

Statement by

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and the Role of Our Cooperatives

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## RURAL DEVELOPMENT

Statement of Thomas C. Dorr, Under Secretary, before the Senate Finance Committee.

Thank you Mr. Chairman.

Mr. Chairman, Members of the Committee, on behalf of the President and Secretary Veneman, I appreciate the opportunity to come before this committee to discuss with you ways in which the Federal government can help farmers and other rural residents increase their incomes and improve their quality of life through effective cooperative organizations.

For those who may not be familiar with USDA Rural Development, our vision is to serve as rural America's venture capitalist. Rural Development provides financial and technical assistance to finance and foster growth in existing and new opportunities for homeownership, business development, and critical community and technology infrastructure. The return on this assistance is the economic growth realized through direct assistance and by incentivizing private market forces.

### Mission

It is with this vision in mind that Rural Development's mission has been designed to deliver programs in a way that will support: 1) increasing economic opportunity; and 2) improving the quality of life of rural residents.

Historically, Rural Development has been associated with the old Farmers Home Administration – the lender of last resort. However, in order to properly address these mission goals, it was important to recognize the changes that have occurred throughout rural America.

With a renewed sense of understanding and purpose, Rural Development must, as rural America's venture capitalist, utilize the tools and resources at hand to support new economic growth in rural America.

For over 100 years, cooperatives have organized and operated according to a relatively static model. Equity financing and control were the responsibility of the member-patrons. Earnings were allocated to patrons on the basis of use.

This model has served rural America well, and has provided several important benefits to farmers and other rural residents, such as:

- 1) Access to quality farm supplies, power and communications services, and debt financing at a reasonable cost.
- 2) Increased clout in the marketplace through cooperative processing, handling, and marketing of farm products.
- 3) The return of earnings to local producers on the basis of their use of their cooperative, rather than to outside investors based on their investment.
- 4) A local economy enhanced by the jobs created and taxes paid by the cooperative.
- 5) A diverse local ownership unlikely to sell out or close down unless forced to do so, thereby protecting the local economy from the loss of a valuable asset.

Today, cooperatives, like much of rural America, are facing serious challenges. The companies they buy from and sell to are becoming larger, fewer in number, and more sophisticated at reducing costs and improving returns within their industry sector which can impact other participants in these industries. Sweeping innovations in areas such as biotechnology, information services, and transportation have made many cooperative facilities and equipment obsolete. Foreign countries are using our technology to become lower cost

producers of the same products we produce in rural areas. They are becoming competitors rather than customers. One of our top initiatives at Rural Development is to look at the effectiveness of the current cooperative model for assisting farmers and ranchers.

The traditional model has been effective for a long time. However, cooperatives are now struggling to convert the equity and dreams of many rural Americans into the kinds of economic opportunity they need and desire. As Under Secretary, I am looking at ways to increase the profitability of producers who use cooperatives.

If we begin to look at cooperatives with the idea that they can serve not only as a form of security, a “home” for farm production, but also as an investment vehicle that pays dividends to its members – one that is focused on creating an acceptable return on investment – we will have gone a long way to strengthening rural America.

It is incumbent upon all of us who believe in a strong rural America, whether we are active producers, working at USDA, or serving in Congress, to do what we can to develop and implement new strategies so cooperatives can realize their potential as a tool for providing a better life for rural residents in the years ahead. Rural Development should be at the focal point of this process, and we intend to be.

A good vehicle to diversify farmer investment is a cooperative that adds value to the products that farmers produce through processing, distribution, and perhaps even branding. This allows the farmer to capture some of the dollars now going to the middlemen between producers and consumers.

In order to help producers, we need to help improve business knowledge and skills in rural America. Serious education on business strategies, finance, marketing, and decision

making will enable farmers, and business and community leaders to lead dynamic, creative cooperative businesses that can succeed.

Don't get me wrong. There is nothing magical about organizing a business on a cooperative basis. But if the business plan is strong and the implementation of that plan is focused and visionary, farmers can expect a strong return on their investment. The money is there. Farmers just have to understand the untapped potential of their capital, and then invest it.

The public sector, and those of us in Rural Development at USDA in particular, must adapt new approaches in providing our services to rural America. We no longer think of ourselves as the lender of last resort to rural America. Today, Rural Development is rural America's venture capital firm. Recent legislation has recognized our new role by making it possible for us to provide start-up funding for new rural businesses.

The Value-Added Producer Grant Program provides planning money and working capital for independent producers and producer groups to develop new value-added agricultural products. In 2001, and 2002, grants totaling \$57.5 million were awarded to 291 recipients in 43 states. In 2003, an additional \$40 million is anticipated to be awarded.

