

TESTIMONY OF ROBERT GRABARSKI On behalf of the National Council of Farmer Cooperatives Before the Senate Agriculture Committee Washington, DC May 9, 2007

"Farm Bill Policy Proposals Relating to Farm and Rural Energy Issues and Rural Development"

Thank you Chairman Harkin, Ranking Member Chambliss and members of the Committee. My name is Robert Grabarski. I am a dairy producer and member of the Board of Directors of CHS, which was formerly Cenex Harvest States Cooperatives. CHS is the country's largest farmer-owned cooperative, owned by over 350,000 farmers and ranchers, through over 1,000 local cooperatives in over 30 states. CHS is also a member of the National Council of Farmer Cooperatives (NCFC), which I am representing here today.

The National Council of Farmer Cooperatives (NCFC) is the national trade association representing the nearly 3,000 farm cooperatives across the United States whose members include a majority of our nation's more than 2 million farmers. These farmer cooperatives work to meet the food, feed, fuel and fiber needs of consumers at home and abroad. Additionally, their business structure enables farmers to improve their income from the marketplace and capitalize on new market opportunities

Farmer cooperatives combine the strength of numerous producers to meet globalized marketplace demands. In so doing, they allow producers to better control their futures by exercising ownership and leadership of these outstanding businesses.

Farmer cooperatives provide consumers with many of the brands they have grown up on: Sun-Maid raisins, Welch's grape juice, and Land O'Lakes butter to name a few. Across the U.S., these farmer cooperatives provide nearly 250,000 jobs with a combined payroll over \$8 billion. Many of these jobs are in rural areas where employment opportunities are often limited.

In short, we strongly believe that farmer cooperatives offer the best opportunity for America to realize the farmer-focused ideal of an enduring competitive agriculture industry.

I serve on NCFC's Farm Bill Task Force and its Conservation & Environment Committee and am also on their Waste-to-Wealth Task Force, a group working to identify the opportunities and obstacles for the conversion of cow manure into renewable energy products such as liquid fuel, gas and electricity. I appreciate very much the opportunity to appear before you and to share my views on the renewable fuels industry and its impact on my cooperative and rural America.

THE FARMER-OWNED COOPERATIVE

Cooperative businesses are based on three fundamental operating principles: governance by farmer members, ownership of the business by those who use it, and the return of earnings to farmer members in proportion to their use of the cooperative.

Farmer cooperatives play a key role in agriculture and rural America. In recent history, cooperatives have been used by producers to respond to the rapidly changing economic forces that affect their livelihoods. Cooperatives not only provide access to markets not otherwise

reached, but also provide member-owners with an opportunity to negotiate better prices for their commodities and improve their income from the marketplace.

It is also important to note that farmer cooperatives, being farmer owned and controlled, are really a collection of individual small businesses. While farmer cooperatives themselves can vary in size, the real difference between a large and small cooperative is just that the larger cooperative generally has more farmer members.

For rural communities, cooperatives are much more than just a local employer. Co-ops add significant value to the tax base through their own operations and the value they bring to their members' operations. They often foster an attitude of self-initiative in a community. Because of its contributions to the local economy, a cooperative may trigger the need for new housing and improvements in local schools and other community facilities. Cooperatives may also increase the unity of a community by providing local meeting places and a greater sense of community pride. In many rural areas, the cooperative has become the social and economic hub of a community, sponsoring the local little league team and creating scholarships for deserving high school students.

Farmer owned cooperatives and limited liability companies (LLCs) account for nearly half the ethanol production in the United States. It is this farmer-ownership and local decision making in the industry that should ensure that rural America -- and not just the short-term investors of Wall Street -- benefit from this country's new interest in domestically produced renewable fuels.

A September 2006 report by Mr. John Urbanchuk, Director of LECG LLC, noted that

"Since a farmer-owned cooperative ethanol plant is literally a member of the community, the full contribution to the local economy is likely to be as much as 56 percent larger than the impact of an absentee owned corporate plant." 1 This is attributed to many 1 Urbanchuk, John, Economic Impacts on the Farm Community of Cooperative Ownership of Ethanol Production, September 2006, p.1

factors, including the fact that administrative and market functions are provided for locally, as opposed to a corporate headquarters in a non-rural area. Also, profits are distributed back to the cooperative's farmer-owners, who spend that increased income in their local communities, generating new jobs and increased tax revenue and decreasing the migration to larger urban areas.

CHS

The company on whose Board I serve, CHS, headquartered in Minnesota, was founded over 75 years ago as an agricultural supply cooperative, based on the need to ensure that farmers were supplied the resources to raise and market their crops, dairy products and livestock.

Among the several major components of our supply business, energy is our most critical. Today, CHS is one of a few farmer cooperatives that own petroleum refineries and fills key agricultural and rural market niches. CHS is the sole owner of a refinery in Montana and holds

75 percent of another in Kansas with two other co-ops. In addition, we have an extensive fuel distribution system that includes crude oil and product pipelines, trucking fleets and terminals through which we sold over three billion gallons of fuel last year. We are also the nation's largest fuel supplier when it comes to on-farm use.

