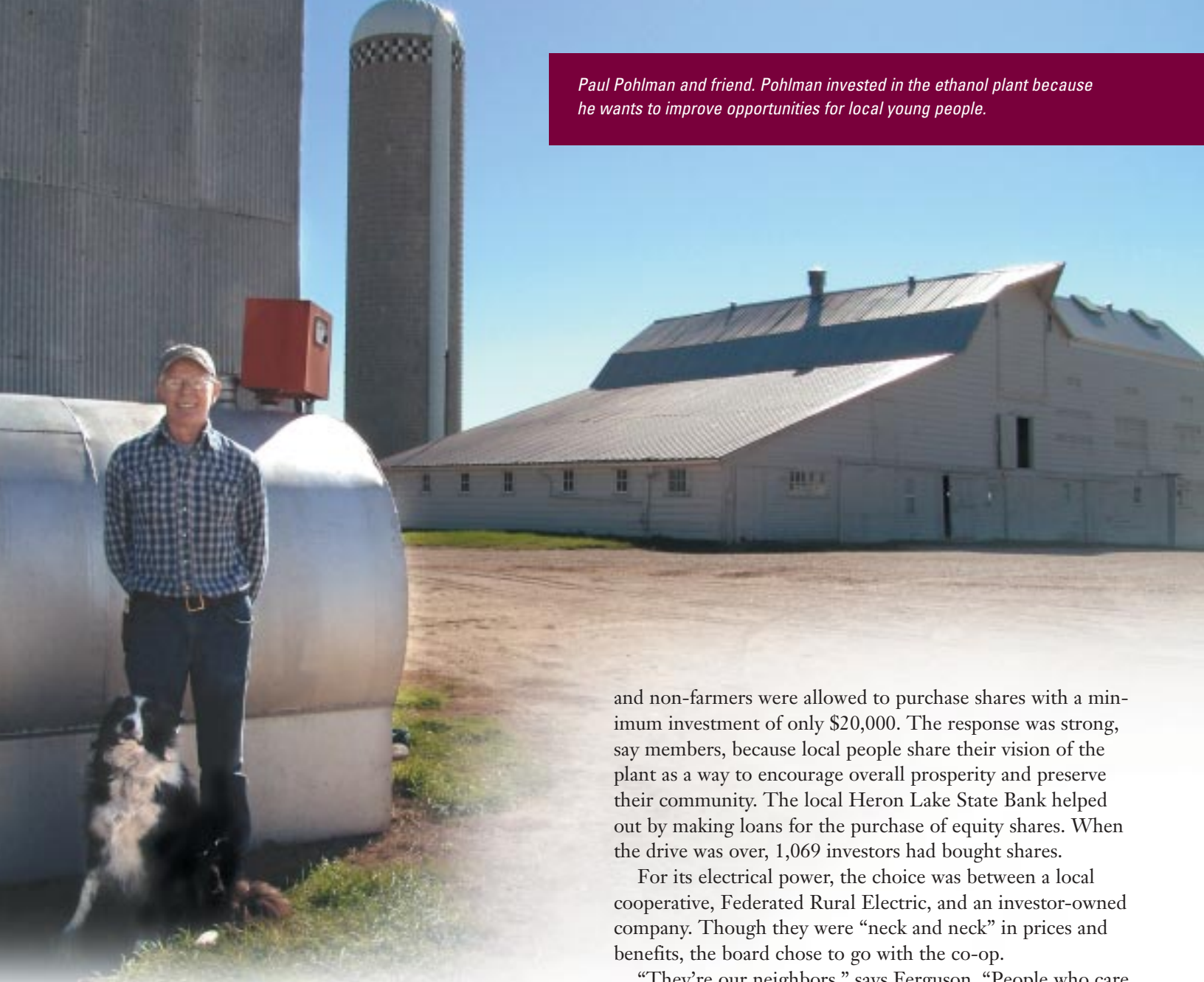
The advantages of fluidized bed combustion don’t stop there, however. The design lends itself well to biomass fuels, such as straw, sawdust, corn stover, etc. In fact, any

solid fuel that can be ground up and blown into the boiler can be used. If future regulations require the use of renewable fuels, the plant will be able to handle them without costly modifications.

Heron Lake BioEnergy President Bob Ferguson thinks that, with no relief for high gas prices in sight, other sources of fuel will become available. “There’s a lot of growth, a lot of new technology in development,” he says.

One option originally considered was the use of distillers’ grains as fuel for the plant. “It wasn’t feasible to use distillers’ grains as fuel when natural gas cost \$3.50 for a thousand BTUs,” says Ferguson. But as gas prices rose, so did the utility of distillers’ grains as animal feed.

While prices for distillers’ grains are still lower than those of raw corn, it actually makes better feed because the starch has been removed by the fermenting and distillation process, leaving more valuable fats and proteins. At first, dried distillers’ grains (DDG) were used mainly as cattle feed; but DDG is now being used to feed hogs and poultry as well, with some being exported overseas. The growing value of DDG as feed has killed any interest in it as fuel. ■



*Paul Pohlman and friend. Pohlman invested in the ethanol plant because he wants to improve opportunities for local young people.*

of moving away in search of jobs. “If every farmer can get a nickel more a bushel, it might allow him to fit one of his kids into the operation,” he says. “A lot of people who have moved away would like to come back if they could.”

Schumacher’s farm doesn’t stand to benefit directly from higher corn prices: it’s primarily a nursery operation, with most of its revenue coming from sale of trees and shrubbery for use as windbreaks, riparian buffers and other conservation uses.

Paul Pohlman, a corn and soybean farmer, echoes Schumacher’s hopes. His roots in the area are deep: his grandfather settled here in the 1800s, and he grew up on the farm he now runs. He invested in the nearby biodiesel plant, which has yet to turn a profit, and sees higher grain prices as only part of the benefits of a successful ethanol plant: “It’s a chance to improve the job situation here — give young people more opportunities.”

The equity drive began in July 2004, and lasted until the following January. To encourage locals to participate, farmers

and non-farmers were allowed to purchase shares with a minimum investment of only \$20,000. The response was strong, say members, because local people share their vision of the plant as a way to encourage overall prosperity and preserve their community. The local Heron Lake State Bank helped out by making loans for the purchase of equity shares. When the drive was over, 1,069 investors had bought shares.

For its electrical power, the choice was between a local cooperative, Federated Rural Electric, and an investor-owned company. Though they were “neck and neck” in prices and benefits, the board chose to go with the co-op.

“They’re our neighbors,” says Ferguson. “People who care about what we’re trying to do for our community.” The co-op not only bought stock in the venture, it has applied for a USDA Rural Development low-interest loan totaling \$740,000 for the project. “I can say nothing but good about Federated,” Ferguson says.

### **Environmental delays**

Construction of the plant was planned to begin in March 2005. However, the necessary permits from the Minnesota Pollution Control Agency were held up for several months because of objections by environmentalists over the use of coal for fuel. “They were afraid that coal use would mushroom if the plant got built,” says Pohlman.

He and the other board members see this as a case of being unable to see the forest for the trees: the plant will not only be clean-burning, its effect will be to lessen greenhouse gas emissions by reducing overall the use of fossil fuels.

*continued on page 34*





# What it means to “market” milk

**By Donald A. Frederick**  
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**A**n Arizona State Court of Appeals decision in a complex litigation brought by former members against a milk marketing cooperative discusses two issues of interest to cooperative leaders. One concerns whether “dumping” member milk during a contract dispute with buyers meets the legal definition of “marketing” that milk. The other involves whether certain relationships between a cooperative and a non-cooperative broker amount to an illegal agreement to restrain trade. *United Dairymen of Arizona v. Schugg*, 1 CA-CV 04-0611 (Ariz. Ct. App., Div. 1, filed Feb. 9, 2006).

## Case facts

United Dairymen of Arizona (UDA) is a milk marketing cooperative with roughly 90 members whose average herd size is 1,200 cows. UDA markets about 90 percent of the milk produced in Arizona.

Michael and Debra Schugg were producer members of UDA and signed a contract giving UDA the exclusive right to market their milk. That contract provided that UDA would “use its best efforts to market the member’s milk in such manner as the association shall deem to be to the best advantage of the member and all other members of the association....” (court’s emphasis)

In an effort to enhance revenues, UDA entered into agreements with milk marketing cooperatives in other states not to sell milk to fluid milk bottlers until they agreed to pay a substantial premium above the federally established minimum price. When two major buyers of UDA milk refused to pay the requested premiums, UDA was unable to sell millions of pounds of Grade A milk produced by its members. As a result, the Schuggs were forced to “dump” a substantial quantity of their milk.

UDA treated the milk dumped by its members as if it had been sold when computing its payments to members. To make these payments, UDA incurred substantial debt. To minimize that debt and allocate its costs among all members on a patronage basis, UDA imposed an assessment on its members’ milk production. The amount assessed against the Schuggs’ milk production was in excess of \$232,000.

The Schuggs took certain actions which they claimed freed them from their contract to market through UDA and began selling their milk to another cooperative. UDA responded by suing the Schuggs for alleged breach of that contract. The Schuggs filed two counterclaims regarding UDA’s strategies for marketing their milk, which are the focus of this article.

## Is “dumping” a form of “marketing?”

First, the Schuggs alleged that UDA breached its contractual obligation to market its members’ milk when it effectively forced members to dump their milk, rather than deliver it to UDA’s

primary customers. They claimed their damages from this action included the amount of the assessment and other financial losses.

The court described the argument of the Schuggs as equating “market” with an obligation to “sell” member milk to the cooperative’s customers. The court rejected this assertion.

The court said that: “UDA’s contractual duty to ‘market’ milk reasonably includes taking actions to protect its long-term ability to sell at prices beneficial to its members. UDA attempted to obtain long-term contracts and premiums from its primary customers by limiting the supply of milk from its members and from members of other cooperatives. In doing so, it was exercising its authority to ‘market’ in a manner it deemed to be to the best advantage of its members.”

So, this case reaffirms the legality of an important strategy for cooperative marketing associations, limiting the supply of product their members deliver to the market and working with other cooperatives to limit supply on a broader scale. But it is important to remember that the same protection does not apply to agreements with non-producers to limit supply.

## Antitrust issues

The Schuggs also alleged that UDA’s “dumping” policy was part of an illegal anti-competitive scheme to limit milk supply, in violation of federal and state antitrust laws. While UDA prevailed on this point as well, it is important to understand why it prevailed.

