

Rural COOPERATIVES

USDA / Rural Development

July/August 2003



How co-ops cope
with *sprawl*

Cooperative education can help renew and revitalize co-ops

The need for cooperative education today is greater than at any time in memory. The decade-long interest in the creation of new-generation, value-added cooperatives aimed at capturing more income for members clearly points toward the need to reshape the delivery system for cooperative educational efforts. The increasing number of problems (and outright failures) of “traditional” U.S. cooperatives also provides evidence of this need.

In meeting the challenge to educate, it is critical that the cooperative form of business—as well as variations of it—be completely understood. It is also important that cooperative education initiatives adequately deal with today’s complex business, marketing and financial issues.

We in the cooperative education business need to know why these issues are so critical to the future successes of cooperatives. We must effectively communicate alternative solutions to the challenges facing cooperatives. Appropriate audiences must be identified and challenged to learn. All involved must be committed.

The recent USDA report, “Agricultural Cooperatives in the 21st Century” (discussed in the January/February 2003 edition of this magazine) points to the need for stronger education efforts for cooperative directors. These efforts must also extend to youth, young farmers, members, employees and the general public.

The report waives a flag of caution, warning that resources needed for educational endeavors have been reduced all across the spectrum. This includes cooperatives and related state and national co-op associations, educa-

tional institutions and federal programs. The report recommends the need for renewed investment in education and making it a top-level concern once again.

The report waives a flag of caution, warning that resources needed for educational endeavors have been reduced all across the spectrum.

What is the real level of commitment and investment in cooperative education? What does the future hold for it?

There are problems we must address. A number of regional cooperative leaders indicate that a continuing lack of financial and human resources (and, in some cases, lack of interest) is pressuring them to reduce or end educational efforts. The most striking example of this, at the national level, is the demise of the long-running National Institute of Cooperative Education (NICE). Its last program took place in Chicago in 2002.

However, there are positive signs for the future of cooperative education. A

concerted effort is being made to continue a NICE conference for youth. This new program is taking place in July at Virginia Polytechnic Institute and State University in Blacksburg, Va. The new Political Awareness and Leadership (PAL) program that the National Council of Farmer Cooperatives (NCFC) hosted in Washington, D.C., in June is another attempt to rebuild an educational program for young cooperators, directors and cooperative employees.

Other national conferences and workshops are ongoing. In some areas, the upper Midwest for example, regional efforts carried out by state cooperative councils, universities and cooperative centers remain strong. (Technology has proffered a number of co-op educational computer programs and Web sites.)

Efforts such as these should continue to be advanced and built upon. In moving forward with these and other initiatives, it is imperative that cooperative education not be forced into a mold that may have been appropriate yesterday, but not today. Fresh ideas, new resources, programs developed around the current and future complex issues and coordinated efforts of the cooperative community are crucial to develop and carry out sound educational programs. It is up to the entire cooperative community, through investment of time and resources, collaboration and dedication, to reverse recent trends and commit anew to cooperative education.

James Haskell, Acting Deputy Administrator, USDA Rural Business-Cooperative Service

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On the cover: Urban sprawl is posing major challenges for cooperatives in many parts of the nation. While some co-ops have had to fold when farm fields were replaced by subdivisions and strip malls, others have survived by adjusting their marketing strategy. Story on page 4. USDA photo by Bob Nichols



Living with Sprawl

As farms give way to subdivisions and traffic lights, America's rural cooperatives struggle to adjust

By Catherine Merlo

Editor's Note: Merlo is a freelance writer based in Bakersfield, Calif., with extensive experience working for, and writing about, cooperatives.

Jim Roskam used to head out each morning along the Rivertown Parkway to his job as general manager of Farmers Co-op Elevator Co. in Hudsonville, Mich. Along the way, he passed a dozen flourishing corn and bean farms—and not a single traffic light.

That was 15 years ago. Today, that same route would take Roskam past new subdivisions, one of Michigan's largest shopping malls, 12 traffic lights—and not a single farm.

Roskam is not alone in his transformed commute. Across the United States, increasing suburban development of farmland is not only altering the rural landscape, it is forcing many rural cooperatives to take a hard look at their future operations and customer base.

Between 1992 and 1997, the United States paved over more than 6 million acres of farmland, an area roughly equal in size to Maryland, according to American Farmland Trust (AFT), a private, nonprofit farmland conservation organization. AFT recently released a study, "Farming on the Edge: Sprawling Development Threatens America's Best Farmland."

"The problem is getting worse," says Ralph Grossi, AFT president. "America developed twice as much farmland in the 1990s as it did in the 1980s."

While business and community leaders, futurists and professors debate the pros and cons of urban sprawl—the loss of prime farmland, the apparent random, unplanned nature of urban expansion—rural cooperatives are on the frontline coping with the challenges caused by sprawl.

Some co-ops have found their membership and customer base so affected by suburban development, they have been forced to close whole divisions. Others have merged with neighboring co-ops in an effort to survive. Others have

refocused their efforts on new services targeted at a more suburban customer base. Still other co-ops, especially rural utilities, are thriving as a result of the increased population that suburban development is bringing to their once-rural territories.

New customers, new services

In Roskam's case, more urbanization has compelled the Michigan co-op he manages to expand its services in at least three areas. Farmers Co-op Elevator, a traditional grain marketing and farm supply cooperative formed in 1917, serves a 2,500-square-mile territory between Holland and Grand Rapids. In recent years, the co-op has branched out beyond its shrinking base of traditional farmer-members.

"Rather than complain about increased development in our area, we've diversified to make things happen," says Roskam.

In addition to providing farm supplies and services for farmers, Farmers Co-op Elevator now targets homeowners, greenhouse growers and nurseries. It also focuses on the turf and ornamental business, such as lawn and garden care, golf courses and city municipalities.

"At 640, our membership is the largest it has ever been," says Roskam. "Our gross sales grew from about \$6.5 million in 1989 to \$19 million in 2002—by diversifying."

Only 30-40 percent of Farmers Co-op Elevator's membership now is represented by traditional farmers. The rest, says Roskam, are suburban customers and retired or part-time farmers.

The shift from its old ways hasn't been without some pain. Between 1998 and 2000, Farmers Co-op Elevator closed a full-service agronomy and feed service facility that once catered to traditional farmers. It curtailed the operations of several service stations that pumped gas for customers. And it closed a portable feed-grinding division that delivered on-farm services.

"As a co-op, we have to shift and change gears to continue to roll with the urban growth," Roskam says.



Co-op Manager Bill Rohrbaugh says that until two years ago, this housing development in Medina County, Ohio, was a 150-acre field farmed by one of the members of Town & Country Co-op. Photo courtesy Town & Country Co-op

Customer shift in Minnesota

At Federated Co-ops in central Minnesota, a similar transition is taking place. Built by local growers in 1914, Federated Co-ops serves 14 counties in Minnesota and six in Wisconsin. Subdivisions and hobby farms are sprouting up across the land, where property values now range from \$3,000 to \$24,000 per acre.

Today, Federated Co-ops counts more than 35,000 customer-members, only 2,000 of whom are conventional growers.

“This was once a traditional dairy area with between 2,500 and 3,000 dairy farms,” says Tim Kavanaugh, general manager of Federated Co-ops, based in Princeton, Minn. “That number is declining at the rate of about 200 dairy farms per year.”

Replacing them are cash-crop operations, mostly with a corn-soybean rotation, and part-time farmers.

“Our traditional feed business is disappearing,” Kavanaugh says. “We’re seeing more growth in the hobby farms with small animals, horses and pets.”

As a result, Federated Co-ops has shifted its product line to more bag feeds. It’s opened two Country Stores in the past year, and expects to open two more within the next two years. These retail stores offer feed, animal health products, pet supplies, lawn/garden supplies and equipment.

As further proof of how suburban its customer base has become, Federated Co-ops’ propane home-heating business has become its fastest-growing and most profitable operation, with 25,000 accounts.

Kavanaugh doesn’t downplay the challenges of refocusing the co-op’s efforts on a new customer base. In particular, marketing to reach consumer business is different from traditional farm customers, and is often more difficult.

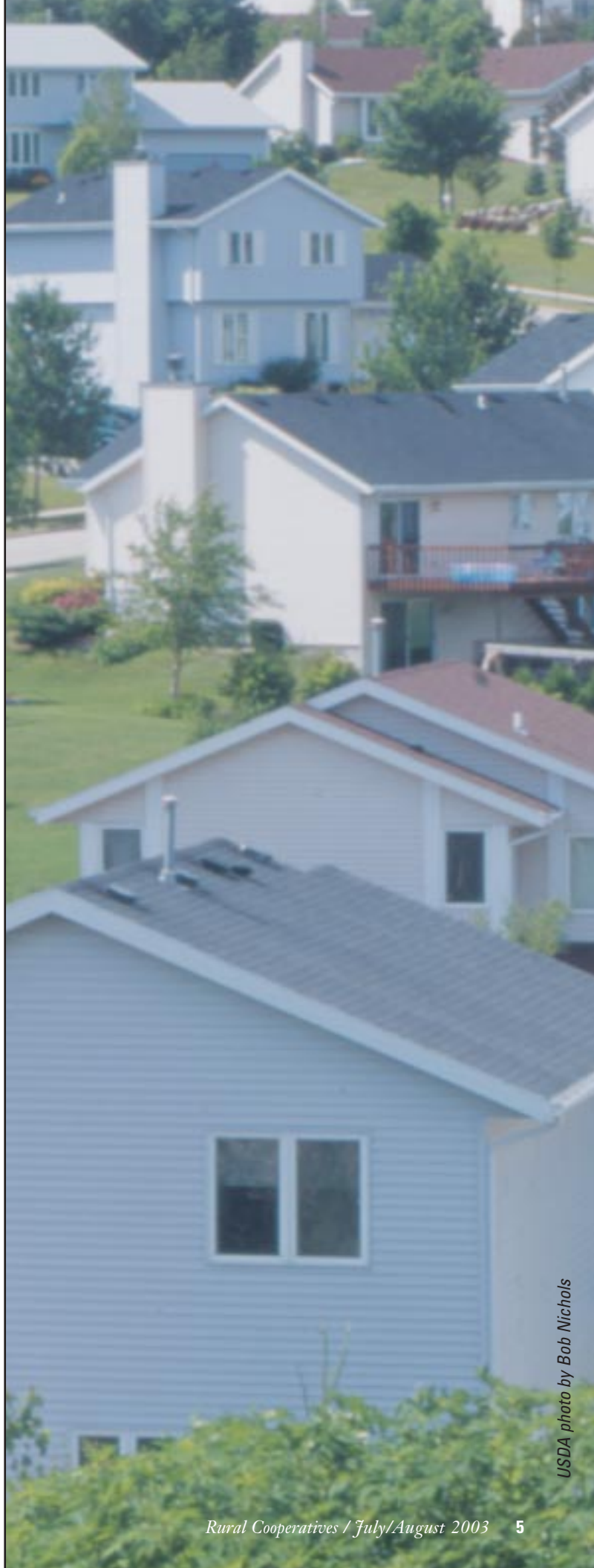
“We’re reacting to this shift, but we don’t have all the answers,” says Kavanaugh. “Some ventures are successful, some are not. We honestly don’t know where this will all go from here. But with land values increasing and more people coming in, we have to figure out a way to capture more business from more people. The future is bright if we can do that.”

He adds, “Local cooperatives must become more entrepreneurial. Those that do will adapt; those that don’t will disappear.”

An old-time Ohio co-op disappears

Perhaps few co-ops have felt the impact of urbanization as profoundly as Ohio’s Medina Landmark Cooperative. Formed in 1934, the co-op no longer exists in its original form. In January 2003, it merged with three other Ohio farm co-ops, becoming part of Town & Country Co-op Inc., based in Ashland, Ohio, about 65 miles southwest of Cleveland.

Medina Landmark had been located in northern Ohio’s Medina County, one of the state’s fastest-growing counties. About 20 years ago, Interstate 71 was built through Medina County, connecting Cleveland and Columbus. About 12 years ago, houses began popping up almost overnight as the area became a bedroom community for Cleveland. Old-timers pinpoint the arrival of Interstate 71 as the beginning



USDA photo by Bob Nichols

of Medina County's urbanization—and the end of Medina Landmark Co-op.

“Medina Landmark’s market had become extremely urbanized, which made the merger with Town & Country very attractive to us,” says Bill Rohrbaugh, former general manager of Medina Landmark and now vice president of feed and energy for Town & Country Co-op. “Our territory had become so inundated by urbanization that we had trouble taking care of our farmers.”

The co-op could not justify the costs of handling fertilizers, crop protectants and other products for its 250 members, a number down sharply from the 1,000 members the co-op counted in its heyday. “It was starting to negatively impact our bottom line,” says Rorhbaugh.

The merger was an attempt by the four co-ops to stay afloat in a market with diminishing numbers of farmers. In fact, Town & Country’s name was retained from one of the four merging co-ops to reflect its urbanized market. Now one of Ohio’s biggest co-op’s, Town & Country expects its sales to reach \$75 million this year. But its achievements have not come without difficult decisions.

Closing traditional business

In February 2003, Town & Country closed the grain sorting, crushing and milling operations that once had been bread-and-butter services for Medina Landmark Co-op. While members can still take their grain crops to other mills nearby, the closure marks the end of an era for the area, Rohrbaugh says.