ETHANOL & BIODIESEL

Like CHS, a number of NCFC members refine conventional fuel and grow, process and blend renewable fuels. In the last few years, a number of NCFC's member cooperatives have made substantial commitments to rural America and bio-energy by investing in ethanol and biodiesel facilities and building additional terminal storage for renewable fuels in strategic locations.

CHS has also been extremely active in the renewable fuels business for nearly 30 years, blending ethanol into gasoline and soy esters into biodiesel. In 2005, we marketed more than 500 million gallons of ethanol-blended fuels, the vast majority of it unleaded gasoline with 10 percent ethanol. In addition, we blended both E85 (85 percent ethanol) and RFG, which is a 7.8 percent blend. Today, 200 of our nation's 1,000 E85 stations carry our Cenex brand. But now we have expanded into ethanol production as well. Just last year we invested in ethanol production by becoming a 22% owner in USBioEnergy. We expect that by 2009 USBioEnergy will become this nation's second largest ethanol producer. We understand the decades-old system of blending renewables and the bumps and hurdles in this start-up industry of massive renewable fuel production.

CHS is also very active in the biodiesel market, having sold - largely through our member cooperatives - the equivalent of two million gallons of soy ester. Typically, this is blended at 2 percent, so that quantity would result in 100 million gallons of B2 biodiesel.

On the whole, the renewable fuels boom has been very important for CHS as a cooperative and for our farmer owners. At the same time, CHS has been very good for the renewable fuels boom. Working through our cooperative, thousands of farmer members have been able to participate in this growing industry, and rural communities have greatly benefited.

RENEWABLE FUEL POLICY

As this committee prepares to write the next Farm Bill and looks at various renewable energy proposals, there are a number of items I would like to mention that will be important for the continued growth of this industry.

The tax incentives for renewables and the Renewable Fuels Standard mandate helped jump-start the renewables market, especially in ethanol production. These programs have worked and should be allowed to continue. They provide a stable foundation for these new products to flourish.

We support the current tax incentives for ethanol blending and production and E85 pumps. However, problems are emerging in the distribution and infrastructure systems for ethanol and

the relative positioning of ethanol production versus its usage.

For example, there are very few large bulk terminals for ethanol. Additionally, the barge and pipeline systems needed to run ethanol east and west, do not exist. Also, the physical locations of the large petroleum refiners, blenders and importers who are required by the Energy Policy Act of 2005 to blend ethanol are mostly on our nation's coasts near our largest cities. However, the ethanol production is located in the states in the center of the nation.

Therefore, unless incentives are put in place to move the U.S. supply to the coastal demand we may see a Midwest glut of domestic ethanol or over-supply of foreign ethanol to the coasts, both with negative consequences for this fledgling industry. In addition, this nation does not yet have a renewables infrastructure such as our petroleum and natural gas systems have to move renewables economically.

RENEWABLE ENERGY AND ANIMAL AGRICULTURE

Cooperatives play an especially vital role in the dairy industry as nearly 80% of all milk produced in the U.S. is marketed through a cooperative. In order to provide the greatest possible benefits and opportunities for our dairy producers, as well as to provide environmental benefits, NCFCA has been investigating opportunities to provide animal agriculture a stake in the renewable fuels industry by maximizing the use of manure as a feedstock for renewable energy.

According to USDA, the 1.6 billions of ethanol produced in 2000 consumed 6% of all corn harvested. In 2006, an estimated 5 billion gallons of ethanol were produced, accounting for 20 percent of the 2006 corn harvested. As the renewable fuel industry increases profitability for corn farmers, those higher corn prices translate into higher feed prices for the livestock and poultry sector. It has been estimated that the cost of production for dairy producers has increased by \$2.00 per hundredweight due to increased feed and energy costs. Federal policies and funding are desperately needed to jump-start the waste to energy, or methane capture, market, as we have with the ethanol and biodiesel markets. This will help restore profitability in animal agriculture, help producers more effectively deal with waste issues, and allow them to participate in the renewable energy boom.

To produce renewable energy from manure, a producer must purchase and install a costly anaerobic digester. Anaerobic digestion harnesses and contains methane gas, through the naturally occurring process of anaerobic decomposition. This methane gas can be scrubbed into pipeline quality natural gas, used to generate electricity, or can be converted into a liquid fuel. According to the U.S. Environmental Protection Agency (EPA), there are currently 101 operational digesters in the U.S. and 84 digesters in the planning or construction phase.

The technology currently exists to convert the two billion tons of manure derived yearly from cattle, pigs and chickens into fuel, gas and electricity. What the industry still lacks is affordable technology for all sizes of operations. In addition, we are lacking the government support in the form of further research, grants, loans and tax incentives specific to manure conversion to energy to drive production and the marketplace.

