“sustainable,” for example, was a primary topic addressed from a number of perspectives during the conference.

The two-day event attracted co-op leaders from across the nation. Presentations on other topics of vital interest to cooperatives — including transportation, equity-management practices and cooperative governance — rounded out the program.

Following are some highlights from presentations made during the event.

The “radical center”
How do you get diverse food and agriculture groups, with seemingly competing interests, to work together? The conference kicked off with a presentation by Deborah Atwood, the executive director of the AGree project at the Meridian Institute in Washington, D.C., which is working to answer that question.

AGree brings leaders of stakeholder groups together by first defining the economic, environmental, health and social goals of both farmers and consumers. To find the “radical center,” from which a consensus on these issues can emerge, it’s important to identify people who are willing to hear all sides of an issue and identify opportunities and challenges, Atwood said.

AGree is initially focusing on initiatives relating to immigration reform, production practices and the environment, food and nutrition, and international development.

Chuck Connor, president and CEO of the National Council of Farmer Cooperatives in Washington, D.C., took a look at how sustainability issues are affecting farmer cooperatives. For many farmers, “sustainability” translates as “governmental regulations,” he noted. Farmers often perceive environmental-related regulations as being impractical and handed down by people who don’t understand the economics of food production.

The three pillars of sustainability — environmental stewardship, long-term economic viability and good neighbor/community responsibility — are all areas in which farmers and their co-ops are already active, Conner said. Farmers are quick to adapt new technology that can support both production efficiency and sustainable natural resources management.

Conner noted that markets, not government agencies, are driving the demand for different food systems. Farmer co-ops must find a way to respond to this market demand on their own terms, and they have much to contribute to the conversation on sustainability.

Bill Buckner, president and CEO of the Samuel Roberts Noble Foundation in Ardmore, Okl., reminded the conference attendees of the strategic role that soil health plays in sustainability practices. The “Green Revolution” brought increased productivity through plant breeding and soil inputs, but, in the long run, this occurred at the expense of soil health, he said. The Soil Renaissance program, a joint project with the Farm Foundation, focuses on soil health as the cornerstone of land-use management decisions.

Questions about sustainable production practices are here to stay, and it is up to the producers to help define these standards, Buckner noted. As soil research continues and soil-testing standards change, cooperatives have an opportunity to provide trusted agronomy and related services to support farming practices that support healthy soils.

“You can’t sell what customers won’t buy”
Greg Wickham, senior vice president for business development at Dairy Farmers of America (DFA), described how an industry-wide Sustainability
Council has responded to sustainability demands by developing a guiding vision for the dairy food system. These principles are based on supporting the health and well-being of consumers, farmers, communities and the environment in an economically viable way.

To put these principles into practice, an industry-wide set of science-based tools is available to “measure what matters.” These tools can help farmers make decisions about management practices and can be used to measure the resulting improvements in sustainable practices across the supply chain. Communicating the results to consumers and retailers can demonstrate the progress the dairy industry is making in a transparent and credible way.

Wickham reiterated that these types of environmental issues are here to stay, and that the public is increasingly concerned about sustainability.

**Sourcing “sustainably”**

When a food company like General Mills commits to sourcing 100 percent of 10 priority ingredients grown with sustainable production practices by 2020, what does that mean? Is this goal achievable, and how does it affect producers?

Rod Snyder, president of Field to Market: Alliance for Sustainable Agriculture (FTM) in Washington, D.C., described how the alliance brought together a wide-ranging group of collaborative stakeholders, including producers, agribusinesses, food and retail companies, conservation groups and universities. Increasing productivity to meet future food and fiber needs must not be at the expense of the environmental, health, and economic and social needs of agricultural communities — and vice versa, he noted.

FTM has been analyzing trends and collecting field-scale production data to develop the Fieldprint Calculator, an online educational tool for crop farmers. The calculator helps to evaluate farming decisions in areas such as water, energy and land use by making comparisons to past yield data or regional and national averages.

FTM now is widening its benchmarking and data collection efforts. The tools support a continuous-improvement approach for on-farm sustainable practices, rather than setting and following a static standard that may not be appropriate for local growing conditions. FTM is also helping its members along the supply chain substantiate their claims relating to sustainability.

Snyder suggested that sustainability may soon become a market-access issue for producers, as food companies look for partners to meet sustainability goals. Other agribusinesses are beginning to work with consumer product companies, posing a competitive risk to farmer cooperatives that do not meet their sustainability criteria.