Like Roskam at Michigan’s Farmers Co-op Elevator, Rohrbaugh has seen prime farmland turn into shopping centers and housing tracts. While Town & Country Co-op still



Co-op employees such as Kathy Belmore and Tom Jackson, at one of Federated Co-ops’ Country Stores in Minnesota, are dealing with increasing numbers of non-farm members in the co-op’s 20-county trade territory. Of 35,000 members, only 2,000 are conventional growers. Photo courtesy VistaComm.

has enough farm base to support its farm supply business, it too is looking for ways to adapt to and survive the suburban development Rohrbaugh says is “inevitable.”

“To survive, we need to look at other business areas,” he says. “We recently bought a convenience store and have started to expand our petroleum business.”

Town & Country’s 14 retail farm stores now target suburban shoppers. The largest feed seller is no longer dairy feed but horse feed, followed by dog and cat food. Alpaca feed is No. 3. Town & Country’s agronomy division has also begun focusing on Medina County’s 28 golf courses, which use plenty of fertilizers and other products.

“Farmland values have skyrocketed to as much as \$10,000 an acre in Medina County,” Rohrbaugh says. “You can’t blame farmers who want to sell; it’s hard not to sell.”

But with low commodity prices and high production costs, farmers often find land at \$10,000 an acre just too expensive to buy. “They just can’t make the numbers work,” Rohrbaugh says.

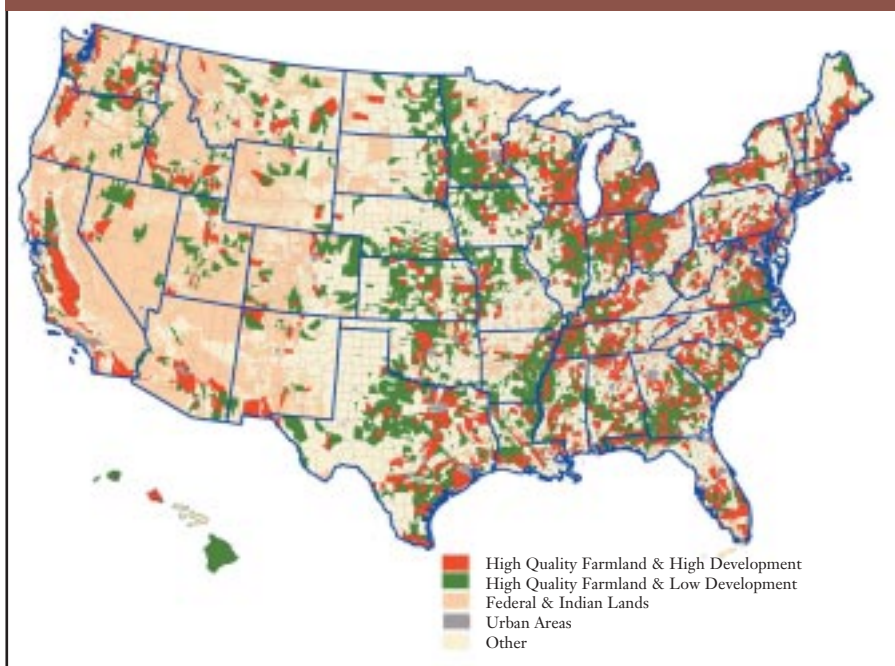
As a result, many farmers will sell a 200-acre farm to a developer, “hitting the jackpot,” says Rohrbaugh. Then they pull up stakes and move their farming operations to southern Ohio or nearby Indiana or Iowa, “where they can buy a farm three times that size at \$2,000 an acre,” he says.

Adds Rohrbaugh, “At the present growth rate in Medina County, there will come a time, maybe 25 years from now, when every available piece of property will be taken and there’ll be no more vacant land.”

Still, rising land values aren’t all bad news for farmers.

“Rising real estate prices create greater farmer equity,” says James Miller, vice presi-

This map was produced by American Farmland Trust (AFT) to show where high-quality farmland is facing the greatest threat from development. Graphic courtesy AFT



Farming with 8.5 million neighbors

"Farming with 8.5 million neighbors is not easy," says John Rigolizzo, Jr., a fifth generation farmer in Berlin, N.J.

Rigolizzo, who farms 400 acres in Camden County in southern New Jersey, should know. He has seen and felt the impact of suburban development firsthand.

"New Jersey is the nation's most densely populated state, with more people per square mile than any other state," says this former state Farm Bureau president.

Rigolizzo says 8.5 million residents live on 25 percent of New Jersey soil, while 9,000 growers farm just 1 million acres—or 20 percent—of the state's landscape. It's getting harder and harder to operate

with suburban neighbors, who complain about the dust, smells and pesticides associated with

farming. He has worked, sometimes successfully, to help bring about farmland preservation programs, but his patience has worn thin.

A brand new housing tract sits just 100 yards behind Rigolizzo's farmhouse. Since the tract—85 houses on 50 acres—was built, Rigolizzo has encountered problems with vandalism, theft, kids and dogs.

"I never know what batteries are going to be stolen from my equipment, what gasoline siphoned from my tractors," he says. "I have 17 tractors; more than once, I've found them all out of gas."



John Rigolizzo Jr. tends to some of his greenhouse tomatoes in southern New Jersey, where development is making it increasingly hard for farmers. At left, a new subdivision abuts one of Rigolizzo's orchards. USDA photos by Bob Nichols

their trespassing and vandalism. For them to have their 10 minutes of fun in the afternoon is aggravating and costly for me."

Rigolizzo scoffs at New Jersey's designation as "The Garden State."

"We're losing

that moniker quickly," he says. "New Jersey is an expensive state to live in, let alone farm in. Our higher production costs are a disincentive to stay in farming."

A member of nearby Vineland Cooperative Produce Auction and Landisville Cooperative, which buys and sells produce, Rigolizzo says area co-ops have suffered from the impact of urban sprawl. "In the last 10 years or so, we've lost 10 to 12 co-ops in a 40-mile radius of where I live," he says.

The future for farmers may not be so different. "It's just a matter of time for farmers in New Jersey," Rigolizzo says. ■

—Catherine Merlo

dent of finance with First Pioneer Farm Credit, which provides financing services to 10,000 customers in six New England states.

"That can give a farmer a stronger balance sheet and create the opportunity to borrow and expand his operations or invest in new ones," Miller says. "The urban area offers a huge consumers' market for farmers, especially in retail and horticultural products."

Rural utilities find opportunity

New housing tracts, giant shopping malls and more schools can be good news for some rural cooperatives. Numerous rural utilities have found opportunity in the shift from farmland to suburban development. Many have

pursued diversification of operations, while others have refocused their efforts on a new customer base.

For example, when upscale suburban developments began spreading out from Indianapolis in the 1990s, several electric distribution cooperatives that served the once-rural area took a fresh look at their new residents. What they saw was not the traditional co-op customer but rather a new group with dual professional incomes, high performance expectations and experiences with competitive Investor-Owned Utilities (IOUs).

In 1996, five electric distribution co-ops that circled Indianapolis formed Circle City Group (CCG), a limited liability company formed to respond to their growing and changing customer base. CCG is helping its five co-ops obtain economic advantages by consolidating services and

Orange Empire bows to urban sprawl in Southern California

Urban sprawl has been a fact of life for Southern California growers and their cooperatives since the 1950s. The Los Angeles area—once called the Orange Empire but now known as the Inland Empire—has been called the worst stretch of sprawl in America. It was once the center of U.S. citrus production in the West—and the birthplace of Sunkist Growers—but that changed long ago.

In the years after World War II, a population explosion in Southern California led growers in Los Angeles County and Orange County to bulldoze out their citrus groves to make way for new houses, factories, schools and freeways.

After selling their farms in Southern California at profitable prices, many citrus growers began looking for new lands to farm. They found them in California's San Joaquin Valley, and further south in the desert areas of the Coachella Valley. They also found new opportunity in Arizona. Many Sunkist farmer-members, as well as their packinghouses, picked up stakes and moved to larger-acreage operations on the abundant new land.

Packinghouses took the hardest hit from urban sprawl. The local, member-owned associations once numbered in the hundreds throughout California. Due to the urban shift, as well as modernization, those numbers have dropped dramatically. In Orange County alone, where 20 packinghouses once operated, only one remains today. Sunkist Growers, the nation's largest cit-

rus marketing co-op, has seen its packinghouse members drop from 115 in 1968 to just 52 today.

Yet, for Sunkist, the shift in its production areas proved positive. The opening of new lands for its members boosted its supply channels. The San Joaquin Valley is now one of California's major citrus-producing regions. In 1981, Sunkist Growers built a new processing plant near Tipton, in the heart of the valley. Not far away, in Visalia, Sunkist now operates a centralized sales office.

While consolidation to fewer but larger-acreage growers resulted in a membership drop from about 12,000 in the 1950s to about 6,000 in California and Arizona today, Sunkist Growers has adapted to the change.

"Due to our members' geographical shift and more concentrated plantings, the total numbers of citrus acres under cultivation actually remained the same, and our volume increased," says Mike Wootton, vice president of corporate affairs for Sunkist Growers, based in the urban setting of Sherman Oaks, Calif.

The geographical shift also has provided Sunkist with three major citrus-producing districts with harvests that occur at different times. Having members in the Central Valley, California's coastal areas and the desert areas of southeastern California and Arizona gives Sunkist, a leading international citrus supplier, a steadier stream of citrus — and an edge in the market. ■

—Catherine Merlo

sharing costs. The alliance is composed of Boone REMC, Hendricks Power Cooperative, South Central Indiana REMC, Johnson County REMC and Central Indiana Power. Together, they represent almost 90,000 electric customers and 7,800 miles of line.

Working together through CCG, the co-ops have achieved numerous benefits that not only allow them to serve their customers, but significantly reduce operating costs. They have implemented automated meter reading (AMR) equipment, remittance processing, a meter lease program and an underground location service—new operations the co-ops might not have been able to afford on their own.

"Along with improved customer service, our meter reading costs have been reduced by 30 to 40 percent," says Dale Geiselman, president and CEO of Boone REMC. "Remittance processing costs have dropped 30 percent. We also achieved a 30-50 percent reduction in AMR meter conversion costs."

CCG's efforts in advertising and communications also have contributed to a more positive image for the co-ops. "We have definitely seen an increased awareness and an improved image of the CCG systems," Geiselman says.

A sense of urgency—and loss

As farmland gives way to housing tracts, shopping centers and busy streets, some effort is taking place to slow the development, or at least to plan it better. A sense of urgency compels farmland conservation groups—as they work at local, regional and national levels—to develop and implement farmland protection programs. AFT is working to increase funding for ag conservation easements at all government levels. It targets conservation funds to threatened ag areas and supports effective planning and smart growth to steer development away from the nation's best farmland.

But, for now, rural cooperatives are largely on their own in dealing with the challenges of suburban development. The stakes remain significant for them and the eroding farm base on which they stand. While most co-ops in the path of development realize they must adapt to and change with the marketplace, some are nostalgic for the days before the city moved in.

"I've been in the traditional agriculture business for 25 years," Town & Country's Rohrbaugh says wistfully. "It's not what it used to be. I miss it." ■

USDA plays active role in farmland protection



The U.S. Department of agriculture, through its Natural Resources Conservation Service (NRCS), is an active partner with America's farmers and ranchers in helping to protect agricultural land. One way it accomplishes this is with the Farm and Ranch Lands Protection Program (FRPP), a voluntary land conservation program.

The program provides matching funds to state, tribal or local governments and non-governmental organizations with existing farm and ranch land protection programs to purchase conservation easements. The program was first authorized in 1985 as the Farmland Protection Program. The Farm Security and Rural Investment Act of 2002 (2002 Farm Bill) added ranch land to the program and reauthorized it as the Farm and Ranch Lands Protection Program (FRPP).

Under this program (through 2002), more than 170,000 acres have been protected in 35 states.

How FRPP Works

Eligible entities acquire conservation easements from landowners. Participating landowners agree not to convert their land to non-agricultural uses and to develop and implement a conservation plan for any highly erodible land. All highly erodible lands enrolled must have a conservation plan developed based on the standards in the NRCS Field Office Technical Guide and approved by the local conservation district. Landowners retain all rights to use the property for agriculture.

To participate, a landowner submits an application to an entity—a state, tribal, or local government or a non-governmental organization—that has an existing farm or ranch land protection program. The NRCS state conservationist, with advice from the State Technical Committee, awards funds to qualified entities to purchase perpetual conservation easements.

Eligibility

To qualify for FRPP, the land offered must be part or all of a farm or ranch and must:

- Contain prime, unique or other productive soil or historical or archaeological resources;
- Be included in a pending offer from a state, tribal or local government or non-governmental organization's farmland protection program;
- Be privately owned;
- Be covered by a conservation plan for any highly erodible land;
- Be large enough to sustain agricultural production;
- Be accessible to markets for what the land produces;
- Be surrounded by parcels of land that can support long-term agricultural production; and
- Be owned by an individual or entity that does not exceed the Adjusted Gross Income (AGI) limitation.

The AGI provision of the 2002 Farm Bill impacts eligibility for FRPP and several other 2002 Farm Bill programs. Individuals or entities that have an average AGI exceeding \$2.5 million for the three tax years immediately preceding the year the contract is approved are not eligible

to receive program benefits or payments. However, an exemption is provided in cases where 75 percent of the AGI is derived from farming, ranching, or forestry operations. The final rule for this provision has not yet been published.

If the land cannot be converted to non-agricultural uses because of existing deed restrictions or other legal constraints, it is ineligible for FRPP.

Funding

FRPP is funded through the Commodity Credit Corporation. The FRPP share of the easement cost must not exceed 50 percent of the appraised fair market value of the conservation easement. As part of its share of the cost of purchasing a conservation easement, a state, tribal, or local government or non-governmental organization may include a charitable donation by the landowner of up to 25 percent of the appraised fair market value of the conservation easement. A cooperating entity must provide, in cash, 25 percent of the appraised fair market value of the conservation easement or 50 percent of the purchase price.

