

{As prepared for delivery}

Remarks By
Thomas Dorr
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Cenex Harvest States
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- **Thank you for the fine introduction.**
- **I am pleased to join you this evening. As a farmer I have long been familiar with Cenex and Harvest States as well as I know John Johnson, Glen Keppy, Curt Eishens and Allan Andrew V.P. for Governmental Affairs, and several board members.**
- **First and foremost, I want to congratulate Cenex and its jointly owned Ventura Foods for your strong economic success over the last year, and especially, for your utilization of new technologies which have enabled you to better serve both your internal and external customers.**

- **The emerging leadership role Ventura Foods is playing in the food industry underscores what can be accomplished when you apply ingenuity with drive and determination.**
- **For your external customers, you have ensured ongoing access to crucial information needed to respond to their own demands, and you have adopted software applications that support your internal customer needs as well.**
- **What makes you stand tall above others is you not only understand the importance of technology, you have implemented these tools and created a competitive and profitable venture. You understand what it takes to perform in the market and have met those challenges. I truly commend you for this commitment to excellence.**

RURAL DEVELOPMENT

- **It goes without saying that we are living in some of the most challenging times in our nation's history and foremost -- next to homeland security – our rural Americans desire increased economic opportunities and an improved quality of life.**

- **I know you understand this! Forging together the needs with the opportunities is what you have done in order to be in the enviable position that you hold today. It is this realization that is important to your shareholders and it is understanding this that will be critical to succeeding at rural economic development.**
- **And this is also the foundation on which President Bush unveiled his Jobs and Economic Growth Plan. The President understands that a key element to economic success in rural America can be accomplished by allowing our farmers and ranchers to retain more of their earnings. By reducing the tax burdens on Americans -- farmers and ranchers and their families will have greater opportunity to invest in their own future.**

- **Overall, the President's plan provides an immediate benefit of over \$4 billion in tax relief for farm households in 2003. Whether it is the accelerated 2001 tax rate, or the relief for married filers or the increase in the limit for small business expensing -- The President understands that a health economy comes when families are able to keep more of their hard earn dollars.**
- **Given the opportunity -- Americans will create strength through investment in their own economic future. And I believe it is our role at Rural Development to support these local efforts in order to maximize the effect on local economies.**
- **Many of you know our agency as the old Farmers Home Administration – the lender of last resort.**
- **But today, Rural Development is rural America's venture capital firm – Why do I say this, because of what we can offer through Rural Development's Rural Business-Cooperative Service; Rural Housing Service; and Rural Utilities Service.**

- **Let me give you a short laundry list of what we do.**

RURAL HOUSING – We are the HUD of rural America.

- **Housing is important because a home is the basis for the family. This President feels a safe secure home is the foundation for the family unit.**
- **In addition, owning a home is the oldest form and best form of building equity. We provide loans and repair grants for single family, multi-family, and farm labor housing.**
- **We also provide rural community facility loans and grants for municipal, health care, child and adult care facilities; public safety equipment and facilities.**

RURAL BUSINESS

- **Business and Industry Guarantee loans.**
- **Intermediary Relending Program – provides funds for local revolving loan funds.**
- **Value-Added Agricultural Product Market Development grants (VADGs).**

RURAL UTILITIES

- **Technology Infrastructure - Rural Broadband – Telemedicine/Distance Learning.**
- **Rural Community water and wastewater loans and grants.**
- **Electric and telephone direct and guarantee loans.**
- **When a venture capitalist invests in an entrepreneur what does he get in return? -- Equity – If the entrepreneur is successful – the venture capitalist is much better off for his investment. So why do I say Rural Development is the venture capitalist of rural America? Because we, the President, and Congress believe in rural America. We believe the return on our equity from rural America is a stronger rural economy and a higher quality of life, along with all ancillary benefits from exploiting the talents of all rural Americans.**

Now Frankly ---

- **My father always preached you should try to make no more than three points because that's all people could remember. The older I get I have trouble remembering two different things. But this is a young group – I have four.**

1. First – We in Rural America Must Determine How To Keep Competitive --

- **How do we ensure a strong rural economy? I firmly believe that American agriculture is at a crucial crossroad. When we look at what drives our local rural economies, along with our agricultural production capacities, and in the context of global markets -- we must accept the new economy of agriculture -- one that requires new strategies and an openness to adapting to new environments. From everything I know about Cenex Harvest States, you understand these dynamics and have seized the opportunities to be a leader in agriculture.**

