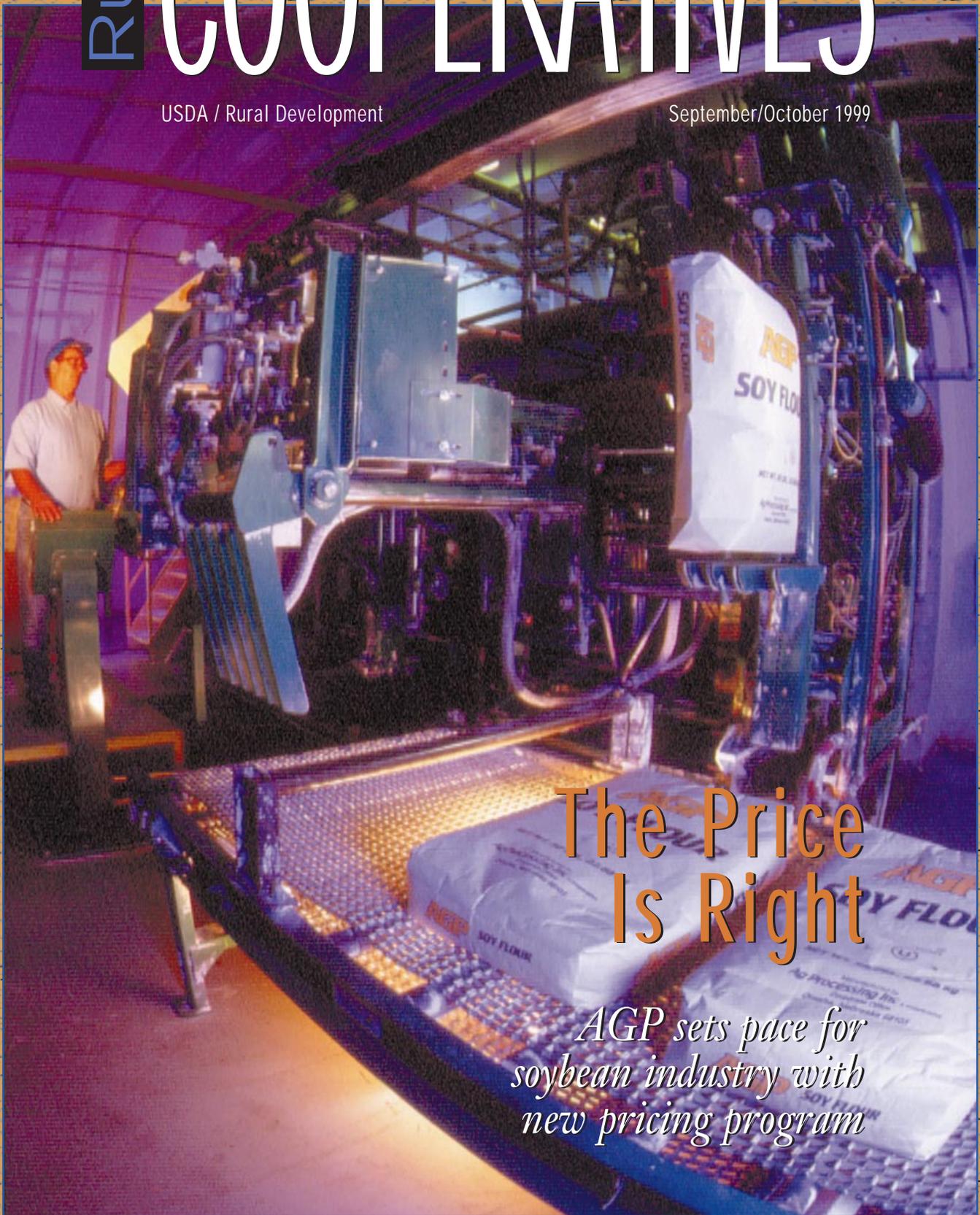


Rural

COOPERATIVES

USDA / Rural Development

September/October 1999



The Price Is Right

*AGP sets pace for
soybean industry with
new pricing program*

Solving rural problems through cooperatives

“Cooperation is people working together to solve problems and seize opportunities.”

This simple but concise statement is the opening line of a report I recently received that examines how U.S. farm policy might be adapted to emphasize greater reliance on cooperatives in the 21st century. The report, prepared by a task force led by USDA Rural Business-Cooperative Service (RBS) staff, envisions an expanded role for cooperatives in improving and stabilizing agricultural markets while helping to maintain a dispersed ownership of our nation’s agricultural resources.

This is a fitting thought as we celebrate National Cooperative Month in October. Nationwide, there are about 47,000 cooperatives that do everything from helping farmers process and market their crops to providing electric and telecommunications services for rural families, farms and other businesses. Still other co-ops provide financial services, housing and food. Yet, like many of you, I believe we have barely begun to tap the full potential of cooperatives to help people improve their quality of life.

USDA Rural Development has taken bold action in recent years to deliver on our promise to better support the nation’s cooperative movement. As the latest indication of this, I’m pleased to report that Secretary Glickman and I have requested that Congress provide additional funding for USDA’s cooperative services program in fiscal year 2000.

In addition to providing technical assistance to co-ops through RBS, we’ve restructured our business loan

programs to funnel more financial resources to cooperatives. We can now offer loan guarantees for the purchase of stock in new cooperatives. We are encouraging cooperatives to increase their use of this program, and participation is rising steadily.

Through the Rural Utilities Service, USDA Rural Development provides about \$2.8 billion each year to build new or improved utility services for rural Americans, much of which is delivered through user-owned cooperatives. Now we are expanding our efforts in areas such as Internet access and Distance Learning and Telemedicine (DLT). Since 1993, we have provided \$81 million for DLT projects to improve health and education services in rural America.

In the past, the co-op development branch of our cooperative services program had only a handful of co-op development specialists located in our national office and three field locations. Now, all 47 USDA Rural Development state offices have a staff member assigned to do cooperative development work. Working with our national office staff, these specialists are providing another valuable resource to help launch new cooperatives to serve rural Americans. We’ve also increased funding for USDA’s Cooperative Development Grant program, through which we provide money to the nation’s co-op development centers.

And, of course, USDA Rural Development remains the world’s leading source for cooperative educational materials, distributing as much as a quarter-million pieces of co-op literature each year. Many of these publica-



tions, including this magazine, are now available over our website, www.rurdev.usda.gov. I was pleased recently to hear a report from a co-op development volunteer in Africa who — once he exhausts his hard copy supply of USDA co-op primers — plans to “pull down” additional copies from the Internet while in Africa.

If you or someone you work with is trying to start or improve the performance of a cooperative, contact USDA Rural Development. To be connected to our nearest state office, call (202) 720-4323, then follow the voice prompts. Or call our national office at (202) 720-7558. We’re here to help you solve problems and seize opportunities, cooperatively!

Jill Long Thompson

Jill Long Thompson
Under Secretary, USDA Rural Development

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The recent installation of this double-walled, automated soy flour bagging system has helped AGP increase production while providing customers with a superior packaged product. For a report on how AGP is leading the soybean industry in new value-added activities, see page 14. Photo courtesy AGP

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Network Difficulties

Termination of Georgia wood co-op provides lessons for export co-op development

By Alan Borst,
Economist
USDA Rural Development

In every cooperative venture, there are lessons to be learned that can help in future endeavors. Yet even with the best education, sound technical assistance and low risks, some cooperatives never really take off. That was the case with a Georgia co-op organized to help forest product companies tap export markets.

Beginning in the late 1980s, wood networks — associations of small- and medium-sized wood product firms — were established across America. In April 1993, President Clinton spoke at an Oregon forest conference where he hailed the potential of such networks as economic development tools. Other speakers also promoted wood networks as a way to save both jobs and old-growth forests by adding value to what member wood product companies already produced from trees.

Through the early 1990s, the flexible network economic development program concept was sweeping the country, driven by the precedent of economic success among networks in Northern Italy, Asia and other regions. During this period, economic development agencies at the federal, state and local government levels, along with non-profit associations, were committing funds to such network development projects, including several targeted at forest product companies.

Most of these network ventures were organized as non-profit associa-

tions with a general mandate to improve the economic welfare of their wood product clientele through various joint activities. Some of these associations included a joint marketing component. Others did not.

One network organized as a marketing cooperative with the relatively specific mission of facilitating member export sales was the Georgia Wood Export Marketing Co-op, or “Georgia-Co,” as it was known. Some important lessons in export marketing cooperative development can be drawn from GA-CO’s six-year history of operations. These lessons are of particular importance for economic development specialists or cooperative organizers.

The GA-CO case

In 1988, the industrial marketing division of the state utility, Georgia Power, proposed that small- and medium-sized wood products companies should form an export marketing cooperative to facilitate their foreign sales. Georgia Power worked with other sponsoring organizations to support GA-CO, including the Georgia Forestry Commission; a major law firm (which handled Georgia Power’s accounts); the Southeast Lumber Manufacturers Association; University of Georgia Cooperative Extension Service; Georgia Department of Industry, Trade, & Tourism; and the USDA Forest Service-Region 8. Several similar cooperatives had been organized across the Southeast and throughout the United States. Georgia Power sold large amounts of electricity to wood products companies, and took an interest in expanding their customers’ foreign sales

base in order to “export kilowatts.”

The idea for the co-op was planted by a speaker from the Wood Products Marketing Cooperative (WPMC) of Alabama, who made a presentation at the Forest Products Global Marketing Conference in Atlanta during the fall of 1988. During this presentation, it was revealed that a large amount of funding had been secured for the WPMC. The majority of shipments were being shipped from western Alabama through the port of Savannah, Ga., into foreign markets. WPMC trucks were going right past some GA-CO member mills.

Georgia Power’s economic development specialists took note of this development, and concluded that there was no reason why Georgia mills could not tap into this export market flow. The co-op’s export mix was planned to be 35 percent hardwood and 65 percent softwood, with European and Caribbean markets as primary targets. GA-CO had an initial goal of generating new annual sales of \$2 million for its 13 members. A few of these members had some export experience at the time the co-op was organized.

Sponsors did much of the up-front organizational work to establish GA-CO, easing the burden for prospective co-op members. Georgia Forestry Commission staff obtained a ruling from Georgia’s attorney general which authorized the network to be incorporated as an agricultural marketing cooperative. An attorney from Georgia Power’s law firm obtained an export trade certificate of review from the U.S. departments of commerce and justice, which conferred the co-op with protection from the threat of antitrust



During the late 1980s, domestic lumber prices were fairly low, so more attention was focused on export markets. USDA Forest Service photo

legal actions. The attorney also drew up the co-op's by-laws and did the work to incorporate it under Georgia's agricultural cooperative statute, with the consequent benefits of limited liability protection; single taxation on distributed net earnings; and further limited antitrust protection for operations.

Sponsors and executives from the member-companies visited their congressional representatives in Washington, D.C., to secure funding for the project and to check on the export trade certificate of review program process. Several small grants, loans and donations of goods and services from sponsoring organizations were obtained, although far less than had been the case for other network projects which had been started a few years earlier in the region. Georgia Power donated the time of a manager who coordinated the co-op's organizational tasks during its first year and also offered surplus equipment to GA-CO.

During 1989, orientation meetings were held in Savannah, Macon and Atlanta for prospective members. Staff presented the virtues of coordinating export marketing through a co-op structure. At the time, domestic prices

were depressed and export markets were seen as viable outlets for Georgia wood product companies. The different demands of importers were highlighted, along with the importance of being a committed supplier. Sponsoring staff planned to present the ideas, do some of the up-front organizational work and then step back and let the members make up their own minds.

About two dozen companies attended the Savannah meeting, of which half agreed to participate in the co-op. The company representatives discussed the need to find new markets and to strengthen their businesses before passing them on to the next generation. One sponsor described the initial feeling among members as "guarded optimism." There were no illusions that GA-CO would carry its member firms, but it was thought that the co-op could be a factor — potentially adding a little profit to its members' margins. One sponsor reported that there was a general state of apprehension among some sponsors because it was the first time many of them had worked together.

The sponsors withdrew from GA-CO after helping with its establishment. One sponsor had its budget for

economic development activities cut, and a couple of sponsors had their activities with the co-op limited due to regional disputes related to the scope of assistance and targeted beneficiaries. It became difficult for some sponsors to justify their GA-CO assistance, given their mission and regional jurisdiction. Some sponsors reported that GA-CO members did not fully take over the coordination functions after the sponsors withdrew from management. No one stepped forward to "stir the pot." Sponsors felt that the cooperative mechanism had been delivered, and that now it was up to members to make it self-sufficient.

Lack of economic need

There was consensus among stakeholders that the primary reason for the termination of GA-CO was the lack of economic need among members for the alternative foreign markets to which the co-op provided access.

During the initial planning phases of the co-op in the late 1980s, domestic prices were relatively weak, and export markets were viewed as potentially important alternative sales outlets. However, domestic markets for members' wood products had been at record highs throughout the 1990s, while targeted foreign markets had been in recession and complicated by technical trade barriers and unfavorable macroeconomic factors, such as a strong dollar making U.S. exports more expensive. Members did not conduct much export business and sold very limited volumes through their co-op because domestic sales were both simpler and more profitable. Smaller mill operators, such as GA-CO members, did not have the working capital to tie up in large export shipments, which might be refused by the importer or subject to some technical problem in transit, or at the border. Because of their individual fears of such losses, the co-op idea had some initial appeal as a way to reduce this risk through collective action.

European customers wanted high-grade, special orders of wood products in metric sizes. European builders wanted the most valued wood from logs, and had little demand for the lower valued wood, leaving the mills with a lot of firewood and otherwise non-saleable byproducts. European carpenters tended to custom-build the wood components of their houses, and did not think in terms of standardized sizes, as did American builders. During the first two years of GA-CO's operations, domestic prices for member wood products increased by 20 percent while Caribbean sales were flat and European sales declined. By the time GA-CO dissolved in spring 1997, domestic prices had increased about 40 percent relative to their level at the time of the co-op's establishment while export markets remained depressed.

