National Corn Growers Association Future Structure of Ag Task Force

In 2001, NCGA brought together a diverse group of individuals that all shared a passion and an interest in the future viability of U.S. agriculture and the economies of rural America. As we well know, the consolidation of agriculture has changed many aspects of life in rural America. The economies of many communities largely dependent upon agriculture have endured tough times. Populations have shifted to urban areas, particularly the young people of rural America who do not see great opportunity in Rural America.

These are the facts that drove NCGA to convene the first Future Structure of Agriculture Task Force.

The first task force published its report, "Choices in the Evolution of Corn Belt Agriculture" in February 2002. It was a report on the current state of agriculture. What's the state of rural America? What will the future look like? The mission of their first report was to raise awareness that there are issues that must be addressed if rural America is to thrive in coming decades.

The task force released its second report, "Taking Ownership of Grain Belt Agriculture," in February 2005. Like the first report, it dealt with the economic realities of rural America. But this report went further in two ways:

1. It highlighted examples of producer-funded investments that are paying huge dividends.
2. It makes specific policy recommendations that will make it easier for producer-funded entities to grow and form the economic backbone of rural America.

In both reports, there is one common theme: entrepreneurship vs. entitlement.

The future viability of rural America is largely dependent upon agriculture changing to reflect the economic realities of a global marketplace. Very few U.S. farmers will win in a commodity-based operation. The economics are not on their side. And that impacts the farmer, their family and their entire community, which is economically based on agriculture.

The message is clear. Farmers need to invest in downstream value-added businesses, not just sell commodity corn. Ethanol is a great example. Producers need to secure specialty contracts, not sell soybeans at whatever market price is available. Producer investment in value-added agriculture, not reliance on government programs, is the only way in which the future of rural America is more secure.

So, producers need to invest in their future. Great idea but where do we start.

Good question. Of course, there are many factors to consider. Among them:

1. We need to educate producers on the need to invest.
2. We need to continue to drive policy that encourages the market to move from a petrochemical-base to one that relies on plant-based products.

3. Finally, we need to continue to prepare the market, industry and growers for an agricultural economy that's moving away from government support to one that's built on value-added agriculture. It's going to happen whether we like it or not. Because of treaty agreements, the Farm Bill we have come to rely on will no longer be what we have to work with in the future. Value is in the hands of the producer.

So what is the reality of today's market?

The reliance on agriculture for income in rural America is declining. Some may think that's a good thing. The rural economy is becoming more diverse. But while fewer people may be reliant upon agriculture for income, that doesn't mean their economic situation is better.

Most counties in what would be consider true agricultural areas of these states experienced income growth at a far lower rate than their counterparts in urban areas. In many counties in Nebraska and Kansas, growth was slight or negative.

This is why action must be taken to secure the future of rural America.

So in summary, we have challenges:

- Only a small percentage of farmers can compete going forward in a commodity-driven agriculture environment.
- Fewer farmers means less influence vs. competitive interests.
- Increasing foreign competition due to structural shifts in global agricultural production and trade will exacerbate U.S. cost structure even more.

One of the big reasons we're promoting producer investment is that our ability to compete in world export markets is leveling off. Brazil's soybean production has skyrocketed in recent years, and it expected to continue to do so. The reality is that the U.S. farmer does not have the competitive advantage we once had to compete on the world stage. Technology has leveled the playing field and improved infrastructure and other operational costs has propelled Brazil well into the lead in soybean production.

What can farmers do to change?

Rural development is a start. The two previous maps indicated the void rural American economies have. If we are to put an end to the migration to urban and suburban areas, farmers need to take a leading role by investing in their own communities. We need to inject money into our own areas and keep the money there. We want dollars to stay in rural communities for a while and be spent a couple times over before the money heads to Minneapolis or Chicago or St. Louis. Private ownership of industry in our area helps us to keep dollars in rural communities.

When we think producer investment, many of us think ethanol and for good reason.

Ethanol is a shining example of producer investment that has paid off.