Farmer co-ops are well positioned to develop long-term relationships with companies along the supply chain to meet the demand for sustainably produced product, depending on what practices producers adopt. Farmers can start with those sustainable production practices that save money, and then evaluate what practices make sense at the next stage.
Technology based on “big data” holds the potential for farming more sustainably, efficiently and profitably through the maximization of output per unit of input. David Muth, senior vice president of analytics at AgSolver Inc., pointed out that improvements in data, and in control systems and equipment, do not by themselves produce better decision-making. He described AgSolver’s services and products that use multi-sourced data to assess the return on investment of inputs on farmland through appropriate nutrient management.

Mike Vande Logt, executive vice president and chief operating officer of WinField, a Land O’Lakes business, emphasized the role “big data” tools play in the growing demand for food in the face of limited resources. While genetics will continue to improve yield potential, Vande Logt suggested that the potential in a bag of seed is ahead of the ability to manage it. Plant breeding has also increased the drought tolerance of many crops, supporting production practices that are based on rainfall.

Winfield offers tools that combine multi-sourced data and modeling to support grower decision-making, from planning through harvest. Winfield works with local co-ops to build grower-owned data silos and to offer a member-owned solution that is locally branded.

“If you aren’t at the table, you are on the menu”

The National Initiative for Sustainable Agriculture (NISA) is a farmer-led, university-based program formed in response to consumer and retailer demand for sustainably produced food. Paul Mitchell, professor at the University of Wisconsin-Madison, said farmers bear the social, economic and resource costs of unsustainable practices. Thus, they should be at the table when defining sustainability.

NISA provides farmers with science-based, self-assessment tools to develop sustainable practices at the farm level. Using whole-farm data, growers can create a grower scorecard that benchmarks results against those of other participants. These tools have been developed for a number of crops, including soybeans and potatoes, and may soon be expanded for corn. Grower groups can use the aggregated results to communicate with retailers and consumers about their on-farm sustainability practices.

Terry Fleck, of the Center for Food Integrity in Gladstone, Mo., took a closer look at consumer trust — how people form opinions about where their food comes from and what drives their buying decisions. His group is interested in identifying opportunities for delivering information to consumers that will make them feel more comfortable making choices in a diverse food system.

Consumer perceptions are powerful drivers in today’s global markets, said consultant Andrea Bonime-Blanc. Risks to land, assets and sovereign political stability are often the basis for a risk-management strategy. However, a more global view — one that includes reputation and integrity — is now

How do they do it in Denmark?

A look at cooperative governance in other countries can provide a fresh perspective on perennial co-op issues here in the United States. As part of the Farmer Cooperative Conference program, Michael Boland, professor at the University of Minnesota, talked with Ake Hantoft, chair of Arla Foods in Denmark, about Arla’s approach to issues such as patron equity structures and board governance.

Arla was created by a merger in 2000 between the largest Danish dairy cooperative and its Swedish counterpart. Over the past 50 years, the many small, cooperatively owned dairy production facilities in both Denmark and Sweden have consolidated. Arla has continued its cross-border merger activity and now has more than 13,500 co-op owners in Denmark, Sweden, Germany and the United Kingdom. It has acquired businesses, or has joint partnerships, in Canada, the United States, Finland, China and Russia.

These mergers were part of a strategy to secure the highest value for its members’ milk while creating opportunities for members’ growth. Hantoft stressed that successful mergers must be based on fairness to all parties. So, all members receive the same milk price in the currency of their own nation. However, managing exchange rate fluctuations to achieve this has been a big challenge. Arla currently uses an approach based on averages for the last eight quarters.

A 75 percent majority of Arla’s members must vote to approve international mergers. Growth is financed by the producers. Equity targets to reach goals are met through membership fees and retained patronage. After these targets have been reached,
necessary, she said. Higher risks to a company’s reputation result from the far-reaching nature of today’s supply chains, the size and reach of global companies, and social media’s ability to amplify and speed communications. A strong code of conduct, beginning at the top, is thus imperative.

**Infrastructure challenges**

Conference speakers tackled another current issue affecting agricultural cooperatives: the ability to transport products and inputs on schedule, including how cooperatives are responding to this issue.

Patrick Hessini, CHS Inc. vice president of transportation and distribution, described how infrastructure is not keeping up with the shifts in supply-chain logistics. Several major factors are causing these changes: manufacturing’s return to North America, under-investment in infrastructure, labor shortages and a supply chain that is increasingly truck dependent. To manage the supply chain risk, CHS is developing a systems-wide approach, with an emphasis on planning and forecasting, as well as ongoing investment in both infrastructure and staff.

Todd Ludwig, CEO of WFS Cooperative, based in Truman, Minn., described how his local co-op has responded to the broader macro-transportation situation. WFS has locations served by both trucks and rail. This network supports the cooperative’s automated fuel delivery (AFD) program and the movement of commodities. Peak demand for services has increased recently as the window for planning and harvesting has grown smaller while volume has grown.