For more information

If you need more information about FRPP, please contact your local USDA Service Center, listed in the telephone book under U.S. Department of Agriculture, or your local conservation district. Information also is available on the World Wide Web at: <http://www.nrcs.usda.gov/programs/farmland/2002/>. ■

Merrills first Northeast dairy family to win national land conservation prize

Editor's Note: This article is reprinted courtesy AgriMark News.

A griMark dairy cooperative members John and Lorraine Merrill of Stratham, N.H., have been awarded with American Farmland Trust's (AFT) 2003 Steward of the Land Award, the largest nationwide award for land stewardship. The Merrills were chosen out of 117 applications from 41 states to win the \$10,000 prize, which was presented to them for their life-long commitment to environmental stewardship, public education, policy activism and farmland protection.

"For decades, the Merrills have been devoted to protecting not just their farmland, but water, wildlife habitat and natural resources on the farm," says AFT President Ralph Grossi. "They truly are stewards of

our land and a great inspiration to farmers across the nation."

Stuart Farm is situated in the Great Bay Estuary region, a coastal habitat that encompasses more than 10,000 acres of tidal

For their leadership in protecting farmland from development and their commitment to sound environmental stewardship, John and Lorraine Merrill and family of Stratham, N.H., are the winners of American Farmland Trust's Steward of the Land Award for 2003. At left is their son Nathan and his wife Judy with daughters Samantha, 3, and Hannah, 6. Lorraine and John Merrill are on the right. Photo by Jim Newton, courtesy AFT



AFT guide helps farmers and ranchers transfer land to the next generation

Farmers often say, "The best way to protect my land is to farm it." This is true, but where will you and your farm be 10 or 15 years from now? Too often, family members who inherit farmland unexpectedly are left with little choice but to sell out.

Fortunately, good estate planning can help landowners achieve financial stability without cashing in on their land. "Your Land is Your Legacy: A Guide to Planning for the Future of Your Farm" offers practical estate planning advice for today's landowners and their financial advisors. American Farmland Trust's (AFT) revised and

updated guidebook illustrates strategies for transferring land to the next generation while addressing your personal financial goals.

"You can't take your farm with you when you die, said Jeremiah Cosgrove, an attorney with AFT who co-authored the guide. "But proactively planning for the future of your land before you retire gives you a stake in its outcome."

The third edition of AFT's bestseller incorporates recent tax changes, serving as a reminder that estate planning, not estate taxes, is the critical issue for farm



The Merrill's Stuart Farm is located in an environmentally sensitive estuarine ecosystem on the tidal Squamscott River, near Great Bay. Photo by Sarah Thorne, courtesy AFT

waters and is considered one of the most important estuarine systems on the East Coast. The Merrills have gone to great lengths to ensure that this fragile ecosystem remains intact: they constructed a freshwater wetland to treat waste runoff, and cooperated with Partners for Fish and Wildlife to restore a salt marsh on their farm.

“The restored salt marsh on the

Stuart Farm is one of the most thoroughly researched on the East Coast and has become a model for similar efforts,” said Bruce Marriott, retired agriculture program leader at University of New Hampshire Cooperative Extension, who nominated the Merrills for AFT’s award.

The Merrills’ operation, Stuart Farm, is a 200-cow dairy farm run by John and Lorraine, in partnership with

their son, Nathan, and daughter-in-law, Judy. They were early pioneers in rotational grazing and other conservation practices, and their family was among the first in the state to permanently protect their farm with an agricultural conservation easement in 1981.

“It was wall-to-wall dairy farms when we first moved here,” said Lorraine, who noted that there used to be more cows than people in the town. The farm moved to its current location in 1961 after construction of an Interstate highway forced her family out of northern Massachusetts. Today, Stuart Farm is the only dairy farm remaining in Stratham.

The family’s environmental achievements were accomplished with the help of state and federal conservation programs that

encourage stewardship on private lands. They have also partnered with numerous local and state conservation organizations. Whether it’s hosting a national Environmental Protection Agency tour or being featured in a nationally distributed video by the U.S. Fish and Wildlife Service, the Merrills know that to truly champion conservation activities, education must play a central role. ■

families. While estate tax laws change, “Your Land is Your Legacy” presents a general planning framework that will stay relevant for years to come. Although the guide isn’t intended as a replacement for professional advice, it has been lauded as an excellent foundation for both landowners and financial planners.

This guide “is the best resource I’ve seen for educating rural landowners about their estate planning options,” said Lynne H. Hardey, vice president and trust officer for Comerica Bank & Trust. “Since many rural landowners are land-rich and cash-poor, figuring out how to pass down your land to the next generation is one of the most important financial decisions you’ll ever make.”

“Your Land is Your Legacy” guides readers through the maze of estate planning options and pitfalls using

real-life examples and worksheets. One unique aspect of the guide is its emphasis on land conservation at a time when 1.2 million acres of farmland get consumed by development every year.

“Land is most vulnerable when it passes from one generation to the next,” explained co-author Julia Freedgood, director of AFT’s Technical Assistance Services. “With millions of acres of land changing hands over the next 10 years, the power to protect our nation’s agricultural resources lies with those who currently own and manage them.”

For details on ordering “Your Land is Your Legacy,” which costs \$13.95, call 800-370-4879. An order form is also available on American Farmland Trust’s Web site at www.farmland.org. For information about AFT, contact Jill Schwartz at 202-331-7300, ext. 3011. ■

U.S. Premium Beef offers to buy Farmland share in processing business

For a while, it looked like Farmland Industries Inc., the nation's largest agricultural cooperative, might survive by selling off all of its farm production supply assets and concentrating on its successful beef and pork processing enterprises.

Moving in that direction, it recently sold its fertilizer operations to Koch Nitrogen of Wichita, Kan., a subsidiary of Koch Industries, in a deal valued at \$293 million. Farmland is still seeking buyers for its petroleum assets, including a refinery at Coffeyville, Kan. The fertilizer deal includes plants in four states plus terminals in Minnesota, Iowa, Illinois, Kansas and Texas. Also sold was its half interest in Farmland MissChem Ltd., which owns an ammonia plant in the Republic of Trinidad and Tobago. Completion of that sale and others has enabled Farmland to cut its bank debt from \$330 million in May 2002 to less than \$30 million, and it posted a \$29 million profit in its last quarter.

Now U.S. Premium Beef, minority cooperative partner in Farmland National Beef, has offered to buy the entire beef business from its partner for \$232 million in cash. When Farmland National Beef (FNB) was formed in 1997, U.S. Premium Beef became its minority cooperative partner, with a 29-percent interest held by its 1,850 cattle-producer owners from 37 states. At the moment, it only has 10 employees. But that could change if it becomes sole owner. Farmland National Beef has 6,200 employees.

"We are excited about the potential

purchase of Farmland Industries' interest in Farmland National Beef," U.S. Premium Beef CEO Steve Hunt said in a press release, jointly issued with Farmland. "While the beef processing industry faces many challenges, FNB has established a reputation for successfully delivering consistently high-quality beef products to consumers in both domestic and international markets."

Farmland President and CEO Bob Terry said the agreement to sell FNB to its co-op partner "is fully supported by Farmland's Creditors' Committees, as we continue to maximize value for the benefit of our creditors." He called FNB "a company with a strong balance sheet and a history of success."

The door was left ajar for others to outbid the beef co-op's offer by July 7. If that occurs, a July 9 auction would decide who is to be the future owner. Larry Franzen, Farmland's lead bankruptcy attorney, indicated procedures approved by the bankruptcy court judge would require a minimum bid of \$239.5 million. If Farmland accepted the larger bid, U.S. Premium Beef would receive a breakup fee of \$5 million to \$7 million. If that minority-owner cooperative is unable to finance its bid by the time the deal is ready to close, it will forfeit its \$5 million deposit.

Franzen said 25 companies had shown an interest in buying the beef enterprise, but only three examined its financial information. Court documents are pending which will indicate how much Farmland believes it will be able to repay its unsecured creditors.

Farmland National Beef processes 3.2 million head of cattle per year at its five packing plants which supply packaged beef for grocery meat cases. Farmland's part of the beef business earned \$5.8 million in the quarter ending Feb. 28, down from \$10.2 million a year ago.

Farmland also is seeking buyers for its separate pork processing operation. Neither of the meat operations were involved in the original bankruptcy proceedings, although money from the sale of them could help repay the unsecured creditors.

And that line was just extended to include former chief executives whose golden retirement parachutes were curtailed. The bankruptcy court agreed with the cooperative's new administration and ruled their promised exit premiums did not merit separate consideration and they should join the growing line of unsecured creditors. Farmland's report to the bankruptcy court will show how much it believes it will be able to repay its unsecured creditors.

Judge Jerry Venters also told a company that leased 100 barges to Farmland in 1997 to take its \$18 million claim and join the other unsecured creditors. The dispute centers around Farmland's half interest in Pinnacle, a partnership with River Barge and its lender, CIT Group/Equipment Financing, that leased the boats. Farmland had agreed to take Pinnacle's place in the deal if it failed to make a quarterly payment. That occurred in July 2002 after Farmland had already declared bankruptcy in May and discontinued using the barges. ■

Waving the red flag

Survey examines correlation between ethical environment and fraud in co-ops

By Tommie Singleton, Frank Messina and Richard Turpen

Editor's note: Singleton is an assistant professor, Messina and Turpen are associate professors at the Department of Accounting and Information Systems at the University of Alabama at Birmingham. They can be reached at (205) 934-8820, or by e-mail at: fmessino@uab.edu.

Fraud and ethics are subjects of great concern to everyone involved in business. Conservative estimates place the cost of fraud to American businesses in the billions of dollars.

Several techniques, guidelines and tools have been created and promoted to help businesses better detect fraud. Yet all of these advances and high-tech tools cannot compensate for the oldest accounting technique of all for fraud: a sound ethical environment for the cooperative. This article examines the correlation between ethics and actual instances of fraud, based on a survey of cooperatives, identifying the “red

flags” that precede fraudulent activities.

Fraud & ethics

Over the past 40 years, the accounting community has increased its efforts to detect fraud. Recent accounting scandals have caused Congress and other regulatory boards to expand the responsibility related to the detection of fraud. Researchers have produced a wealth of empirical research related to ethics and fraud. Some of this research provides insights into the role ethics play in fraud and fraud detection.

A new report, “Landmark Study on Fraud in Financial Reporting,” provides many insights into 200 randomly selected cases of alleged financial fraud investigated by the Securities and Exchange Commission (SEC) from 1987 to 1997.¹ Published by the Committee on Sponsoring Organizations, a research group of accounting associations, the study results indicate that:

- companies that experience fraud are generally smaller in size;
- board members lack independence and/or experience;
- 83 percent of the cases involved the CEO, the CFO or both. Thus, the ethical standards of executives are critical to the occurrence of fraud.

A previous fraud study on cooperative fraud funded by the Rural Business-Cooperative Service of USDA Rural Development, KPMG and the National Society of Accoun-

Table 1—Reasons for reported fraud

Insufficient internal controls: 20%
Collusion, management override of controls, and lack of active director control over management: 17%
Weak ethics policy or code of conduct: 14%
Lack of segregation of duties: 12%

tants of Cooperatives (NSAC) revealed that weakening societal values and weak ethics policies were causes of concern for cooperatives.²

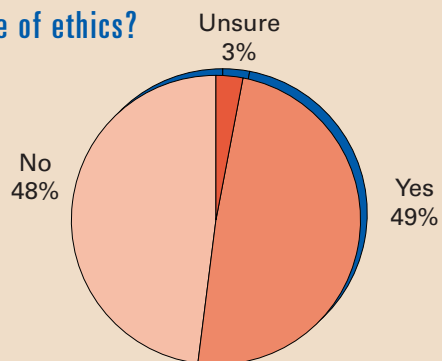
Focusing the board and management’s attention on fraud and developing or revising ethics policies or codes of conduct is essential to a solid foundation for internal controls and fraud prevention or detection. Data from the U.S. Sentencing Commission shows that an effective ethics program can prevent an organization from being prosecuted and help reduce fines in federal cases involving employee wrongdoing.³

Fraud & ethics research study

A recent survey funded by USDA was conducted to gather empirical evidence related to ethics and actual instances of fraud. The study reveals that an appropriate ethical environment in cooperatives can provide a foundation for preventing fraud and for building effective internal control systems.

The survey instrument asked cooperatives various questions about ethics and actual instances of fraud. A total of 484 cooperatives participated in the study, of which 209 reported having experienced actual or suspected occur-

Figure 1—Does your cooperative have a code of ethics?



rences of fraud. Loss estimates for a single incidence of fraud ranged from less than \$50 to \$2.5 million. The largest accumulated loss disclosed by a single cooperative for all types and occurrence of fraud totaled approximately \$5 million.

Data analysis

When asked if their cooperative had a code of ethics, 49 percent said “yes,” 48 percent said “no” and 3 percent were not sure (see figure 1). Interestingly, when asked if the cooperative provided ethics training, 80 percent of the respondents said “no” (see figure 2).

In addition, 95 percent of the cooperatives stated that they had no person in charge of monitoring ethical matters.