One of the sponsoring staff said his experience with GA-CO, in light of this lack of economic need, reminded him of well-meaning boy scouts who eagerly help a senior citizen across the street, only to find that the person did not want to cross the street. While GA-CO members earned record profits in domestic markets, some Caribbean accounts previously serviced by a few co-op members were taken over by huge mills that under-priced them. European markets were more difficult to serve, and were declining because of macroeconomic factors and technical trade barriers. GA-CO's total export sales between 1991 and 1996 were slightly over \$1 million, and annual sales never exceeded \$300,000. In 1994, as European markets weakened and members declined to sell through the co-op, the Savannah sales operations were consolidated in Valdosta, Ga.

Weak cooperative culture

Several sponsors and member executives commented that there was an absence of a "cooperative culture" among Georgia wood product firms. One respondent noted that, although

cooperative wood export ventures had been tried before in the region, there was not the history or culture of cooperation among mills that existed among farmers in the Upper Midwest, where he had spent some time. Another sponsor believed that there was a stronger cooperative ideology among the forest product firms in the Pacific Northwest, where most forests are on public lands and where there is more ease with government presence.

In Georgia, by contrast, most mills use wood from privately owned forest stands and there is less government involvement in the forest products industry. One respondent asserted that wood product companies in the Georgia area were conservative, independent, and distrustful of competitors, even with regard to information already publicly available. Another sponsor reported that there were early doubts about whether the prospective co-op member executives could work together.

Limited effort limits potential losses

There had been several previous attempts at export cooperation for wood products in the Southeast. One failed because of technical trade barriers related to the pine nematode, unfavorable exchange rate shifts and loss of its markets to competing suppliers. Two other ventures were dissolved early on in GA-CO's six-year life.

GA-CO chose not to try to ally with other wood co-ops because of differences in missions and geographic and functional orientation. However, it did invite mills from the Carolinas to join as members. A few mills from South Carolina did become GA-CO members.

The lesson learned from the experience of some of the other wood export networks known to sponsoring staff was heeded, as such high up-front fixed costs had been incurred by networks which had failed before a single log was exported. One co-op member was already an experienced exporter, and enjoyed good working relations with

some of the other members when GA-CO was formed. Despite some early misgivings among some of the stakeholders, co-op members agreed to operate through the experienced member's export marketing staff rather than risk incurring high fixed costs by establishing their own office and staff before GA-CO was proven. The experienced mill member had a sufficiently powerful and positive place within its industry to function as the co-op's sales agent.

The experienced mill member insulated co-op members from the financial risks of export transactions by paying member firms within 10 days — 30 days at most — while waiting 60 days or longer to receive payment from importers. There was some initial concern among some of the members and sponsoring staff, who worried that such a dominant member could subvert the co-op towards its own purposes. Upon reflection, respondents were impressed with the experienced mill member's service and confirmed that none of their fears were realized. These members knew of other failed wood co-ops that had lost the up-front costs of expensive building leases and contracted management employees.

One sponsor commented that the decision to administer through the experienced member seemed to work out well and did minimize potential losses. However, the sponsor wondered whether or not it also limited potential gains which could have been achieved through a more ambitious effort with independent cooperative management.

Lack of member consensus

Members had different visions on how GA-CO could best serve their interests, and disagreed on the amount of capital they were willing to contribute to fund cooperative operations. Some sponsors viewed GA-CO with guarded optimism as a tool that could help members become more globally competitive. One member executive believed that a cooperative structure for export could work well for wood



Lumber derived from softwood was expected to account for 65 percent of Georgia-Co's exports. USDA Forest Service Photo

products because many importers wanted to deal with one, large supplier that could fill individual orders. A cooperative could consolidate such orders from its suppliers while also serving as a liaison between member-suppliers and importers. In his experience with exporting, he found that foreign buyers generally prefer the security of dealing with large suppliers with recognizable trademarks. These importers are concerned with quality assurance through certification of some kind, while domestic buyers are looking for adequate quality at the best price and are willing to determine quality through personal inspection.

A co-op structure, he concluded, could best help small mills collectively meet the demands of foreign buyers. A co-op could function as a stable supplier with multiple member sources and could also provide the standardized quality assurance wanted by foreign buyers.

Another stakeholder described the Georgia wood products industry as conservative and risk-averse followers of secure market trends. One sponsor reported that many smaller mills were focused on the next quarter's returns, and they were not committed to supplying export markets when greater returns were available in domestic markets. One mill executive said his interest in exporting was to reduce supply and

raise prices in his domestic markets.

There was pressure to make the first export sale in order to prove the viability of the export marketing co-op structure. In December 1990, the first sale to the Caribbean Island of Curacao was transacted and highlighted with a media release. Eight of 13 members made at least some sales through the co-op, while the vast majority of business came from a core of two or three.

Some members viewed the co-op as having been formed to compete on large accounts, yet large inquiries from importers never came through. They perceived a mismatch between the smaller import inquiries that GA-CO forwarded to members, and the larger inquiries in which members were interested. One member reported wishing that GA-CO could have worked proactively on market development and dealing with export sale complications rather than only being an order taker. The initial mission of GA-CO was to increase member export sales at the margin. Existing individual member export accounts were not turned over as co-op accounts. Some members expected GA-CO's value to come from its ability to handle large accounts which few or none of the individual members could meet on their own. GA-CO was designed so importers had a right to choose the individual member-supplier

they wanted to fill their orders.

The size of the working capital account limited the volume of export business the co-op could conduct. For any given market period, the volume of export accounts receivable the experienced member mill could manage was tied to working capital from member contributions. Members voted to allow GA-CO officers to take out a loan to increase the working capital. One of the sponsors further increased the working capital pool by matching member contributions. At one point, members discussed the idea of boosting their financial commitment to GA-CO through even more contributions to the working capital pool. Members were unable to achieve consensus on this point.

There was simply no consensus among members on what kinds of export marketing services should be offered, and how much capital should be invested to support those services. When it became clear that members were not going to use their co-op, the decision had to be made whether to shelve the co-op or liquidate it. Putting the co-op into inactive status, but maintaining its structure, would cost some money to keep up the bank account and continue issuing reports. The decision was made to dissolve the enterprise.

Another challenge that complicated coordination was GA-CO's attempts to concurrently serve the export needs of two different kinds of members — softwood and hardwood lumber mills. Softwood mills are a lower margin, higher volume business that works through larger operators. The profitable shipping range of hardwood logs is narrower than for softwood, probably around 100 miles. After softwood trees are harvested, they are replanted and farmed, while hardwoods are naturally replenished. Huge, multi-national corporations have a presence in the softwood industry, while there are only small hardwood mills.

Some larger corporations have been

continued...page 31

Taking Flight

Sioux Honey cooperative finds sweet success in new products

By Pamela J. Karg
Field Editor

Honey mustard dripping from honey-glazed pretzels with a tall, cold glass of honey beer.

Honey-nut cereals. Honey-glazed chicken. Honey barbecue sauce and meat marinades. Tea, cough drops and power drinks with honey. There's raw honey and spun honey. And then there's all those flavored honeys — such as clover, cranberry, orange peel and apple blossom — produced from bees pollinating specific types of blossoms or by adding a second product.

Take a look at the latest product introductions at the supermarket or in the food service industry, and honey is all the buzz. It's no accident that this food, cherished since ancient times, is finding new ways into today's consumer marketplace.

"Honey is a unique item to sell," admits Jim Powell, vice president of sales and marketing at Sioux Honey Association, Sioux City, Iowa. "Honey is a mainstream product, but it's not used in every meal, and it's certainly not used the same way it was just a generation or two ago. People today don't know exactly what to use honey in, and we know they're not using it in cooking and baking like they used to."

So the Association — with its familiar Sue Bee Honey brand name — is in a continual quest to find new ways to get consumers worldwide to increase honey consumption. The co-op's marketing and research teams are busy as the bees their members keep producing new products, building a quality repu-



Sue Bee Honey accounts for 17 percent of the U.S. honey market. It is packed and shipped at facilities in Sioux City, Iowa (above), Anaheim, Calif., and Waycross, Ga. Photo courtesy Sioux Honey Association

tation and finding new efficiencies.

Beekeepers meet needs with co-op
With \$200 and 3,000 pounds of honey, five beekeepers located near Sioux City formed a marketing cooperative in 1921, and named it after the city it was founded in. The cooperative was designed to help members market their honey at greater profit by providing service and equipment, processing/packing facilities and complete marketing and sales operations.

In the early days, honey was marketed under the Sioux Bee label, but was changed in 1964 to Sue Bee in order to facilitate the correct pronunciation. Over time, other lines of honey were added and now include Clover Maid, Aunt Sue and Natural Pure North American brands.

Previously, honey was delivered to one of seven packing facilities located in Sioux City, Anaheim, Calif.; Waycross,

Ga.; Temple, Texas; Umatilla, Fla.; Lima, Ohio; and Wendell, Idaho. As transportation improved, honey-producing areas moved westward and the association streamlined operations. Today, only the Sioux City, Waycross and Anaheim plants serve the cooperative.

With a 17-percent share of the U.S. honey market, Sioux Honey is the largest honey marketer in the world. There's only one company — in Germany — that comes close to capturing as much market share as does the cooperative.

Currently, there are some 340 members, most of whom live in the western two-thirds of the United States, with others in Florida and Georgia. The membership is organized into 13 districts, with a director representing each of these member areas.

"We had up to 1,200 members in the 1970s," explains Mark Mammen,

vice president for member relations. “But apiaries have grown, consolidated and modernized like the rest of most agricultural businesses. Our membership numbers are down, but the amount of product marketed grows.”

A changing membership

A majority of the operations were originally small. Today, the cooperative's board puts a priority on accepting commercial members who market at least 40,000 pounds of honey annually. In fact, 45 percent of the membership markets less than 40,000 pounds of honey annually. They account for only 5 percent of the association's annual crop. The bulk of the membership — about 43 percent — markets between 40,000 and 250,000 pounds annually. They account for 45 percent of sales. The top 12 percent of members, 41 farmers who market over 250,000 pounds annually, account for 50 percent of the crop sold through the Sioux Honey Association.

Dale Bauer, a Sioux Honey member since the mid-1970s, is a commercial operator near Fertile, Minn. In 1951, then 16-year-old Bauer needed a job and went to work for a local beekeeper. After a few years of military service, the Nebraska native and his wife, Lois, moved to her neck of the woods in northwestern Minnesota. Beekeeping seemed as good a job as any other did, and the couple went at it with enthusiasm.

“From 1957 to 1974, we were private. We weren't members of the cooperative because we were buying an operation and trying to pay it off,” Bauer explains, almost apologetically. “We needed every dollar we could get, and the marketing fee you had to pay as a co-op member cut into that money. I'm not so sure it was the best way to go, but you gotta do what you gotta do at the time.”

Bauer has served on the Sioux Honey board for 21 years, the past eight as vice chairman. He's also currently a member of the National Honey Board.

The Bauers, their son and their daughters' families are involved in the operation. Every last drop of the golden nectar is marketed through the cooperative. They are paid year-round, though honey production is a seasonal operation.

“Many people think beekeeping is a hobby. I can tell you it's not. It's been my life's work,” Bauer explains.

While the family home and honey extraction and spinning operations are located on a seven-acre parcel, the Bauers' 8,000 hives are spread across the countryside, where the bees feed on alfalfa, sweet clover and sunflowers. Every two weeks or so, the Bauer crew makes the rounds of hives placed at least two miles apart. They check the wooden structures, the bees and the honey. Bees, like people, are vulnerable to diseases and parasites, sometimes at epidemic proportions. Bauer says it takes a trained apiarist eye to catch and address problems early and avert disaster.

The farmers who own all the fields where the bees do their work are paid in honey at the end of the year. Since honey is a natural product, the type of flowers from which bees gather nectar, the geographical region and the weather influence its flavor. The presence of hives in any given area is a win-win situation for both Bauer and other farmers.

“A lot of people don't realize there's a greater demand for commercial beekeepers than ever before,” Bauer says. “Without pollination offered by commercial beekeepers and the millions of hives they haul to places like California, you wouldn't have almonds, melons or cucumbers [among dozens of other crops]. There aren't the big, natural hives I remember seeing in the woods as a kid. So now agriculture has to depend on commercial beekeepers to pollinate so many crops.”

Making honey

The National Honey Board estimates that there are 211,600 beekeepers in the United States who tend some three million honey-producing



Protective clothing prevents bee stings as honey is collected from bee colonies belonging to Dale Bauer of Minnesota, a Sioux Honey co-op member since the mid 1970s. Photo by Mark Walters

colonies. The average worker bee makes only one-twelfth of a teaspoon in its lifetime. Bees visit 50 to 100 flowers during one collection trip, tapping two million flowers to produce one pound of honey. U.S. per capita consumption of honey is just over one pound.

A worker bee's entire existence revolves around pleasing a queen bee, which lives about 50 times longer than a worker bee. Therefore, beekeepers and the industry invest a lot of time and effort into queen bee production.

To produce queen bees, beekeepers take a worker bee egg and graft it into a cell cup. The hive is queenless and the worker bees pay special attention to the egg in the cell cup, feeding it royal jelly to help it grow big and strong. It's the queen bee, the only sexually developed bee in the hive, that lays all the eggs to re-populate the colony.

Some keepers select their queens based on hygienic qualities or bees that don't make much propolis, the substance bees use to seal the cracks of their hive. The Bauers select their bees for production and gentleness.

The bees and hives are at peak production rates right around the last week of June in northern Minnesota. From then until the first frosts, the

Honey's healthy image helps marketing

From the days of the Egyptian pharaohs, through the Greek and Roman civilizations up to the present, honey has been treasured both as a medium of exchange and as a rare taste treat. And its popularity today has been boosted by its image as healthy food — an image that has provided a boost to Sioux Bee Honey marketing and product development efforts.