The court notes that while the

*continued on page 27*

# Southern Exposure

*Hazelnut Growers of Oregon sourcing product & new members in South America*

**By Catherine Merlo**

*Merlo is a freelance writer with extensive experience working with cooperatives.*

**F**or 22 years, Hazelnut Growers of Oregon has marketed what it calls “the crunchy brown nut with the sophisticated taste” for the state’s hazelnut producers, many of whom farm in the state’s fertile Willamette Valley.

But the nationality of the co-op’s membership has just taken a quantum leap south.

This year, Hazelnut Growers of Oregon accepted its first foreign member, a hazelnut farmer in the South American country of Chile. And it expects more Chilean hazelnut growers to join the

Oregon-based co-op in the near future.

“It’s a great opportunity for us,” says Troy Johnson, vice president for Hazelnut Growers of Oregon (HGO). “We have only one member so far, but there is much interest there.”

HGO is just one of a growing number of U.S. agricultural co-ops that have encountered the hard reality of a global market. To succeed in today’s 24/7 marketplace, America’s grower-owned businesses must contend with increased foreign competition. They must satisfy the rise in consumer demand for more and better products. And they must protect their brands with a steady supply. That means finding a way to overcome production shortfalls that stem from adverse weather, alternate-bearing crops or shrinking acreage.

*Oregon is home to about 28,000 acres of hazelnut orchards, such as this. But acreage has been declining due to disease, so Hazelnut Growers of Oregon is expanding to Chile. Photo by, and courtesy of, Carl Johnson. To see more of this Alaska-based photographer’s work, visit: [www.carljohnsonphoto.com](http://www.carljohnsonphoto.com).*



## Opening new doors

The venture into Chile offers a way for HGO to meet those demands. Sourcing some of its product in Chile opens new doors to help the co-op meet rising demand amid tightening hazelnut supply.



Jamie Perry, left, is the first Chilean member of Hazelnut Growers of Oregon (HGO). With him is orchard manager/agronomist Paz Alejandra Lopez (center) and another grower. Photos courtesy HGO

“Things are changing and the world is becoming smaller,” Johnson says. “To be successful, you’ve got to find the strategic alliances, or make the strategic decisions, to be successful in the long term. You need the best, most efficient supply and you have to be very good at all aspects of your business.”

One benefit to the Oregon co-op is that Chile’s production comes later in the season, in April, avoiding the glut sometimes seen when the North American hazelnut harvest comes off in September.

The co-op’s venture south also reaps benefits for Chilean hazelnut producers. For them, being part of an established co-op is a big draw. “One of the basic reasons for joining a co-op is that it provides a home to bring your produc-

tion to every single year for marketing,” Johnson says. “That’s a very important selling point that some people overlook. It’s the biggest reason Chilean growers want to be part of our co-op.”

Further, Johnson adds, “Chile sees the U.S. as a fantastic consumer of Chilean products, but they also see the American business model as very successful.”

## Goin’ south

A lengthy sliver of a country that’s 20 times as long as it is wide, the Republic of Chile stretches 2,700 miles along the southwestern coast of South America. Home to a stable democracy with a population of 16 million, Chile is famous for the snow-capped Andes mountains that tower along the



Electrostatic sprayers are used to apply crop protectants to hazelnut orchards.

country’s eastern border.

But the country is also the home of a long, fertile basin west of the mountain range. Called the Central Valley, it stretches south from Santiago to Osorno and enjoys a Mediterranean-like climate.

There, in its opposite seasonal cycle, Chile harvests a variety of fruits, vegeta-

bles and grains some six months after the Northern Hemisphere does. And the production quality is generally good. California-based Sunsweet Growers has begun sourcing fruit there (see sidebar). Well-known citrus co-op Sunkist Growers has sourced fruit in Chile in the past, although it doesn’t at present.

“Everybody is looking to build the most efficient supply chain,” says Terry Barr, chief economist with the National Council of Farmer Cooperatives. “The consumer has spoken, and retailers want access to a product year-round. U.S. co-ops are having to access products off-season, particularly if they have a brand and want to keep its established position in the market.”

Chile’s hazelnut industry is young; it needs another seven years before its trees reach full nut-bearing maturity. But that’s a short wait for the long-term viability of Hazelnut Growers of Oregon.

## Up north

The largest U.S. handler of hazelnuts, HGO accounted for about one-third of the nation’s 27,000-ton production last year. Virtually all U.S. hazelnuts are grown in Oregon, which is said to grow the tastiest varieties of the brown nugget.

Grower-owned since 1984, the co-op generates about \$25 million a year in sales. It’s the nation’s only hazelnut co-op and counts 140 members.

It also receives part of its hazelnut supply from about 60 non-members who deliver on a contract basis through an independent company. HGO operates a plant in Cornelius for processing, packing and distributing its hazelnuts.

The co-op owns two labels. Oregon Orchard represents its in-shell brand,

*continued on page 29*



# Sunsweet puts down roots in Chile

With two consecutive crop disasters since 2004, Sunsweet Growers Inc. has decided it won't sit back and watch its line of branded products shrivel on the store shelf for want of supply.

The grower-owned co-op, based in Yuba City, Calif., has just completed construction of a fruit-drying facility on land it purchased last year in Santa Cruz, Chile. The plant will process Chilean-grown prunes and market them for the co-op's non-branded business. The 400-member co-op will preserve its California fruit for the Sunsweet brand.

"Chile is a way for us to help avert disaster," says Dane Lance, Sunsweet's vice president of global sales and marketing.

The co-op believes that by building its own drying facility, Sunsweet can ensure that the Chilean dried fruit meets the company's quality standards.

"While our international facilities are managed with the help of experienced joint-venture partners, they benefit from Sunsweet's proprietary systems and our team's quality control standards," Sunsweet President Arthur Driscoll II said last November when the co-op began construction of the South American facility. "Our global customers expect quality products that can only be achieved by using Sunsweet's proprietary drying processing and pitting methods."

Furthermore, Sunsweet's presence in Chile, the world's No. 2 prune producer, opens the door for it to participate in and influence local markets, co-op officials say. "We see Chile as a market for our brand," says Gary Thiara, a California prune grower and Sunsweet's board chairman.

## Worldwide sales strategy

Sunsweet is the nation's leading marketer of dried plums as well as specialty dried fruit products and juices. The co-op markets prunes and raisins in 60 countries, generating about \$250 million a year in sales. During its 88 years, it's built a brand that's recognized by 85 percent of American households. But adverse bouts with Mother Nature since 2004 have sharply limited California's inventory of prunes, or dried plums, as they're also called.

Unprecedented back-to-back disasters have pounded growers and packers in the Golden State, which produces 98 percent of the nation's prunes and 70 percent of the world's supply. The California crop typically yields about 160,000 tons of the dried fruit. But unfavorable weather conditions in 2004 led to the worst prune crop in the state's history. Production dropped to just below 48,000 tons.

Sunsweet's members, who normally account for half of the state's output, delivered their smallest crop since 1918. Then, in 2005, another unfriendly spring followed by intense summer heat wrought another short crop.

The result? Increased expenses and reduced revenues for farmers and packers — and a record low supply of prunes to market into distribution channels.

"Some grocery shelves are bare of prune products, production lines are not utilized full time, many of our experienced teams must suffer through weeks of little or no work, and some consumers are looking to other products to fill their dried-fruit appetite and health needs," Sunsweet noted in its 2005 annual report.

## Short supply threatens retail accounts

The prospect of losing key retail accounts because of supply shortages sent shivers through Sunsweet. "With a brand, you pay a huge penalty if your product goes out of stock," says Lance. "There's a big cost to bring it back on to the shelf."

Thus, California's consecutive crop disasters paved the way for Sunsweet's foray into Chile. Sourcing all of its prunes in California appears "increasingly risky," Sunsweet has said.

If California had seen its normal production, says Lance, it would be harder to explain why the co-op would need to source dried plums from Chile. "But it's been easy for growers to understand that this is an attempt to protect their business," he says.

The co-op expects only modest volume out of its Chilean operations — 2,000 tons of dried plums at most, compared to the 75,000 tons Sunsweet sold in 2003, the last "normal" year.

It's too early to forecast the 2006 California dried plum crop, which will be harvested in September. But the co-op's move into Chile offers much-needed protection for Sunsweet.

"It's not our intention to abandon California as the primary source for the crop," Thiara says. "But we definitely need to supplement that position with production from other countries."

Already, Sunsweet sources dried fruits from the Philippines and Turkey, Thiara says. The co-op also works with partners in the United Kingdom, Germany, China and the Philippines to pack dried tree fruits for the Sunsweet brand.

—Catherine Merlo ■





# Dollywood East

*Roanoke Electric Co-op key partner in new, N.C. entertainment complex*

By Steven Johnson

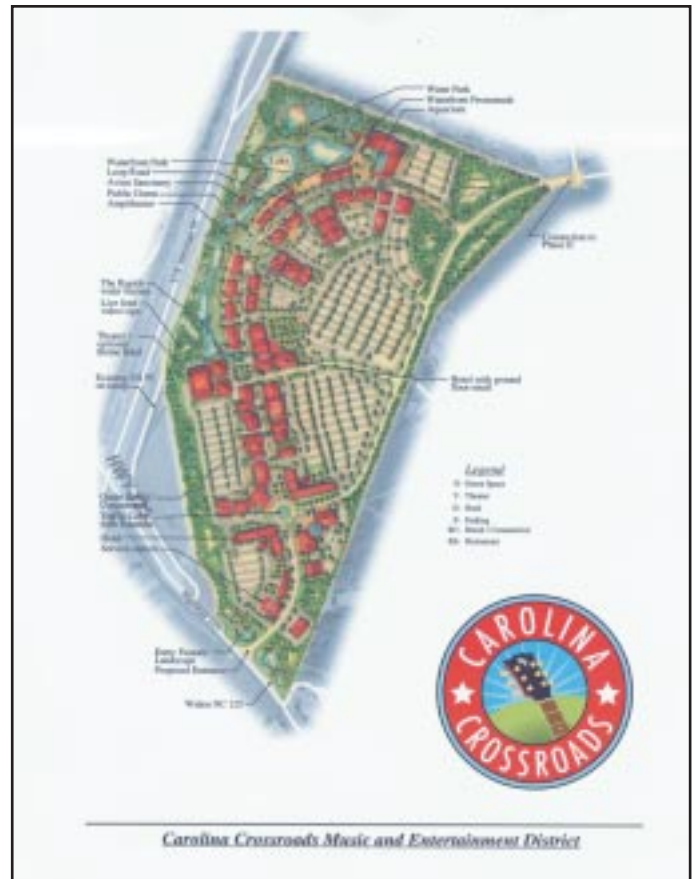
*Editor's note: This article is reprinted courtesy of "Electric Co-op Today," published by the National Rural Electric Cooperative Association. Some information also supplied by Angela Perez of Roanoke Electric.*

**W**hen it comes to rolling out the red carpet, Roanoke Electric Co-op is going to have a larger one than most. That's because the co-op is a key component in construction of a \$129 million project to lure celebrities, dignitaries and thousands of tourists to Roanoke Rapids, N.C., located in the northeastern part of the state near the Virginia border.