The Agriculture Innovation Center Demonstration Project is authorized to provide grants of up to \$1 million to each of 10 centers that will provide technical assistance to producers who want to develop and market value-added agricultural products.

The Agricultural Marketing Resource Center is designed to be the national focus on research and information about value-added products. It is being developed through a collaborative effort of Iowa State University, Kansas State University, and the University of California.

An area of value-added activity that offers great promise is the production of energy from renewable energy sources. Renewable energy involves everything from ethanol produced from many sources of biomass to wind, geothermal, and even anaerobic digestion of animal waste. During the last two years, Rural Development has financed 73 loans and grants in 25 states totaling \$45 million to fund biobased and bioenergy related businesses. This is a significant step toward diversifying our Nation's energy sources, which is an objective of the President's national energy policy.

Section 9006 of the 2002 Farm Bill authorized the Renewable Energy Systems and Energy Efficiency Improvements program. Funds will be used for projects that derive energy from a wind, solar, biomass, or geothermal source, or hydrogen derived from biomass or water using wind, solar, or geothermal energy sources. Yesterday, I announced the selection of 113 applications for renewable energy systems and energy efficiency improvement grants in 23 states totaling \$21,207,233.

Rural Development is more than a source of funding, especially where cooperatives are involved. Our technical assistance and research efforts are used throughout the country by producers interested in developing new cooperatives and making existing cooperatives better able to serve the needs of their members.

To make sure our efforts are focused on recognizing challenges and using techniques that look to the future and not the past, we are creating an Outside Program Review for Cooperative Services. The review team will be co-chaired by Dr. John Miranowski, a professor in the Department of Economics at Iowa State University. Its purpose will be to identify steps we can take to make sure all of our cooperative support is provided as efficiently and effectively as possible.

All of these initiatives are positive developments that are proving valuable to rural Americans. But the challenges are great and more can be done. Some of the more constructive changes in existing policy concerning cooperatives could involve modification of Federal tax rules.

Mr. Chairman, I believe we should move away from the 100 year-old cooperative concept toward a new concept of a cooperative, one that is attractive to investors and one that would make it possible for cooperatives and other rural businesses to play a leading role in increasing the supply of affordable, environmentally friendly renewable energy.

I look forward to continuing to work with you on these important issues within the overall revenue proposals of the President's budget request for 2004.

Congress has recognized the value of renewable environmentally friendly products as a source of electrical energy through enactment of the Section 45 Electricity Production Credit of the Tax Code. However, the credit is due to expire on January 1, 2004, and is only available for the use of a selective list of sources. This credit has stimulated low-pollution electrical production.

Mr. Chairman, I also want to commend you on your foresight in the original creation of the production tax credit, as it has been very successful. In addition, we support your position that Section 45 should be amended to increase its role in supporting the development of environmentally friendly power production in rural areas. These changes include:

(1) Extending the life of the credit.

(2) Expanding the list of qualifying energy resources. The addition of appropriate livestock and municipal waste would provide even greater environmental benefits by opening an economic incentive for the proper disposition of these materials.

Mr. Chairman, we at USDA recognize how hard you have worked to address these issues, and I want to offer my appreciation to you and to the Committee's Ranking Member, Senator Baucus, for having spearheaded a bi-partisan effort to secure enactment of legislation covering this and other issues of importance to cooperatives. Rural Development stands ready to offer whatever support we can to proposals that improve the business environment for cooperatives and rural America.

In conclusion, let me offer a few thoughts on where I think, and hope, we are headed with regard to cooperatives in rural America. I'm concerned about the long term health of an agriculture that focuses only on production, especially the production of basic commodities that are being grown at less cost in an increasing number of countries around the world. Cooperatives offer a vehicle to allow producers to turn their production into food, clothing, energy, pharmaceuticals, and, in the future, other value-added products that may not have even been imagined as yet.

To take advantage of these opportunities will require substantial new investments of equity capital. Farmers can, and should be expected to, invest in their own future. But steps should also be taken to facilitate and encourage outside investors to be part of the farmer-based cooperative businesses.

Creating new ways to invest equity capital in cooperatives may well require both State and Federal levels to examine laws that offer more flexibility in the organization and operation of cooperatives. However, new laws should not subvert the basic cooperative characteristic that they exist for the benefit of their member-patrons and not outside investors.



Rural Development continues to work to ensure that both funding programs and research and technical assistance efforts focus on cooperative approaches that meet the challenges and seizes the opportunities that lie ahead.

In addition, we look forward to your leadership in Congress to provide reasonable tax incentives to encourage the changes and new initiatives that are needed for cooperatives and other rural entities to meet the challenges of the 21st Century.

Thank you for inviting me to be here today and I look forward to answering any questions you may have.