Honey is 100 percent pure and composed primarily of carbohydrates, so there's no fat or cholesterol. One tablespoon of honey contains less than two milligrams of sodium, which the Food and Drug Administration considers "sodium free." A tablespoon has about 60 calories. The product can be kept at room temperature.

Because of its high fructose, honey is sweeter than sugar. While it's low in nutrients, honey does contain more than refined sugars, a fact noticed by scientists.

A 1998 food science and human nutrition review found that honey contains trace amounts of antioxidants and a wide array of vitamins, minerals and amino acids. Additional research is underway to discover other benefits of honey.

Honey contains vitamins such as B6, thiamin, niacin, riboflavin and pantothenic acid. Essential minerals include calcium, copper, iron, magnesium, manganese, phosphorus, potassium, sodium and zinc. There are approximately 18 different amino acids, adds Dr. Susan Percival of the University of Florida's Food Science and Human Nutrition

Department. She conducted a study of honey last year.

Whether stirred into tea or coffee, spread across toast or eaten off a spoon, honey appears to boost a person's daily supply of antioxidants.

"Antioxidants perform the role of eliminating free radicals, which are reactive compounds in our bodies," says Percival. "Free radicals are created through the normal process of metabolism and are believed to contribute to many serious diseases when left unchecked."

But it still comes down to taste and use. Consumer habits have changed, and where and how honey is used must change, says Sioux Honey's Jim Powell.

With two-person family incomes, hectic lifestyles and people who want meal prep time to last no longer than a few minutes in a microwave, food is changing. More chicken nuggets are sold every year, so Sioux Honey has found a new market: its own Sue Bee barbecue sauce.

National Honey Board-sponsored projects debuted at this summer's Institute of Food Technologists annual meeting included battered and marinated catfish products using honey as an ingredient, consumer acceptance of roasted chicken injected with honey marinades and quality enhancement of chicken baked without skin using honey marinades.

The Board and Sioux Honey each continue to eye more industrial avenues. ■

tain approximately 650 pounds of honey. Collectively, the membership produces about 40 million pounds of honey annually but markets as much as 60 million pounds around the world, Powell says. The difference is made up through non-member honey purchased by the cooperative to meet customers' needs.

At the Bauers' operation, the honey is loaded onto 50,000-pound tankers and shipped to the Sioux City plant. Two to three tankers leave the family operation every week.

After unloading at the plant, the honey is melted for easier handling. From a large inventory, Sioux Honey follows sophisticated blending techniques to assure consistent flavor and appearance. In the processing facility, there are flash heating and cooling units, filter presses and pumps that deliver the finished product to the packaging line. These packaging lines include bottle cleaning, filling, capping, front and back labeling and group packaging. All finished goods are delivered to storage areas by a system of conveyors. The completely automated, high-speed packaging lines produce up to 8,000 cases of finished product in eight hours.

Still, the cooperative is constantly upgrading automated production equipment and maintaining stringent sanitary conditions, Powell explains. Vast warehouses with computer-controlled inventory facilitate quick-filling and shipment of orders for all products packaged by Sioux Honey. Warehouses are strategically located, which guarantees easy delivery to customers anywhere in the U.S. and throughout the world, he says.

Research and development

Besides its familiar brand name, Sioux Honey has several claims to technological fame: exclusively designed equipment and top-notch laboratory facilities. The cooperative's spun honey spread mixing tanks and seed grinders were developed by the co-op's research staff and are found nowhere else.

Bauer family is busy. The sealed honeycombs are collected and the wax is cut. In a centrifuge, the comb is spun to separate the wax from the honey. A second centrifuge spins the product again, removing more of the wax. There's one pound of wax for every 100 pounds of honey. The wax is sold for further pro-

cessing into candles or floor wax and cosmetics.

The Bauers and other cooperative members are responsible for supplying the association with honey extracted from the honeycomb. This liquid product is most often shipped to processing plants in 55-gallon drums, which con-

Yet it's the product quality that is the foundation of the cooperative's success, and the success of its members.

"Color, flavor and moisture are the qualities we constantly need to monitor," Powell says. "We also need to look at contamination by antibiotics or even pesticide residues picked up in fields by the bees."

Samples of honey coming into any of the three plants is tested and graded for clarity, type, flavor, moisture and color. The most advanced methods and the most exacting standards are used to assure that every grade of honey packaged under the Sue Bee label is the finest available anywhere, he says. Members are paid color and moisture bonuses.

"Quality is the utmost concern because we have such a natural product to begin with," adds Bauer.

On a random lot basis, the cooperative will test a member's honey for sugar syrup adulteration, miticide residues or any other adulterant that may cause financial damage, explains Mammen. If something is found, the member is notified and the quality control department of the cooperative must give approval before any payments are issued for a member's honey production. Any member whose honey causes further contamination is responsible for reimbursing the Association for all damages resulting from the contamination, or the person loses his or her membership, he adds.

Finding new industrial markets

Once the Canadian cold fronts slide south and the fall season ends, the Bauers pack up their bees and move south. Their son, Daniel, daughter Tammy and son-in-law Brad Campbell manage the hives that are placed in Texas for the winter. Daughter Jodi and son-in-law Darren Straus manage the hives the Bauers place in Mississippi. The Bauers make their winter home in Texas and keep track of both operations.

"When our children were young, they'd spend the first semester at



Lab technicians in Sioux City, Iowa, monitor product quality and assist food manufacturers in finding new ways to incorporate honey in their products. Photo courtesy Sioux Honey Association

school in Minnesota and the second semester at school in Texas. When they got to be seniors, though, we let them make a choice. All three graduated in Minnesota," Bauer explains.

In fact, the greatest amount of honey that's marketed through the cooperative comes from Minnesota and North Dakota. Other top-producing states include California, Montana, South Dakota, Texas, Idaho and Nebraska. So the Bauers and many of their fellow beekeepers in Minnesota and North Dakota could see each other for most of the year — north or south.

The Bauers count themselves lucky. Not only do they escape the blizzards, sub-zero temperatures and frozen engine blocks of the Minnesota winter, but they also have children who are interested in beekeeping. That's not necessarily the case across the industry.

"There aren't a lot of young people going into beekeeping right now," Bauer says. "I don't think too many can see the nature of it and how it can be a full-time career."

Just like their shifting members, Sioux Honey is also eyeing places it can move its products. Its global presence extends to the Middle East, Far East, Europe, South America and Central

America. But new product development occurring in the United States through retail and industrial sales show promise.

The cooperative's advanced processing technology allows it to produce honey by the bucket, by the barrel or by the tanker truck for industrial use. Its transportation network ensures prompt delivery of honey, which is used in a variety of products — from cereals and baked items to brewery and meat products.

Honey usage in manufactured food and beverages is at an all-time high. Consumers associate honey with naturally good quality, boosting the image of products containing it.

A sampling of companies that have recently introduced new honey-flavored products to capture the imagination of health-focused consumers include: Celestial Seasons of Boulder, Colo., which has an herbal tea sampler that features Honey Lemon Ginseng; Caffe D'Amore of Pasadena, Calif., which has eight new teas that blend together black tea, honey, creamers and spices; and Oregon Chai of Portland, Ore., which has introduced Oregon Chai Charger, a caffeinated tea featuring honey, to an existing line of organic



Dale Bauer's bee colonies are prepared for shipment to Texas each winter. Photo by Mark Walters

chai, which is a type of tea. The Sue Bee logo also appears on some Arizona brand beverages.

Strong sales, weak prices

The cooperative's ability to create demand for honey is essential because it's been a tough market in recent years for beekeepers such as Bauer. According to Powell, the honey industry experienced major changes in the past three years. Most of those changes center on price and production — basic supply and demand economics.

"Three years ago, there was an undersupply of honey throughout the world and, because of that, it forced prices up," Powell explains. Prices are now only about half that amount.

Those drastic price fluctuations are not taken lying down, however. The co-op is responding by concentrating on industrial and food service markets, both here and abroad, to fuel demand and maintain stable prices to members.

Bulk sales of honey have increased and Sioux Honey Chief Executive Officer Gary Evans says the association intends to continue the pursuit of sales in this

area because of the potential for greater growth.

"Areas of manufactured food and food service open opportunities for honey markets that, heretofore, we have not fully exploited," he says.

"The cooperative is the way to go," Bauer adds. "Consumption may not be going up as much as we'd like to see it go, but working together through the cooperative to expand markets is a good way for a bunch of people to kind of control their destiny."

As he sits on the board, Bauer watches directors and staff who try to get the best money for the farmer's product. He witnesses the pooling of resources from individual farms and the job the cooperative's employees do, day in and day out, to sell members' honey.

"This cooperative's strengths are its honesty, integrity and impeccable reputation for quality," Bauer adds. "It's given me peace of mind since I started to market through the cooperative rather than worrying about doing it on my own. Now I can concentrate on the bees and knowing my cooperative is doing an excellent job in marketing." ■

Microbrewers have a taste for honey

At the Fourth Street Brewing Co. in Sioux City, Iowa, Sue Bee Honey Ale has become a popular drink. Working with people such as Larry Chase, Fourth Street's head brewer, Sioux Bee Honey is finding that the small breweries sprouting all across America have a definite taste for honey.

The American beer scene is experiencing a renaissance, of sorts. Microbreweries, brew pubs and home brewers have provided most of the momentum towards making craft beers — those made using traditional, complex recipes and costly ingredients to brew many classic styles of beer. In 1980, there were only four microbreweries and no brew pubs. By 2000, it is estimated that there will be close to 3,000 of them. Only one in six fail, a success rate that is turning heads in the brewing industry and giving Sioux Honey ideas for the future.

Even large breweries have recognized this new market for specialty and flavorful beers. From well-hopped pale ales to robust, flavorful stouts, Americans now have more beer types on the shelves in their favorite tavern than at almost any other time in history. And that includes more and more beers containing various flavorings such as fruits, herb, spices and, of course, honey.

According to Chase, honey generally rounds off the flavor profile of beer. It boosts the alcohol a bit and gives the brew a floral aroma, offsetting some of its bitter flavors from hops. The character added by honey depends on what floral type of honey is used and when the honey is added to the beer. Honey's contribution overall is relatively subtle, so a stout or porter which uses darker malt ingredients will have less noticeable honey character than a light lager with the same amount of honey, Chase explains. ■



By Pete Penner
Chairman of the Board
Sun-Maid Growers of California

“With 30 percent of the California raisin market, the entire industry needs to be successful in order for Sun-Maid to be successful.”

- Pete Penner

Co-op description: Sun-Maid Growers of California is celebrating its 87th continuous year as a grower-owned cooperative. The cooperative began in 1912 as the California Associated Raisin Co., which adopted Sun-Maid as its brand name in 1915. The co-op’s familiar logo was first created that same year and soon became one of America’s best known trademarks. In 1922, the cooperative changed its name to Sun-Maid Raisin Growers to identify more closely with the popular brand-name.

Sun-Maid currently operates a 130-acre processing and packaging facility owned and managed by its grower members.

Personal information: Pete Penner began farming in 1955 and currently oversees 300 acres of grapes and 200 acres of deciduous fruit in Reedley, Calif. A member of Sun-Maid since 1960, he became a Sun-Maid director in 1968. Penner served as vice-chairman from 1976 to 1986, when he was elected chairman, a post he held until April 1999. Penner currently serves as second vice-chairman of Sun-Maid.

In addition to his longtime work with Sun-Maid, Penner is very active in several community and business orga-

nizations in the Fresno County area and continues to be a driving force in the California raisin industry. He has served as chairman of the Raisin Administrative Committee and is the current vice chairman of the RAC. He is also chairman of the California Raisin Marketing Board, which is charged with promoting California raisins and expanding markets for the industry.

Developments at Sun-Maid Growers: “Sun-Maid is currently expanding and enhancing its sales and marketing functions and continuing to develop new ways of producing and marketing raisins. As with most businesses today, changing technology, regulation and consumer demands require us to be creative and flexible. We’re trying to be proactive in meeting these challenges,” he explains.

Sun-Maid’s goals: “Sun-Maid is in the strongest financial position in our history,” Penner says, “and we’re continuing to find ways to maintain this strength and provide the best for our grower members. Sun-Maid represents about 30 percent of the raisin producers and we operate under a Federal marketing order which affects the entire raisin industry. As a result, to be successful the entire California raisin industry needs to be successful.”

Biggest concerns of raisin growers: “Raisins are an extremely labor-intensive crop,” Penner explains, “so labor supply is a critical and ongoing concern for our industry. In 1998, labor shortages resulted in huge problems for our members and all raisin growers, so



Pete Penner, Sun-Maid board chairman.

we need to find ways to both automate and assure an adequate supply of workers now and in the future.”

“Water is another big issue in California,” he continues, “as is urban encroachment and other land-use issues. We’re also very concerned with the aging face of agriculture in general. We have to find ways of continuing the family farm by allowing young people to stay in the business of farming, not only in the raisin industry but in all of agriculture.”

What are the key rural development issues facing Western farmers and ranchers? “As I mentioned, water and urban encroachment are big concerns for us and the entire agricultural industry,” Penner stresses. “California’s raisin-growing region is confined to a relatively small area in the San Joaquin Valley. This area is feeling growth pressure from urban areas within the region and from metropolitan areas in northern and southern California. This means more land and water is shifting from agriculture to residential use. As an industry, agriculture must find ways of protecting its resources through education of the public and maintaining a presence in the land-use planning arena.” ■

The Price Is Right

AGP sets pace for soybean industry with new oil pricing program

By Patrick Duffey,
Information Specialist
USDA Rural Development

Nearly 16 years ago, agricultural producers from the farm fields of the Midwest bankrolled a new business that would strengthen the nation's then-weak soybean processing industry and give farmers a greater role in determining the future of the market for soybeans. Today, as a more mature "teenager" in terms of operating years, Omaha-based Agricultural Processing Inc. (AGP) is still setting the industry pace as it prepares to enter the new millennium with annual gross sales that will soon top \$4 billion. That's a dramatic increase from the \$700 million in sales it recorded in 1983.