Randy Parton, brother of music and movie star Dolly Parton, is spearheading construction of the Carolina Crossroads Music and Entertainment District on about 800 acres served by Rich-Square-based Roanoke Electric Co-op.

Upon completion, the endeavor should rival music-oriented attractions and theme parks such as Dollywood, Dolly Parton's Tennessee resort, and Branson, Mo., and give an economic lift to an area best known for tobacco and textiles.

"It's the biggest thing we've ever had here," said Curtis Wynn, executive vice president and chief executive officer of



*The site plan for the Carolina Crossroads Music & Entertainment District*

Roanoke Electric. "It's going to be a huge opportunity for our system to grow."

A study by a research center at the University of North Carolina estimated the entertainment district will generate 12,000 jobs, add \$500 million to the regional economy and boost incomes by \$204.7 million in the next 5 years.

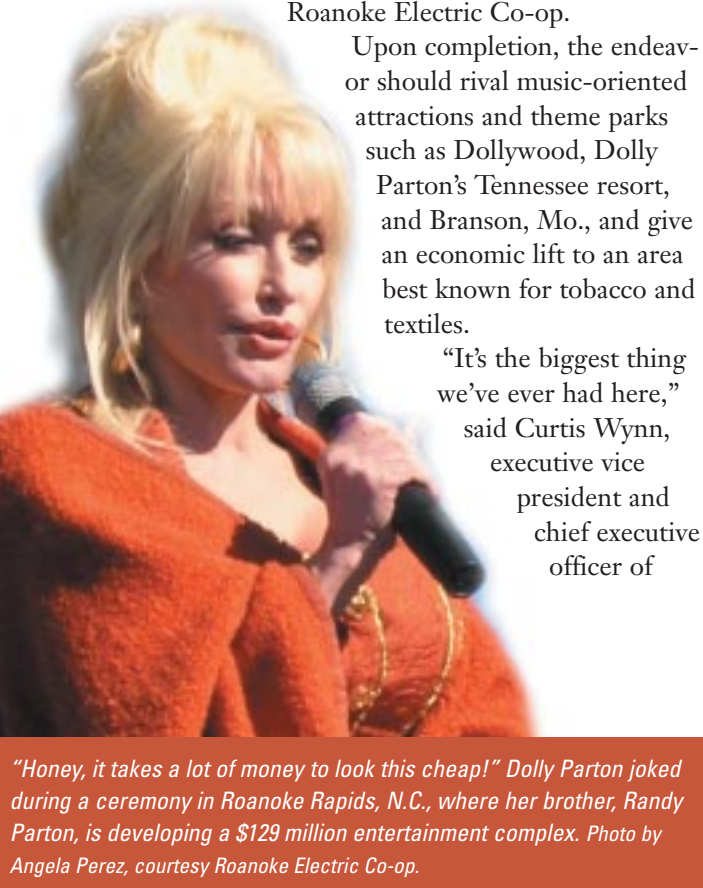
Initial construction began in November, when workers broke ground on the 35,000-square-foot, 1,500-seat Randy Parton Theater, with an eye toward a spring 2007 opening. The Nov. 11 kickoff, which included Dolly Parton and a host of country music stars, brought an estimated 10,000 onlookers to the site.

"The economic impact of this project is staggering, and will be felt for generations to come," said Jack Runion, chairman of North Carolina's Northeast Partnership Inc., the group that was instrumental in attracting Parton to the area. "This is an amazing venture that's getting strong support from all sides. We're proud to have played a part in putting it all together."

Developer George Ragsdale, who is working with Parton, predicted the venture "will turn this area into the foremost entertainment destination on the eastern corridor."

Wynn said the co-op will provide electricity to the entertainment district, and also has assumed a key role as a liaison between contractors and the project.

"They want to involve as many local parties with construction as possible," he said. "Our role is to interface with con-



*"Honey, it takes a lot of money to look this cheap!" Dolly Parton joked during a ceremony in Roanoke Rapids, N.C., where her brother, Randy Parton, is developing a \$129 million entertainment complex. Photo by Angela Perez, courtesy Roanoke Electric Co-op.*

tractors and developers that come in as work proceeds.”

That responsibility is likely to include co-op-led training classes and information distribution about particular aspects of the development, he said.

Roanoke Electric’s infrastructure should be adequate to power the first phase of the entertainment district, but construction of an additional substation is likely as the project grows, Wynn said.

Randy Parton’s team selected the site after working with North Carolina’s Northeast Partnership, a 16-county economic development organization. “Our territory is transforming from a rural agricultural area to more of a service and tourism environment, so this fits right in with that,” Wynn said.

Other businesses are likely to locate near the district, with plans on board for some hotels and restaurants to accommodate the tourist load, Wynn said.

“We’re positioning ourselves to work both on the electricity and economic development sides,” he said. “This will be very significant for us.”

Lori Medlin, executive director of

the Halifax County Tourism Development Authority, said the development should boost the growing tourism industry. “Roanoke Rapids and Halifax County are halfway between New York and Florida and we want this to be a destination, a reason for people to spend several days enjoying themselves with a focus on music and family entertainment.”

An additional study by Economic Research Associates of New York and Washington, D.C., verified that the entertainment district should attract the level of visitors required to make the area a major travel destination for the region and the state.

“Where today passers-by see green fields and pine trees, I see the beginning of a great transformation of our community,” said Roanoke Rapids Mayor Drewery Beale, a key player in formulating the plan that attracted the project. “I see economic opportunity and excitement like we’ve never seen before. This is a new beginning for us.”

The process leading to selection of Roanoke Rapids for The Randy Parton

Theater took place during several months. “We drove a lot of miles, visited many beautiful communities, and met a lot of great people in North Carolina’s Northeast Region,” Randy Parton said. “The pull of the Roanoke Rapids area, with its strong leadership, friendly and warm community and Interstate 95 travelers made for the perfect combination for this project.”

The Nov. 11 groundbreaking took place less than 5 months after Randy Parton inked a deal with the City of Roanoke Rapids, Roanoke Rapids Entertainment One and Blanchard & Calhoun Commercial to locate his theater in Roanoke Rapids.

Randy Parton has performed with country music greats including Tanya Tucker, Lorrie Morgan, Ronnie Milsap, Merle Haggard and George Jones. His “big break” came when Jean Shepard, the grand lady of the Grand Ole Opry, asked him to join her band. A successful singer, songwriter and musician, he began writing and performing shows at Dollywood.



## Roanoke Electric Co-op CEO Wynn honored for work with small & minority contractors

Curtis Wynn, CEO of Roanoke Electric Cooperative, was recently honored with an Innovation Award at a Glaxo-SmithKline (GSK) Supplier Diversity Awards Luncheon in Philadelphia. Wynn was recognized for leading GSK’s efforts to help themselves and other corporations and government agencies seeking to grant contracts to small, minority and women-owned businesses.

This “linking” project, known as the Triangle Area Buyer Supplier Network, which is located in the Durham and Research Triangle areas, gives GSK easy access to diverse suppliers who are seeking an opportunity to bid on and compete for construction-related contracts. As a developer and proponent of the Network, Wynn has had the opportunity to work with some of the most progressive-thinking, supplier diversity professionals in the business. “Given the right opportunities, these smaller companies bring unique values and skills to the table,” he said.

Typically, the businesses that Wynn is trying to help land

contracts go unnoticed in the market. “They often aren’t afforded the chance to let these large corporations know that they have valuable services to offer. That’s where our Network comes in.”

The Network, using Roanoke’s procurement software program, provides a gateway through which qualified, diverse suppliers can easily gain access to construction-related contract opportunities designated specifically for them to bid on.

“It’s a win-win situation,” said Wynn. “The big company or agency gets a larger, more diverse pool of contractors (which ultimately provides them with lower costs) and the smaller diverse suppliers get a chance to grow their businesses through increased opportunities from companies that are traditionally beyond their reach.” ■



Curtis Wynn, right, receives his Innovation Award.



# Co-op rendering operation yields biodiesel & more

By **Stephen A. Thompson**  
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**R**edwood Falls, Minn., is home to a co-op biodiesel plant with a difference. Most other biodiesel operations use soybeans or rapeseed as feedstocks. Northland Choice biodiesel, however, is made from a variety of agricultural feedstocks, including animal fat. It's manufactured not as a primary product, but as one tool among many to extract the maximum value from the products of America's only cooperative-owned rendering operation.

Northland Choice biodiesel is produced and distributed by Farmers Union Industries LLC, a corporation wholly owned by cooperatives: Farmers Union Marketing & Processing Association (FUMPA) and Farmers Union Enterprises, made up of the state Farmers Unions of Montana, North and South Dakota, Minnesota and Wisconsin. FUMPA was founded in St. Paul, Minn., by the North Dakota Farmers Union in 1929.

Its original purpose was to provide livestock farmers with marketing clout in dealing with large meatpacking firms. In 1947, it moved into rendering — the processing of animals that have died or are unfit for slaughter for food. This endeavor proved so successful that the co-op eventually got out of livestock marketing altogether.

The LLC was founded in July 1,

2005, and currently has two rendering complexes that operate as Central Bi Products: one in Redwood Falls and another in Long Prairie, Minn. Both rendering complexes provide full service rendering, with the majority of the raw material supply coming from beef and poultry slaughter plants.

In 1988, Farmers Union purchased a mink-food processing facility in St. Cloud, Minn., and in 1989, it launched

called Swheat Scoop, made from wheat by-products. It was acquired in 2002 with the purchase of privately held Pet Care Systems Inc.

Production of the pet litter is consistent with Farmers Union Industries policy of diversifying risk while finding ways to add value to agricultural products. "Our goal is to support agriculture in total," says Neece.

In line with that approach, another Farmers Union Industries business in Redwood Falls is Redwood Metal Works, which manufactures truck trailers, including those used by rendering operations. Another division, Midwest Grease, collects and recycles used restaurant fats.

In addition to providing another tool to help manage risk, biodiesel production promised a good return on investment. This is especially true due to Northland Choice having acquired a patent for the use of glycerin as a feed ingredient. Glycerin is a major byproduct of the process that turns natural fats and oils into biodiesel fuel.