In partnership with the National Rural Electric Cooperative Association (NRECA), NCFC is exploring the development of a template for the generation of electricity from manure, including wheeling the electricity onto the grid and ensuring dairy producers fair compensation. We are hoping to identify where the incentives need to be and in what form and in what amount. We hope to be able to provide Congress with this information so that you can support this effort, much like you have supported the incentives which helped build the ethanol and biodiesel industries.

According to information gathered from the EPA's AgStar Program², anaerobic digestion is technically feasible on about 7,000 swine and dairy operations in the U.S. which could generate up to 6 million megawatt-hours (MWh) of electricity each year³. According to the U.S. Environmental Protection Agency, an average home uses approximately 11,000 kilowatt-hours (kWh)/year. Potentially, electricity generated from these swine and dairy operations could power approximately 550,000 homes annually. Mr. Chairman, that is the equivalent of providing electricity to the homes in Iowa's capital of Des Moines for nearly six and a half years, to the Ranking Member's home state capital of Atlanta for three years, or to the homes in the Nation's capitol for two years. If the technology were more affordable and more applicable to smaller operations, the amount of renewable electricity produced would have an even greater impact. Additionally, at a fair market price of \$.08 per kWh, this could add millions of dollars annually to the incomes of U.S. dairy and swine producers.

In addition, there has been increased interest and concern over global climate change. The EPA notes that, in the United States, energy-related activities account for three 2 The AgSTAR Program is a voluntary effort jointly sponsored by the U.S. Environmental Protection Agency (EPA), the U.S. Department of Agriculture, and the U.S. Department of Energy. The program encourages the use of methane recovery (biogas) technologies at the confined animal feeding operations that manage manure as liquids or slurries. <http://www.epa.gov/agstar/>. 3 U.S. Environmental Protection Agency, Market Opportunities for Biogas Recovery Systems: A Guide to Identifying Candidates for On-Farm and Centralized Systems, http://www.epa.gov/agstar/pdf/biogas%20recovery%20systems_screenres.pdf (2004) quarters of the human-generated greenhouse gas emissions, mostly in the form of carbon dioxide emissions from burning fossil fuels. More than half the energy-related emissions come from large stationary sources such as power plants, while about a third comes from transportation. Agriculture can help reduce greenhouse gas emissions. Specifically, dairies with digesters could offset use of coal power, reducing greenhouse gases that would have otherwise been emitted. These dairy producers and their cooperatives could then also become eligible for a carbon credit, which could be traded on the Chicago Climate Exchange or directly to an interested buyer.

Mr. Chairman, there are approximately 200,000 dairy cows in Iowa and over 16 million hogs. We are anxious to apply these technologies to all sizes of farms, maximize environmental benefits and realize a higher income to dairy and other producers across the state.

More work is needed in this area both by the public and private sector, and by researchers and policy makers at the local, state and federal level. Using manure as a feedstock to produce gas,

fuel or electricity, would positively address many very important issues. First, we will be increasing this country's ability to produce its own energy. Second, we will be addressing an expensive environmental management issue which includes odor and waste water concerns. Third, we will be capturing methane gas and decreasing carbon dioxide emissions. This is clearly a win-win for U.S. dairy producers and consumers in urban areas alike.

THE NEXT STEP IN FEDERAL POLICY

As Congress continues to provide leadership to the renewable fuels industry and as you prepare for the Farm Bill and other energy legislation, I would like to share our recommendations to continue the momentum.

The NCFC asks Congress to:

? Strengthen current energy title provisions to encourage development, production and use of renewable energy from crops and livestock. In the case of livestock, this includes dedicating the needed resources in the form of research, incentives, grants and loans to support efforts to drive the market and production of all forms of renewable energy, including electricity, from manure.

? Support an increase in the Renewable Fuels Standard beyond 2012 and the goals of the 25x25 initiative, a movement working towards securing 25 percent of our energy from renewable by the year 2025;

? Support more research into the development of cellulosic ethanol, which is produced from a wide variety of cellulosic biomass feedstocks, including agricultural plant wastes, plant wastes from industrial processes, and energy crops grown specifically for fuels production, such as switchgrass;

? Maintain and strengthen federal procurement, loan, grant and research and promotion programs;

? Maintain and strengthen energy related research programs;

? Extend all the current renewable motor fuel tax incentives.

CONCLUSION

Farmer cooperatives are a vital player in this country's quest for energy independence and in ensuring that producers are able to capitalize on expanded market opportunities. Ethanol, biodiesel, and manure conversion, along with conservation, are important tools in securing a more affordable and accessible domestic renewable energy supply.

We appreciate the opportunity to share with the committee ways in which agriculture and cooperatives are investing in renewable energy. We appreciate this committee recognizing the contributions of the American farmer and rancher in the renewable energy industry and look forward to working with you in the future.