Internal controls & environments

The survey results also indicate that most cooperatives believe that they have relatively strong internal controls and control environments. Using a scale of 1 (highly ineffective) to 5 (highly effective), the cooperatives were asked to rate their own internal controls and control environments. The results for the ratings of internal controls (average rating of 3.99) and the control environments (average rating of 3.90) indicate that most cooperatives view themselves as having effective controls to help prevent fraud. The cooperatives also rated their degree of vulnerability of fraud as being very low, with an average rating of 1.35 (using a scale in which 1 equals “very low,” to 5, being “very high”).

The reasons given for occurrences of

fraud are quite interesting, given the cooperatives’ view that most are not vulnerable to fraud.

“Insufficient internal controls” was the top reason given for fraud (table 1). Ranking second was “collusion, management override of internal controls and lack of active director control over management.” Ranking third was “weak ethics policy or code of conduct.” These findings are consistent with other fraud and ethics studies. Thus, the ethical environment appears to hold up as the foundation for sound internal controls and prevention of fraud. Likewise, a weak ethical environment, such as lack of training or not even having an ethics policy, has the potential to weaken internal control systems and lead to fraud.

Red flags & instances of fraud

Another objective of this study was to find out what cooperatives would identify as “red flags” that indicated fraud was present (see table 2). The top four red flags reported were: unusual activity, unexplained losses, poor internal controls and changes in the lifestyle or behavior of an employee or management. Unusual activity and unexplained losses hint at the possibility that the fraud could have been prevented.

The next two indicators (poor internal controls and change in lifestyle or behavior of the perpetrator) are no surprise, in that they have been found to be red flags in many prior research studies on fraud. Poor internal controls lead to fraudulent activities. Remember, the same cooperatives rated their internal controls as being effective. Apparently, this is a manifestation of “the other person” syndrome, where cooperatives always think their internal controls are adequate while the other cooperative is the one with problems. This view of fraud and ethics must change.

Cooperatives also need to make a concerted effort to use professional skepticism and something more than a paper inquiry to ascertain the

Table 2—Red flags

Unusual activity:	19.1%
Unexplained losses:	12.9%
Poor internal controls:	12.5%
Change in lifestyle or behavior of person:	11.3%

lifestyle and behaviors of key employees and managers in cooperatives. Personal financial pressure, vices (drugs/alcohol), being disgruntled, work pressures, unexplained working hours, extravagant lifestyles, severe depression and employees living beyond their means can all signal fraudulent activity.

Conclusions

Fraud and ethics continue to be important business issues. Personal ethics and the ethical environment of the cooperative both play a fundamental role in preventing fraud and strengthening internal controls. Cooperatives need to stress ethics.

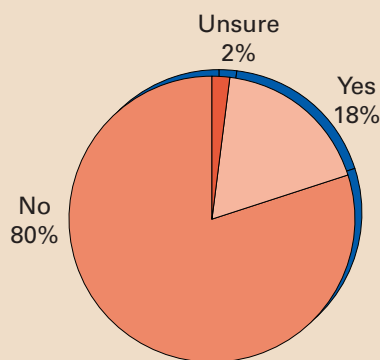
This study found that cooperatives have problems similar to those found in all types of businesses, no matter the type of entity. The results also lead to a set of red flags that should be identified and appropriately addressed by cooperatives.

This research provides evidence that developing a corporate culture that stresses honesty and scrupulous behavior is not only the right thing to do, but produces real savings to the cooperative as well. Additional guidance to help prevent fraud can be found in the report “Management Antifraud Programs and Controls,” available at: www.aicpa.org/download/antifraud/SA S-99-exhibit.pdf. ■

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Figure 2—Does your cooperative provide formal ethics training?



More than a power source

Brunswick Electric typifies commitment of cooperatives to support rural communities

By Steve Thompson
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Editor's Note: This is the first in a series of 3 articles examining electrical co-ops that are heavily involved in community development.

There's an 84-year-old woman in Winnabow, N.C., who knows what community involvement by utility co-ops means.

The woman, whom we'll call Mrs. P., was living on a small, fixed income and having trouble paying her bills. So she wrote to the President of the United States to ask for help.

Her letter wound up on the desk of

Hilda Gay Legg, the administrator of USDA Rural Development's Rural Utilities Service. Legg got in touch with Mrs. P.'s electric cooperative, the Brunswick Electric Membership Corporation (BEMC).

Robert W. "Chip" Leavitt Jr., the CEO of BEMC, sent someone around to look in on Mrs. P., who was a life-long member of the co-op. What he found was an elderly lady confined to a wheelchair, living in an old house with heat only in one room and few resources to improve her home.



Judy Gore (at left), BEMC vice president for customer service, presents high school faculty members and students a "Bright Ideas" grant to purchase personal heart monitors for the school's P.E. program. The monitors have helped students achieve substantial gains in fitness, while one student discovered an abnormal heartbeat, leading to early treatment for a serious heart condition. Photos courtesy BEMC

This started a chain of events that shows that the rural tradition of taking care of neighbors is alive and well. The co-op employee brought Mrs. P. some food treats and a small Christmas tree. He got in touch with a relative at the sheriff's department, whose employees got together a package of food, supplies and clothing. Meanwhile, employees of the co-op took up a collection for her, and contacted the appropriate local

BEMC's Judy Gore visits with "Mrs. P," a co-op member who was given assistance by the co-op and its employees after she was discovered living in a house with only one heated room.



The Bright Ideas program gives grants to local schools for special projects to enhance education. Begun in 1994 by BEMC, it has since been adopted by all electric distribution co-ops in North Carolina.

officials to make sure she was getting all the government help to which she was entitled. Leavitt even got help to pay Mrs. P.'s gas bill.

Electric co-ops' have vital stake in community welfare

Helping out Mrs. P. is only one example of the ways Brunswick Electric participates in the life of the communities it serves. BEMC, like utility cooperatives around the country, has a policy of using its resources to improve the economic and social conditions of the areas it serves. Besides helping out

indigent members, Brunswick takes an active role in improving educational opportunities for students, encouraging the development of small businesses and providing funding for causes as diverse as obtaining and training police dogs, cultural programs, transportation for disabled veterans, raising funds for hospitals and sponsoring a local baseball tournament.

BEMC's activities are part of a long tradition in rural America, where electric co-ops have played important roles in community life since the first were founded in the 1930s. As the only non-governmental organization that serves all families living in a service area, an electric co-op is a true grassroots organization with a unique position in rural communities.

Annual membership meetings are important social events that bring people together from miles around. Politicians running for office have traditionally found an electric cooperative's annual meeting or picnic an ideal venue for pressing the flesh and kissing babies.

After the immense job of electrifying rural America was accomplished, electric co-ops remained engaged in their members' lives in many other ways. Many have used their resources to encourage economic development, by setting up revolving loan funds for business ventures and other uses. Business incubators are operated by some utility co-ops to help launch new business.

Building hospitals and community centers and purchasing emergency equipment are other common activities of power cooperatives. Power co-ops use their positions as community institutions to encourage other entities to participate in partnership efforts, and their fiscal expertise to raise and administer funds. USDA Rural Development's Rural Economic Development Loan and Grant program is one source of funds for these purposes (see sidebar).

BEMC working to stimulate economy

BEMC's service area is in southeastern North Carolina, a region that has suffered economically in recent years due to shutdowns in local manufacturing and declining farm incomes. The co-op has responded to the situation in a number of ways, including providing facilities to encourage the development of small businesses, a tactic used by utility cooperatives around the country.

BEMC tackled the project by setting up a spin-off corporation, the Rural Consumer Services Corporation (RCSC), in 1989. The co-op financed RCSC through partnerships with a number of local and national entities, including the Rural Electrification Administration (now USDA Rural Development's Rural Utilities Service), the Farmers Home Administration (whose business, community and housing programs are now part of Rural Development), and the North Carolina Technological Development Authority. Further funding and other support came from local community colleges, local development organizations and local businesses and individuals.

The first funds were used as seed money to open a Business Develop-



Though the main business of BEMC and other distribution cooperatives remains providing reliable electric power to their members, electric co-ops also regard participation in community life as an important part of their activities.



Teacher Alisa Duncan reads to students in the Literacy Room at Jessie Mae Monroe Elementary School. Designed as a “cozy reading place” where students feel encouraged to delve into books, the room was funded through Bright Ideas after Duncan submitted a grant proposal.

ment Center in Whiteville, N.C., in 1991. Two more centers were later opened, using additional funding, in nearby Winnebow and Tabor City. The facilities offer inexpensive commercial space, including office space, for new and expanding small businesses. The rental fees include high-speed Internet hook-ups, access to light office equipment (including fax machines and copiers), secretarial support, conference rooms and training facilities. Each Business Development Center can accommodate professional offices, service businesses and even light manufacturing.

“We have really enjoyed our partnership with Brunswick Electric and the business development center,” says Sandra Gore, president and owner of Coastal Temporary Services, which “graduated” from a BEMC incubator. “They encouraged us, they gave us the opportunity to open our own business and it has been a great success story. Without the opportunity to be in this building [the BEMC incubator], we would not be in business today.”

Leavitt notes that the co-op minimized expenditures of members’ funds.

“The basic approach was for BEMC to serve as a catalyst for the project,” he says. “Our investment was not in membership dollars, but primarily in staff and management resources to develop partnerships, pursue other financing sources and garner community support for the project.” BEMC did provide a loan of \$128,000 to help finance the building in Winnabow. (see sidebar).

RCSC is now self-supporting from rental income. Annual expenditures for the business centers total \$160,000, including management and technical support, maintenance, utilities, etc. Since the first center opened in 1991, the program has

housed 32 businesses and helped create

almost 800 new jobs. In a struggling rural area, this is no small contribution to economic health.

Bright Ideas

Another co-op program seeks to improve education for students in its service area. The Bright Ideas program, which began in 1994, offers grants to local teachers for educational projects in kindergarten through high school that otherwise would not be funded. Since the program’s founding, all of the 27 electric distribution co-ops in the state have joined. Together, they have distributed over \$3 million.

Three years ago, BEMC joined the Touchstone association of power cooperatives, which provides marketing resources and assistance to members. Bright Ideas and other community programs are now presented under Touchstone’s auspices as well as BEMC’s.

This year’s lineup of BEMC Bright Ideas awards emphasizes reading skills. One school got a grant to build a “lit-

USDA’s REDLG program

The Rural Economic Development Loan and Grant (REDLG) program, administered by the Rural Business-Cooperative Service of USDA Rural Development, provides zero-interest loans and grants to Rural Utilities Service-financed electric and telephone utilities. The funds are to be used to promote sustainable rural economic development and job creation projects.

The utility is required to re-lend the funds, at zero-percent interest, to an eligible third party. These third-party recipients may be private or public organizations having corporate and legal authority to incur debt. They can include businesses, nonprofits, municipalities and other entities. Eligible purposes include:

- Business expansions and business start-ups, including cost of buildings; equipment, machinery, land, site development and working capital;
- Community infrastructure necessary for economic development and job creation purposes;
- Community facilities and services necessary for economic development and job creation purposes;
- Medical facilities and equipment to provide medical care to rural residents;
- Educational facilities and equipment to provide training and job enhancement skills to rural residents to facilitate economic development;
- Business incubator projects to assist in developing emerging enterprises.

Priority is given to financing third-party recipient projects that are physically located in rural areas having a population of less than 2,500 people. ■

Funding Business Development Centers

Brunswick Electric Membership Corporation (BEMC) development affiliate, the Rural Consumer Services Corporation (RCSC), was selected by the National Rural Electric Cooperative Association (NRECA) to participate in developing a video presentation and “tool-kit” for utility co-ops on promoting economic development. The following is an overview of the Business Development Center project, excerpted from material provided to NRECA:

Leveraged Funds/Source

North Carolina Electric Membership Corporation zero-percent economic development loans, to RCSC, guaranteed by BEMC, for the construction of the Winnabow and Tabor City buildings \$950,000

BEMC 5-percent economic development loan to RCSC for the construction of the Winnabow building \$128,326

For the construction of the Whiteville building and access road (which are owned by BEMC and leased to RCSC):

USDA Rural Economic Development Loan (repaid)	\$100,000
North Carolina Technological Development Authority	\$185,000
North Carolina Rural Economic Development Center Inc.	\$ 30,000
USDA Industrial Development Grant	\$ 32,000
Columbus County, N.C., provision of in-kind services to build the road to the facility	\$ 32,000

Other Partners

The ongoing management of RCSC Business Development Centers is made possible by the continuing partnership between BEMC, RCSC and the Small Business Development Centers at two local community colleges. Southeastern Community College provides on-site management for the Whiteville and Tabor City facilities, and Brunswick Community College in Supply provides the



This Business Development Center in Whiteville, N.C., is one of three operated by the Rural Consumer Services Corporation, an affiliate of BEMC.

management for the Winnabow center. Both community colleges also provide business counseling services and entrepreneurial training programs.

Lessons learned

- It takes time to develop and doesn't happen overnight.
- It takes a variety of partnerships to make it happen.
- It is critical to develop support from the community.
- The reward is for the community, not a direct return to the cooperative. It is not a profit-making endeavor. The purpose is to create jobs and stimulate the economy.
- It takes a lot of promotional effort both initially and to continually remind the public that the BDCs are available.

What might have been done differently

- Recommend more allocation for promotional budget;
- Develop a more formal marketing plan, with annual review;
- Keep more complete documentation on the project and each BDC tenant right from the beginning;
- Allocate budget for annual maintenance. ■

eracy room” to supplement the library. The literacy room, designed to be cozy and inviting, is staffed by volunteers who coach children in reading. Part of the grant was used to buy books tailored to different reading levels to allow teaching each student at his or her level of ability.

Another grant bought portable bookshelves that are brought into class-

rooms and the books to stock them. All of the projects are the brainchildren of individual teachers, who apply for grants independently of their school administrations.