WFS is adding to its truck fleet each year, instead of buying a company or committing to a one-time large increase in fleet size. It is also developing non-harvest/non-planting hauling business opportunities. Ludwig noted that in the documents continues to be an important component of board interactions.

Both employee and gender representation on the board are required in Denmark and Sweden. Employee representatives who are loyal to farmer-owned Arla, as well as to their unions, provide a bridge between the two organizations. To boost the number of women directors, Arla offers board-training programs to encourage women candidates to run for election.

Arlagarden, Arla’s sustainability program, was initially resisted by producers, but sustainable farming methods have now been widely adopted on member farms. Hantoft mentioned that there is always room for improvement in this area, and that using an approach of continuous improvement can be an effective alternative to policy-driven requirements.
past, barge transportation has provided a “relief valve” for co-ops facing rail congestion. But the barge network is now at capacity, and costs are rising.

Dan Mack, vice president of transportation and terminal operations at CHS, provided insight into the current rail transportation bottlenecks. He described the increase in demand for rail service, which is driving new capital investment to address the capacity deficit in tracks, trains and crews. Expansion is disruptive while it occurs, and it will take some time for the overall situation to improve.

Service is improving as projects in the northern tier and farther west near completion, Mack said. But new investment in projects between Fargo and Chicago will affect Minnesota, Iowa and Wisconsin, in particular, and service volatility will remain a problem for some time. Federal and state activity in the legislative, industry and regulatory arenas, as well as with the Canadian government, can help to address a coordinated response to the situation.

“Not so much what you earn, but what you keep”

The conference also focused on current co-op governance and equity issues. Phil Kenkel, professor at Oklahoma State University, discussed how cooperatives might approach the choice between qualified and nonqualified allocated equity.

Unallocated equity as a percent of total cooperative equity has increased over the past five years. Historically, profit has been apportioned between unallocated equity and qualified allocations. Since the patron pays the tax on the entire qualified allocation, including the retained portion, there is pressure to redeem that retained equity.

If the allocation is nonqualified, the patron pays taxes only on the portion that is distributed. The co-op pays the tax on that portion that is retained.

Using nonqualified allocated equity to meet longer term equity needs might be a useful alternative. This removes some of the pressure on the co-op to redeem that equity in the shorter terms, and can be used to reestablish a balance between unallocated reserves and retained equity allocated to patrons.

Kenkel described a research project that analyzed allocation type and the best interest of the member over time, using an internal rate of return based on historical and case study data. The difference between patron and co-op tax rates drives the results, even with the current Section 199 tax deduction. Whether these strategies can help to remove incentives to demutualize a cooperative with large ratios of unallocated equity is an open question.

Art Duerkson, CEO of Farmway Co-op in Beloit, Kan., described how the co-op’s equity management program was changed to include nonqualified allocations. The shift to nonqualified was driven by a board of directors’ decision in 2011. An analysis showed that the unallocated ratio was significantly increasing, and the bylaws did not adequately address equity distribution in the case of dissolution of the business.

To correct this imbalance, more earnings were designated as nonqualified allocations and retained without increasing patron tax liability. Member education efforts that included cash flow examples were effective, and the new program has been well received. The changes have also provided greater flexibility in balance sheet management.

Another equity strategy that included nonqualified allocations was described by Doug Ohlson, general manager of Frenchman Valley Cooperative, Imperial, Neb. The co-op’s recent efforts to build assets and infrastructure resulted in an equity structure that was more than 50 percent unallocated. This raised questions about co-op ownership and what kind of buyout offers might lead to demutualization.

The tax liability with qualified allocations is a hard sell to younger producers, and often appears to be a disincentive to them. So, Frenchman Valley shifted to using nonqualified allocations for retained earnings and designating 10-20 percent of retained earnings as unallocated, to serve as a buffer against losses. Again, communication with members was essential to making this transition.

Agricultural outlook

Mary Bohman, administrator at USDA’s Economic Research Service (ERS), described how ERS interacts with its many stakeholders so that it produces the research and analysis that is relevant to them. She provided an overview of current trends in agriculture and noted that globally driven price volatility is expected to continue — along with the likely longer term need for risk management services.

The majority of U.S. agricultural production comes from a small percent of larger family farms, she said, and ERS expects to see continued farm consolidation and an increase in farm size. The food and farming sector will continue to change in response to consumer demands for convenience and healthy foods, the expansion of market opportunities in developing countries, and new technologies.

Next year’s Farmer Cooperatives Conference will again be held in Minneapolis, Nov. 5-6. The annual program is presented by the University of Wisconsin Center for Cooperatives. Inquiries about the program should be addressed to Anne Reynolds at:atreynol@wisc.edu.