

QUENTIN BURDICK CENTER FOR COOPERATIVES

P.O. Box 5636, NDSU, Fargo, North Dakota 58105-5636

February 2004

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**Quentin Burdick Center For
Cooperatives Website**

<http://www.ag.ndsu.nodak.edu/qbcc>

Join Us For the 10th Annual Al Bloomquist Lecture Series!



Al Bloomquist

James Horvath, President and CEO of American Crystal Sugar will join the distinguished list of keynote speakers at the 10th Annual Al Bloomquist Lecture Series. Past speakers have included Randall Torgerson, Deputy Administrator of USDA/RBS Cooperative Services, Robert Bergland, U.S. Secretary of Agriculture (1977-1980) and George Sinner, Governor of North Dakota (1986-1994).

Horvath will speak about the changes and challenges of the Sugar Beet Industry.



April 7th 2004

7:30am - 9:00am

Holiday Inn

3803 - 13th Ave SW

Fargo, North Dakota 58105

Check out the QBCC website for more information and
a registration form:

<http://www.ag.ndsu.nodak.edu/qbcc>

QBCC Website Announcements

Visit our website for the new
articles and updates:

Ethanol Cooperatives - Margaret Loughheed Non Patron Equity Capital - Bill Nelson
QBCC Update 2003

DIRECTOR'S REPORT

Our workshop on non-patron equity focused on one of the major issues confronting cooperatives today, equity capital and the definition of a cooperative. The current discussion about the role of “outside investors” has been stimulated by the high capital requirements of modern business, particularly the value-added “New Generation” processing cooperatives, and the changing cooperative goals from service and efficiency orientation to profit maximization and return on investment.



Cooperatives are defined by their principles and practices, not the legal form of incorporation. Cooperatives can be formed under general corporate statutes and be considered a cooperative if they operate according to the cooperative principles and practices. There are seven core principles adopted by the International Cooperative Alliance. The first three principles have been emphasized in the United States. These are:

1. Voluntary and open membership based upon usage of the cooperative
2. Democratic control—user controlled with each member having one vote
3. Member economic participation—benefits returning to members in proportion to usage or patronage.
4. Autonomy and independence
5. Education, training and information
6. Cooperation among cooperatives
7. Concern for the community

The change from strict adherence to the traditional principles has been gradual. American Crystal Sugar stockholders initially were active farmers and growers of beets, however as time passed, holders of stock were allowed to keep stock ownership and “joint venture” the actual growing of beets by nonmembers. This has allowed members to become quasi “pure investors” receiving “rent” from stock ownership. Another shift from traditional principles occurred with the formation of Dakota Growers Pasta (DGP). DGP created a marketing pool that could buy wheat in the name of a member who could not meet delivery requirements. Although this mechanism was intended to cover emergency situations such as drought, or disease, it provided a means for members to become “pure investors” with the right to be a member of the cooperative board of directors. As the number of New Generation processing organizations expanded, equity capital problems led many other groups to adopt the marketing pool or use a limited liability company as the legal entity in order to obtain equity capital from non-patrons. Recent changes in cooperative statutes, first in Wyoming and later in Minnesota, have stimulated much discussion about the role and definition of cooperatives. The new statutes allow non-patron investors to invest and to serve on the board of directors of these cooperatives. These statutes essentially formalized what was occurring in several New Generation cooperatives on informal basis. The resulting legal entity is very similar to a limited liability company, but with some restrictions on the rights of pure investors. It reinforces the goals of profit maximization and stock values. At this time, it is quite clear that cooperatives formed under these new statutes will not qualify for the protections given cooperatives under Capper-Volstead for farmer owned associations, or lending authority of CoBank and National Bank for Cooperatives. CoBank is currently requesting permission to lend to cooperatives with mixed patron and investor ownership. It appears that they do qualify for the pass-through single taxation benefit award to both cooperatives and limited liability companies. Cooperatives have “brand” value according to a survey released in the October 2003 issue of the Cooperative Business Journal. Does changing the definition of a cooperative place this value at risk? As cooperatives begin to look and act more like corporations, will the general public still distinguish between the two? Will the current legal and tax advantages of the cooperative form of business still be maintained? There is no question that a business entity that contains both patrons and investors has value and is appropriate for many capital-intensive businesses. The question is not whether a mixed