- **I believe the key to remaining competitive is our ability to grasp and utilize the power of technology --The Internet, and the technology that has flowed from it – has resulted in the free flow of capital and easy access to knowledge across borders. It has made it possible for competition to develop and build production and value-added systems unconstrained by yesterday’s foundations. It has served to create international and non-traditional competitive pressures.**
- **As an example -- A recent article in the Wall Street Journal drives home the fact that through the use of these technologies, we have seen a shift toward creating opportunities where they previously didn’t exist. The story cited the recent remigration to China by of those who came to the United States for the economic and educational advantages our country holds, but found that through modernization of technology in their own country, that they can return home and have access to global commerce opportunities. If we are going to compete with the Brazils and China’s we must be competitive.**

- **Embracing the benefits of technology will not alone provide our producers and business ventures the competitive edge needed in today's markets. We need to look at agriculture as a business, and in America that is easier said than done.**
- **Let me give you an example. I recently had a discussion with a Midwest farmer. He spent 20 minutes with me rationalizing why he tore down the old red barn. He said he couldn't put big doors on it, the hayloft wasn't usable, etc. He felt guilty.**
- **My point is -- traditions and old means of doing things sometimes are obsolete in being competitive. Progressive companies bulldoze obsolete buildings and build effective and efficient structures.**
- **Now saying this is easy, but I'd be the first to say, I like red barns in the rural countryside. I like many of the traditions of rural America – but again, if agriculture is to be competitive we must be resourceful and creative.**

- **The harsh global economic realities that we face -- forces us to understand and accept – that while we hold dear the attributes of the American Gothic way of life – we have a responsibility to our families and the future of American agriculture to paint a new picture -- one that allows us to respect our traditions, but expand our tolerance and acceptance of new and innovative approaches to support our farmers and ranchers and the rural communities in which they live. It is time we paint an American Gothic for the 21st Century.**

2. Business Management Component – Land Leveraging

- **Earlier I mention that I see Rural Development as the venture capitalist for Rural America – as an investor, we must look to see where we can leverage resources to maximize capitalization and ensure a greater return.**
- **But here is the key -- venture capital requires private investments. Many suggest that farmers and ranchers don't have enough capital because they don't invest in many off-farm opportunities. I don't agree.**

- **Farmers have not used their asset base – their land – to its maximum return. Instead of just rolling that capital into the relatively low returns from farming, they could move some of their capital to other areas. This would simultaneously raise farm incomes – and enable more farmers to stay on the farm.**
- **Our farmers probably can't get much better at farming. They should, however, get much better at investing.**
- **So when I hear people say farmers and ranchers don't have the money to make major investments in ventures that ultimately can exact a strong return on their investment, I say that's wrong. The money is there. If the business plan is sound and convincing – and if farmers understand the untapped potential of their capital, I suspect they will invest.**

- **We are challenged today to develop strategies for rural America that are effective and programs that make sense. We, in the public sector, simply have to do a better job. We have bound ourselves up with procedures, regulations and approaches that reflect a rural America of the 1950s, using definitions from the 1930s.**
- **That simply has got to change. Rural America of the 21st century will look nothing like the rural America of the early 20th century. Our programs have got to stop looking back and start looking forward.**
- **We must work with our farmers and ranchers to encourage them to use the untapped equity in their land to make serious investments in their local communities. This doesn't mean encouraging them to leave farming or to take senseless risks. It's just the opposite. By increasing their return on investment – the value of their land – their ability to stay in farming and ranching will be enhanced, not lessened. That age-old solution of how to protect the family farm comes as we have always known in diversification.**

- **In order to do this, 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, business and community leaders to lead dynamic, creative cooperative businesses that can succeed.**
- **But utilization of land equity as a form of capital investment must be accompanied by an evolution in how cooperatives support producers and value-added ventures. Cooperatives must be prepared to sail in relatively uncharted waters to bring the maximum benefit to producers who look to them for economic opportunities and security.**

3. Concern of Cooperative Equity

- **Chapter T Para. 521 (I think) patron coops were designed to provide members a beneficial interest. The benefit they received as a patron member was either a cheaper price if they bought something from/through the coop, or a better price if they sold something to the coop. However, the legislation made it quite clear that any earnings derived from patron coop operations had to be returned to the members as "patronage dividends".**
- **The effect was two-fold. Coops had to commit most of their earned income to patronage dividends. Second, they have never been able to become investment vehicles. The result was that the primary way for either patron or federated coops to grow their business was through the use of debt. That worked reasonably well when competition for traditional U.S. agricultural commodities was limited and U.S. production agriculture was in a substantial growth mode.**