The funds for this and other community efforts come from an auction of surplus co-op equipment and vehicles, held every year at the co-op's annual meeting.

“The annual amount from this auc-

tion varies, but as a non-operating source of funds, it doesn't impact the members' electric rates in any way,” says Leavitt. “Someday we'd like to move into a full “Operation Roundup” giving program, that would involve the entire membership.” (Operation Roundup has been adopted by a number of utility cooperatives. Under it, utility bills of participating customers are rounded up

to the nearest dollar, with the excess going to fund various community and charitable initiatives.)

Even without utility bill check-offs, however, the co-op has been able to start up a new community effort with auction funds. The Community Grants program is designed to help family services, cultural and arts programs and emergency services and economic development projects.

Judy Gore, BEMC's vice president for customer services, says "the Bright Ideas program shows that with a relatively small annual investment in our community, we can make a big difference. We wanted to expand that investment to include worthwhile programs that provide important social, cultural, educational, and economic services to all citizens in our service area."

The first awards under the new program include help for a sheriff's department in setting up two canine teams, funds to buy a van to transport disabled veterans to medical care, a grant for a science exhibit at a local museum and a lighted marquee for an elementary school.

A reliable partner

Formal programs are important,



BEMC Director Calvin Duncan checks out a display erected by the co-op at the 2002 Columbus, N.C., County Fair.

but, as Mrs. P. found out, they are only one aspect of the co-op's participation in community life. "Our communities know that they can count on BEMC for support," says co-op spokeswoman Linda Thomas. "We really try hard to maintain that close connection."

One example of this is sponsorship of a youth baseball tournament. For the past two years BEMC and Touchstone have helped host the Beach Diamond Invitational Baseball and Softball Tournament, held for three days during spring break. This year, 16 teams participated in the tournament in the town of Shallotte, some coming from as far as Virginia, Kentucky and

Maryland. The co-op commissioned a professionally-designed logo for the tournament and provided T-shirts for all the participating team members.

Another example is a Southport charity golf tournament to raise funds for the National Shriners Children's Hospital in Greenville, S.C. For two years Brunswick and Touchstone have been the major sponsors of the event, which is organized by the Brunswick County Shrine Club. More than 125 businesses and individuals joined in sponsoring the event last August, which raised \$35,000.

Other contributions to community life include providing space for community groups to meet at co-op headquarters, encouraging employees to participate in community activities, participating in local parades, sponsoring breakfasts for volunteers, and providing raffle items for fundraisers.

The BEMC leadership sees nothing remarkable about such activities, regarding them simply as part of the co-op's natural role. "While our core business is providing safe, reliable and affordable power, we are also committed to helping our community," says Leavitt. "That's part of the tradition of electric cooperatives." ■

"Tough bargaining" helps almond growers

Look who's bucking the trend of low prices usually following overabundant harvests. Doug Youngdahl, chief executive of Blue Diamond Growers at Sacramento, Calif., credits tough bargaining for his cooperative's success in bringing higher prices for 4,000 almond growers, even in the face of a record harvest of 1.1 billion pounds last fall. Growers have increased productivity, new markets have opened, and campaigns promote the nut as a healthy snack and almond consumption in the United States has grown by 57 percent since 1996. Much of this due to successful bargaining—with no help from federal crop subsidies. Last spring, Youngdahl negotiated a 15- to 20-percent price increase by arguing that lower prices would force some growers out of the business and that would lead to higher prices in coming years. He also said if buyers didn't agree to higher prices, the cooperative and others would withhold product from the market. The state supplies 80 percent of the world's almonds, up from 60 percent a decade ago. Conversely, California's more perishable fruit crops, such as grapes, apricots and raisins, have suffered from the usual pattern of lower prices following abundant crops in addition to foreign competition. ■



“No go” can be a good show

Feasibility study advises co-ops not to pursue tortilla project

By Michael Doherty

Editor’s note: Doherty is a cooperative business specialist with USDA Rural Development’s state office for Illinois. He acted as USDA’s consultant for the project described below.

A good feasibility study that accurately gauges the odds of success is essential for any co-ops considering a value-added project. Two central Illinois grain cooperatives recently contracted for an independent feasibility study, which ultimately determined that there was little chance for success for their proposal to process specialty tortillas for the Hispanic market in Chicago, despite growth of that market and increasing demand.

While there was undoubtedly some disappointment about that outcome, those feelings would pale compared to what co-op members would have felt had they pursued the project, only to have it end in failure. Sometimes the best feasibility study is the one that urges a “no go,” as this case shows.

Co-ops form joint venture

The Morrisonville Farmers Cooperative and Assumption Co-op Grain Co. formed ILLI MEX Alliance LLC in June 2001 as a joint venture to explore new, value-added markets and new sources of income for their 2,000 members. The goal of the alliance was two-fold: 1) to develop a premium-based contract market for white corn that would add income to the members’ farming operations, and 2) to eventually own a piece of the tortilla manufacturing business in Chicago.

The cooperatives have export market access through St. Louis and sell into the domestic processor market in Decatur, Ill., through ADM. They are experienced in grain handling, identify preservation of grain and in merchandising

high-oil corn, non-GMO corn and food-grade corn.

Tom Bressner, general manager of Assumption Co-op, became interested in the tortilla market while seeking new markets and customers on trade missions to Mexico in 1997, 1999 and 2000.

To help pay for a feasibility study, the alliance applied for a USDA Value-Added Producer Grant (VAPG) of \$40,000 during the summer of 2001, which was matched by ILLI-MEX (with funds contributed by the two cooperatives). USDA awarded the grant in October 2001.

Focus on Chicago market

The immediate objective was to determine the feasibility of developing a fresh masa tortilla manufacturing business in the heavily Hispanic areas of Chicago.

Masa is flour, or dough, made of ground corn and used for tortillas. This fresh masa tortilla business would use white food-grade corn, which would be produced through premium-based contracts with the Assumption and Morrisonville co-ops.

According to the 2000 census, 1 million residents of Cook County are Hispanic, of whom 72 percent are of Mexican heritage. They, along with 490 Mexican restaurants in the Chicago area, were the primary consumer targets of the proposal.



Tom Bressner (left) manager of the Assumption Grain Cooperative Co., and Dan Litteken of Morrisonville Farmers Cooperative, accept a check from USDA Rural Development that helped pay for a corn-tortilla plant feasibility study. Photo courtesy The Grain Journal. At left, the Assumption Grain Co-op elevator. USDA photo by Michael Doherty

Impetus for the co-op alliance resulted from discussions with representatives of the Independent Tortilla Manufacturers (ITM) Association, an industry group that controls more than 50 percent of the tortilla market in Mexico. Meetings took place in May 2001 with Burt Swanson, a University of Illinois extension specialist, and the potential Mexican partners, which were to be offered a chance to buy an interest in the venture.

Swanson had studied the tortilla market in Mexico extensively and felt there was potential to increase the tortilla market with Chicago Hispanics. Swanson contacted USDA Rural Development in Illinois to assess the possibility of the cooperatives applying for a VADG grant. He held discussions in May 2001 with a USDA Rural Development cooperative specialist regarding the structure of the proposed venture, ownership by farmers of a tortilla business and location of manufacturing facilities.

Letters of support for the USDA assistance were written by the Illinois Corn Growers Association, Illinois Department of Agriculture, Senator Dick Durbin, Governor George Ryan and several local congressmen.

Most tortillas manufactured and sold in Chicago are prepared from rehydrated corn flour mixed with food preservatives to increase shelf life. The ITM group believed that Hispanic consumers and restaurants in Chicago would prefer—and be willing to pay a higher price for—tortillas that were made on-site daily from whole grain masa and produced without the use of preservatives.

This process would allow the tortillas to be made with more traditional Mexican flavors and textures than the “American version” of tortillas, which would be more appealing to Hispanic consumers. Tortillas made “in-store” from fresh masa dough would cost more than competing tortilla products, but initial discussion indicated that designing a new and efficient system for delivering the masa to stores could offer a significant market advantage over the existing systems.

If the results of the feasibility study were positive, it was envisioned that eventually ILLI-MEX LLC would own a small production plant in the Chicago area.

The Alliance hired SJH and Co. of Danvers, Mass., to con-

duct the feasibility study for the project. Information from the Mexican ITM group was also considered, along with agricultural research results from the University of Illinois.

Phase I of the feasibility study was to run from Nov. 1, 2001 to Jan. 31, 2002, and was to focus on market dynamics in Chicago, pricing, marketing and industry structure. If those results were positive, the study would advance to a more in-depth technical assessment and financial analysis, to be conducted in May of 2002.

Study recommendation: “No Go”

The findings and recommendations of SJH and Co. were submitted to the ILLI-MEX Alliance on March 13, 2002. The overall outlook was negative, showing inadequate growth in market demand for fresh vs. pre-packaged corn tortillas. The study found that there was a dwindling reliance on small-scale local shops, excessive costs for making and selling tortillas in stores, dwindling demand for fresh masa dough and a maturing market headed toward overcapacity.

The feasibility study results were clear, comprehensible and offered ILLI-MEX a valuable education about a topical market. It also saved the two cooperatives from investing further effort and money toward a project that carried high risk of failure.

Assumption Co-op Grain’s Bressner says the outcome may not have been what the co-ops were hoping for, but it gave them the information they had to have to make an informed decision.

“You have a big idea and a dream, and some people want to go out and spend big bucks to make it happen,” Bressner says. But that dream could turn into a nightmare without a good study. “That’s why you do a feasibility study—to find out if the dream is likely to become reality.

“The study gave us the answers we were looking for,” Bressner continues. “We look at the whole process very favorably. And it opened up a dialog between us and Morrisonville that is ongoing. We’ve kept the joint venture intact and are now looking at other possible projects. So even though the decision was made not to pursue this project, it has been of great benefit to both of our co-ops.” ■

Port OK’S Texas co-op lease

Gulf Compress, a Texas-based cotton marketing cooperative, has become the first tenant in Corpus Christi’s La Quinta Trade Gateway, in what could be a \$15.5-million investment in the project. The cooperative’s entry was approved by Port of Corpus Christi commissioners for the Gateway, a planned container terminal on a 1,114-acre tract purchased by the port in 1998. Gulf Compress currently owns land planned for a baseball stadium. The cooperative would lease a site of almost 30 acres from the port for \$1,918 a month for 30 years. The port will provide access roads to the site from a major highway, rail access and while the cooperative will add warehouses, roads and a rail spur. Gulf Compress will act as a catalyst for further economic development. Bob Weatherford, co-op president, said the venture would bring jobs to the community. Once the cooperative becomes operational in 2004, it plans to apply for certification in the New York Cotton Exchange . ■

Talking with pictures

Photo experts offer tips on how to better tell your co-op story with strong photos

By Dan Campbell, Editor

A good photograph not only communicates visually, it can also attract readers to an article they might otherwise pass by, in much the same way an effective sign or window display beckons to customers and draws them inside a business. A strong communications program is essential for a cooperative to keep its members informed and committed to their co-op, and good photography can play an essential role in improving the quality of co-op publications—be they newsletters, newspapers, magazines or Web sites.

But what makes a strong photograph?

Portraits—



1st Place, Portraits—“Kenny Davis, Row Crop Farmer”—By Glen Liford, Tennessee Farmers Cooperative. Judges’ comments:

“The farmer comes off very sculptural, like an amber statue in the field. He rises up in the field like strong presence in his environment. I don’t usually like the subject looking into the camera, but sometimes it is the strongest portrait, rather than trying to get the subject to do some action that doesn’t look natural. You feel his pride and the fun he is having as a farmer.”



Earl Dotter, Bonnie Stutski (center) and Susan Moeller examine some of the 175 photo entries they judged during the 2003 photo contest sponsored by the Cooperative Communicators Association (CCA). CCA also sponsors annual competitions to recognize the best in co-op publications, writing and special projects. USDA Photo by Bob Nichols

This question was recently addressed by a panel of three photography experts who evaluated nearly 200 co-op photos and publications as part of an annual communications competition sponsored by the Cooperative Communicators Association (CCA). CCA is an organization of some 350 communications specialists who work for cooperatives in the



2nd Place, Portraits—“Warm Season Grass Rancher” by James Fashing, MFA Inc. Judges’ comments:

“Nice perspective, has good sense of scale of landscape and movement that draws your eye through the landscape. Nice dynamic quality and great depth to it. An environmental portrait like this usually stronger than straight on shot.”

United States and some foreign nations. The photo judges included Earl Dotter, a prize-winning photo journalist based in Maryland, Bonnie Stutski, photo editor for Smithsonian magazine, and Susan Moeller, a photojournalism professor at the University of Maryland.

Asked for their overall impressions of the photos they judged in an all-day session at USDA headquarters in Washington, D.C., the judges said they were impressed—even surprised—at the overall high quality of the work. But they also saw room for improvement and offered a number of constructive criticisms and “photo philosophy” that can help

refine the approach to the way we talk to our members through pictures.

Portraying your “human capital”

“I would stress that the strong suite of the co-op is the human capital—the people who are the members,” says Dotter. “Next in importance is the product they create that provides for their well-being and supports their communities and lifestyle. I would really encourage the photographers to explain to their subjects that we want you to live out your life, rather than act it out, in front of the camera. We want to



3rd Place—“Mr. Simmons” Robin Conover, Tennessee Association of Electric Co-ops.

Judges’ comments:

“A charming picture that gives you a feeling of his joy in playing violin. Composition works—everything is going towards his face; you follow the violin strings to the man’s face. Eyes really do resonate behind his spectacles, and that’s not an easy accomplishment.”