Although a large facility was originally considered, the co-op board decided that a conventional, 30-million-gallon-per-year plant was too risky, especially since there seemed little prospect at the time of federal support for biodiesel prices. The co-op decided that the best approach would be a relatively small facility producing 3 million gallons annually, financed with cash-on-hand.

The initial decision to go ahead with the project was made in March 2004.



*Chuck Neece, director of research and development for Farmers Union Marketing and Processing Association, with promotional materials for Northland Choice biodiesel fuel. USDA photos by Stephen Thompson*

the Northland Choice brand of pet-food ingredients. Northland Choice sells to most major manufacturers of well-known pet-food brands.

## **Aggressive innovation**

The Farmers Union family pursues product innovation aggressively, says Chuck Neece, the co-op's director of research and development. A recent addition is a patented pet litter product

Finances got a boost in November of that year, when the cooperative received a \$500,000 Value Added Producer Grant (VAPG) from USDA Rural Development for development of farm-based renewable energy sources. By December, the facility was producing biodiesel fuel — the first biodiesel plant in the state.

### Small, transportable unit

Northland Choice's biodiesel facility differs with most other biodiesel plants that produce the fuel from vegetable sources in more than just its choice of feedstock. Most soybean and other vegetable-feedstock operations are invariably dedicated, stand-alone operations.

Farmer's Union biodiesel production, however, is carried out in a small portion of the large, modern rendering plant in Redwood Falls. The processing machinery occupies a space perhaps twice as big as a semi-trailer. It was

delivered skid-mounted as a unit by truck. If plans change, the entire processing unit can be removed and transported to another site relatively easily.

Neece is proud of the fact that the Farmers Union biodiesel operation was the first in Minnesota, and says that its success gave other cooperatives the confidence to go ahead with their own plans for biodiesel. FUMPA was an active supporter for the recently promulgated Minnesota requirement that all diesel fuel sold in the state contain at least 2 percent biodiesel.

Northland Choice's pioneering effort has encouraged other biodiesel produc-



*The biodiesel plant occupies a small part of the rendering facility outside Redwood Falls.*

ers to consider the use of animal fats. Neece says the brand could incorporate vegetable oils as well if demand outstrips supply. "This new technology helps both animal and soybean farmers," he says, "and that's what we're about." ■

## LO'L sales hit \$7.6 billion; co-op earns \$128 million

Land O'Lakes Inc. had net earnings of \$128.9 million for 2005, up sharply from \$21.4 million for 2004. Co-op officials said earnings were bolstered by a \$69.7-million after-tax gain from the sale of its 38-percent interest in CF Industries (a domestic fertilizer manufacturing venture). The 2005 sales of \$7.6 billion were down 1 percent from 2004's \$7.7 billion.

Overall, the company reported strong and improved performance in its feed, seed and agronomy businesses, as well as solid performance in its Dairy Foods value-added product categories. This positive performance was partially offset by losses in its Layers business and Dairy Foods manufacturing operations.

The company also reported significant progress on key strategic initiatives of paying down debt and building balance-sheet strength, portfolio management and building its branded business-

es. LO'L reduced total debt by about \$350 million in 2005 and ended the year with a significantly improved, long-term debt-to-capital ratio of 41.3 percent, compared to 51.9 percent at the end of 2004. It had strong liquidity, with \$521 million in cash-on-hand and unused borrowing authority. In the second half of the year, Moody's and Standard and Poor's each upgraded the co-op's financial ratings, with both agencies indicating their ratings carried a positive outlook.

LO'L sold its swine production assets and its 38-percent ownership in CF Industries Inc., generating \$385 million in cash from asset dispositions in 2005.

Among other 2005 highlights:

- In dairy foods, the launching of Land O' Lakes Light Butter with Canola Oil and the introduction of a new FlavorProtect wrapper for the compa-



- ny's flagship Land O' Lakes butter;
- In feed, the launch of such diverse new products as Cornerstone full-growth milk replacer; RangeLand all-weather beef mineral and Ultium Competition Horse Formula.
- In seed, the rollout of Roundup Ready(R) Alfalfa, developed in 10-year collaboration with Monsanto.

In other LO'L news, the co-op announced plans to close its Greenwood, Wis., cheese manufacturing facility. The decision came after considerable study of market trends and plant capabilities, said Executive Vice President Alan Pierson. "There is declining milk production in the upper Midwest. Given these market conditions, it is not feasible to competitively operate our Greenwood facility." The closing will affect approximately 30 employees. ■



# Mastering Co-op Management

*Can managers really build healthy businesses based on co-op principles and values? How is success measured?*

**By Jane Livingston**

*Editor's note: Livingston is a freelance writer based in Maine who specializes in co-op issues. Contact her at: mejane@gwi.net.*

**A**s senior project manager for the 100-year-old Scottish Agricultural Organization Society, Bob Yuill works with 80 member cooperatives that have combined annual sales of \$2.8 billion, accounting for well more than half of Scotland's annual \$4 billion in total ag sales. His

job is to ensure that the Society meets its purpose: "To strengthen the profitability, competitiveness and sustainability of Scotland's farming, food and related rural industries and communities through the development of cooperation and joint activity."

It's a challenging, complex job, so Yuill was eager to learn more when he first heard of the Master of Management — Cooperatives and Credit Unions (MMCCU) degree program.

"I knew I didn't want the standard program based on profit maximization," Yuill says. "Even most of the co-op education courses I'd discovered seemed to be the basic MBA with a co-op module attached at the end. That doesn't work. You're not using the fundamentals of cooperation as the groundwork for building the business. If you start with the premise of maximizing return on capital, you will always get to the wrong conclusion."

Yuill's boss had already signed the

Society up as a member of the Cooperative Management Education Cooperative (CMEC), which produces the MMCCU accredited degree program (the only one of its kind in the English language). Tom Webb manages the program from its home base at St. Mary's University in Halifax, Nova Scotia.

## International scope

CMEC has more than 55 members that represent every sector of cooperative enterprise. They are located in Canada, the United States, the United Kingdom, Ireland, Finland and Oceania. Included are such well-known names as Co-op Atlantic, Co-operators



*The scenic Emilia Romagna region of Italy is one of the "co-op epicenters" the management class tours. Photo by, and courtesy of, Jerry Peek. To see more of Peek's work, visit: [www.photomondiale.com](http://www.photomondiale.com).*



*The headquarters building of the Mondragon Cooperative (MCC) in Spain, another area the class tours due to the large concentration of co-ops there. Photo courtesy MCC*

Insurance, Credit Union Central of Canada, and the gigantic Co-operative Group in the U.K.

Credit Union National Association, the National Co-op Bank and the National Cooperative Business Association in the United States are members, as are the Co-operative Federations of New South Wales and Victoria (Australia) and the New Zealand Co-operatives Association.

Faculty and students enrolled in the MMCCU program are scattered widely, too. After an initial, week-long orientation at St. Mary's in Halifax, they telecommunicate with one another from home and at work. They also go on at least one study tour together, to co-op 'epicenters' such as Mondragon, Spain, or Emilia Romagna, Italy. The complete course is rigorous. It requires 144 weeks of classes, assignments and a major project linked to the sponsoring employer co-op/organization.

"We operate the program on two premises: One, that bankrupt co-ops don't meet their members' needs; and, two, that if there isn't any difference between your co-op and a regular busi-

ness, no one really needs you," Webb says. "It's the combination of these two that drives the course.

"We keep asking the question over and over: 'This is how it's done in a regular business. How is it done in a co-op or credit union? How would you design a store differently? How would you treat your workers differently? How would you do the accounting or

the marketing differently?'

"I dislike it when I hear people say, 'Co-ops aren't about making money,'" he continues. "It's dishonest. Otherwise, they're bankrupt. The real difference is about the purpose of the business and who gets to decide how the surplus is used for the good of members and the community. The problem is, we either think about it from a consumer's point of view — 'I want to pay the lowest cost' — or from the producer's: 'I want to get the highest price.' This doesn't reflect the cooperative concept of interdependence."

### Unique curriculum

As the MMCCU curriculum was being designed, an accountant for Co-op Atlantic asked Webb what they were going to do about teaching accounting. Webb said, "Accounting is accounting."

"So you've written us off as bean counters, eh?" the accountant replied. "Well, your program won't achieve what you want it to."

Webb explained what he meant this way: "You're the manager of a co-op and I'm the chairman of the board. You have four goals, but I measure you only on one, not the other three. You'll do your best on those others, but you're really going to focus on the one. So in three years, how will you know how successful you've been on your other three goals?"

The trouble, says Webb, is that co-ops can't measure their success with the accounting tools that exist today. "The job of an accountant is to show how to use our resources to achieve our goals. But we don't do it. We don't account for our other bottom lines. Where are the tools that let a co-op know if we've balanced our multiple bottom lines?"

Its challenges such as these that the first class of MMCCU students has been grappling with for two years.

Yuill is in the home stretch.

*"Most of the co-op education courses I'd discovered seemed to be the basic MBA with a co-op module attached at the end. That doesn't work."*

*— Bob Yuill*



Mikel Lezamiz (far left), program director of the Mondragon Cooperative Corporation's Management Education Center, outside the center's facility in Otalora, Spain. With him are MMCCU Program Coordinator Tom Webb (third from left) and class members and faculty. Photo courtesy Tom Webb





*David Cudmore (right), CEO of Canada's Scotia Gold co-op, explains the workings of storage facilities that permit apples to be stored for up to 10 months. The co-op, which came close to failing before righting itself, provided valuable lessons for visiting candidates in the co-op management class. Photo courtesy Tom Webb*

He'll complete the courses this spring and earn his Master's degree next spring. How have he and the Scottish Agricultural Organisation Society benefited from his participation? He lists several concepts that he's introduced to his member-owners, which have helped them improve the Society's operation.

"The organization's awareness of these areas of opportunity has grown significantly," he explains. "But even more fundamental is that we never really had the confidence to base what we do on co-op principles. This course gave us the confidence to say, 'This can be done.' Now, we recognize that we are in a unique place in the market. We're much more focused on what we are."

### **Internal marketing**

Yuill refers to this as "internal marketing," where the employees and members of the organization internalize the co-op principles and core values. This in turn enables everyone to be part of 'marketing our cooperative advantage' (or MOCA, a key concept of the MMCCU program, and one which

Webb helped develop).