AGP, owned by 285 local and 10 regional cooperatives, will take on another pioneering role for the industry this fall when it begins paying premium prices at its nine processing plants for soybeans that meet graduated level standards for oil content. The new program took effect Oct. 1.

Jim Lindsay, AGP's chief executive officer, says the cooperative is "excited about the opportunities and benefits our new oil premium program presents to our cooperative members. It represents another avenue to add value to soybeans for farmers throughout the cooperative soybean processing system."

While the pricing program is new to the soybean industry, component pricing or value-added marketing is routine to other agricultural industries as both producers and processors try to match commodity traits with the demand of



Soybean oil formulations are monitored in AGP laboratories. In 1998, the cooperative processed more than 1.5 billion pounds of soy oil. Photos courtesy AGP

food manufacturers and consumers. In grain, the protein content of wheat has been measured for decades to determine for price. The dairy industry calculates price to producers based on the protein content of milk, which is a critical factor for making cheese. Oil content has been measured in some specialty types of grains used in particular markets.

Lindsay anticipates this type of buying will become a standard practice in the future. "We believe farmers should be rewarded for providing a product of higher value. AGP has made a sizable investment and commitment to launch this oil premium program for their benefit," he says.

Value pricing origins

AGP started building the foundation for the value-pricing system 18 months ago in cooperation with field testing by 14 Iowa local cooperatives, Charles Hurburgh at Iowa State University and the Iowa Soybean Promotion Board.

Research was initially conducted at AGP's processing plant and vegetable oil refinery at Eagle Grove, Iowa. AGP studied ways to obtain an accurate assessment of soybean value prior to processing. Computers were linked with near-infrared transmission (NIT) technology which provides rapid and accurate whole grain analysis of delivered soybeans. The equipment has now

been installed at all nine of AGP's soybean plants.

AGP employees have been trained to use the new equipment. NIT computer data, combined with normal grading procedures, were compiled and analyzed by AGP. Testing revealed that the new system more accurately and efficiently calculates the various oil levels, and computes and prints out settlement forms at the time of delivery. It assesses the soybean value and reflects that in prices paid to producers.

Last year, AGP field tested 240 soybean samples representing 137 varieties in Iowa growing zones. Tests revealed significant oil and protein variances in today's mix of varieties which have been bred and selected for yield.

The highest yielding soybeans can vary by more than three pounds of oil per bushel. The 30 percent variance in oil content equates to more than 150 pounds of oil per acre of soybeans yielding 50 bushels per acre. Larry Burkett, AGP senior vice president for corporate and member relations, says project data convinced AGP that selecting seed varieties with above average oil content — without sacrificing yield — would generate added value. The oil premium would add to the market price, increasing farmers' return per bushel and profit per acre.

Given the new technology, segregated marketing of differentiated com-

modities is expected to catch on.

Oil content variances in today's seed varieties are not expected to initially translate into sizable value premiums, Burkett indicated. "The real advantage to growers lies in the future, when new varieties will have improved oil content and generate greater value levels than are present today. Premiums will likely increase with that oil content advance in new varieties."

Oil in advanced varieties

"If a value-added system could be adopted industry-wide, all U.S. soybean farmers would have greater opportunities to add value to their operation," Burkett says. "The system would also create a way to provide incentives for the development of seed varieties that could focus on value components and also benefit soybean farmers and their industry by making soybeans more competitive in world oil and food markets."

Burkett relates, "Our ability to work together as a cooperative soybean system was the key in striving for new heights in the soybean market and strengthening prices for farmers. It proved to be the catalyst for introducing the new program."

AGP builds market

This type of attention to the needs of both producers and customers has

helped AGP emerge as the world's largest cooperative soybean processor, and the fourth largest overall soybean processor in the United States. Since its formation in 1983, AGP has been committed to being a successful value-added company that returns its profits to the local and regional cooperatives that represent 300,000 farmers from 16 states in the United States and three Canadian provinces. AGP annually purchases and processes more than 5.5 million acres of members' soybeans at its plants in Iowa, Missouri, Nebraska and Minnesota. As the nation's third largest vegetable oil refiner, AGP ships products by truck and rail to food service companies for use as ingredients in nationally recognized food products or for specialty processing.

At the end of fiscal 1998, the co-op's pre-tax return on investment was 17.6 percent. AGP spent a record of more than \$1.3 billion to purchase corn, soybeans and milo for processing. AGP also retired \$10.7 million in allocated equities, making it current with the 1991 allocated equities balance. Members have \$298.3 million in allocated equities invested in AGP. By adding in retained earnings and capital stock, the total is actually \$354 million.

Midwest ties to soybeans

In the 1930s, the Midwest became the hub of U.S. soybean production. Cooperatives began building soybean processing plants in the 1940s, recalls Burkett.

"These plants evolved into a highly efficient system. And with all the investment in new uses, the potential in future diets and possibilities with biotechnology, we believe soybeans have just started their climb. Soybeans offer a continuous, bright future for farmers," Burkett says.

AGP entered the processing scene in 1983. "At that time, the soybean industry was plagued by weak margins and considerable inefficiency. It was a case of something good evolving out of a very bad condition at the time," Burkett says.



AGP added several hundred rail cars this year to enhance members' access to markets and speed deliveries.

“Jim Lindsay, our first and only CEO, compiled a staff that attacked costs with a vengeance. They built the cooperative into today’s very diversified company that operates many businesses. AGP has kept per-bushel costs at the same level or lower, in some cases, even with years of inflation.”

New technology was introduced into its multiple-plant system and crush capacity was expanded from 300,000 bushels per day to more than 630,000, thanks to new facilities at Emmetsburg, Iowa, and Hastings, Neb. In vegetable oil refining, AGP climbed from zero to third largest in the nation. Through

refining, AGP now markets multiple food-grade oil products, lecithin and feed fat.

Industrial uses for soybeans

Further value-added processing is underway at the methyl ester plant at Sergeant Bluff, Iowa, where AGP pio-

AGP's Lindsay Discusses Co-op's Growth, Management

Patrick Duffey,
Information Specialist
USDA Rural Development

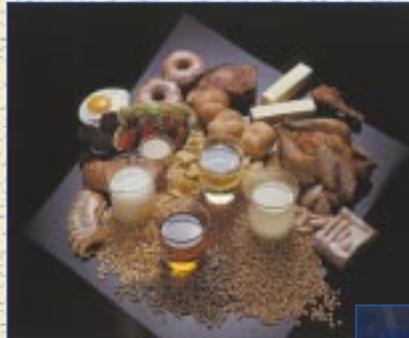
James Lindsay has been the first and only chief executive officer and general manager in the nearly 16-year history of Ag Processing Inc. He had prior business experience with corn and soybean processing as an executive with Archer-Daniels-Midland. For four years he was chairman of the National Oilseeds Processing Association. The Omaha-based cooperative he heads has become the world's largest cooperative soybean processor and an aggressive player in the U.S. market. In this interview, he discusses the cooperative's progress and aspects of his management philosophy.

Question: What is AGP's mission?

Answer: AGP serves local cooperatives and their agricultural producer-owners by performing the primary business functions of acquisition, processing and marketing of agricultural products. It adds value to farm commodities and flows its earnings to producers through member cooperatives.

Q: How did AGP build its financial standing in its short 16-year history?

Answer: When the company first



The AGP Food Group supplies soybean oil and flour that are used in a wide variety of food products, adding value between the farm gate and consumers' plate.



James Lindsay

started, its aim was to survive. It had a high debt-to-equity ratio, prompting the bank to keep a close eye on it. We reduced expenses and hired the right people, which helped the company turn the corner. When you reduce costs, you add to production and improve your plants.

A commodity-based business can operate on small margins with a high volume. It took two to three years to reach our competitive goals. After that, AGP learned it could survive. The company needed to produce \$115 million income in gross margins per year before expenses. More capacity was necessary to compete with major soybean processing companies. As our concerns turned to being competitive, our competitors were also expanding. We always had a watchful eye for potential disasters that we couldn't work through.

AGP's board and management

developed a strategic plan for the company to invest its resources and expand the business. Three considerations were necessary for us to achieve 15- and 20-year goals: 1) To get attention, a project must produce three times the annual interest rates (rate of return). Any project at two

times or less is not realistic unless it takes time to grow. 2) What will a project do to the company if it fails? Does it threaten the destiny of the company? AGP avoids big-risk projects. 3)

Debt-to-equity con-

siderations. In a depression, a company works more carefully. It's reasonable to work from a 20-30 percent position. In some cases, you can even stretch to 60 percent, but it's good to build back to 30 percent.

Rail transportation is vital to AGP's operation, so it leases rail cars to ship products to its customers. From a financial point of view, leasing is the same as going into debt, even though it doesn't show on the balance sheet. We report both the actual debt to equity and debt to lease and equity combined. We tell our members the real rate so they don't get the wrong impression.

Q: What has prompted AGP's extensive expansion in recent years?

Answer: Much of the expansion

neered new industrial uses for soybeans. Soy diesel, spray adjuvants and solvents and cleaners have been developed as environmentally friendly replacements for petroleum-based counterparts, Burkett explained.

“Corn processing added another dimension to AGP,” indicated Cal

Meyer, vice president, soybean/corn marketing. “Our AGP Grain Cooperative, owned by AGP and 200 local cooperatives, markets more than 300 million bushels of grain annually and assists several member cooperatives under a marketing agreement.”

Expansion at Hastings, on the west-

ern edge of the corn-production belt, boosted processing capacity to 45,000 bushels per day. AGP began ethanol production there in 1996 and was subsequently expanded.

“With the corn and soybean plants at Hastings, AGP has the capacity to ship trains containing DDGS (dis-

has been defensive, keeping pace with the industry. AGP has built two new soybean processing plants and a new corn processing plant. The new plant at Hastings is the first cooperative soybean processing plant in Nebraska. Also, most free standing soybean oil refineries have been going out of business.

To survive, most processors have their own refineries. AGP expanded its refining capacity with a new plant at Eagle Grove, Iowa, and is now building a new refinery at Hastings. Refined oil has become a high-quality, commodity-priced product that's sold on the basis of price and service. The business goes to those who provide the best service. AGP builds its business around quality and service.

Q: Where is the future in soybean exports?

Answer: Farm programs always held an umbrella over soybean prices. Argentina and Brazil, our major soybean producing competitors, continued to build infrastructure. To stay competitive, AGP now wants to process beans into exportable products instead of merely bulk beans. We can produce corn and soybeans cheaper than any country in the world.

We should grow hogs and chickens here. Whole grains face stiff tariffs in some countries. You add more jobs in the United States through processing. In trade, it's best to keep everybody interdependent. You're less likely to get belligerent with them. It's nice to have balanced trade.

Q: What is AGP's future direction?

Answer: Diversity is critical to the company's future. As we add new businesses to diversify, our objective is to become a low-cost producer in that new business. AGP has expanded into the feed, hog and grain businesses.

We're constantly in a see-saw state in the hog business — production is low and processing high or vice versa. Farmers need to expand more into value-added processing such as Farmland Industries has done and share in the good and bad times with one another.

Hog processors had to get prices to the point where producers stopped shipping to them as supplies outstripped the processing capacity. This resulted in heightened interest in value-added swine processing cooperatives. We congratulate Farmland Industries for setting a base price it paid for hogs. As a farmer-owned company, we need to keep producers in mind.

AGP is basically a processor and wholesaler. It would be wise to continue to follow that pattern. We don't envision getting into a business in which we have little knowledge, such as farm production supplies. Our real success may be judged in another 50 years because we're a youngster in the market.

We're currently doing what our stockholders want, adding value to soybeans and their investment. We have an extremely active membership. We meet with them twice yearly at

regional meetings and at the annual meeting to apprise them of finances, the grain situation and technical subject areas ranging from transportation to marketing.

We encourage producers to do business with their local cooperatives. But there is a tendency from farmer-members to put too much pressure on locals for services at less than cost. If farmers insist on a lot of free services, it erodes the profits flowing back to them. Nothing is free.

This is a time of high consolidation in agribusiness with movement toward some form of integrated food product systems. In the future, AGP may be processing different commodities, perhaps in concert with an allied company. If alignment becomes important in the farm-food sector, AGP will find an alliance.

Some members are already aligning in pork and wheat. We anticipate more shrinking of the number of locals into larger operations, much as has occurred with farms. We also envision more centralization in marketing. The regionals will become grain partners with locals. AGP is positioning itself with locals seeking an alignment.

We're prepared to step in rather than let a local be sold to a competitor, particularly in the areas surrounding our plants. Part of AGP's challenge is to help farmers identify with value-added products. We see ourselves as a catalyst in the food-farm sector, working in alliances. ■



High-tech monitoring equipment in AGP plants assures consistent quality.

tiller's dried grain solubles, a high-protein ingredient used in livestock feeds), pelleted soyhulls and soybean meal to the West coast dairy and poultry markets," Meyer says.

Feed diversification

AGP's diversification into the feed business has also paid dividends. Many of Consolidated Nutrition's feed plants owned jointly by AGP and Archer-Daniels-Midland are located near AGP's soybean plants, and represent a valuable market for soybean meal.

The building of a new soybean oil refinery at St. Joseph, Mo., in 1985 marked AGP's entry into value-added refining. Since then, AGP has both expanded its refining capacity and formulation capability due to increased demand from food companies. Today, AGP invoices nearly 600 specific formulations of vegetable oils appearing as

ingredients in food products that consumers use on a daily basis.

"All of AGP's business groups are positioned for continued growth," Burkett noted, "and enable us to better serve more local cooperatives and their farmer-owners. The next dimension is the new soybean oil pricing program."