Honorable Mention—“The New Face of West Texas Agriculture” by Lynette Cockerell, Plains Cotton Co-op Association. Judges’ comments:

“I like the perspective, looking up at her. You see that she’s a real farmer—there’s dirt on her shoes. The back-lit quality gives a feeling that she’s almost ethereal. I like her looking into the distance like that instead of into camera. She breaks the mold of the stereotypical female farmer. She’s mud-spattered and obviously a hands-on farmer. Photo projects that she makes a real contribution to the farm.”



Honorable Mention, Portraits—“Responsibility” by Sheryl Meshke, AMPI. Judges comments:

“Handles difficult lighting situation effectively. Good depth of field. A bit more fill light might have calmed down the background more. Natural action, even if it was a set up shot.”

photograph you with the dirt under your fingernails, because that's how you make your living. We want to photograph you in a way that projects the honest labor that you perform."

A photo assignment, Dotter continues, is a collaborative effort between the photographer and their subjects. So take a little time to get to know the subject before beginning to photograph them.

"The rules of common courtesy apply in rural America," Dotter says. "I let you know who I am and, if I'm lucky, the favor will be returned. Give your subjects a basic understanding of why you are there to take their picture: to show the accomplishments and hard work that create the food on the table and the sustenance for America. That's what you really want to capture. To a large degree, you see a surface view of life rather than the inside, intimate story. It's the photographer's challenge to get behind the closed door or inside the far-

mgate in a way that really projects a sense of the life and work and rewards of that experience.

A good photographer, Dotter says, engenders a sense of collaboration, so the subject knows what you are looking for. "I have to let you know who I am, and you need to have a sense of trust in who I am. Sometimes that involves just sitting down with a cup of coffee at the kitchen table with the camera still in the car before you take the first shot."

This process need not necessarily be a long one. "Sometimes you can get to know your subject fairly quickly," adds Stutski. This might help you show subjects from a perspective we wouldn't normally see.

"Think about how you can make something more interesting than a straight-on snapshot, either by virtue of lighting or background," Stutski says. "You want photos that people will say—'How did they do that, or catch that moment?'"

News—



1st Place, News—"Lost Harvest" by Sheryl Meshke, AMPI. Judges' comments:

"A provocative image. Nice use of a close up and a high impact photo that makes the point about drought's impact. Close composition allows image to project well on printed page. Depth of field makes the main area of interest live. Camera's point of view is a bit different than you might expect. Comes from long tradition of using close-up on elements to stand for a larger whole. Hands stand for all farmers facing drought, and one ear of corn represents fields of corn."



2nd Place, News—"Bustin' Broncs" by Bob McEowen, Missouri Association of Electric Co-ops.

Judges' comments:

"Captures decisive moment in a contest; strong expression on rider and horse, as well as body language. Background supports the foreground interest; captured the apex of the action and gesture, angle of the light at time of day highlights the main subjects. I like the dirt flying around horses hooves. Also, the background is nice with repetition of the cowboy hats, one guy in upper right corner has hand up to head, as if going 'Oh my gosh.'"

Wearing two hats poses big challenge

For many co-op publications, the reporter/writer is also acting as the photographer, which greatly increases the challenge of getting good photos. “You finish your interview, you put down your notepad and say, ‘OK, now I’ll take a few pictures. Why don’t you stand there, hold this and smile,” says Moeller. “It’s very difficult to do both. It’s a big problem. But when you have a small budget and small staff, you may not be able to get around it.”

A combination reporter/photographer may have to come into an assignment with a different mind-set. “Maybe it means coming back twice,” Moeller says. “Or thinking through the photos in a way that many of these photos (that we saw today) were not thought through.”

Too often, she said, the thinking is ‘I am going to go out and report on this, and I’ll take what photos arise.’ Instead,

try to think like a photojournalist who thinks in advance about the images wanted, she advises.

The way photo or story assignments are made can also impact success or failure, Dotter says. One way to transcend that difficulty of serving as photographer and reporter is for the photographer’s boss to give them enough discretionary time to work on some ongoing assignments where they can take pictures on a member’s farm—for example—throughout the year to develop a strong photo essay. “You may catch him in the midst of some crisis that reveals the life of a working farmer in a way that is a little bit unexpected. In this way, you are not starting from point zero, and you will have time to get inside a story. This can work well for a publication where you may “cross paths” with the subject with some regularity in your travels.

Feature—



1st Place, Feature—“Twilight at the Picture Show” By Bob McEowen, Missouri Association of Electric Co-ops. Judges’ comments:

“Strong shot with a lot going on. Neon colors are great—we love it!”



3rd Place, Feature—“Down, and Give Me 10” By Bob McEowen, Missouri Association of Electric Co-ops. Judges’ comments:

“Good color quality—we like the monochromatic background against the stark color of the troops’ uniform. A strong panorama shot.”

Honorable Mention, Feature—“Dentist’s Office” By Bob McEowen, Missouri Association of Electric Co-ops. Judges’ comments:

“Strong composition that has everything going toward the boy’s face. Black and white photography is still a very effective media—it should be used more often.”



Avoid “grip and grins”

“We saw two types of photographers here—some with a tremendous amount of talent, who seem to have a facility to take a wide range of photos of different subjects,” Moeller says. But too many “are taking grip and grins (where the subject poses, smiling into the camera, perhaps holding some object central to the story).” These, she says, tend to be very static photos that do not do justice to the subjects.

The judges saw a tendency in the publications to be dominated by these snapshot-style photos of “smiley-face individuals looking right down the lens barrel.” A much more truthful attitude would be conveyed if the photographer took time to photograph people in real working situations—capturing them on film as they go about their daily routine, or whatever activity is the focus of the story.

As a rule, this will create a much stronger photo than will subjects standing and looking happy in front of the camera, they said. Of course, time and other restrictions often mean that this won’t be possible, and a set-up shot will be required. With care and a little imagination, this can often be accomplished in a way that they don’t look too forced or staged.

Dottter urges photographers to capture the best light whenever possible by shooting very early in the morning, as the sun is rising, or in the evening as it is setting. Whenever possible, he stresses, avoid shooting photos in mid-day, when the sun is directly overhead and the sky is hazy or cloudy.

In many instances, the judges felt the layout of the publications they reviewed (for the photo essay and best use of photos in a publication categories) did not live up to the standard of the photography. Moeller said the layouts were often

Scenic—



2nd Place, Scenic “Little Pigeon River” By Robin Conover, Tennessee Association of Electric Co-ops. Judges’ comments:

“This is kind of standard shot but very pretty—handled well. Has that little something extra that makes it evocative and gives it some mystery. Slow shutter speed gives movement, but not overdone. Plays well with mist or fog lifting up in back.”



3rd Place, Scenic —“Sugar Coated” By David Lundquist, CHS/Land O’ Lakes. Judges’ Comments:

“Triangular composition is strong. Caption is perfect.”

“very busy”—meaning there are too many graphic elements competing for the reader’s attention.

“I also saw periodicals that don’t know what to do with good photographs when they have them— that don’t use them well,” Moeller said. “We’ve all worked in newsprint, and know the limitations of low budgets—there are constraints. But you can still get more creative than we are seeing here in terms of playing what you’ve got.”

“Overall, I was surprised at seeing so much good work,” Stutski says. “Some of these photographers work with light very well and have a great eye for composition, good feeling for different perspectives. Not always the straight on shot of someone looking at camera and grinning.”

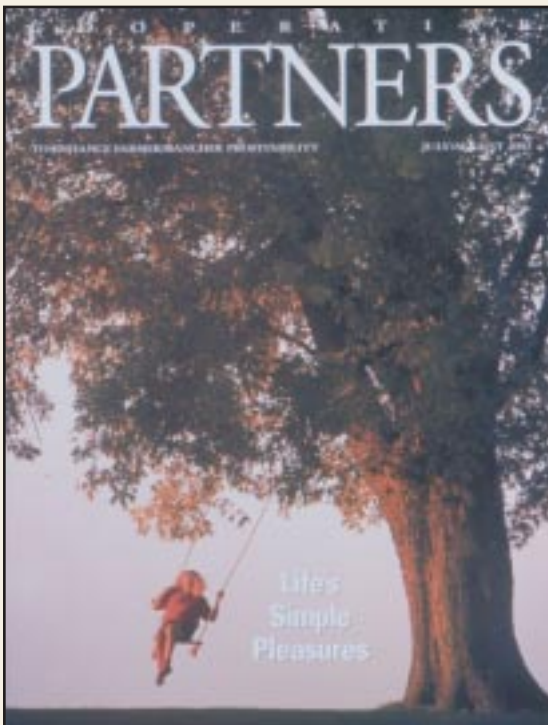
Benefitting from risk

Sometimes the best photos arise from taking chances—

trying for something unusual. “I’d be hard pressed to name any image we saw today that struck me as a risky image— where the photographer really was pushing himself and the subject,” Moeller said. “I’d also be hard pressed to come up with more than a couple of emotions that I saw depicted. For the most part, these are upbeat magazines, speaking to the converted and they may not want to show the dark side or something extreme. But you can still get beyond the PollyAnna-ish images of people.

“Every photo contest judge always says this, but it is worth repeating: editors need to be looking at other periodicals and photos. Get in their heads and see what they do. And sometimes it might mean taking photo spreads that they loved in other periodicals and mimicking them. Learn why something works. Why was this a great spread in *Vanity Fair*, or in *Smithsonian* or *National Geographic*? What doesn’t work? ■

Best Cover—



1st Place, Best Cover—“Life’s Simple Pleasures”
David Lundquist (photog.), Steve Richter, (editor)
CHS/ Land O’ Lakes. Judges’ comments:

“Would have like to see the cover headline in a hand script, because photo is lyrical. On all three of these (finalists), the drop-in headlines die. Could all be much more sophisticated. A very striking photo and clean layout.”



2nd Place, Best Cover, “Cardinals in Winter”
Robin Conover, Tennessee Association of Electric Cooperatives.
Judges’ comments:

“Would have like to see the cover headline in a script font, because the photo is so lyrical. Could all be much more sophisticated. Photographer must have shivered to get this shot. A dialogue in red. Might have placed cardinals in winter first on basis of just photo, but when look at all elements, it gets knocked down a notch. “Life’s Simple Pleasure” is a cleaner cover, more striking.”

NMPF scales back CWT milk supply-balancing plan

By Patrick Duffey, Writer-Editor

USDA Rural Development
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Pressed against the barn wall by some of the lowest milk prices in a quarter century, the nation's dairy industry has approved a scaled-back version of the Cooperatives Working Together (CWT) program, an attempt to boost milk prices by reducing production to better meet demand. The first CWT proposal, drafted by the National Milk Producers Federation, failed to garner the needed 80 percent support level, so NMPF scaled back the program, lowering the level of support needed to 70 percent, which it got.

"We're thrilled to be able to move forward with CWT," said NMPF President and CEO Jerry Kozak. "This groundbreaking program is tremendously important for the dairy-producer community."

The original CWT proposal called for producers to pay an 18-cent-per-hundredweight assessment to fund the program. The revised CWT program would reduce the assessment to five-cents per hundredweight for participating dairy producers. The goal would be to reduce milk supplies by 1.2 billion pounds during the next year. The money raised would be used to pay some farmers to "retire" their herds, cut back production and for an export assistance program.

"The revised CWT program will still offer a 400-percent return on investment," NMPF President and CEO Jerry Kozak said. The five-cent-per-hundredweight CWT assessment would

raise all milk prices an average of 23 cents per hundredweight, even when factoring in the cost of the CWT assessment and lower government program payments, Kozak said. Some dairy co-ops not affiliated with NMPF, as well as many producers who do not belong to a co-op, are still supporting CWT, he noted.

NMPF, which represents more than 30 of the major dairy marketing cooperatives and 60,000 dairy farmers who produce 70 percent of the nation's milk, also proposed the original CWT program as a three-pronged effort to boost depressed on-farm prices by better balancing supply with demand. To succeed, NMPF needed to get individual producers to collectively commit 80 percent of the nation's milk supply to the original CWT program by June 30, but it failed to do so. According to press reports, the plan faced considerable opposition among small farmers in the Upper Midwest, particularly in Wisconsin.

In its May newsletter, Prairie Farms Dairy Inc., a co-op based in Carlinville, Ill., said the original CWT was a bold and well-intentioned proposal, but said it could not urge a "yes" vote for a number of reasons. These included the concern that the 70 percent of producers who belong to NMPF would have to carry the burden for the other 30 percent. It also noted that the program "does not sell one more quart of milk or slice of cheese" and the co-op questioned whether the export incentives would work more than briefly, as the rest of the world would most likely "soon adjust to lower prices in order to maintain market share."



The three major components of the original CWT program included:

- A \$60 million export assistance program (aimed at Central and South America and Asian countries) to stimulate exports and clear inventory from the U.S. market place by paying manufacturers and exporters a bonus, on a bid basis, for cheese and butterfats destined for foreign commercial markets. The target was to remove 1.6 billion pounds of milk.

- An \$18 million reduced milk marketing program that would have provided incentives for producers to decrease the amount of milk they ship by at least 10 percent. Producers would submit bids stating how much they would accept for selling their entire herd for slaughter. The goal was to eliminate 460 million pounds of milk a year from the market, or about 3 percent of the national supply.

- The \$112 million herd-reduction plan would have removed 125,300 milk cows (less than 4 percent from the nation's herd of 9.2 million cows) or the annual equivalent of 2.07 billion pounds.