"As a result," Yuill emphasizes, "our effectiveness and influence as an organization is growing, on the basis of people's trust in what we say. Our relationships with our members, clients, and other stakeholders are much clearer. And because we have greater clarity in our approach, the solution that's conveyed by cooperation is more readily understandable."

When he talks to someone in government now, that straightforwardness enables Yuill to sell the co-op solution more easily, whether he's addressing a civil servant, a minister or a member of parliament.

"They're more supportive," he says. "The agricultural strategy developed 5 years ago didn't refer to co-ops, except in broadest terms. The new one, to be published this spring, we are sure, will be much more focused on the cooperative solution."

### **Building strong leadership**

Steve Lepp is general manager of the Pioneer Gas Co-op in Alberta. Incorporated in 1970, the co-op's 350

members are mostly farm families who use the gas for heat, water pumping and other needs within the area's diversified agriculture sector. He says the fact that most of the MMCCU program is pursued from the students' home communities hasn't led to feelings of isolation.

"After we get face-to-face at orientation for a week, we pretty much know everybody," he says. "It's interesting that, although we're nothing at all alike and come from different types and sizes of co-ops, many of our problems and issues are identical."

Lepp enrolled in the program because he knows his co-op will need good leadership in the years ahead. He doesn't mince words about it: "We are one of 60 similar co-ops in the province. By now, everyone in

Alberta who wants gas has it. We've achieved that goal; our growth is done.

"So how does the co-op keep going, without growth? That's a management challenge, and that's where this course has come in handy. It's shown us some options we have in working cooperatively with others... Re-engaging our members is a huge part of what we need to do, not just give good service for a fair price." For example, the co-op is now looking at several alternative energy technologies.

Lepp says he's been able to apply "pretty much everything they've thrown at me" in the Master's program. One change he made was to open the door more widely to employee innovation. During a study tour to Mondragon, he was impressed by their commitment to innovation.

"If an employee comes up with an idea, they'll haul you right into the process," he says. "Now, we explain to members all the ways the money they invest is reinvested in the employees and the community. We also emphasize that because they are owners of the sys-

*continued on page 34*



Hank Soule (above), general manager of the Portland (Maine) Fish Exchange, has developed a \$3 million plan to improve the efficiency of the operation, where about 150 fishing vessels unload. Photos courtesy FCC

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## FCS report sees expanding rural opportunities

While the number of farmers and communities that rely on agriculture for their economic well-being have declined, the future of U.S. agriculture remains bright. Future possibilities are expanding, not contracting, according to *Farm Credit HORIZONS*, a comprehensive, nationwide-research study released by the Farm Credit System, the nation's producer-owned farm lending network. Facing a rapidly changing global marketplace and structural change, American farmers, ranchers and rural entrepreneurs need reliable access to a broad range of financial services and expertise in order to capitalize on emerging growth opportunities, the report finds.

"Today's rural entrepreneurs, including farmers and ranchers, are on the leading edge of a global agricultural economy," says Wayne Lambertson, a Maryland farmer who serves as chairman of the Farm Credit Council board of directors. "As this research makes clear, rapid

change requires greater flexibility on the part of the institutions that U.S. agriculture and rural America rely on. Yesterday's ways of doing business simply will not work to ensure the continued success of agriculture and America's rural communities."

The report describes the need for policy solutions that will help farmers, rural businesses and rural communities succeed in the emerging marketplace. The HORIZONS project has helped identify how incremental changes to the Farm Credit System can provide agriculture and rural America greater access to additional capital that can be used to expand agriculture's contribution to rural prosperity.

The HORIZONS report contains the following key findings:

- Farmers are diversifying their business interests both within and outside agriculture. The overwhelming majority, but especially small-sized operations, rely on off-farm employment to stay in agriculture.
- Farmers depend on a wide range of businesses that may or may not be owned by farmers, and they may or may not be located in a rural community; but all are essential to the economic viability and quality of life for farmers.

- It is becoming increasingly difficult to define a "rural" community solely by population or traditional qualities.
- Regional collaboration, public-private partnerships and coalitions of investors are key to the future of many rural communities. To create jobs, attract new business and foster an environment for future economic development, agriculture and rural America will need to find new ways to reinvest farm real estate equity.
- As innovative business owners, today's rural entrepreneurs, including farmers, ranchers and produc-



Bill Miller plans to build rental housing for teachers in Tahoka, Texas. He and Soule (above) are profiled in FCC's "Horizon" report.

ers, will continue to need access to capital, essential infrastructure and business support services for that entrepreneurial engine to continue to spur rural economic growth.

Copies of the HORIZONS final report may be downloaded from: <http://www.fchorizons.com>. To request a printed copy, contact the Farm Credit Council by mail: 50 F St., N.W. Washington, D.C. 20001.



## MD/VA Milk Producers buy Giant Foods milk plant

Maryland & Virginia Milk Producers Cooperative, Reston, Va., has agreed to purchase Giant Food's dairy processing plant in Landover, Md., effective March 25, 2006. In addition to the plant and 11 acres, Maryland & Virginia secured a long-term supply agreement to provide Giant Food stores with fresh milk. When the deal is finalized, Maryland & Virginia's combined fluid milk processing business will have more than \$270 million in total sales and nearly 800 employees.

Currently, the Giant Landover plant processes about 21 million pounds of milk per month, caters to 191 grocery stores and employs 97 people. Maryland & Virginia, which had 2004 revenues of \$821 million, has been the sole raw milk supplier there for more than 30 years, so few operational changes are expected.

"Maryland & Virginia has a vested interest in making sure consumers have a fresh, local milk supply; the Giant Landover operation

is a perfect complement to our existing fluid processing business and our local members supplying the milk," said Jay Bryant, the cooperative's general manager, "adding that the co-op has served the D.C. metropolitan area with milk and dairy products since 1920.

"The co-op has been in the fluid milk business for decades and is committed to the plant and the dairy farmers," said Bill Holmes, executive vice president of Giant Food. "Giant con-



*The Maryland & Virginia Milk Producers co-op is buying the Giant grocery chain's milk plant in Landover, Md.*

sumers will continue to enjoy the same fresh quality milk that they have come to expect when shopping at Giant."

The plant will be operated as Marva Maid of Landover, the name of the cooperative's private milk brand, which is already available in northern Virginia. The plant will continue to produce Giant's private-label milk, according to the cooperative's new supply agreement with Giant Food.

Owned and operated by 1,500 dairy farm families from Pennsylvania to Georgia, Maryland & Virginia is a milk marketing and processing cooperative providing consumers throughout the Mid-Atlantic and Southeastern United States with fresh milk and dairy products. The co-op also owns and operates two fluid processing plants, Marva Maid in Newport News, Va., and Maola Milk and Ice Cream Co. in New Bern, N.C., a manufacturing plant in Laurel, Md., and an equipment warehouse business in Frederick, Md.

## Legal Corner *continued from page 15*

Capper-Volstead Act allows farmers and cooperatives to engage in collective discussion and make agreements that impact price, the law does not protect such agreements with other parties. The Schuggs argued that UDA entered into an illegal agreement with a non-cooperative milk broker as part of its scheme to limit supply.

The Schuggs based their claim on the testimony of a witness who wore several hats. She was co-owner of the milk broker, the manager of a California dairy cooperative and a director representing the California cooperative on the board of a regional milk marketing association that agreed to participate with UDA in the milk-withholding effort.

The court notes that at the time it was developing the withholding strategy, UDA applied for membership in the

regional association. The witness testified that during the meeting of the regional association board to consider its application, UDA asked for assurances that milk being marketed by the broker for independent Arizona producers wouldn't be sold to Arizona bottlers. The witness testified that UDA was assured the milk would be marketed through the California cooperative and not be sold to Arizona bottlers.

While the Schuggs argued that this evidence suggested UDA entered into an improper agreement with the broker, the court disagreed. The court points out that the broker was not a member of the regional association and the testimony merely indicates that the broker sold to another cooperative, which could legally be a party to anti-competitive marketing agreements with UDA. The court held that this is insuf-

ficient evidence from which a reasonable person could find UDA violated the antitrust laws. Technically, the appellate court upheld the trial court's ruling that the Schuggs' argument was too weak to even send it to the jury for deliberation.

So, on the antitrust issues, the court determined neither UDA's inquiry as to how the broker intended to market independent producer milk, nor the sales agreement between the broker and another cooperative that was legally engaging in joint supply management with UDA, constitutes an illegal agreement to restrain trade between UDA and the broker. If the court had found an agreement between UDA and the non-cooperative broker illegally restrained trade, the court probably would have held that the agreement was not protected by Capper-Volstead. ■

## Stacyville Cooperative Creamery merges with Foremost Farms USA

Cooperative Creamery in Stacyville, Iowa, merged with Foremost Farms USA on Jan. 1. Stacyville's members approved the merger on Dec. 12, whereby Foremost Farms will assume the equity investments of all Stacyville members. Stacyville Cooperative, in Mitchell County in north-central Iowa, formed in 1916 and has 66 members whose farms border the western edge of the Foremost Farms membership area.

"Our members' equity in Stacyville Co-op Creamery will be matched dollar for dollar by Foremost Farms," Stacyville Manager Randy Stephenson said. "Foremost Farms is one of the most financially stable cooperatives in

the U.S. dairy industry, with a diversified product base and comprehensive member services. We are proud to be joining forces with a cooperative that is fiscally responsible and recognizes our members' investment."

Foremost Farms Chairman Ed Brooks, Reedsburg, Wis., said, "We welcome the opportunity to grow our milkshed in Iowa, and look forward to working with the new membership." Foremost Farms, headquartered in Baraboo, Wis., recently marked its 10th anniversary. It



Gene Nyhre (left), chairman of Stacyville Co-op, exchanges congratulations with Mike O'Brien, director of procurement for Foremost Farms, following the merger vote. Photo courtesy Foremost.

operates 20 manufacturing facilities and one milk transfer station for its 3,600 dairy farmer-members. Its brands

## The Edge *continued from page 7*

be small as you ramp up, and that it will be a couple of years into deployment of the product before you see the benefit.

"We're not constrained by a mentality of 'we've got to push this software out the door, even though it's not ready yet, because we've got to meet a revenue target.' We can take a long-term view. Members belong to our co-op because they need mission-critical software to run their businesses. They are not all that concerned about the return on their equity level in NISC and what rate of return they will get on the equity."

NISC directors understand this business cycle because most of them have been through it a couple of times. They've also seen the "melt down" of many competitors in past 10 years, Dosch says. "NISC kept clicking along, growing and adding new products while so many others were falling."