- **There were occasions when local patron coops, even in good times, made poor business decisions and were unable to sustain themselves. Usually these resulted in mergers with neighboring patron coops. As a federated coop Farmland went through these difficulties at least twice before their present bankruptcy.**
- **The point is that as a cooperative business venture the patron coop is the traditional institution looked at as the vehicle. Yet when one reviews the body of research done on business models. A couple things become clear, research done over the past 60 years on the traditional C type corporation is rather extensive. The research done on the traditional 521 patron coop is minimal.**
- **It is an institution whose purpose is well intended. It, as an institution, however, is struggling to convert the equity and dreams of many rural Americans and agricultural producers into the kinds of economic opportunity they need and desire.**

- **We must change that. Rural Development's Rural Business Coop Service group should be at the focal point of this discussion and we intend to be.**
- **However, I have been most impressed by Cenex Harvest States (CHS) and your board and management teams willingness to begin looking for ways to maintain equity while still creating a dividend paying vehicle for your many members. It is this type of creative thinking that will enable all of rural America to participate in the opportunities of the 21st century. It is that kind of thinking that we need to become adept at working through here at Rural Development's Coop Services. It is what we intend to do as we look for ways to facilitate rural America's growth.**

My Final Point:

4. Renewable Energy

- **One of the greatest potentials for economic growth is the development and production of renewable energy here in the United States.**

- **President Bush understands this potential and has strongly support our ranchers and farmers in this effort. In fact, the first major policy initiative by President Bush was the unveiling of the Administration's energy plan in May of 2001. It has given direction to our nation's energy policy – one that highlighted the issue of energy independence and national security. This initiative clearly brought renewable energy to the table.**
- **Renewable energy which involves everything from ethanol produced from many sources of biomass to wind, geothermal, and even anaerobic digestion of animal waste -- all clearly have places at the table.**
- **After two decades of development, renewable energy is finally at the point of being commercialization.**
- **This focus and emphasis by the Administration set a tone and course for integrating renewable energy into our nation's national security, energy, and agriculture policies – that were soon to be followed up by Congress in the 2002 Farm Bill and signed into law last May.**

- **The significance of the Farm Bill is that it continued the focus of President Bush by expanding a number of policies that responded to these renewable energy and environmental opportunities.**
- **First, there were significant environmental initiatives presented in the Conservation Title of the Bill – such a EQUIP and the Conservation Security Program and which for the first time clearly reflected a new approach by society “to conserve and improve the quality of soil, water, air, energy, plant and animal life and any other conservation purposes - as determined by the Secretary.**
- **Then, Congress wrote and President Bush signed as part of the Farm Bill a new Energy Title – known as Title IX (9).**
- **Although all of these initiatives have not been funded. The significance is that they are lines in the sand. – Placed all together – the Presidential and Farm Bill Initiatives are creating significant policy and enormous new opportunity for rural America. – Although these initiatives are ebb and flow.**

- **With this strong focus by the Bush Administration on renewable energy, USDA and USDA's Rural Development are preparing to assist in this expansion in the economic base of rural America.**

Implementing the Energy Title of the Farm Bill

- **How is Rural Development supporting the President's renewable energy efforts?**
- **I assure you that USDA's Rural Development is firmly committed to working with agricultural producers, cooperatives, and businesses to facilitate the development of not just the new renewable energy related business opportunities – but all job creating ventures.**
- **As an example of our commitment 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 fulfilling the objectives of President Bush's energy plan.**

- **While agricultural policy is focused mainly on production, Rural Development strives to help maximize the return on all available resources in rural areas. Particularly including those derived through value-added endeavors.**
- **In support of President Bush's economic agenda, USDA Rural Development provided \$57 million in Agricultural Value-Added Development Grants for 291 recipients in 43 states, including \$10 million in proposals to develop and market bioenergy in 22 states. Roughly \$7 million was specifically for the development of ethanol production.**
- **Overall, the focus of these grants is on helping to fund feasibility analysis, developing business plans, and providing the initial working capital for new value-added initiatives. The grants will help to strengthen the competitive edge for farmers and ranchers who can create additional profit and marketability for their raw commodities.**

Closing

- **Let me say in closing that I believe American Agriculture is on the cusp of great economic opportunity.**
- **If rural America as a whole can embrace the notion that we can no longer look upon American agricultural for only the potential it holds and set aside the nostalgic journey into the past, we can ensure a strong and prosperous agricultural economy for decades to come.**
- **One that will entice our young people to stay or even return to Rural America.**
- **We must accept these challenges, as I believe you have, and modernize our approaches and be competitive. Cenex Harvest is a model that we can hold up and show the world that if you embrace ingenuity and a competitive spirit, you can be an economic leader.**
- **I commend you all for the example you have set.**
- **Thank you and good night.**