Looking ahead, AGP expects to remain competitive in a global marketplace.

"In the coming millennium, world economic conditions will continue to be of concern not only to AGP but to everyone in agriculture," Lindsay says. "International markets are critical to the success of our industry. During challenging financial times on the farm, the mission of AGP to add value beyond the farmgate by returning earnings to farmers through their local cooperatives becomes even more crystal clear." ■

AGP expands global presence

Given its strong financial base, AGP is emerging from a period of unprecedented expansion which exemplifies food integration that enhances returns to AGP members. These expansions enabled AGP to effectively compete in the global economy. Shipping soybean meal to 20 countries helped push international exports up 198 percent in fiscal 1998. To fortify market presence, AGP has:

- Diversified into corn processing in 1996 with a new plant at Hastings, Neb. Capacity was recently expanded by 50 percent.
- Entered soybean processing operations with new plants at Emmetsburg, Iowa and Hastings, Neb. Created a soybean market at Hastings for more than 36 million bushels of farmer-produced grains per year in central Nebraska.
- Opened a new vegetable oil refinery in 1998 at Eagle Grove, Iowa, and broke ground for a new refinery in 1999 at Hastings.
- Added a new methyl ester plant at Sergeant Bluff, Iowa. Soy methyl ester is used in solvents, cleaners, agricultural spray adjuvants, cosmetics and soydiesel. It is exploring new uses, such as explosives.
- Upgraded existing plants such as at Mason City, Iowa, where storage has been boosted 150 percent.
- Began manufacturing Amino Plus, a high-bypass soybean meal shown by AGP research to increase milk production by as much as 10 percent in lactating dairy cattle.
- Purchased interest in Protinal/Proagro, a broiler production, processing and marketing company that also markets livestock feed and seed in Venezuela.
- Opened AGP Hungary, a premix and feed company owned by AGP and 12 farmer cooperatives in Hungary.

The Changing Role of Dairy Trade Groups and Co-ops

By Jerry Kozak,
Chief Executive Officer
National Milk Producers Federation

Years before the Capper-Volstead Act allowed cooperatives to collectively bargain on behalf of their members' economic interests, U.S. dairy leaders established the National Milk Producers Federation to create a single, national presence for dairy associations. NMPF was formed back in 1916, making it one of the first national, commodity-oriented organizations to promote the economic and political interests of farmers and their collectively owned creameries and marketing organizations.

But - as the cliché goes - times have changed. While milk itself is still essentially the same as it was 85 years ago, the dairy industry is structurally very different than before. And with a new century sure to pose new challenges, it's important to examine how a membership association like NMPF must evolve to better represent the needs of its member cooperatives. Let's start by looking at how the industry has changed.

A historical perspective

At the end of World War II, there were roughly 3.5 million dairy farms in the United States. Today, 50 years later, there are 100,000. There were more than 1,000 dairy cooperatives half a century ago. Today, while there are still more than 200 dairy co-ops, just 20 of those market half of all the milk produced in the United States (roughly 160 billion pounds annually). The top

three cooperatives alone (Dairy Farmers of America, Land O'Lakes and newly merged California Dairies) market approximately 50 billion pounds of milk annually.

It's also worth noting that, 30 years ago, only 65 percent of the nation's dairy farmers marketed their production through a cooperative. That figure has grown to 83 percent today. So, while the number of farms and cooperatives has declined, the marketing presence of farmer-owned dairy co-ops has actually expanded during the past generation.

One of the primary missions of our organization, like countless others based in Washington, D.C., is to provide representation in Congress and with the federal agencies that regulate our industry. That's a key reason why NMPF was formed, and it's still at the forefront of what our members look to us to do. As long as the government has a presence in the production and distribution of dairy products, it will be important to have a Washington-based presence for dairy farm organizations.

In fact, there was a time not long ago when the dairy cooperatives that belong to NMPF asked whether they still needed a national presence. And after looking at their needs and the realities of the dairy industry, the answer they arrived at was a resounding "yes" - they need to have a recognized and consistent voice on Capitol Hill and with the USDA, Federal Drug Administration, Environmental Protection Agency and other agencies whose activities have a daily impact on the operation of dairy farms.



Jerry Kozak

Dairy co-op issues changing

So, National Milk continues to fill a unique and important role for its members. But the assortment of issues in which we're involved is changing, and thus our role is evolving in relation to where we've been in the past. For example, take the issue of international dairy standards.

Ten years ago, the manner by which European nations determined the composition of their cheese was of little or no concern to U.S. cheese manufacturers. We didn't import or export enough of the product for us to bother comparing notes with other cheese-producing countries. But as the U.S. government and other nations work through the World Trade Organization to increase global trade in products such as cheese, ice cream and butter, it is critical for the U.S. dairy industry to involve itself in that process. And it's the role of NMPF to give American farmer-owned dairy cooperatives a seat at the table when international dairy standards are constructed.

Environmental concerns

Environmental regulation is another area where NMPF has evolved to better reflect the needs of its members. As most farmers are aware, the USDA and EPA are developing a new regulatory approach to managing the environmental impact of animal waste. The regulations that result from this process could have as significant an economic influence on dairy farmers as the Federal Milk Marketing Order program or dairy price supports. So, it's important to have a national organization such as NMPF to bring dairy producers' concerns to federal regulators as they design the new animal waste guidelines.

Our evolving mission also reflects an increasing concern with consumers' attitudes towards our members' products. The leading concern of dairy consumers, according to most attitudinal surveys, is not price, variety or taste, but food safety. Dairy has an admirable record of providing safe, high-quality products, but in this information-intensive age, one isolated pathogenic outbreak can have national — even international — consequences. NMPF must serve as an educational voice for the media and consumers during times

when a national presence is required to keep consumer-oriented issues in their proper context. No individual cooperative, or regional organization, has the same capability.

Sorting through information

Another factor that will determine how NMPF changes in the future is the transformational influence of information technology. At the core of our mission is the exchange of information — not so much data, such as a financial services or marketing organization would manage — but ideas, news and perspective. For decades, NMPF served as a conduit for opinions and ideas both from Washington to our members, and vice versa. That exchange often took weeks or months, and was reliant on paper correspondence. Today, thanks to the ubiquity of computers, we have the capability of moving that information much more thoroughly and rapidly. The use of email and the Internet enables NMPF to more rapidly and effectively communicate both to our members and the rest of the world.

Truth be told, thanks to information technology, the same news that we pro-

vide to our members sometimes can be obtained by them directly from the source (Congress, USDA, WTO, etc.). Where NMPF's role becomes more crucial is the addition of context to that information. Our interpretation of events, and our assessment of the impact of those events on the dairy industry — these are where NMPF adds value to the daily flow of information within the industry. And as we all become increasingly bombarded with the facts, figures and conjecture of the Information Age, the role of a trade association increasingly will be screening this flow of information so that it is useful and instructive to our members, and not just confusing.

Ultimately, the role and scope of NMPF is a mirror image of its own membership.

NMPF reflects both the hopes and fears of dairy producers and their cooperatives. As the number of farms declines and those remaining get larger — and the same pattern applies to cooperatives themselves — NMPF will continue to evolve to best reflect the needs of its changing membership base. ■

RECs on track for Y2K

Status reports on electric power supply and delivery into 2000 indicate that the nation's cooperative electric utilities are on track with the rest of the industry in preparing to keep the lights on when the calendar changes. Eighty-six percent of the electric cooperatives participating in a survey of the electric utility industry reported they had achieved Year 2000 readiness by the June 30 goal set by the U.S. Department of Energy. Another 13 percent said they would be ready before the end of the year.

Data from 96 percent of 858 electric cooperative distribution systems

were compiled as part of a comprehensive assessment of electric distribution readiness contained in "Preparing the Electric Power Systems of North America for Transition to the Year 2000: A Status Report and Work Plan," delivered to DOE by the North American Electric Reliability Council (NERC). As requested by DOE, NERC is the official coordinator of Year 2000 readiness, risk assessment and contingency planning for the electric utility industry.

The survey of electric co-ops, fourth in the series begun last year, was conducted by the National Rural Electric Cooperative Association, Arlington, Va., the trade association

representing private, consumer-owned cooperative utilities. The nation's nearly 1,000 private, consumer-owned cooperative electric utilities serve more than 32 million people in 46 states. Electric cooperatives serve 13 million businesses, homes, schools, churches, farms, irrigation systems, and other establishments in 2,600 of 3,128 counties in the United States.

For information on how USDA can assist your cooperative with Y2K readiness, visit our website at www.ocio.usda.gov/y2k/index.htm, or make a toll-free call to the President's Council on Year 2000 Conversion at 1-888-872-4925. ■

Large cooperatives unifying: A strategic trend to monitor

By James J. Wadsworth,
Agricultural Economist
USDA Rural Development

Editor's note: This article stems from forthcoming RBS Research Report 174, "Cooperative Unification: Highlights From 1989 to Early 1999", in which highlights of unification activities, most of them among well-known cooperatives, are described. That report is an offshoot of RBS Service Report 57, Cooperative Restructuring, 1989-1998.

Unifications — mergers, consolidations and acquisitions. What does the future hold?

In the September/October 1998 issue of *Rural Cooperatives*, Catherine Merlo provided an overview of recent cooperative merger activity (When Cooperatives Combine, pp. 18-23), pointing out the big deals completed, the benefits, doubts and sticky points of merging. Her article also discussed the merger aftermath and potential for more mergers.

This article adds to that discussion by recognizing the broad extent of the unification activity during the past 10 years, conceptualizing unification as a component of strategic planning. It also raises questions to consider in the future as the true implications of large-scale unifications manifest themselves.

Unification - to what extent?

To provide a rough estimate of cooperative unification activity, figure 1 graphs activities derived from removals from USDA's cooperative mailing list from 1989 to 1997 (each year, farmer

cooperatives are dropped from the mailing list because of mergers, consolidations, acquisitions, dissolutions, etc.). The unifications are those cooperatives that indicated they merged or consolidated, or were acquired by another cooperative. The trend of these statistics shows the peak year of activity is 1991, with 135 unifications. Other high years were 1992 (107) and 1995 (90). Low years for co-op unification were 1997 (57), 1994 (61), and 1992 (68).

From 1989 through 1997, USDA Rural Development documented a total of 777 unifications. Of those, 65.8 percent were identified as mergers and consolidations, and 34.2 percent were acquisitions. These unifications included cooperatives of all sizes, although many of them were local or smaller cooperatives.

RBS Research Report 174 describes 51 selected unifications that took place from January 1989 through early 1999. While selection for this study was arbitrary, the unifications were sorted according to cooperative size or perceived market impact. Unifications were categorized by type of cooperative or activity performed. As a result, 20 unifications were labeled as "dairy," nine as "farm supply," eight as livestock and seven as "fruit and vegetable." Four cooperative unifications were labeled "grain" and three involved "finance" (CoBank and its counterparts). The top years for unification activity among this sample were 1995 and 1998, with nine occurring each year.

Cooperative unification activity occurred in a broad and scattered pattern across the United States, most of it

in California, Washington State, the Midwest, the Mid-South and parts of the East.

Looking over the past 10 years — and even further back — it is clear that cooperatives have been making unification choices for some time. However, recent unifications have involved larger cooperatives and expanded the presence of nationwide cooperatives with broad expanses of membership.

A strategic planning direction

Unification is a direction often chosen in response to dynamic trends and industry conditions, and the inherent need for cooperatives to realize member goals. Such conditions often pressure organizations to change or consider change (figure 2).

In strategic planning, cooperatives respond to trends affecting their operations and service to members by assessing alternative strategic directions that will allow them to continue to accomplish organizational and system-wide goals. Figure 3 shows cooperatives have three directional choices. They can: 1) make internal changes to improve structure, efficiencies and operations; 2) unify with other cooperatives or companies; or 3) develop marketing agreements, joint ventures, strategic alliances or other working business relationships with other organizations.

Unification, often conducted to achieve stronger industry position, also provides cooperatives with opportunities to use new strategies. Figure 4 illustrates cooperative strategic positioning and potential growth channels that often result from unification. Flowing from unification are a variety

of probable strategies that come into play. Unification develops a strategic position that will often propel the surviving entity into one or more potential strategy channels of: vertical integration, horizontal integration, scale economies, capacity expansion, synergies and efficiencies.

Unification can create a surviving cooperative that: 1) participates in two or more vertically adjacent industries (vertical integration); 2) expands an existing line of business and amassing resources or bargaining power to share market risks by accumulating volume required to realize scale economies in product procurement, sales, transportation and distribution (horizontal integration and scale economies); 3) substantially increases assets and operational base resulting in greater capacity and improved use of resources (capacity expansion); or 4) collapses specific facets of operations into more efficiently managed and operated central functions (synergies, efficiencies).

Examples of such strategies during amalgamations are prevalent. For instance, the numerous mergers involving Mid-America Dairymen led to the formation of Dairy Farmers of America and brought about horizontal integration, economies of size/scale, vertical

integration involving value-added products, and more efficient use of capacity. Those, in turn, created significant growth for the cooperatives involved and formed a cooperative of significant size and scope.

In today's business environment, growth is one of the critical goals of unification for cooperatives. Economies of size, greater market prominence and membership enhancement are all growth factors that cooperatives strive to achieve. Vilstrup, Cobia and Ingalsbe (*Cooperatives in Agriculture*, Chapter 20, Prentice-Hall, 1989) contend that growth is considered a sign of a healthy, successful business, pointing out that advantages to growth are associated with economies of size and the ability to achieve marketing and bargaining power, political power, legislative influence and financial strength.

Questions to contemplate

So, growth through unification has been prevalent, intriguing and is altering traditional agricultural markets. Now, what does it mean? Why are some cooperatives making the choice? These are worth contemplating since experience and evidence indicate that unification is often the hardest choice for cooperatives to make and then pur-

sue. Unification alters cooperative culture, internal and external structure, governance, asset base, membership boundaries and more. It also often involves a drastic change in operations and overall organizational and governance structure.