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Director's Report (cont)

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ownership business should exist; the question is should a business organization that violates most of the principles of a cooperative relative to ownership, control and benefit be called a cooperative? Will the short-term advantages of gaining access to a larger pool of investment capital be outweighed by the long term disadvantages of changing perceptions of cooperatives, changing "brand" value, and changes in legal and tax benefits? This is a important question for researchers. (The paper can be read in its entirety at : <http://www.ag.ndsu.nodak.edu/qbcc/AboutQBCC/Non%20Patron%20Equity.htm>)

Final Note: I have enjoyed the past six years as director of the center, primarily due to the people I have had the opportunity to work with, Frayne Olson, Margaret Lougheed, Ed Janzen, and Kathy Coyle. It also includes the QBCC Advisory Council, particularly the chair Mark Watne, and all the participants and presenters that have made our executive training programs successful. Finally, the students in the cooperatives class, both at NDSU and DSU, have made the effort of redesigning the course for Interactive Video and Internet most satisfying. My future plans are to complete our new home at Middle Cormorant Lake, numerous projects like a '46 Jeep pickup, two wood boats and a few tractors, reactivate some hobbies such as fishing, hunting, biking and travel, enjoy my grandsons, and continue some professional activity. I was just elected to serve for the second time as chair of the board of directors of Mid America Consultants International, a cooperative, so my association with cooperatives will continue.

2003 Brought Changes for QBCC

Frayne Olson is off to school!



Frayne Olson, Assistant Director of QBCC, headed south to warmer weather to be a student in search of his Ph.D. This past summer Olson made the difficult decision to leave farming and head to Missouri to study Agri-Business with an emphasis on Co-op Management. He considered several colleges before choosing University of Missouri - Columbia to work on his Ph.D. Olson said, "The mix at the University of Missouri - Columbia is exactly what I was looking for and working with Mike Cook is an extra bonus."

Olson had been with QBCC since 1996, coming in as the first Assistant Director. Working with David Cobia, and then Bill Nelson over the years gave Olson the opportunity to be part of numerous training sessions, co-teach the Cooperatives class at both NDSU and Dickinson State University and speak at various meetings and conferences in the area. We look forward to the future for the opportunity to work with Dr. Olson!

Retirement is the plan for Bill Nelson

Bill Nelson is retiring, not only from QBCC but his faculty position at NDSU. He replaced David Cobia in February of 1998 as director of QBCC. His belief in the cooperative system and his insight to the needs of the directors and management of New Generation Cooperatives led him to organize numerous training sessions, and educational workshops to bring understanding and knowledge to those attending. Nelson worked with individual cooperatives including Minn-Dak Farmers Cooperative, Chippewa Valley Ethanol Cooperative, Central Ethanol Cooperative, Southern Minnesota Beet Sugar Cooperative and Bushel 42. He co-taught the Cooperative class at NDSU and Dickinson State University, making changes and improvements each year. Last year the Cooperative class had its highest enrollment ever.

Nelson plans to retire with wife Karen to their lake home, continue consulting with Mid-America Consultants International, and enjoy his grandchildren.



Training Sessions/Lectures Held in 2003

The year started with “**Keys to Successfully Contracting Consultants**” Workshop held on January 15th in concurrence with Marketplace of Ideas in Grand Forks, ND. The focus of the workshop covered these topics: “Why and when do you need a consultant.”; “Writing the request for proposals and the contract” and “Selecting the consultant.” The speakers included Bill Nelson, Quentin Burdick Center for Cooperatives, Mark Watne, North Dakota Farmers Union, Don Hofstrand, Ag Ventures Alliance, and Steve Noack, Gunhus Law Firm.



Mark Watne



Don Hofstrand



Steve Noack

When the **American Coalition for Ethanol** was putting together an educational workshop for ethanol plant board members, they asked Bill Nelson, Director of QBCC, for ideas. Bill Nelson not only pinpointed areas that would be important to the directors, he was asked to speak on corporate governance, and how the roles of directors and management relate. This workshop was held twice in March. The workshop on March 16th in Watertown SD was attended by 40 directors representing seven ethanol and soybean processing facilities as well as representatives from two ethanol plant projects. Over 60 directors attended the workshop on March 26th in Mankato MN representing ten ethanol and soybean processing plants and projects.