Since members are more concerned with service than double-digit returns on equity, the co-op's margins are modest in most years, typically \$1.5 million to \$2.5 million. Margins are allocated back to member-owners on a prorated basis, with 21 percent paid in cash.

The co-op board has 14 members, elected by regions. Each region nominates and elects its own director.

## Economy of scale

Another key co-op advantage is the economy of scale derived from utilities with similar needs joining forces. For example, the billing products NISC developed cost \$13 million. It would have been cost-prohibitive for most of its individual members to shoulder that cost alone. But spreading the cost out among hundreds of members makes it very affordable.

Co-ops have traditionally also enjoyed a greater degree of customer loyalty, because the members have a vested interest in the business and have a say in its governance through the election of directors and participation on advisory committees.

"The loyalty factor is still there, but less so today than 20 years ago, when customers could recall when and why the cooperative was formed. It was a huge factor then. Today, with the next generation, they don't have the historical background of the organization."

The biggest disadvantages of a co-op, from a management viewpoint, is the need to serve many masters, since every customer is also an owner. "We are not just a vendor to these utility systems; they all own a piece of us and thus have a louder voice than they would in a non co-op. ■

## Technology concerns

Staying ahead of the technology curve is, of course, an ongoing task. To help NISC do so, it relies heavily on its Innovations Group — a panel of tech-savvy employees tasked with tracking emerging technologies and how the co-op can use them.

A big concern recently involves the Blackberry patent-infringement lawsuit and the impact its precedent could set for intellectual property rights throughout the industry. For the first time, NISC is now taking out patents on certain aspects of new products.

"We're having to become more defensive," says Dosch. "You have to beware of 'patent trolls' — patent owners who often don't produce a product, but are just out to generate funds from a patent that they have no intention of ever using themselves."

It's rather like walking through a field of landmines, he continues. "My biggest concern is that this type of activity can hinder innovation. Software companies are now scared to death to put tens of millions of dollars into product R&D, then find a patent troll somewhere has a patent for that process and can throw up road blocks." ■



include GG Golden Guernsey Dairy and Morning Glory.

### **Johanns featured speaker at Co-op Summit in D.C.**

Agriculture Secretary Mike Johanns will be the featured speaker at the National Co-op Summit, an unprecedented gathering of up to 400 cooperative business leaders May 3 in Washington, D.C. USDA has vast influence over cooperatives of all types, including utility, housing and farmer

co-ops. USDA Rural Development is the only federal agency with a cooperative services office, which provides co-op research, education (including *Rural Cooperatives* magazine), technical assistance, statistics and development. Johanns will be the Summit's lunch speaker.

Earlier in the day, former Congressman Glenn English, now chief executive of the National Rural Electric Cooperative Association, will provide the keynote address. Other confirmed

speakers include Pauline Green, former European Parliament member and current head of Co-operatives UK, and Stephanie McHenry, board chair of the National Cooperative Bank.

Breakout sessions will cover the hottest co-op issues, including: marketing, ethics and governance, finance and equity, co-op conversions, domestic and international co-op development, cross-sector issue alliances, and co-op solutions for disaster recovery. The Summit will conclude with a panel of co-op sen-

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## **Southern Exposure** *continued from page 17*

which is sold globally. Westnut is the co-op's industrial brand, sold to customers such as Kraft, Godiva, Planters, Diamond, Emerald Nut and Sara Lee. The co-op typically exports about 60 percent of its hazelnut supply, although this year it's the domestic market that's buying 60 percent of the co-op's crop.

HGO has witnessed a 20-year decline in hazelnut acreage. Some loss may be due to urban sprawl, but most stems from a tree-killing disease called Eastern Filbert Blight. The disease has been slowly diminishing Oregon's hazelnut production, especially in the Willamette Valley. So far, Johnson says, Eastern Filbert Blight has taken out about 1,000 acres of hazelnut trees, leaving 28,400 acres in Oregon.

### **Meeting rising demand**

At the same time, worldwide hazelnut demand is rising. As a result, prices are reflecting the tight global supply and the increased demand for hazelnuts, used in candies and other confectionaries. For the 2005-06 season, U.S. hazelnut growers are receiving their highest prices ever: \$1.15 a pound. That's a sharp increase from 2004's 70-cent per-pound price, or the average of 37.5 cents per pound received from 1984-2004.

"The need to supply our customers has grown significantly," Johnson says. "We want to continue to serve our markets, so we've been looking for [hazelnut] sources outside the U.S."

HGO has considered several options

to meet customer demand, including the possibility of buying hazelnuts from Turkey, the world's largest hazelnut producer, and from Spain. But Turkey has had two consecutive years of poor production, further limiting the world's hazelnut supply.

Moreover, the Oregon co-op doesn't believe it can gain much added production by increasing its U.S. membership, even though its prices have averaged 18 percent above the hazelnut cash price since its 1984 inception. "In the U.S., only a certain percentage of people want to be co-op members," says Johnson. "While our membership in Oregon remains open, we see a real advantage to balancing our supply with our existing plant capacity by sourcing product from members in Chile."

After being contacted by a Chilean hazelnut farmer at a conference in Spain last fall, Hazelnut Growers of Oregon discovered a receptive mentality toward co-ops in the South American country.

"They're good farmers, but not necessarily good marketers," Johnson says. "So, if they can be part of a company with greater expertise that can provide long-term profitability, they're open to it."

### **60,000-ton potential**

In April, members of the board and management of the cooperative are slated to travel to Chile to meet with growers and tour the production area. The

co-op hopes to sign up more members at that time.

Because the Chilean hazelnut industry is still young, "we don't anticipate too much production this year," Johnson says. "I'd be surprised if they produced 20 tons."

But the co-op does foresee promising prospects. Its grower contacts in Chile believe the industry can reach 60,000 tons of hazelnut production in the next 20 years. Already, Hazelnut Growers of Oregon has set up a Chilean entity in Santiago with its first Chilean member as its agent. That should foster closer ties as well as more local control, Johnson says.

"Initially, their production will be shipped to us," says Johnson. "But what's best is to have a processing plant close to production. I think eventually there will be."

In the meantime, plenty of questions remain: Will Hazelnut Growers have a separate pricing pool for its Chilean membership? If the co-op should decide to build a plant in Chile, how would it be financed? If Chilean members' production gets big enough, will they earn a seat on the board of directors?

The co-op is still exploring these issues. "We have to look long-term at what's best for the co-op as a whole," Johnson says. "But we believe there are a lot of blue skies ahead for the hazelnut industry." ■

ior leaders discussing the top challenges and opportunities facing the community.

"The Summit will bring together representatives of every type of co-op from across the nation," says Paul Hazen, president of the National Cooperative Business Association (NCBA), which is organizing the Summit with help from the nation's leading cooperatives and their trade associations. The event will also mark NCBA's 90th anniversary. "Attendees will come away with the sense that they are part of something much bigger than their co-op or even their sector. The Summit also will help them be more successful and reveal how co-ops can improve their communities."

The Summit will take place in the Ronald Reagan Building and International Trade Center in downtown Washington.

The May 3 date dovetails with other co-op events in Washington, including the Cooperative Hall of Fame Banquet and Induction Ceremony and key meetings for electric, housing and student co-ops and credit unions. NCBA's annual meeting will follow the Summit by one day.

For additional information or to register on-line, visit: [www.ncba.coop](http://www.ncba.coop). Media interested in attending should contact Art Jaeger at 202-383-5462 or [ajaeger@ncba.coop](mailto:ajaeger@ncba.coop).

### **Iowa turkey co-op to market for Norbest, Moroni co-ops**

Sales and marketing operations for Nebraska's only turkey processing plant and its widely known Norbest label will move from Utah to Iowa, effective May 1. The *Omaha World-Herald* reported that the Nebraska Turkey Growers Cooperative and its sister cooperative, Moroni Feed Co. in central Utah, are merging sales efforts with processed meat, poultry and cheese manufacturer West Liberty (Iowa) Foods LLC. Iowa Turkey Growers Cooperative is majority owner of West Liberty Foods. Norbest products will continue to be processed by the plant in Gibbon, Neb., which employs 250 people, and by two plants in Utah that

employ a total of about 800 people.

About 22 people selling and marketing Norbest products out of Midvale, Utah, will be laid off or offered new positions in Iowa. Paul Reed, director of marketing for the Norbest label, told the *World-Herald*. The Norbest label was created by the Northwestern Turkey Growers Association, founded in 1930 in Utah. Members of that first



cooperative have changed over the years, and the organization has evolved into Norbest Inc. Marketing, based in Utah for 75 years.

Norbest products are sold across the United States as well as in Mexico and the Caribbean, Middle East and the Pacific Rim.

Norbest and West Liberty will benefit from the coming change, Reed said. West Liberty gains the national Norbest brand familiar to grocery shoppers and Norbest gets an expanded ability to produce sliced luncheon meats and other products, he said.

### **Dairy Development Grant awarded to Accelerated Genetics**

Accelerated Genetics, Baraboo, Wis., has been awarded a Dairy Development Grant by the state of Wisconsin to develop a handheld computer software program for reproductive management on dairy farms, otherwise known as the Accelerated Synchronization Assistance



*Accelerated Genetics is developing software for dairy breeding records that can be accessed on handheld computers.*

Program (ASAP). Funds are being provided under Wisconsin's Local Dairy Development Pilot Grant program, which helps small dairy producers and cooperatives develop new strategies, products or ideas.

Accelerated Genetics says it demonstrated that ASAP technology can dramatically improve reproduction performance and quality of life for Wisconsin dairy producers, and that the co-op has the technology, network and human resources to succeed with the project. The co-op says ASAP will fill a tremendous need for simplified reproductive management by providing an easy-to-use, versatile record-keeping system. ASAP is already assisting producers in breeding their cows on time and increasing pregnancy rates.

Co-op members already using the ASAP systems praise it for helping them maintain better records for shots, breeding and herd health checks. Portability means they can carry it everywhere and synchronize heifers. The grant was awarded for development of ASAP within the state of Wisconsin. Accelerated Genetics has already made a major investment in the program from software design, personnel, employee and customer training, ASAP kit hardware and in advertising. Accelerated Genetics is a global provider of bovine genetics and research, reproductive services and solution-based animal health products.

### **CoBank earnings, patronage up in '05**

CoBank reported 2005 year-end earnings of \$298 million, an increase from \$275 million in 2004. This represents an 8-percent increase that was driven largely by a lower provision for credit losses, reflecting improved credit quality and a lower level of losses on debt prepayments, which more than offset a decline in net interest income.