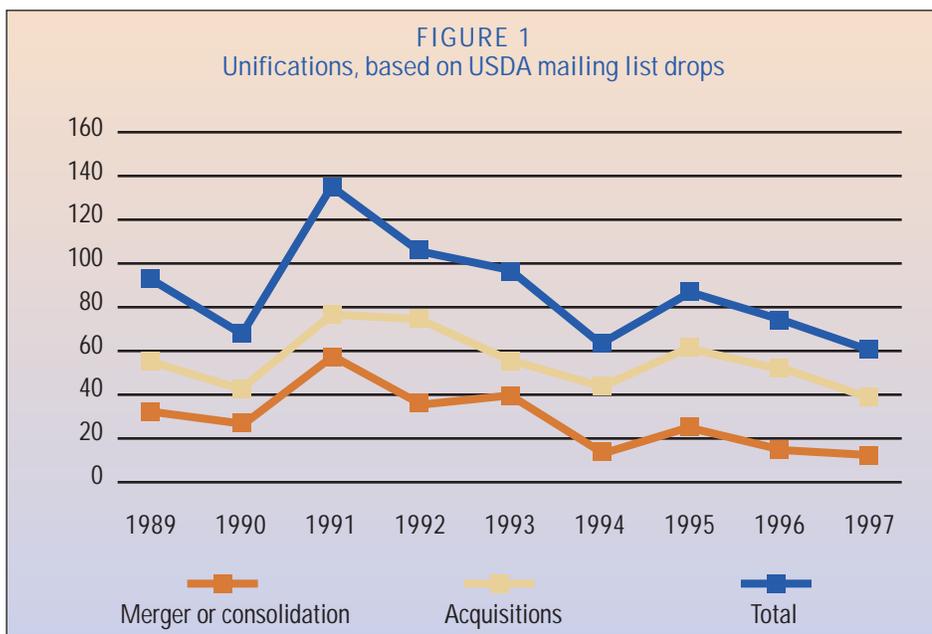
With the kinds of growth the cooperative movement has seen lately - the development of large regional cooperative organizations - it's worth raising some questions. Let's start with member governance and service:

How large can cooperatives become on a nationwide basis and still be effective organizations well represented and well governed by member owners? Will producer members be better served, or will the dilution of joined cooperative cultures and the resulting broad governing bodies, water down the level of member-owner control?

In other words, will cultures be diluted as cooperatives grow into larger and more widespread organizations, crossing broad geographic boundaries? Will the transformed cooperatives have less member representation and governance? And, will those mega-cooperatives be stronger and better able to serve members?

The ongoing and fast structural change in agricultural industries clouds the answers to these questions. Clearly, some agricultural markets need to be consolidated for higher member benefits. Some are fragmented by too many competing organizations given the limited producers and resources involved.

Some often contend that overcoming fragmentation can be a significant strategic opportunity, and that once barriers to consolidation are overcome, the structure of an industry can be improved for those that consolidate. The structures of agricultural industries in dairy, farm supply and cattle, for instance, are changing due to consolidation. The artificial insemination industry has seen considerable consolidation. Once an industry with a large number of stud operations, it has now consolidated into four cooperatives and



a select number of private firms. The dairy industry, overall, continues to consolidate. Though fragmentation in that industry still applies in certain areas, Dairy Farmers of America and Land O'Lakes, for instance, continue to gain large-scale prominence. The number of players in the industry has shrunk.

Consolidations in the farm supply industry also are prevalent, including: Land O'Lakes and Countrymark, Cenex and Harvest States, and the prospect of Farmland and Cenex Harvest States.

The changing structure of certain industries cannot be ignored. However, overcoming fragmentation and seeing industries consolidate, perhaps toward the "rule of three" (which asserts that there is only room for two or three major competitors in an industry sector—the companies that can supply the volume and service needed to support demand), invites more questions.

How effective is unification for industries and its participants? Will they improve along with member services of the remaining cooperatives? How will large-

scale unifications affect other cooperatives (local and regional) in the industry or related industries?

The structural changes taking place will pressure existing cooperatives with comparatively slight industry involvement or market share. It may force them to consider unification or other action. The impact of such pressure must be carefully weighed. Continuing to serve producer-members in the most efficient and beneficial way, given changing structures, should be the ultimate goal of remaining cooperatives.

Farmland, Cenex Harvest States move closer to merger

The boards of directors of Farmland Industries, Inc., Kansas City, Mo., and Cenex Harvest States Cooperative, St. Paul, Minn., have voted to combine operations, effective March 1, 2000. The new organization would be called United Country Brands and have projected sales of nearly \$20 billion. The boards met Sept. 22 to sign final unification documents. Informational meetings in 37 cities will follow in October and November. The members of both cooperatives will vote Nov. 23 on the consolidation.

Both organizations have complimentary businesses and overlapping memberships. The consolidation would increase opportunities to add value to the grain and livestock raised by producers. A desire to be a stronger player in a fast-paced and changing global agricultural food system coupled with accelerated concentration brought on by the industrialization of U.S. agriculture is triggering the union, officials report.

Not lost on the participants are the

opportunities to achieve substantial operational savings and to open windows to expanding markets. An expected \$500 million in consolidation savings during its first six years will be offset somewhat by the expense of forming United Country Brands. A segmented base-capital plan that provides members with proportional investment in the businesses they use will become effective Sept. 1, 2000.

Leadership slots for the proposed new cooperative have been designated by an interim board. Bob Honse, Farmland's chief operating officer, would be the initial chief executive officer through Dec. 31, 2003. John Johnson, president of Cenex Harvest States, would be president of United Country Brands until Dec. 31, 2004, then take over as CEO. Current CEOs H.D. "Harry" Cleberg of Farmland and Noel Estenson of Cenex Harvest States will become advisors to the new cooperative until their planned retirements on Dec. 31, 2000.

During a transition period through Dec. 31, 2001, Elroy Webster, Cenex Harvest States chairman, will head the 34-member interim board (17 from each cooperative). Al Shively, current Farmland chairman, will become the new vice chairman. After that, a 25-member board would be elected, consisting of 18 producers and seven local cooperative managers.

What could be the last separate annual meetings of the two cooperatives will be held Dec. 2-3 (Cenex Harvest States) and Dec. 7-8 (Farmland). Although United Country Brands' office of leadership would be based in Kansas City, where Farmland is building a new headquarters, the new cooperative would maintain a significant employee presence at Inver Grove Heights, Minn. Should the merger be approved, employee relocation should be minimal. The total number of employees in each city would remain about the same, officials report. Grain and energy interests would be based at Inver Grove Heights, while refrigerated foods and livestock would be centered at Kansas City.

The proposed new cooperative would not impact the joint agronomy venture started more than 12 years ago by Cenex and Land O'Lakes, Inc. That venture—continued after the merger of Cenex with Harvest States—will carry forward, officials report. United Country Brands will share half ownership with Land O'Lakes, and business will be conducted in both Kansas City and Inver Grove Heights.

Both Cenex Harvest States and Land O'Lakes also have a 55 percent interest in CF Industries, Inc., an inter-regional manufacturer and distributor of fertilizers.

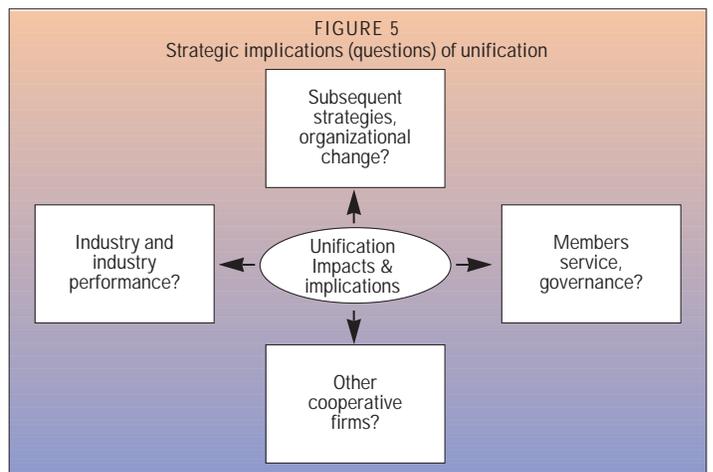
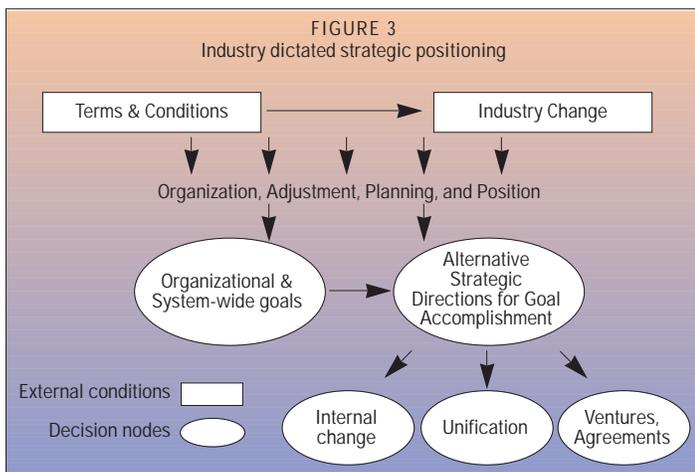
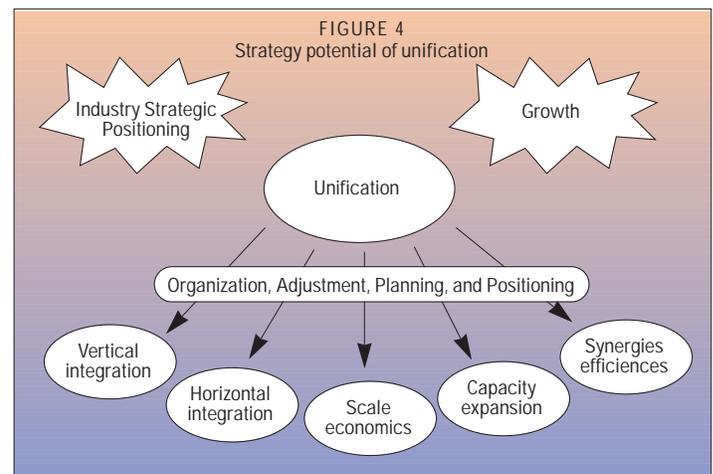
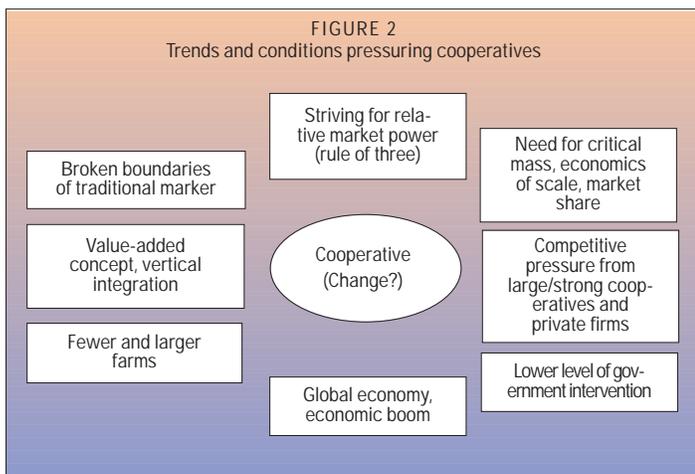
So, cooperatives must assess the implications of unification on their market position and revenue-driven business practices as well as on service.

Figure 5 summarizes the potential impacts and implications of unification. Given significant change via unification, there are a number of unknowns to contemplate. What will be the impact on: 1) member service and governance, 2) other cooperatives and firms, 3) industry and industry perfor-

mance, and 4) subsequent strategy employment and organizational/operational change? Cooperative leaders must keep attuned to unifications affecting their cooperative and their industry and what impact these structural changes have on the organizations and services to members.

Unifications among co-ops are expected to continue, and to further alter the structure and scope of agricultural industries. Questions as to the

effectiveness of further consolidation arise. The answers won't be easy to assess, but time and a keen eye on the impacts of such unification activity will eventually produce a clearer picture. Research and/or analyses beyond merely describing unification activities are needed to gain a greater understanding of how unification is impacting industries and of its effect on cooperative cultures and operations. ■



Calcot's Tom Smith, other outstanding communicators win CCA honors

Communication is a cornerstone of cooperatives, and a professional organization recognized outstanding contributions to the field at its annual meeting in Omaha, Neb.

Tom W. Smith, chief executive officer of the Calcot cotton and almond marketing cooperative, was named the 1999 CEO Outstanding Cooperative Communicator Award.

Presented by the Cooperative Communicators Association, the award recognizes Smith's efforts to promote better understanding of his cooperative among members, customers, employees and the general public. Smith received the honor at CCA's annual institute in Omaha.

Leader of the Bakersfield, Calif.-based cooperative since 1977, Smith was cited for expanding the scope and substance of the company's communications program and for adopting a strategic plan that emphasizes a strong communications component at virtually all levels of Calcot's operations.

He started his career with Calcot in 1957 as a field representative just after graduating from Texas A&M. Even though he wasn't trained as a journalist, one of his earliest duties was to edit Calcot's award-winning publication, "The Calcot News." Smith says he found this a tough assignment, but it opened his eyes to the need for communications vehicles that provide a direct link between management, co-op members and others.

Under Smith's leadership, Calcot has grown from marketing 500,000 bales of cotton annually to as many as

2 million. He currently is guiding the expansion of Calcot's marketing services to include almonds, a step taken in part to help members suffering from depressed cotton prices. Smith says he believes communications efforts are particularly important when times are tight. Cutting back such programs to prove austerity to members is a huge mistake, he notes.