The herd reduction plan was aimed at retiring farmers, who would be induced to sell their herds into slaughter rather than sell to another producer. But farmers could also sell their entire herd and turn around and start new ones. ■

Stuff

You Need to Know

If you're a director or manager of a cooperative, or just a co-op member interested in keeping abreast of important issues that affect your interests, these publications offer you important information.

NEW RBS Service Report 61

Farmer Cooperative Statistics, 2001

Cooperative income rose 6.3 percent in 2001 from the previous year, but the number of cooperatives declined 3.5 percent and cooperative memberships dropped 1.7 percent. Here is all the statistical information on cooperatives in the U.S., in one handy package. (\$5.00)

Cooperative Information Report 61

The Circle of Responsibilities for Co-op Boards

This is a reprint of three popular Management Tip articles by James Baarda. The articles lay out fundamental guidelines for cooperative directors to adhere to in an era of increasing scrutiny of director behavior and greater pressure to perform well and justify their decisions. Many co-ops have been asking for a compilation of the series for easier handouts at board meetings. 14 pages. (Free for educational purposes)

RBS Research Report 194

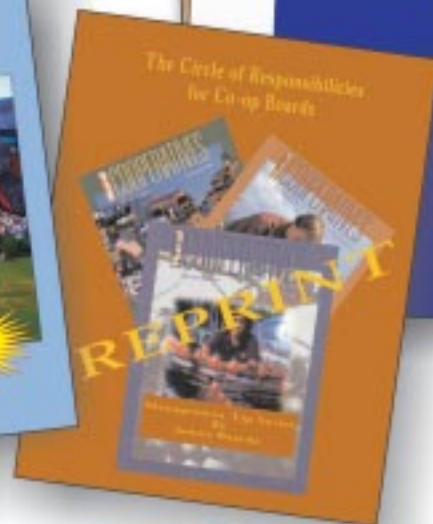
Black Farmers in America, 1865-2000: The Pursuit of Independent Farming and the Role of Cooperatives

Learn about the unique experience of American black farmers and the role of co-ops in their struggles for independence and prosperity, from the end of slavery to today. (\$5.00)

RBS Research Report 190

The Changing Federated Relationship Between Local and Regional Cooperatives

Local and regional cooperatives don't always work hand-in-glove; sometimes relationships are strained when local co-ops seek better deals elsewhere. But there are potential solutions, as discussed in this report. (\$5.00)



Cooperative Information Report 60

Agricultural Cooperatives in the 21st Century

This report identifies challenges and opportunities facing farmer cooperatives in the years ahead and offers strategies to increase their chances for success. The external forces besetting cooperatives are examined, as are their internal strengths and weaknesses. The report summarizes the thoughts of more than 60 co-op leaders who participated in six focus sessions. 41 pages (Free for educational purposes)

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AGP sets volume record; Reagan sees member support

“Our future success lies in the strength of our members and the ability to meet the ever-changing needs of customers,” Ag Processing (AGP) CEO Marty Reagan told members attending the Omaha-based cooperative’s 19th annual meeting. As a result, the soybean-processing cooperative “continues to be profitable, paying patronage and revolving equity to members,” he said.

For fiscal 2002, AGP produced a record volume of refined oil and had sales that topped \$1.8 billion;



returned \$16.5 million in cash in patronage, equity redemption and

An AGP tanker truck loads up with refined soyoil. Photo courtesy AGP Inc.

component premiums; expanded destination markets for members’ grain, including beginning construction on a new West Coast vessel-loading facility, and exported 20 percent of its soybean meal production, mostly to Canada and the Pacific Rim. Members’ equity in AGP stands at nearly \$403 million.

“Every business unit we operated last year had capital dollars invested in them, with most of the money earmarked for

Professor’s idea blossoms into major co-op conference for college students

By Leslie Shuler

Editor’s note: *Shuler is a marketing communications intern at CHS Cooperatives.*

Nearly 25 years ago, William Nelson, then a professor at the University of Minnesota-Waseca, had an idea to create a valuable cooperative educational experience for his students. He wanted to organize a tour of agricultural cooperatives in the Minneapolis-St. Paul area. However, like many educators, he had little money in his department budget.

He worked with the Minnesota Farmers Union (MFU) to see if it would support this venture. With a history of providing cooperative education to both its members and the public, MFU proved to be the “right fit” to help Nelson create the cooperative learning experience.

“Over time, MFU, various college professors and other cooperative education leaders recognized the value of providing students with a structured opportu-

nity to learn more about cooperatives and related careers,” said Cathy Statz, conference co-coordinator and Wisconsin Farmers Union (WFU) education director.

By the late-1990s, the program evolved into a three-day conference, closely resembling what it is today: the College Conference on Cooperatives.

“Participants had an opportunity not only to observe cooperatives on location, but to hear from those participating in all levels of the cooperative movement, from employees, management, boards and members, as well as from those involved in cooperative support,” Statz said. “Today, the conference features cooperative speakers, panels and tours from across the cooperative spectrum.”

This year session panelists discussed local cooperative management, co-op careers, consumer cooperatives and challenges facing rural areas. More than 90 students and educators gathered in Minneapolis for the

improved efficiencies, increased capacity and marketing opportunities,” Reagan said. Mike Knobbe, group vice president for grain, said the future for AGP Grain will be enhanced by a pair of developments in fiscal 2002: creation of a new partnership with Farmers Cooperative Co. at Hinton, Iowa, and expanded destination markets made possible by the purchase of 14 grain elevators in the Texas panhandle.

SSC, Farm Plan forge credit pact

A credit alliance has been formed by Southern States Cooperative (SSC) of Richmond, Va., and Farm Plan, a division of John Deere Credit. The pact will allow SSC to concentrate on its core farm supply businesses. Responding to a poll, members said they wanted a credit plan that offered more flexibility, better rates and more simplicity than was available from SSC. After a pilot test in several stores, the program was so well received that SSC converted nearly 200 company-owned and independent retailers to the new plan, affecting 170,000 customers. The

cooperative, marking its 80th anniversary, operates a network of 1,200 farm production supply retail stores stretching from Maine to the Gulf Coast.

Wool Growers pick Etcheverry

The Idaho Wool Growers Association has chosen Henry Etcheverry, a range sheep herder from southern Idaho, as its new president. Etcheverry, of Rupert, markets his lambs through the new Mountain States Lamb Cooperative. He says he hopes entities such as this co-op will “stabilize the lamb market and make us more competitive in the marketplace.”

PCP sells canning operation to focus on food processing

In a move to reduce its overall debt, California’s Pacific Coast Producers (PCP) will concentrate its attention on food processing now that it has sold its can-making operation for \$15 million to Silgan Holdings Inc., a major North American can manufacturer. The 140 employees at the cooperative’s Lodi, Calif., can plant will be retained by the

new owner. PCP, with annual sales of \$350 million, will buy about \$35 million in cans a year from Silgan under a 10-year contract.

The cooperative is California’s No. 2 fruit processor, primarily handling peaches, fruit cocktail and tomatoes and has \$100 million invested in facilities, including the 1 million square-foot distribution center at Lodi. PCP employs 4,000 workers during the peak summer season and maintains 750 year round. The sale of the can plant fits into the cooperative’s long-term strategy, said Dick Ehrler, vice president of human resources.

Wyoming Sugar enters alliance with Cargill

Wyoming Sugar Co., of Worland, has formed a marketing alliance, effective this summer, with Cargill Sweeteners North America to sell and distribute products to food and beverage manufacturers. Cargill reached a similar agreement last fall with Southern Minnesota Beet Sugar Cooperative. Wyoming Sugar, which manufacturers

2003 conference, which was coordinated by MFU and WFU, in mid-February. Delegates represented 13 colleges and universities in Colorado, Iowa, Minnesota, Nebraska, South Dakota and Wisconsin.

“It made me more aware of intern opportunities and careers with cooperatives,” said Nick Einc, a sophomore from Ridgewater College in Willmar, Minn., who plans to transfer to South Dakota State University to major in agronomy. Delegates toured a variety of cooperatives in the Minneapolis-St. Paul area.

“As a cooperative educator and program planner, the conference provided information, contacts and curriculum that is essential in planning the programs I oversee,” said Amy Meyer, Rocky Mountain Farmers



Mike Alme, Agrilience recruiter, was one of several presenters who discussed career opportunities within the cooperative system. Photo courtesy CHS

Union education director, Aurora, Colo.

William Nelson, now president of the CHS Cooperatives Foundation, continues to work with and support cooperative education in this role and embraces the opportunity to assist with the conference. A second conference was added in 2003 for students from North Dakota and Montana, which is led by Jill Inabnit of Montana Farmers Union and Amber Hill of

North Dakota Farmers Union.

Next year’s Midwest conference will be Feb. 20-22, 2004, in Minneapolis. For more information, contact Statz, WFU education director, (715) 723-5561, cstatz@yahoo.com; or Jim Tunheim, MFU education director, (651) 639-1223, education.director@mfu.org. ■

products for fruit juices and other beverages, was formed last June when producers and investors from Wyoming's Big Horn Basin and Fremont County bought Holly Sugar's Worland factory.

Dakota Hay Co-op finds success in horse market

South Dakota Ag Producer Ventures (SDAPV), near Meckling, S.D., a value-added cooperative formed by South Dakota farmers and ranchers two years ago, is showing early signs of success. South Dakota is the largest forage-producing state in the nation, so the cooperative is working to expand markets for its hay. The cooperative's upper plains production territory is well suited to growing Dakota Premium Hay, which it is selling as feed for horses in areas of Texas, Florida, Missouri and Colorado. Small bales of alfalfa and other grasses are sold for \$5 each and are proving popular with horse nutritionists who want an orchard- or timothy-grass mixture. Both grasses are plentiful in the eastern part of the state. Major horse breeders are expressing interest. SDAPV is eyeing a national market of 7 million horses.

Kentucky's catfish co-op reels in supermarket order

When it comes to fishing, Purchase Area Aquaculture Cooperative in Graves County, Ky., has reeled in a big one. It started last fall when marketing specialists from the Kentucky Department of Agriculture introduced representatives of the co-op, which sells farm-raised catfish, to buyers for grocery store giant Kroger Co. Kroger ordered 84,000 pounds in the form of fillets, nuggets and whole fish for its stores in Kentucky, Tennessee and southern Illinois. State Agriculture Commissioner Billy Ray Smith said the cooperative's success was attributable to growers "working together to help themselves and each other," as well as their "hard work, persistence and financial commitment."

The co-op has 43 employees who process 15,000 pounds of live weight fish per day, 40 percent of which is

actual product, said Manager Bob Zumwalt. It has the capacity to process 25,000 pounds a day, with room for future expansion. The 7,200-square-foot processing plant and adjacent ponds were built in part with grants from the state.

Montana educator develops co-op business lesson plans

A set of cooperative business lesson plans have been developed by, and are available from, Martin Frick, a University of Montana educator. The topics are based on a cooperative director's needs assessment that was conducted in North Dakota and Minnesota. Lesson plans cover a wide range of subjects, including: Preparing a Vision and Mission Statement for Your Cooperative; The Economic Justification of Cooperatives; What the Director Does; Legal Foundations of a Cooperative; Cooperative Mergers and Consolidations; Servicing Cooperative Debt; Working Capital Needs of a Cooperative, and Assessing the Effectiveness of the Cooperative Director.

A PowerPoint presentation is available for each lesson plan from which educators can make transparencies. "Lessons have been pilot tested on a regional basis," Frick says. The plans are available on the Internet at no cost: <http://aginternatnial.msu.montana.edu>. Then click on the "Co-op Lessons" link.

Meadow Farms Hog Co-op opens modern Illinois plant

After five years on the project, Jim Burke, president and chief executive officer of Meadow Farms Cooperative, is smiling this summer. Construction on the cooperative's new, \$25 million hog processing plant at Rantoul, Ill., has been completed and it is now operating. Although the bulk of the 200 farmer members are from Illinois, the community's close proximity to interstate highways draws others from Indiana, Wisconsin and Iowa. For now, the plant will operate on a single shift with a staff of about 200, including

administrators and plant workers.

Burke, an attorney, became involved when his farmer-clients started going out of business because of falling hog prices. So, partly to salvage his client base, he began looking at the situation from a marketing approach. Initially, separate groups in northern and southern Illinois were looking to form cooperatives, but financial considerations brought them together. Planning began in 1998, and University of Illinois animal sciences professor Floyd McKeith and other faculty members became involved. The choice of Rantoul over 34 other communities was welcomed by



City Manager Gary Adams for bringing jobs to the community and expanding the local tax base.

The state's Capital Development Board granted the village \$1.7 million to construct a pretreatment facility to serve the cooperative's new plant, which will slaughter 3,000 hogs per day. The facility will treat wastewater at the site before it enters Rantoul's municipal sewage system. Either the village or the cooperative will operate the facility. The Rantoul operation is considered the first mid-sized, producer-owned packing and processing plant in the nation. The cooperative will sell meat under its Meadow Brook label and also serve hotels, restaurants, institutions and grocery stores. The corporate headquarters will be in Belleville, Ill.

Texas catfish co-op opens

Fresher fish will be the selling point for the new Texas Aquaculture Cooperative (TAC) in Clemville. It will process fish in the morning and have them on dinner plates in Houston, Austin or San Antonio later that day. Manager Jeff Boswell said the nearly \$17-million plant being constructed will provide 35 new jobs and process up to 150,000 pounds of catfish per

week. The 31 members raise fish on about 2,000 acres in a six-county area. Future plans call for adding another 10,000 acres in 10 years.