Bill Nelson

Management is nothing more than
motivating other people.”

Lee Iacocca (1924 -)



Randy Torgerson

Randy Torgerson, newly retired Deputy Administrator for USDA/RBS Cooperative Services, was the keynote speaker at the **9th Annual Bloomquist Lecture Series**. Speaking at the Holiday Inn on April 2 to over 60 people Dr. Torgerson spoke on “TURBULENT TIMES: Reflections on the Role of Cooperatives In the Economic Organization of Agriculture.” The speech can be read in its entirety at: <http://www.ag.ndsu.nodak.edu/qbcc/BloomquistLectures/2003torgerson.htm>

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Training Sessions/Lectures in 2003 (cont)

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“Should Your Cooperative Seek Non-Patron Equity Capital?” This question was addressed at our Cooperative Leaders Roundtable Pre-forum Session of the NCBA Conference, November 5th, at the Northstar Crowne Plaza, Minneapolis, MN. Over 60 people joined us to hear the distinguished array of speakers: Mike Cook of University of Missouri-Columbia, Robert Doane of CoBank, James Baarda of USDA - Rural Business Cooperative Service, Bill Nelson of Quentin Burdick Center for Cooperatives, William Njanje of North Dakota State University, David Swanson of Dorsey & Whitney, LLP, and Mark Hanson of Lindquist and Vennum, PLLP.



The purpose of this Leaders Roundtable discussion was to examine the various forms of non - patron equity of capital ranging from direct investment to joint ventures, the operational changes necessary for cooperatives to acquire non-patron equity capital, the changes in variability and risk relative to income generation and allocation, and new challenges in cooperative governance and management.

“Leadership and learning are indispensable to each other.... the products of that learning, in turn, are essential to the leadership's hopes for continued progress and prosperity. ”

John F. Kennedy (1917-1963), Speech prepared for delivery in Dallas the day of his assassination, November 22, 1963

With Spring Comes the Cooperatives Class

AgriBusiness/Business 374 offered by North Dakota State University and Dickinson State University has 50 students enrolled this year. The class is being viewed at both locations simultaneously through the interactive video network.

The course objectives are to develop an understanding of basic principles and unique management, marketing and finance strategies of cooperatives; the skill of applying these strategies in relevant environments; the ability to capitalize on the strengths and minimize the weaknesses of cooperatives; and to gain a rationale regarding the appropriate role of cooperatives in a market economy



Bill Nelson restructured the class last year to encourage a more hands on learning experience. Besides the regular classroom lessons, the class is divided into teams Each team will come up with an idea for a cooperative, develop a business plan including the articles of incorporation and the bylaws for the cooperative. At the end of semester each team will present the equity drive information, and hand in all cooperative formation materials as one completed integrated document (market analysis including revenue projections, cost side of the feasibility analysis including all financial statements and projections, remaining components of the business plan including marketing plan and management/personnel plan; and as appendices—articles and bylaws, and equity drive materials.)

The Tuesday class is primarily structured for class room lecture and work. Class materials including PowerPoint presentations, reading materials, etc. can be downloaded prior to class. Several guest speakers with ties to cooperatives have been invited to speak in the class this year. Last year class speakers included: Randy Torgerson - retired deputy director of USDA/Rural Cooperatives Service, Steve Noack - cooperative lawyer for Gunhus Law Firm, Moorhead, MN., and Constance Hansen, - manager for Northland Educators Federal Credit Union. The Thursday class is set aside for the students to work in teams on their team term projects on cooperative formation.

The staff was very impressed with the team term projects handed in last year. Several of the projects were submitted to “BOSS” Business Plan Competition (Greater North Dakota Association).

All class materials, PowerPoints, reading materials, etc., are accessible to anyone interested. To access the class materials you will have to register as a guest on NDSU’s blackboard. Please go to <http://its.ndsu.nodak.edu/blackboard/Bbaccount.shtml>, and fill out the necessary information.

For more information please contact Bill Nelson: email - ndsu.qbcc@ndsu.nodak.edu or call him at 701-231-1016.

Cooperative Minor at NDSU is Put on Hold - INTERNSHIPS NEEDED!