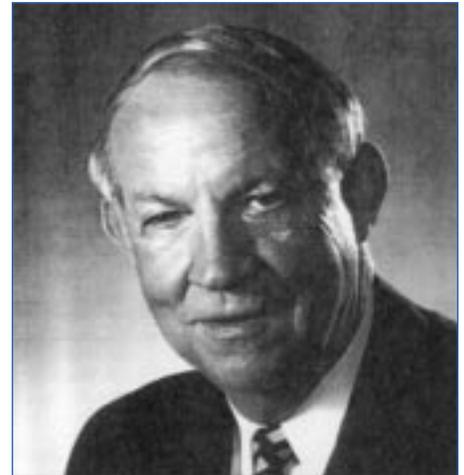
Communicators from Cenex and GROWMARK earned top cooperative career awards from the CCA.

Jantzen's co-op career honored

Jean Jantzen, recently retired vice president of public relations with Cenex Harvest States, received CCA's Klinefelter Award given for career achievement in cooperative communications. Jantzen's retirement earlier this year marked the end of a 35-year career with cooperatives, originally with Cenex, St. Paul, Minn., and then with Cenex Harvest States after Cenex and Harvest States merged in 1998.

During her career, she moved from an administrative support role to key positions in the public relations area, honing skills in areas ranging from corporate and marketing communications to media relations, meeting planning, cooperative education, governmental affairs and human resources. Her communication skills and understanding of cooperatives helped her rise through the ranks to become one of the first women named a Cenex vice president.

GROWMARK's Hastings recognized GROWMARK's corporate relations manager received CCA's Graznak



Tom W. Smith, CEO Communicator of the Year.

Award. Ann Hastings received the award in recognition of career achievements and excellence in cooperative communications by a CCA member 35 years of age or younger.

She joined GROWMARK, Bloomington, Ill. in 1993 as publications manager and was named to her current position in 1995. She has also worked at the Illinois Soybean Association, Bloomington, and the Coles-Moultrie Electric Cooperative, Mattoon, Ill. She's a University of Illinois graduate with a degree in agricultural communications.

In 1997, she attended the Graduate Institute of Cooperative Leadership at the University of Missouri. She is working on a master's degree in business administration at Illinois State University, Normal. Hastings serves on the CCA board and the Illinois Cooperative Coordinating Committee.

Merlo, Haynes, Farmland honored

Two communicators and the communications staff of a major farmer cooperative received top honors in CCA-sponsored competitions.

Catherine Merlo was named writer of the year, primarily on the strength of articles written for USDA's *Rural Cooperatives* magazine (see item below). Merlo, of Bakersfield, Calif., heads a communications firm that works closely with a number of cooperatives and related organizations. She formerly worked with Calcot. The recipient of awards in a number of categories in this year's CCA writing competition, Merlo was cited by judges for her ability to address a wide variety of assignments.

Page Haynes, communications specialist at Tennessee Farmers Cooperative in Lavergne, earned photographer of the year honors. Judges said Haynes' winning photographs demonstrated both an ability to capture the

subject matter and eliminate outside distractions. They also praised her skill in capturing human emotions and feelings in her feature photos of people.

Best-of-class award in the special projects competition went to the communications staff of Farmland Industries, Kansas City, Mo., for its web site (<http://www.farmland.com>). Judges said the site was a model of useful information. The Farmland site won in that category of competition and then earned best-of-class honors among all winners in special projects categories.

1999-2000 officers elected

CCA officers for 1999-2000 are: President Patricia Keough-Wilson, Minn-Dak Farmers Cooperative; Vice President Lani Jordan, Cenex-Harvest

States; Secretary Heather Berry, Association of Missouri Electric Cooperatives; and Treasurer Tim Brown, Arizona Electric Power Cooperative. Other directors include Ann Hastings; Mark Bagby, Calcot; Karla Harvill, Gold Kist; Leta Mach, National Cooperative Business Association; and Sheryl Doering Meshke, Associated Milk Producers.

CCA formed in 1952 and is an organization of some 400 communications professionals who work for cooperatives and closely allied organizations throughout the U.S., Canada and Europe. It can be found at www.CoopComm.com. Its 2000 annual meeting will be held June 24 to 28 at Grouse Mountain Lodge, Whitefish, Mont. ■



Klinefleter award winner Jean Jantzen (left) and Graznak award winner Ann Hastings at the CCA Communications Institute in Omaha.

Rural Cooperatives wins editorial honors

Rural Cooperatives magazine won a number of editorial and photography honors during the Cooperative Communicators Association (CCA) annual Communications Institute in Omaha, Neb.

Among the honors were three first place writing awards, for: "When Cooperatives Combine" (September/October '98 issue), about the merger trends among cooperatives; "Hooked on Catfish" (May/June '98 issue) about the Delta Pride catfish cooperative in Mississippi; and "The Triumph of the Dawson Workers' Cooperative"

(March/April '98 issue) about a worker-owned textile cooperative.

Another article, "Pooling for Power" (July/August '98 issue), about an effort by California farmers to lower their cost for electricity, won a third place writing award. Catherine Merlo, the author of all the articles, was named CCA "writer of the year." The magazine was awarded third place honors as best overall co-op member magazine, and USDA photographer Ken Hammond won a second place photography ribbon for a portrait of a West Virginia seamstress.

CCA strives to promote improved communications and public affairs programs among farmer- and consumer-owned cooperatives.

Net business volume, net income for farmer co-ops decline in 1998

Editor's Note: Information for this article was compiled by the Statistics Staff of USDA's Rural Business-Cooperative Services, including Charles A. Kraenzle, Celestine C. Adams, Katherine C. DeVille, Jacqueline E. Penn and Ralph M. Richardson

Business volume of the nation's farmer-owned cooperatives declined to \$104.4 billion in 1998, down from \$106.7 billion in 1997, according to data compiled by USDA's Rural Business-Cooperative Service. Business volume includes gross receipts from the sale of crops, livestock, farm supplies and services collected by the nation's

3,651 farmer cooperatives.

Farmer cooperatives' net income of \$1.7 billion in 1998 was down from \$2.3 billion in 1997. That's the lowest income level since 1993 and well off the income record of \$2.36 billion set in 1995. Lower margins for farm supplies, poultry and sugar were major factors that caused the income decline. Losses suffered by a number of cooperatives also hurt the overall income performance.

Crop and livestock marketing receipts dropped 1.5 percent, farm supply sales declined 3.8 percent and service receipts and other income fell

3.5 percent in 1998. Among the major products marketed, grain and oilseed dollar volume dropped the most (13.6 percent), largely due to significantly lower prices.

The drop in farm supply sales was due mainly to lower prices for livestock

TABLE 1
Farmer cooperative numbers, net income, and memberships, 1998 and 1997¹

| Principal product marketed and major function | Cooperatives ² | | Net income ³ | | Memberships | |
|---|---------------------------|-------|-------------------------|---------|-------------|---------|
| | 1998 | 1997 | 1998 | 1997 | 1998 | 1997 |
| | Numbers | | Million dollars | | 1,000 | |
| Marketing: | | | | | | |
| Cotton ⁴ | 15 | 16 | 64.0 | 67.7 | 41.3 | 42.7 |
| Dairy | 228 | 239 | 447.2 | 369.7 | 92.9 | 104.9 |
| Fruit & vegetable | 249 | 259 | 76.9 | 189.7 | 44.0 | 44.0 |
| Grain & oilseed | 964 | 1013 | 441.4 | 437.0 | 728.7 | 745.0 |
| Livestock & poultry | 98 | 108 | -71.2 | 191.4 | 197.8 | 270.3 |
| Rice | 17 | 18 | 7.3 | 7.3 | 12.9 | 14.0 |
| Sugar | 52 | 51 | -12.1 | -2.0 | 15.9 | 13.8 |
| Other products ⁵ | 240 | 239 | 64.0 | 52.5 | 264.9 | 263.2 |
| Total marketing | 1,863 | 1,943 | 1,017.5 | 1,313.3 | 1,398.4 | 1,497.8 |
| Farm supply ⁶ | 1,347 | 1,386 | 578.8 | 834.6 | 1,773.7 | 1,743.2 |
| Related-service ⁷ | 441 | 464 | 146.0 | 166.5 | 180.6 | 183.1 |
| Total | 3,651 | 3,793 | 1,742.3 | 2,314.4 | 3,352.6 | 3,424.2 |

¹Preliminary. Totals may not add due to rounding.

²Operations of many cooperatives are multi-product and multi-functional. They are classified in most cases according to predominant commodity or function indicated by business volume.

³Net income less losses and before taxes.

⁴Cooperative cotton gins included with related-service cooperatives.

⁵Includes bean and pea (dry edible), nut, tobacco, wool, fish and miscellaneous marketing cooperatives.

⁶Data for 1997 memberships were revised.

⁷Includes trucking, cotton gins, storage, artificial insemination, rice driers and other services cooperatives

TABLE 2
Cooperative business volume, 1998 and 1997¹

| Commodity or function | Net volume ² | |
|--------------------------------------|-------------------------|---------|
| | 1998 | 1997 |
| | Million dollars | |
| Products marketed: | | |
| Cotton | 2,961 | 3,004 |
| Dairy | 25,324 | 23,374 |
| Fruits & vegetables | 9,423 | 9,268 |
| Grains & oilseeds ³ | 21,295 | 24,639 |
| Livestock & poultry | 9,555 | 9,578 |
| Rice | 932 | 930 |
| Sugar ⁴ | 2,445 | 2,284 |
| Other products ⁵ | 4,737 | 4,765 |
| Total products | 76,671 | 77,843 |
| Supplies purchased: | | |
| Crop protectants | 3,163 | 3,125 |
| Feed | 5,367 | 5,988 |
| Fertilizer | 5,161 | 5,371 |
| Petroleum | 6,420 | 6,756 |
| Seed | 730 | 702 |
| Other supplies ⁶ | 3,384 | 3,238 |
| Total farm supplies | 24,226 | 25,181 |
| Services & other income ⁷ | 3,520 | 3,647 |
| Total business volume | 10,4418 | 10,6670 |

¹Preliminary. Totals may not add due to rounding.

²Volume includes value of products associated with cooperatives that operate on a commission basis or bargain for members' products. Excludes intercooperative business.

³Excludes cottonseed.

⁴Data for 1997 were revised.

⁵Includes dry edible beans and peas, fish, nuts, tobacco, wool, and other miscellaneous products.

⁶Includes building materials, containers, hardware, tires-batteries-accessories (TBA), farm machinery and equipment and other supplies.

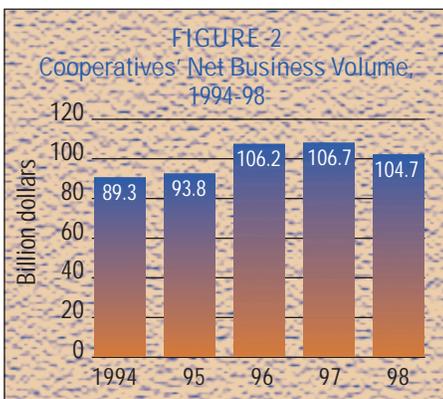
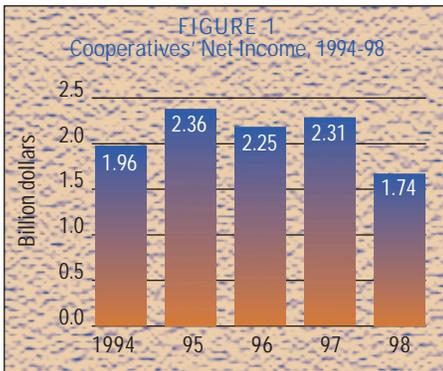
⁷Includes trucking, ginning, storage, artificial insemination, rice drying and other.

feed, petroleum and fertilizer. Feed sale receipts alone dropped 10.4 percent from 1997. The drop in farm supply sales, as well as the lower margins, also had a significant impact on earnings of farm supply cooperatives. Net income of \$578.8 million was down nearly 31 percent.

Farm marketing cooperatives — those that sell crops, livestock and value-added products for their members — also suffered a steep 22.5 percent decline in net income. Fruit/vegetable, poultry and sugar cooperatives all suffered significant income drops. Bucking the trend were dairy co-ops, which posted a 21-percent income gain. Net income for grain and oilseed cooperatives increased 1 percent despite substantially smaller sales volumes.

Co-ops reflect farmer trends

Cooperatives continued to expand as reflected by total assets reaching a record \$46.5 billion in 1998, an increase of 5.8 percent from nearly \$44 billion in 1997. To finance this expansion, total liabilities also grew to \$26.6 billion from \$25.5 billion, a 4.5 percent increase. More importantly, however, a



larger proportion of total assets were financed by net worth as it jumped to nearly \$20 billion from \$18.5 billion, an increase of 7.6 percent.

The number of U.S. agricultural cooperatives dropped to 3,651, down from 3,791 in 1997, reflecting the changing structure of agriculture. Mergers, consolidations, acquisitions and dissolutions resulted in a loss of 195 cooperatives. However, 55 cooper-

atives were added to the list in 1998.

Membership in farmer cooperatives totaled 3.35 million in 1998, down 2.1 percent from 1997. The number of memberships was larger than the number of farmers in the U.S. because many farmers belong to more than one cooperative.

Cooperatives employed 173,782 full-time employees in 1998, up from 172,199 in 1997.

Farmland, Cenex-Harvest States Top NCB's list

Two agricultural organizations that recently announced plans to consolidate operations top the list of the largest U.S. cooperatives, published by the National Cooperative Bank (NCB), Washington, D.C. The annual list recognizes America's top 100 cooperatives with annual revenues greater than \$325 million.

Farmland Industries, with 1998 revenues of nearly \$8.8 billion, and Cenex Harvest States, with nearly \$8 billion in 1998 revenues, were the

largest agricultural cooperatives in the Co-op 100 list. In addition, the two organizations are the largest cooperatives in the United States.