"CoBank has once again closed the year with higher earnings than ever before," says Douglas D. Sims, CEO of CoBank. "We also increased our capital, maintained strong credit quality, continued to improve the effectiveness of core business processes and expanded



our relationship with other Farm Credit System institutions.”

For 2005, CoBank will pay a patronage distribution of \$168 million to its customer-owners, of which \$116 million will be in cash and the remainder in stock. Patronage represents a 15.8 percent return on average invested capital for customer-owners. “Our success is built on their (customer) success, and we share our financial success with our customer-owners through patronage,” Sims said. For the past 5 years, CoBank customer-owners received an average of \$151 million per year in cash as a result of their investment in the bank.

CoBank’s capital remained stable at \$2.9 billion, and assets increased to \$33.8 billion from \$30.9. Total loans and leases outstanding to U.S. and international customers increased to \$26.3 billion, from \$24 billion at the end of 2004. This growth was primarily due to increases in agribusiness loan volume, lending to Farm Credit associations and loans to rural energy customers.

### **Countrymark secures financing for clean-diesel fuel complex**

Indianapolis-based Countrymark Cooperative, Indiana’s largest supplier of biodiesel fuel, has secured a \$50-million line of credit to complete construction of a \$45-million, clean-diesel fuel complex. Countrymark will also use some of the financing to upgrade existing facilities. The financing was arranged through Chicago-based LaSalle Bank NA. Countrymark supplies roughly 85 percent of the state’s biodiesel, most of which is used for agricultural applications. Countrymark hopes more municipal and school bus systems start using the technology.

“We see tremendous air quality benefits,” says CEO Charlie Smith. “If you think about the average school kid waiting in line, breathing diesel air emission, and then think about inhaling biodiesel air, there is a significant difference.”

### **Barth to lead Dakota Pride**

Leland “Judge” Barth, a former marketing specialist with the North Dakota Wheat Commission and the state

Agriculture Department, has been hired as the first executive director of the Dakota Pride Cooperative. Dakota Pride was formed in 1998 by North Dakota Farmers Union members. It markets specialty crops grown by co-op members based on buyer specifications. Barth will oversee day-to-day operations and market development, and also will work with producers. “This will take us to the next level in connecting growers to end users,” said co-op President Richard Schlosser.

### **DFA expands stake in Keller’s Creamery**

Dairy Farmers of America Inc. (DFA) has acquired all of the ownership interests in Keller’s Creamery LP, the nation’s second largest manufacturer of butter for retail, food service and industrial uses. Keller’s was formed in 2000 as a joint venture between DFA and Frank Otis and Glenn Millar, the former management team of Sodiaal North America Corporation. DFA now becomes the majority owner of the partnership in the butter business and will oversee the management of Keller’s warehouse and office operations in Harleysville, Pa., and the butter processing plant in Winnsboro, Texas.

Keller’s Creamery has been producing dairy products for more than a century. In 2003, the Texas plant churned



cream into more than 100 million pounds of dairy products, including premium and bulk butter, butter oil, nonfat dry milk powder and other dairy ingredients. Mark Korsmeyer, president of DFA’s American Dairy Brands (ADB) division, will manage Keller’s marketing, sales and manufacturing functions.

### **USDA awards \$21 million for energy projects**

Agriculture Secretary Mike Johanns has awarded 14 grants and one loan

guarantee totaling more than \$21.6 million to increase energy production or improve electrical service and energy efficiency in communities in five states. “Increasing domestic energy production, including the development of farm-based energy sources, helps to strengthen the economy of rural America and reduces our dependence on imported oil,” Johanns said while in Ames, Iowa. “These funds will also help to promote energy efficiency by improving our existing electrical infrastructure.”

In Clinton, Iowa, a USDA Rural Development Renewable Energy Systems loan guarantee of \$3.22 million will be used to partially fund construction and operation of a biodiesel production plant with a yearly capacity of 10 million gallons (see page 35). The plant will use over 7 million bushels of Midwestern-grown soybeans per year. It is the first production facility to be located in a new, 233-acre industrial park in Clinton.

Pioneer Electric Cooperative in Greenville, Ala., will receive \$855,000 under the High Energy Cost Grant program to install energy-efficient heating systems and appliances and to weatherize the homes of low-income customers, cutting energy costs by as much as 40 percent. The Alaska Village Electric Cooperative will receive a grant of \$1.15 million to construct a wind turbine in the fishing community of Hooper Bay, reducing the demand for diesel fuel for electrical generation by 24 percent.

The Sacred Power Corporation will receive \$1.9 million to provide hybrid solar power stations to individual homes on the Navajo Reservation in the Cameron, Ariz., area that have no electrical service and currently use gasoline generators. Other grant awards will be used for hydro project repairs and electrical service improvements. The grants are awarded under a USDA Rural Development program intended to upgrade service and reduce energy costs in communities where the cost of power is at least 275 percent of the national average. A complete list of the grant recipients is available at: <http://www.rurdev.usda.gov>. ■



## From the archives of Rural Cooperatives and its predecessor magazines

### 50 Years Ago...

From the April 1956 issue of *News for Farmer Cooperatives*

#### Florida Citrus Co-ops Look to Exports

"A group of Florida citrus men (mostly co-op representatives) recently made a 10-day tour of European markets. This trip was unusual for several reasons. It was made in the midst of the busy citrus season, not during the usual summer holiday. This afforded an opportunity to witness the sale of competing fruits in the markets of Europe. Furthermore, this trip represented a new approach to expanding markets via an industry committee — a cooperative approach." Participants included representatives from Florida Citrus Mutual, Waverly Growers Cooperative and Seald-Sweet, among others.

#### Challenge to Marketing Cooperatives

Can marketing cooperatives keep pace with the rapid rate of changes occurring in the business world? Yes, says Joseph Knapp, administrator of the Farmer Cooperative Service. "But they cannot afford to allow themselves the luxury of complacency." He examines the question against a backdrop of a nation "enjoying unparalleled prosperity" while farmers "struggle with a cost-price squeeze." Knapp says marketing co-ops must be able to affirmatively respond to four questions: Can they reduce farmers marketing costs? Can they help farmers find and develop markets? Can they help farmers improve their bargaining power? Can they help farmers increase their shrinking returns?

#### Should Co-ops Rotate Directors?

"Periodic rotation of directors can inject new enthusiasm, new ideas and new perspectives on old problems. Some proponents of rotation advocate specific bylaws stipulating that a director may not succeed himself for more than a specified number of terms in office. But others feel that arbitrary termination of board membership may cost the cooperative dearly. It is one thing to be able to eliminate unwanted directors, but quite another to force a good man out of office. Automatic rotation runs this risk.



April 1956 issue.

### 30 Years Ago...

From the April 1976 issue of *Farmer Cooperatives*

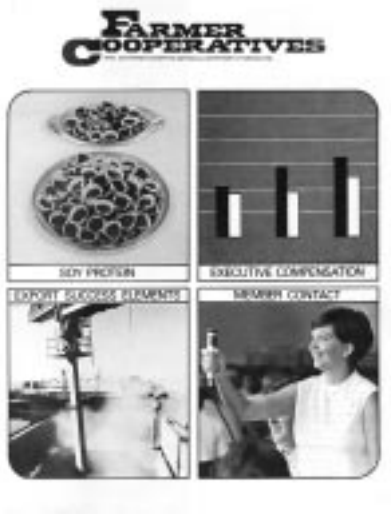
#### High Milk Costs? Try Doing it Yourself!

Alan V. Lambert, communications director for the National Milk Producers Federation, takes over the Guest Editor's Corner column to argue that milk is still a bargain for consumers. "In the Washington, D.C. area, the farmer is currently getting 47 cents per half gallon of raw milk," he notes. If it were feasible for consumers to buy directly from a farm, they would have to drive about 50 miles, then would need a home pasteurizer and would likely have to forgo homogenization, etc. Ultimately, such a do-it-yourself approach would wind up costing the consumer about \$5.47 per half gallon and a lot of time and convenience, he calculates. "So the next time you buy a half gallon of milk for 82 cents, think about the services the dairy co-op and milk processor have provided for your convenience."

#### Securities Situation Concerns Farmer Co-ops

A lengthy article notes that ag co-ops that issue "investment paper" have generally been considered exempt from registration under the Securities Act of 1933, and under the "blue sky" laws of states in which they operate. "But recent developments have raised some doubt as to whether all paper issued by ag co-ops is, in fact, entirely exempt from the 1933 act or the blue sky laws. The whole area of paper issued by cooperatives has come under closer scrutiny during the past few years." The article goes on to examine the issue in detail,





April 1976 issue.

including what is involved in registering with the SEC and state securities commissions. It says the process is long and expensive, and that most co-ops that have done so have the luxury of an in-house attorney on staff.

### Farm Credit System Loans Top \$30 Billion

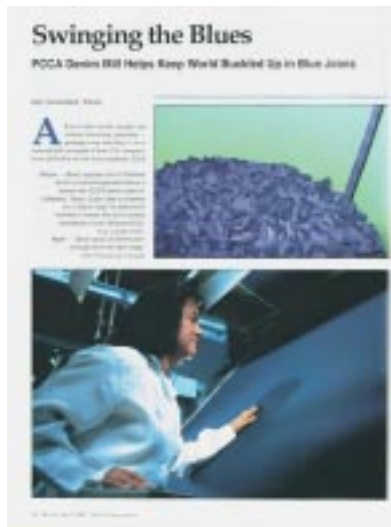
Farm Credit System loans to farmers and farmer cooperatives in 1975 soared 10 percent from the year before, to a record \$30.2 billion. Despite the 10-percent increase in loans, farm borrowing slackened in 1975 compared with the pace in recent years. Loans increased 16.5 percent in 1974 and 40 percent in 1973. FCA Governor W.M. Harding attributed the moderating loan demand primarily to farmers' use of funds accumulated in the good years of 1973 and 1974.

## 10 Years Ago...

From the Jan./Feb. and March/April 1996 issues of *Rural Cooperatives*

### Co-op Share of Farm Marketings Hits 14-Year High

U.S. farmer co-ops had sales of \$65.5 billion — accounting for 31 percent of the nation's crop, livestock and milk sales — in 1994.