NDSU has put together a minor in cooperatives. There are 15 credits needed for the minor, including the capstone class. The capstone class is an internship with a cooperative. The problem currently stopping the minor from actually being offered is the lack of internships being offered by area cooperatives. North Dakota Farmers Union Foundation begun a scholarship and internship program to help cooperatives with the cost of internships. If you need financial assistance with your internship offering please contact Mark Watne at 1-800-366-8331 ext 189. Until there is a list of cooperatives willing to offer internships to students, the dream of a minor in cooperatives remains just that... A DREAM! If your cooperative would like to offer an internship please call Bill Nelson - QBCC at 701-231-1016, or Cheryl DeVuyst -NDSU 701-231-8000.

New Generation Cooperatives in the Ethanol Industry

Once again the farmers of America are relying on themselves to add value to their crops. Corn farmers mainly from the Midwest have formed ethanol cooperatives/LLC's to tap into a growing industry. The huge increase of ethanol facilities has been triggered by a variety of factors including low prices for corn over the last 10 years (not including 1995-96), changes in the state and federal laws, financial incentives by state and federal government, and the increase demand for ethanol due to the banning of MTBE in some areas of the country. The federal government hasn't nationally banned the use of MTBE so seventeen states, like California, passed legislation to ban or partially ban MTBE as a fuel additive. California, using 31.7% of the MTBE currently produced, banned the use of MTBE as a fuel additive as of January 2004. Other states that are scheduled to ban or partially ban MTBE in 2004 are Arizona, Connecticut, Illinois, Indiana, Kansas, and New York. If government bans MTBE, or the remaining states ban MTBE as a fuel additive, the demand for ethanol could rise to 5 billion gallons by 2012. Current production is almost 3 billion gallons per year.

There are currently 45 farmer owned ethanol plants either in production or in the building stage, and more in the planning. The farmers are seeing anywhere from 20 cents to 35 cents more per bushel of corn.

For the complete article go to: <http://www.ag.ndsu.nodak.edu/qbcc>

For more information about the ethanol industry:

American Coalition for Ethanol: <http://www.ethanol.org>

Renewable Fuels Association: <http://www.ethanolrfa.org>.

RFA Ethanol Industry Outlook: <http://www.ethanolrfa.org/outlook2003.shtml>



Executive Training for Ethanol Cooperatives

QBCC held Executive Training Programs for Chippewa Valley Ethanol and Central Minnesota Ethanol at their facilities. The Executive Training Program Agendas included:

- History, Values and Principles of Cooperatives
- Roles and Responsibilities of Cooperative Members, Directors, and Management
- Group Decision Making Process
- Evaluating Financial Performance: The DuPont Analysis
- Strategic Thinking and Strategic Planning

Contact QBCC if your cooperative is wanting training sessions geared at your special needs. Please contact us through email: ndsu.qbcc@ndsu.nodak.edu or telephone: Bill Nelson at 701-231-1016.

"We together, have the experience; we have the trained personnel, we have the resources; we must not fail - and without a moment's delay - to capitalize on the opportunity presented."

John Kennedy, Aug 1960

Quentin Burdick Center for Cooperatives

The Center for Cooperatives is named for the late U.S. Senator Quentin N. Burdick, who was a strong supporter of cooperatives both in North Dakota and nationally. Through the years Burdick was a champion for rural electric and telephone programs, supported funding of the USDA Agricultural Cooperative Service and helped secure funding to cooperatives for economic development in rural areas.

The Center, located at North Dakota State University, is an endowed program established through contributions from cooperatives and individuals. The center is a resource for cooperatives and students to better understand cooperative businesses and their economic role.

More information can be found at QBCC website: <http://www.ag.ndsu.nodak.edu/qbcc>.

Executive Training Programs:

QBCC offers Executive Training Programs throughout the year. We can also design individual cooperative training programs for specific needs of your cooperative. For more information please call Bill Nelson at 701-231-1016, or email us at ndsu.qbcc@ndsu.nodak.edu.

Research:

Dedicated QBCC staff conducts marketing studies and feasibility analysis for start-up and expanding cooperatives. For more information please call Bill Nelson at 701-231-1016, or email us at ndsu.qbcc@ndsu.nodak.edu.

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