A single 40 million gallon, dry mill ethanol plant:

- Increases local corn price 5-10 cents/bushel
- Expands local economic base by $110.2 million
- Generates at least $1.2 million annually in new taxes
- Creates 694 direct and indirect jobs
- Average annual rate of return for growers who invest in a plant is 23%, according to Iowa State University

It's easy to see why ethanol is appealing to producers and politicians alike.

So to review, producers who invest are making an impact in rural America.

- Farmers have committed more than $3 billion to rural-based factories or other value-added ventures since the mid-1990s.
- Farmers and rural entrepreneurs are filling the gap left by corporations.
- More than 80,000 producers have invested in processing facilities owned by so-called new generation co-ops.

Here are some of the other observations the task force made in their site visits for this report. What we found is that successful entities have much in common. And that starts on top with:

- Leaders that possess vision and are driven by a spirit of entrepreneurship.
- Are organizations that understand the need for flexibility to deal with business cycles?
- They also find the right mix of homegrown talent and professional help from outside. And that goes for identifying external partners as well that can help the entity deal with everything from technology to marketing.
- As the saying also goes in business – location, location, location. Successful entities locate where it makes the most business sense, which in this case means near low-cost input materials. What that means is that it's not too likely you would locate an ethanol plant next to an existing ethanol plant. You want to locate an ethanol plant where prices have been depressed and you can help them rise.
- Allow for sufficient risk management
- Identify a compelling strategic competitive advantage and how it fits marketplace
- Managers receive sufficient compensation
- Clearly understands competitive threats
- Consult with experienced legal counsel
- Diverse board members, include outside directors, with different business backgrounds
- Build goodwill by encouraging local investment

So how do you start? How do you create a value-added model? The task force observed several attributes.

Number one, if you're building from the ground up, be sure you're building something that can evolve as the market does. If the product you produce is a commodity in five years, you're back in the same position you were before you invested in a value-added entity. You need to evolve as the market evolves.

Second, invest in marketing. One of the best ways to build value is to build brands. Brands can help you stay above the commodity market fray.

Next, invest and reinvest in technology. Technology is the key to remaining efficient and staying ahead of the competition.

Stay involved in the supply chain as long as you can. The closer you are to the consumer, the more value you extract.

Finally, farmers should keep a close eye on government regulation and align themselves with organizations such as NCGA who can help you navigate through both opportunities and threats.

So how does one move toward a carbohydrate or plant-based economy – A NEW BIO-ECONOMY?

The conclusion is clear: More private and public funding needs to go to renewable products that are more environmentally friendly, more politically popular and deliver more value to rural America.

The U.S. has the opportunity to move toward a "New Bio-Economy" that redefines the strategic importance of U.S. agriculture.

Following much review of everything we touched on today, the task force formulated formal recommendations in the plan. Recommendations that can help better position producers to take advantage of the opportunities the marketplace presents.

Here are the recommendations.

- Elevate bio-based research and technology to a national priority.
- Establish a national priority to enable the U.S. to transition from a petroleum-based economy to a plant-based economy.
- Encourage farmer-owned brands by removing legal barriers
- Simplify the paths needed for farmers to register value-added brands
- Reform producer-owned business structures to improve tax efficiency, easily raise capital and offer investor liquidity
- Facilitate transformation of co-ops to new business structures by authorizing tax and security flexibility for farmer co-ops
- Foster and fund value-added education and rural entrepreneurship
    - Establish continuing education programs for value-added agriculture
    - Establish a rural development entrepreneurship online library

Finally, we leave you with these three points. The outlook for rural America is positive if we take the proactive steps necessary to control our own future.

1. We need to work with our communities to jointly decide on the impact of having a local economy built on value vs. raw commodities.
2. We need to continue to drive a bio-based economy but also encourage individual farmers to take a stake in their futures.
3. While opportunity exists, also keep in the back of your mind that there will be challenges. Plan accordingly and you will succeed.

The entire "Taking Ownership of Grain Belt Agriculture" booklet is accessible on our Web site, www.ncga.com. Please take time to visit our site and read this publication.