Boswell credited the co-op's rapid progress to the tenacity, ingenuity and hard work of the original members who began the project just over a year ago. All had marketed their fish individually and are achieving "extremely successful" results as a group, Boswell says. The Matagorda County Economic Development Corporation provided a \$25,000 grant to the cooperative for construction and equipment. Technical assistance was provided by the Lower Colorado River Authority's economic development department, the Texas Cooperative Extension Service, Wharton County Electric Co-op and the Texas Department of Agriculture.

NMPF adds three associates

The National Milk Producers Federation (NMPF) has gained two associate members from California and a third from Missouri. The not-for-profit California Dairy Research Foundation at Davis was formed in 1988 to promote research and development activities that benefit the state's dairy producers in the consumer marketplace. Also joining was California Milk Producers Council at Chino. It advocates the interests of its member dairy producers to enhance the state's dairy industry. The third newcomer is Dairy-men's Marketing Cooperative of Mountain Grove, Mo. Managed by Don Allen, it has 65 producer-members and markets 81 million pounds of milk annually. NMPF's membership now stands at 33.

Farmers sue chairman, others who promoted co-op sale to ADM

A group of farmer-investors of the former Minnesota Corn Processors (MCP) have filed a lawsuit against eight former cooperative executives and the former chairman of the board who led the sale of MCP last year to Archer Daniels Midland (ADM), the nation's leading ethanol producer from Decatur, Ill., for \$175 million. The former share-

holders allege members were told of dismal profit expectations and not informed of how those executives would benefit from the sale at the time of the landslide proxy vote last September. The group is seeking class-action status on behalf of the 5,500 shareholders.

The cooperative was formed in 1980 and originally produced corn syrup and later ethanol. It owned plants at Marshall and Columbus, Neb., and 17 regional storage, blending and distribution stations. In 2000, it became a Colorado limited liability corporation. The conflict of interest suit alleges the executives received substantial payments and bonuses after the sale was completed. In 1997, ADM invested \$120 million in MCP when it was on the verge of bankruptcy and gained a 30-percent non-voting interest in the company.

Sidney Sugars in supply deal

The first contract to supply sugar to Sidney Sugars Inc., the Montana subsidiary of American Crystal Sugar Co., has been signed with Montana-Dakota Beet Growers Association for 43,000 acres. The two-year contract involves 175 growers. The acreage is similar to the 46,000 acres contracted last year by former owner Imperial Sugar. American Crystal Sugar of Moorhead, Minn., bought the Sidney plant last fall and made it a subsidiary. That deal also included a plant at Torrington, Wyo., which is being leased to Colorado-based Great Western Sugar Co.

Nebraska North Star Neighbors direct market co-op's meat

It took a neighborhood of frustrated family farms west of Fullerton, Neb., to find an answer to their collective desire to stay on the land despite depressed prices for their grain and livestock. They found the answer about four years ago, forming the North Star Neighbors Naturally Raised Meats cooperative. By direct marketing their beef, pork, lamb and poultry products, they not only added value but also put profits in their pockets. They were featured on a rural

economic development workshop program sponsored by the Nebraska Farmers Union.

By turning to chickens rather than losing money raising corn, they again found profits from their farm operations. Their initial investment was low. They raised 4,000 chicks the first year, followed up with 6,000 the next and then cut back to 3,500 last year. But now the focus is on beef and hogs, their real specialty. During the growing season, members sold meat at weekend farmers' markets in Omaha, Grand Island and Lincoln and have since expanded marketing year-round with door-to-door deliveries.

They retained existing customers and gained new ones. To meet customer demand, the co-op offered one-pound packages of meat, specialty boxes with a combination of meat cuts and a family package plan. Looking ahead, North Star plans to begin marketing beef abroad and expand its membership base to meet customer demands while maintaining its quality reputation.

Foremost restructures in face of declining Midwest supply

Caught in the midst of declining milk supply volumes in the Upper Midwest and drooping milk prices for dairy farmers, Foremost Farms, the dairy cooperative based at Baraboo, Wis., plans to restructure operations by closing five outlying facilities and centralizing purchasing and transportation functions at Baraboo. Four manufacturing facilities in Iowa and Wisconsin will be closed by the end of the year and operations consolidated elsewhere within the cooperative's system. A dry-products warehouse will be closed in 2004.

President David Fuhrman said the closings affects 187 salaried and hourly employees. Severance and other transition assistance were developed for them. "The decision," Fuhrman said, "was driven by economics. While national milk production increased last year, milk volumes in Wisconsin, Minnesota and Iowa declined causing

excess plant capacity in the region as well as our production network.” Weak demand and large supplies of cheese, butter and whey ingredients have kept product levels at unprofitable levels for the past 20 months. He said Upper Midwest processors were increasingly pressured to reduce costs and operations to remain competitive with the rapidly growing dairy industry in the western United States. Up to this point, Foremost had operated 24 manufacturing facilities and two milk transfer stations in serving its 4,300 dairy-farmer members.

Ozark Mountain Pork Co-op source of Missouri Farm Pride

It’s small, localized and relatively new, but a source of pride nonetheless to the 34 Missouri pork farmers who organized and own it. The Ozark Mountain Pork Cooperative raised \$790,000 to buy the Mountain View processing plant. Earlier this year, it introduced the new label, “Heritage



Acres,” and began supplying Polish sausage, bacon and bratwurst to independent grocers in southern Missouri. The cooperative, the first of its kind in the state, inspired the Missouri Grocers Association to introduce a new marketing stamp called “Missouri Pride” and tested the notification of quality standards on the “Heritage Acres” products. The cooperative was formed under the auspices of the Missouri Farmers Union.

Zwald AMPI’s treasurer

The board of AMPI has selected Greg Zwald, a dairy producer from Hammond, Wis., as its new treasurer replacing Bob Dysthe of Slayton, Minn., who retired from the board. Dave Vander Kooi, Worthington, Minn., has been elected as a new director to serve a 3-year term.

LOL closes research facility

After an extensive study of its seed system, Land O’Lakes (LOL) decided to close its seed research facility at St. Joseph, Minn., which processed, packaged and distributed forages, turfs and alfalfa. The plant closing sidelined 27 employees who were offered relocation within the LOL system or severance packages and outplacement assistance. Customers previously served from St. Joseph will be served by LOL operations in Madison, Wis., Hastings, Minn., and Denver, Colo. In another seed development, LOL and Novartis Seeds, Golden Valley, Minn., have formed a joint venture to develop and market specialty corn products for animal feed and consumer-food markets. Novartis purchased a half interest in Wilson Seeds Inc. of Harlan, Iowa. It had been a wholly owned subsidiary of LOL.

NCBA fetes Kaptur, Oxley

A pair of U.S. representatives from Ohio have been honored with operator awards from the National Cooperative Business Association (NCBA) for their efforts in supporting cooperatives in Congress and in their state. Rep. Marcy Kaptur was cited for her ongoing support for funding 17 cooperative development centers across the nation. The center developers have been leaders in finding innovative cooperative solutions to the challenges facing farmers and others in rural America. Kaptur serves on the House Agricultural Appropriations Subcommittee which has increased funding for the centers from \$700,000 10 years ago to \$6.5 million for fiscal 2003. Rep. Mike Oxley was recognized for supporting credit unions both state and nationwide and promoting a bill which provided

regulatory relief and enabled credit unions to better serve their members. Oxley is chairman of the House Financial Services Committee. Chuck Snyder, chairman of NCBA’s board, also is president of the National Cooperative Bank which provides financial services to rural and urban member-owned-and-governed credit unions. During NCBA’s business session, all officers were renamed and two new and three incumbent directors were seated. Initially joining the board were Wilson Beebe, president of Thanexus, a New Jersey-based management cooperative for independent funeral homes, and Sherman Hardesty, director of the Center for Cooperatives at the University of California. All the elected directors serve three-year terms.

Meanwhile, People’s Food Cooperative at Ann Arbor, Mich., has been honored with NCBA’s Best Coop Web Site award. The small cooperative developed a volunteer-designed Web site that is attractive and easy to navigate and educates visitors about cooperatives (www.peoplesfood.coop). The co-op prominently features information about its values, vision, commitment to community as well as frequently asked questions and answers on cooperatives and co-op ownership.

GROWMARK creates seed, agronomy subsidiaries in NE

A pair of wholly owned subsidiaries have been created to serve farm supply assets in the Northeast recently acquired by GROWMARK Inc. from Agway Inc. The retail agronomy and seed operations in six Northeast states represent \$150 million in sales to about 20,000 customers. GROWMARK FS Inc. serves about 40 retail agronomy operations in Delaware, Maryland, New Jersey, New York, Pennsylvania and Virginia. The Seedway subsidiary is headquartered at Hall, N.Y. It markets an extensive and diverse commercial vegetable seed product line along with forage, turf and farm seeds.

Ed Rodenburg, vice president of eastern retail operations, conducted a series of winter introductory meetings

with nearly 500 new employees. Bob Weller, one of four regional managers, compared GROWMARK's Midwest operations with those in the Northeast. "Having metropolitan neighbors can apply pressure on farming operations, but the upside is access to a huge consumer market. We have the same challenges that Midwest agriculture does: a tough economy and the impact of consolidation."

NFU fetes cooperator Swenson

Leland Swenson, president of the National Farmers Union (NFU) from 1988 to 2002, has been recognized with its cooperative service award for leadership and service to agricultural cooperatives and rural economic development. The honor was bestowed at NFU's recent 101st annual meeting. Swenson was instrumental in helping Farmers Union develop a new economic learning center for farmer cooperatives. President Dave Frederickson cited Swenson for his "service to family farmers and ranchers by assisting in the development and advancement of farmer-owned cooperatives and helping Farmers Union members develop innovative strategies for processing and marketing the specialty crops of cooperatives."

Co-op community fetes heroes as four join Hall of Fame

In was dubbed as "the entire co-op community coming together to honor our heroes," by Pete Creer, executive vice president of the Credit Union National Association. The occasion was the induction of four honorees including a congressman into the Cooperative Hall of Fame in Washington, D.C. Cited were Rep. Doug Bereuter of Nebraska, Rod Nilsestuen, J.K. Smith and Herb Wegner.

Bereuter has supported domestic and international cooperative activities over the years, including help in launching the Farmer-to-Farmer program in 1985 and sponsoring the Overseas Cooperative Development Act. Nilsestuen was honored for his steadfast dedication to cooperatives in 24 years of leading the Wisconsin Federa-

tion of Cooperatives. Smith, a rural electric cooperative pioneer of 41 years, was the founder and first governor of the National Rural Utilities Cooperative Finance Co. The late Herb Wegner was acknowledged as a credit union pioneer whose efforts help shape the finance industry today. The award was accepted by his son, Steve, who thanked the many people who worked alongside his father in the credit union community.

Rhode Island dairy co-op launches own milk brand

The Rhode Island Dairy Farms cooperative, formed two years ago, is introducing its own brand of homegrown branded milk "Proud Cow of Rhode Island" on grocery shelves this summer. Its initial production of 3,000 pounds of milk has now more than doubled. Local dairies will buy back their milk from a processor after it has been pasteurized and homogenized. The cooperative will handle marketing and distribution.

The state has only 22 dairy farms left, including some large ones that have formed in recent years, so the bulk of the state's supply comes from neighboring states. Like many dairy farmers across the nation, the Rhode Islanders are faced with the lowest prices in 25 years, a frenzied rate of development, much higher production costs and intense competition further aggravated by better herds producing more milk. The cooperative hopes to sell its milk to schools, parades, fairs and farmers markets.

UW offers co-op educational site for youth, young members

The University of Wisconsin Center for Cooperatives has launched an interactive Web site on cooperatives for high school students and young adult co-op members. Cooperatives

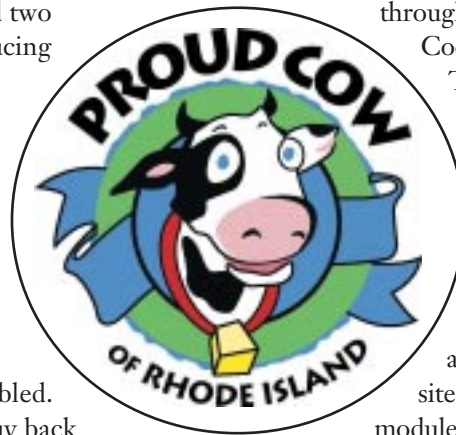
have consistently identified improved understanding of cooperative basics, particularly among young people and young adults as a critical need, said Anne Reynolds, assistant director of the center. The Web site addresses that need. It can be found at: <http://www.wis.edu/coops>. This one-of-a-kind site offers learning modules on a number of cooperative issues as well as resources on scholarships for young cooperators. Adding to this repository of information are links to games and other co-op Web sites, Reynolds says.

The program was made possible through funding from CHS Cooperatives Foundation.

The site is part of a larger campaign to increase understanding of fundamental principles of cooperatives. "Targeted primarily toward high school students and young adults, the site has three learning

modules exploring issues of corporate governance, member relations and types of cooperatives that exist today. These learning modules use simple, easy-to-understand language and contain a wealth of information gleaned from various sources. Making the learning experience all the more fun are tidbits of knowledge, scenarios and quizzes," Reynolds explained.

"For a long time now, we had been thinking of a site catering to a younger audience," says Reynolds, the architect behind the Web site. "Our aim was to provide information in an accessible format, and the Web seemed to be the most logical place to start." Further additions to the site will include more learning modules, case studies, short articles and additional games. Printed copies of the learning modules, activities and other resources will also be developed and distributed to schools, state councils and cooperative organizations. "These materials should benefit the cooperative education field tremendously," she says.



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