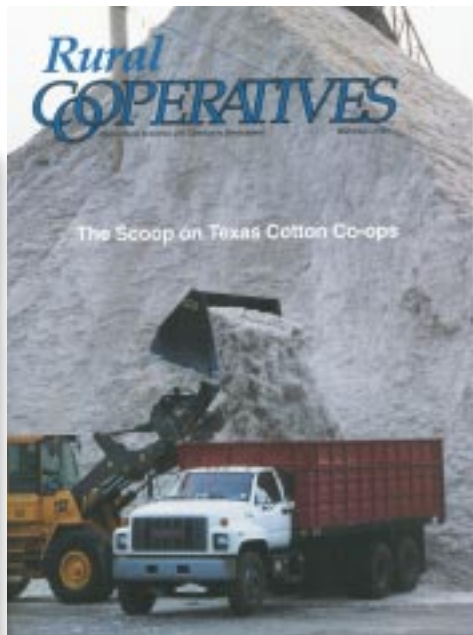
That was up from 29 percent in 1993 and matches the previous record set in 1975 and last matched in 1980. U.S. co-ops also sold \$20.8 billion worth of major farm production supplies, accounting for 29 percent of the nation's total, up from 28 percent in 1993.

### Business Is Cooking for Plains Co-op Oil Mill

Its cotton seed volume has outpaced processing capacity in recent years, so Plains Cooperative Oil Mill — which processes cooking oil from cotton seed — has been forced to sell whole seed to other processors. The co-op's board has thus made a decision to expand its own operations. "However, we couldn't expand on this location," says PCOM Manager Wayne Martin, so it is scheduled to break ground in the spring on a major new expansion about 2 miles from its existing plant in Lubbock, Texas. The new oil mill will boost the co-op's maximum annual production from 500,000 tons of seed to 675,000 tons — double its capacity of 15 years earlier.

### Biotechnology and implications for ag co-ops

"As of December 1995, 12 genetically engineered crops have been approved for commercial sale. Perhaps the most important impact plant biotechnologies will have on cooperatives is to increase the amount of vertically integrated contracting," says the first of a series of three articles on the topic. "Under vertical contracts, the processor owns the product in production, while the contractee generally furnishes the labor and facilities for production. Private companies that own a biotechnology can control how and to whom they contract their product. Thus, cooperatives may face new obstacles in gaining access to intellectual property rights for biotechnology. Co-ops and other "outsiders" may have to resort to new forms of vertical coordination to secure biotechnologies for their members.



March/April 1996 issue.

## Ethanol plant using new coal technology *continued from page 14*

The board hired lawyers, who helped keep the resulting delay to a manageable length. Pohlman gives credit to Ferguson for handling the situation: “Bob knows where he wants to go and how to get there.”

Further unexpected delays were caused by issues with the design of the railroad facility serving the plant. The original plan called for a straight siding next to the main rail line, providing space for 75-car trains taking on ethanol and DDG. However, the siding would have blocked an important road, so the

board opted to redesign the track layout.

A new plan called for a loop track. This required the acquisition of 121 additional acres next to the site, and moving the plant slightly from its originally planned position. The new layout is more efficient, offering room for up to 180 railroad cars, and allowing separate tracks for ethanol tankers and DDG hoppers. The new design allows for adding track capacity in the future.

Together, the delays pushed back the construction date nine months, to November. Completion is now sched-

uled for April 2007. Despite the hitch, Mayor Hay remains confident in the potential boost to the area. “A lawyer, who is an investor, told us: ‘Take a picture of your main street today, and one another 4 years from now. You’ll see the difference.’”

Ferguson also looks forward to better times. “If we cause a narrowing of the basis, the difference will go into John Q. Farmer’s pocket, whether he’s a member or not,” he says. “If it goes down 20 cents, that means \$2 billion for the local economy.” ■

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## Mastering Co-op Management *continued from page 25*

tem, they have a role to play in how the co-op is run. They can come to meetings, speak their minds and run for director if they want to.”

### Co-op management style varies greatly

Co-op Atlantic has 129 member cooperatives across Atlantic Canada and the Magdalen Islands. It is one of the largest integrated wholesale agri-food operations in the region, and also has significant holdings in real estate, housing and petroleum. In 2004, these diverse businesses served more than 200,000 families, employed more than 5,000 Canadians and had consolidated sales of \$517 million.

When Robert Lemoine came to Co-op Atlantic to head the Food Division 3 years ago, he had some idea of what he was getting himself into. Even so, he was not prepared for the differences between cooperative management and his previous management positions.

“I came in with my eyes open,” he says. “But actually living in a cooperative culture has shown me a lot more than I anticipated. And since being here, I quite like what I see. In the corporate world, there’s a lot of backroom politics and old boy clubs, and I don’t get that sense here. Here, there’s more of a need to have a discussion. It may

take longer, but when you work it through, you come out with a better product.”

Enrolling in the MMCCU program was, for Lemoine, “a good way for me to get up to speed quickly, which was important at my entry level. I wanted to make sure I would be able to contribute to the co-op’s growth.”

He was impressed right away by the fact that the MMCCU students and faculty were committed to rigorous business practices. Lemoine had an image of cooperative members as a bunch of soft-hearted, but impractical, idealists. Instead, he found a lot of practical knowledge pertaining to issues he cares about: employee and member loyalty to the co-op and the co-op’s commitment to the bottom line and the co-op values that support that.

### New territory

Lemoine appreciated the business courses, but says, “I’ve been reading balance sheets for quite awhile. But when we got into social audits and social accounting — that’s new territory.”

As the learning accumulates, it all starts to come together: the history, the philosophy, the accounting. “The closer we get to the end of the course,” he remarks, “the more interesting it becomes and the more usable

it is for me.”

Webb sums up his view of the future of the cooperative business sector: “There is no perfect cooperative. But we need to ask: what are the new, innovative thoughts that are even more consistent with our values? Where are self-help, openness and solidarity in the way we treat our workers? If we had workers and consumers sitting at the same table with the problems on the table rather than under it, would that help?”

“Some version of the stakeholder model is the solution — that’s the real cutting edge.”

Webb talks about a board of directors composed of workers, consumers and producers where “every topic is discussed, where there is a basis of trust and no conflict of interest because everyone there represents the co-op. The power of the cooperative business alternative,” Webb concludes, “is that it can nurture what is best in people and enable us to meet our needs in ways in which everyone wins: consumers, workers, producer and, ultimately, families and communities.”

The deadline to apply for next cycle in the MMCCU program is May 31, 2006. Call (902) 496-8170 or (902) 863-0678 or visit [www.smu.ca/mmccu](http://www.smu.ca/mmccu). ■



# Guaranteeing the future of rural communities

**By Jack Gleason, Administrator  
Business and Cooperative  
Programs  
USDA Rural Development**

**G**uaranteeing can be a little dangerous. Sometimes it works out, like Joe Namath in Super Bowl III, but, unfortunately, many other times it doesn't. USDA Rural Development has a number of loan guarantee programs that are almost as successful as Broadway Joe's famous Super Bowl pledge.

Loan guarantees provide lenders, like banks and credit unions, a guarantee that they will receive a certain percentage of principal lost on a failed loan. This guarantee can be the security a bank needs to fund an application from a rural business or co-op. The vast majority of these projects are successful and USDA rarely has to pay out the guarantee. But, without the guarantee, many rural development projects would not have access to the resources they need to move forward.

Loan guarantees are very successful and a large part of the \$63 billion that USDA Rural Development has invested in the rural economy since 2001.

One of the newer loan guarantee programs available through Rural Development is the Renewable Energy and Energy Efficiency loan program. These loans are designed to encourage agricultural producers and small rural businesses to create renewable and energy efficient systems.

Clinton County Bio Energy LLC,

located in Eastern Iowa near the Mississippi River, is an example of one rural business that has benefited from this loan guarantee program. It received a \$3.22 million loan guarantee to partially fund construction and operation of a biodiesel plant with a yearly capacity of 10 million gallons.

The Clinton County biodiesel facility is still under construction and is expected to be up and running by this May. When completed, the plant will use more than 7 million bushels of soybeans each year and provide the Clinton area with at least nine new jobs. Clinton County Bio Energy is made up of a relatively small group of investors, so the opportunity provided by the USDA loan guarantee was critical, according to Daniel Holesinger, the facility's project manager. Because USDA is sharing the risk, the bank is willing to offer a loan.

Clinton County Bio Energy also received a \$500,000 grant last year through the Renewable Energy and Energy Efficiency program. USDA Secretary Mike Johanns recently announced that \$176.5 million in loan guarantees and almost \$11.4 million in grants is available through this program to help agricultural producers and rural small businesses purchase renewable energy systems and make energy efficiency improvements.

In addition to biodiesel facilities like Clinton County Bio Energy, eligible



*Fuel tanks are installed at the new Clinton County Bio Energy plant, which should be operational in May 2006.*

projects include installing wind turbines, high-efficiency grain dryers, or making energy efficiency changes, like improving insulation or installing automatic lights.

The deadline to apply for grants through this program is May 12, 2006, but guaranteed loans will be awarded on a continuous basis.

USDA Rural Development is a venture capital source for rural America and has \$17 billion to invest in the rural economy this year. So, if you are interested in learning more about the Renewable Energy and Energy Efficiency program or our other guaranteed loan programs let us know. You can learn more on our website:

[www.rurdev.usda.gov](http://www.rurdev.usda.gov). Or, you can call us at (202) 720-4323 to be connected to the USDA Rural Development office in your state.

We look forward to working with you to guarantee a successful future for rural America. ■

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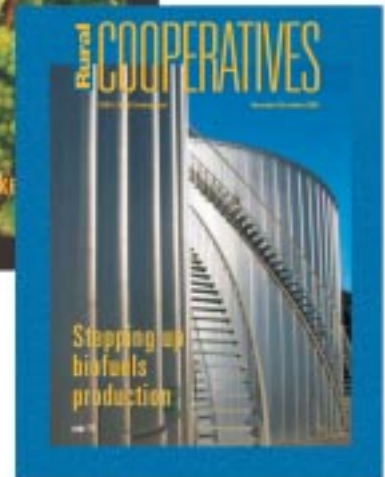
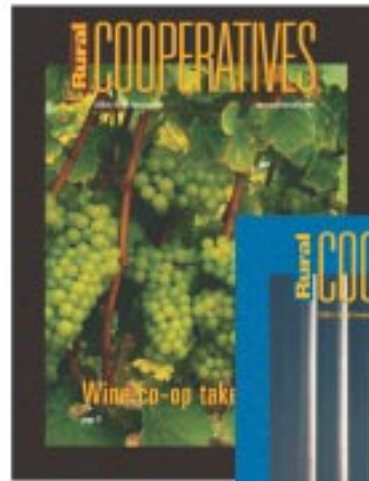
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*Rural Cooperatives* magazine is published six times annually by USDA Rural Development. This award-winning publication carries a wide variety of articles focusing on the nation's farmer-owned cooperatives, as well as utility and consumer co-ops operating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

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

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