Consolidation among agricultural cooperatives was a major trend in 1998. Nine of the agriculture cooperatives listed in last year's report were partners in mergers with four of the top 100 cooperatives, notes the NCB report. Agriculture remains the dominant industry sector in the NCB list, represented by 42 cooperatives with combined revenues of \$60 billion, compared to 49 ag cooperatives with \$57 billion on the 1997 list.

Top 15 on 1998 NCB Co-op 100®

| Name | '98 Revenue \$ millions | '97 Revenue \$ millions | Ag Rank |
|-------------------------------------|-------------------------|-------------------------|---------|
| 1. Farmland Industries | \$8,775 | \$9,148 | 1 |
| 2. Cenex Harvest States | \$7,959 | \$9,124 | 2 |
| 3. Dairy Farmers of America | \$7,325 | \$3,862 | 3 |
| 4. Land O' Lakes | \$5,174 | \$4,195 | 4 |
| 5. Wakefern Food Corp. | \$5,159 | \$4,613 | - |
| 6. TruServ Corporation | \$4,328 | \$4,224 | - |
| 7. TOPCO Associates Inc. | \$4,000 | \$3,900 | - |
| 8. Associated Wholesale Grocers | \$3,180 | \$3,129 | - |
| 9. ACE Hardware Corp. | \$3,120 | \$2,907 | - |
| 10. Ag Processing Inc. | \$2,615 | \$2,948 | 5 |
| 11. Roundy's Inc. | \$2,516 | \$2,611 | - |
| 12. Spartan Stores | \$2,409 | \$2,475 | - |
| 13. Do-It-Best Corp. | \$1,948 | \$1,749 | - |
| 14. Certified Grocers of CA Ltd. | \$1,832 | \$1,827 | - |
| 15. Lumbermen's Merchandising Corp. | \$1,700 | \$1,656 | - |



Wisconsin's Karg new field editor

Pamela Karg, Baraboo, Wis., is now the field editor of *Rural Cooperatives* magazine, published bi-monthly by USDA Rural Development. As field editor, she writes several feature stories in each issue as well as assists in editing articles. Karg's cooperative knowledge was formed at Foremost Farms USA, a Wisconsin-based dairy cooperative, during which time she earned numerous writing and photography awards from the National Milk Producers Federation and the Cooperative Communicators Association (CCA). In 1991, Karg received CCA's Michael Graznak Award, presented annually to an outstanding young cooperative communicator. She went on to serve CCA as a director and as its president. In 1995, Karg opened her own communications business and now writes for cooperative publications, agricultural and dairy newspapers and magazines, commercial television and community radio.



D.W. Brooks

Gold Kist, Cotton States Insurance founder dies

David William Brooks, 97, retired founder of Gold Kist Inc. and of Cotton

States Insurance Companies, died Aug. 5 in an Atlanta hospital. Brooks obtained bachelor's and master's degrees in agriculture from the University of Georgia and began teaching agronomy at age 19, making him one of

the youngest faculty members at the university. In recent years, he served in a visiting position which, he pointed out, made him the oldest professor on campus.

Brooks left the university in the early 1930s to form Georgia Cooperative Cotton Producers Association. In 1974, the company was renamed Gold Kist Inc. With annual sales of more than \$2 billion, Gold Kist is the second largest poultry processor in the United States. Brooks served as general manager of Gold Kist until he retired in 1968. Brooks organized Cotton State Mutual Insurance Co. (CSIC) in 1941 to provide farmers with a source of fire and windstorm insurance. He served as chairman of the board of CSIC until 1983. It now serves 10 states in the Southeast and had sales of \$265 million in 1998.

Three California cooperatives merge

More than 98 percent of the members of California Milk Producers, San Joaquin Valley Dairymen and Danish Creamery Association approved merging the three cooperatives, effective Aug 1, 1999. The new cooperative is named California Dairies Inc. and will be the nation's second largest dairy cooperative in terms of milk volume. California Dairies will annually market 13 billion pounds of milk from 700 members through five manufacturing plants. Until 2001, the three chief executives of the predecessor cooperatives will function as executive vice presidents.

Glencoe, AMPI consider merger

Glencoe Butter and Produce Association, Glencoe, Minn., has signed a letter of intent to negotiate a merger with

Associated Milk Producers Inc., New Ulm, Minn. AMPI and Glencoe will immediately begin negotiating a definitive agreement to merge the two cooperatives. Glencoe members own an agricultural services division and dairy manufacturing plant. The plant produces barrel cheddar and provolone cheeses. AMPI dairy farmer-members share in the ownership of manufacturing plants in the Upper Midwest. In 1999, the combined cooperatives will market five billion pounds of milk and manufacture a full line of consumer-packaged dairy products.

Land O'Lakes, Swiss Valley partners

Land O'Lakes, St. Paul, Minn., and Swiss Valley Farms, Davenport, Iowa, announced a joint venture to combine the fluid milk and cultured dairy product businesses of the two organizations. Following approval by directors, the cooperatives proposed the formation of the alliance on or about Oct. 1, 1999. The venture, with combined annual revenues of \$480 million, would bring together the cooperatives' six Midwestern milk and juice bottling plants and two cultured dairy product plants. The Land O'Lakes plants are in North and South Dakota, Minnesota and Wisconsin. The Swiss Valley plants are in Iowa and Illinois.

Carey named UDA executive director

Dermot T. Carey has been named executive director of United Dairymen of Arizona (UDA) in Tempe. Carey was with Michigan Milk Producers Association before joining UDA in 1993 as director of operations. He is an honors graduate from the University College

Cork, Cork City, Ireland, where he majored in dairy and food technology, engineering, microbiology and chemistry.

MMPA pays equity capital retains

The Michigan Milk Producers Association issued \$4 million in equity payments to producers who shipped milk with the company in 1987 and 1988. Included in the cash payments was the final payment of the cooperative's Equity Capital Retain Program, which was discontinued in 1987. Along with the balance of the Equity Capital Retains, the \$4 million payment included all 1987 equity and half of 1988 equity. Earlier this year, MMPA members received \$1.9 million in cash payments generated from the cooperative's 1997-98 fiscal year.

"It is not easy in today's dairy industry to finance a cooperative exclusively from its profits, which MMPA has done since 1987," Kirkpatrick says. "The need to stay competitive requires MMPA management to continually review our plants and operations while providing a competitive pay price to our members."

LOL Answer Farm celebrates 25 years

The Land O'Lakes Answer Farm, one of the nation's leading crop and livestock research facilities, celebrated its 25th anniversary in September. The farm maintains a 180-cow dairy unit; uses more than 1,400 calves and 300 litters of pigs in animal nutrition, management and health research annually; and has a seed research system supported by more than 700 local cooperative test plots. The celebration recognized the Answer Farm's long heritage of developing new products, services and technologies which deliver value to producers by helping them maximize production efficiency, increase productivity and enhance profitability.

USWP now Spring Wheat Bakers

There's a new name and marketing strategy in place for the United Spring Wheat Processors at its new plant in

McDonough, Ga. The cooperative is using the name Spring Wheat Bakers for both its products as well as its identity with members, grain procurement partners, flour milling partners and suppliers, reports Gary Lee, chief executive officer and president. The plant is the first national par-bake co-manufacturer in the country. It will manufacture frozen dough and partially baked frozen bread products for the foodservice and in-store grocery markets. The cooperative is owned by 2,800 spring wheat growers in Minnesota, Montana and North and South Dakota. Its headquarters is located in Fargo.

Wentworth ethanol plant planned

The Lake Area Corn Processors Cooperative is building a 40-million-gallon ethanol plant near Wentworth, S.D. The \$43 million dry mill ethanol plant is the biggest construction project in the history of Lake County, S.D. It is estimated that farmers will receive an extra 10 cents per bushel of corn within a 50-mile radius of the plant. Its annual expenses are estimated at \$50 million and \$60 million, including \$33 million for corn. Thirty-five people will be employed at the plant, which will have an approximate annual payroll of \$1.3 million. Fundraising for the value-added facility is taking place this fall across South Dakota. The 12- to 14-month construction project is expected to begin in spring 2000.

Tree Top acquires Watermill Foods

Tree Top Inc., a Selah, Wash., apple marketing cooperative, recently acquired Watermill Foods Inc., a Milton-Freewater, Ore., processor of frozen sliced apples, cherries and plums. Watermill markets its products around the world in bulk as value-added items to industrial manufacturers.

California Custom Foods dissolved

The fruit and vegetable processing and marketing cooperative Pacific Coast Producers (PCP), Lodi, Calif., has announced that California Custom

Foods has been dissolved and its operations rolled back into the cooperative as Pacific Coast Producers-Flexible Packaging Division. The dissolved company had been founded as a California corporation by PCP in 1989.

Seald-Sweet celebrates 90th

Florida's oldest sales and marketing organization marked its 90th annual meeting in Vero Beach this past summer. The cooperative is Florida's largest shipper of fresh fruit to both domestic and international customers. In addition, it markets non-citrus fresh fruits and vegetables, including Vidalia onions and Louisiana sweet potatoes. This past year, the organization formed Seald Sweet LLC to facilitate the marketing of other fruits and vegetables in North America and to expand citrus marketing opportunities in off-season months.

"We are trying to structure our business in a way which protects the strengths and advantages of a cooperative, but, at the same time, adds the commercial flexibility of a limited liability company," noted Bruce McEvoy, Seald Sweet's chief executive officer.

At the board meeting held in conjunction with the annual meeting, John Luther was re-elected chairman while Richard A. Fort Jr. was re-elected vice president.

Bullock to step down in 2000

Amid a cranberry glut hurting the entire industry, Ocean Spray Cranberries Inc. announced that Thomas E. Bullock, chief executive officer, is stepping down in 2000 after three years in the top spot and 18 years with the cooperative. Bullock is the third Ocean Spray executive to announce his departure this year. According to Ocean Spray, Bullock presented a "major transition plan" to the Lakeville-Middleboro, Mass., cooperative board that will have him assist in the search for his successor before leaving.

"One of the challenges I've faced — and one my successor will face — is

continuing to create value for our grower-owners, who are suffering from lower-than-expected returns due to crop surpluses and low prices,” Bullock says.

PLA, IPLA discuss consolidation

The boards of Interstate Producers Livestock Association, Peoria, Ill., and Producers Livestock Association, Columbus, Ohio, are discussing a possible consolidation. A feasibility study is being conducted, especially in light of PLA's recent announcement of similar discussions with MFA Livestock Inc., Marshall, Mo. PLA serves more than 34,000 livestock producers throughout Ohio, Indiana, Michigan and other areas of the eastern Corn Belt. ILPA serves farmers and ranchers in Illinois, Iowa and Missouri and markets nearly 2.5 million head of livestock annually.

USDA Rural Utilities Service receives Hammer Award

Employees from USDA's Rural Utilities Service received a Hammer Award from Vice President Gore's National Partnership for Reinventing Government. The award was presented to RUS Administrator Wally Beyer on behalf of the RUS team. The award is given to government employees who cut paperwork, reduce costs, increase efficiency

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attracted by the highest margins in hardwoods and have tried to establish a presence, but have failed. GA-CO sales ended up being well over 90 percent softwood products. During the 1991-96 period in which the co-op operated, hardwood export market prices were at a 10- to 15-year low.

Causes for failure

The potential to serve foreign markets was provided through the co-op structure, with staff passively monitoring importer inquiries, but not engaging in any market-building activities. There was consensus among mill execu-

and improve customer service. RUS was cited for reducing regulatory burdens that cut more than 427 pages of regulations from the Federal Register.

DariGold now Northwest Dairy

After nearly a year of discussions, Darigold Farms has adopted new names. Driven by the cooperative's goal to achieve superior economic advantage for dairy farmers, both the corporate name change to WestFarm Foods and the cooperative name change to Northwest Dairy Association support its broader marketing strategy.

From 1961 to 1988, the cooperative's name was Northwest Dairymen's Association. Its processing and marketing arm was known as Consolidated Dairy Products Co. From 1929 to 1984 the Seattle, Wash., cooperative primarily produced and marketed dairy products under the Darigold brand, and had changed its name to Darigold during the 1980s.

SWEPCO, Committee, WST withdraw Cajun Bankruptcy settlement

Southwestern Electric Power Company, Committee of Certain Members and Washington-St. Tammany Electric Co-op have withdrawn their joint reorganization plan for Cajun Electric

atives interviewed that the sponsors did an excellent job of getting the cooperative venture organized, but the business cycle in the wood products industry worked against the GA-CO effort.

The consensus among member-executives and sponsors was that the co-op ended for three reasons. First, there was a lack of a driving economic need for mill members to enter export markets. Second, there was not a "cooperative culture" among mill members to ease that coordination. Third, there was no agreement among members about how the cooperative should operate and be funded.

Mill members were free to individu-

ally pursue more profitable, secure and easy transactions in domestic markets, and that is what they did. However, the decision to operate through the facilities and staff of the experienced GA-CO member limited the size of the other members' investments and risks.

Chugach to install world's largest assured-power fuel cell

A new system for generating power that is virtually pollution-free and requires little maintenance will be installed for the U.S. Postal Service by Chugach Electric Association, a member-owned cooperative and the largest utility in Alaska serving customers at over 69,000 metered locations from Anchorage to the northern Kenai Peninsula and from Whittier to Tyonek.

The new fuel cell system will be installed at the Anchorage Mail Processing and Distribution Facility. The cell system is expected to be operational early next year. It will be the world's largest assured-power fuel cell installation. The system will be owned and maintained by Chugach. Each cell will generate 200 kilowatts of electricity, enough to supply electricity for nearly 150 homes. ■

However, several respondents interviewed after GA-CO was dissolved commented that members seemed not to be soured on the cooperative process. One member believed that in a future situation where domestic markets were weak and export markets were relatively strong, the export co-op structure might yet work for them. ■

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