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February 14, 1983

The Honorable Rudy Perpich
Governor of the State of Minnesota
State Capitol
St. Paul, MN 55155

Dear Governor Perpich:

It has been my privilege to have served as Chairman of your Advisory Commission on Agriprocessing. You selected a very able group of members to work with and we herewith submit our report.

All recommendations are the result of task forces appointed to develop their positions and make their report to the entire Commission for adoption. Each recommendation in the enclosed report has been prepared in some detail and is submitted as an addendum.

It is the recommendation of the Commission that either this Commission or some other Commission be in place to further develop the recommendations. There is a great deal of information available as a result of our study and we believe when all is sorted out between you and our legislative branches of government, some support for our recommendations and implementation of them will be necessary in a cooperative effort between government and industry.

The three questions addressed to the Commission were:

1. What new initiatives should state government be considering to foster the growth of the industry?
2. How best can the government, higher education and private sectors work together to promote growth of the industry?
3. Within state government, what structure or process changes would be helpful in this effort?

We believe we have developed a good beginning to the answer to question No. 1 and those recommendations are enclosed herewith. Question No. 2 has been answered by the very appointment of this Commission.

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The answer to question No. 3 is more complex. In our deliberations about the possible implementation of some of these recommendations there was often the frustration expressed that to go through the bureaucracy, the endless hearings, the impact statements, the problems of non-communication and non-cooperation between state agencies themselves and the multitude of steps necessary when government gets involved in an idea is very agonizing. We understand the reasons for some of these frustrations in a democratic society. We do, however, believe it is possible to protect our society and yet cut through some of these roadblocks to implement a good idea. We believe you as the Chief of State could be very helpful in this area.

You are to be commended for your initiative in seeking private and institutional thinking in attempting to promote agriculture in Minnesota. We believe this is vital to the economy of the entire state as the agricultural industry represents 40% of Minnesota's economy.

We pledge our best efforts to work with you, your Commissioner of Agriculture and the Legislature and stand ready to serve in this vital task of helping to restore Minnesota's agriculture economy in these difficult but challenging times.

Respectfully submitted,

Ralph Hofstad
President, Land O'Lakes, Inc.
Chairman, Governor's Advisory Commission on Agriprocessing

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Enclosures
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REPORT OF GOVERNOR'S ADVISORY COMMISSION ON AGRIPROCESSING

WHAT NEW INITIATIVES SHOULD STATE GOVERNMENT BE CONSIDERING TO FOSTER THE GROWTH OF THE INDUSTRY?

1. Financing Initiatives

We recommend that the State of Minnesota establish a Minnesota Agri-Processing Financing Authority to encourage development of agri-processing in Minnesota. Such an Authority would possess great flexibility in financing authority including:

- providing loan guarantees to secure financing for agri-processing facilities;
- making of direct loans subordinated to other loans incurred on the same agri-processing facility;
- making of direct equity investments in agri-processing companies involved in constructing facilities in the State of Minnesota; and
- negotiating with other government units for tax incentives considered necessary.

It would be an independent Authority governed by a 15 person board composed of financial people, agri-processing people, government representatives, farmers and labor. Day-to-day operations would be directed by an experienced agri-processing financial executive director hired by the board.

We also recommend that the State of Minnesota fund the Authority directly with a minimum of \$30 million which could be leveraged five times to aggregate \$150 million.

Assistance would be available to small, medium and large agri-processing operations to utilize Minnesota agricultural commodities and to expand employment.

2. Multi-State Consortium on Agriculture

We recommend that the Governor take the initiative in the convening and organizing of a multi-state consortium on agriculture.

Its purpose would be to:

- promote the sale of Upper Midwest farm commodities (raw and finished) for both the domestic and international markets;
- study the impact of federal and state legislation on this region;
- seek a more unified approach to solving the problems of the region in the following areas as well as others:
 - marketing activities, domestic and international
 - agricultural finance
 - transportation; rail, truck, waterway
 - education and research; and
- build upon and not duplicate those efforts that are underway by other multi-state organizations involved with agriculture.

3. Ethanol and Rural Energy Parks

The use of corn in the dry milling manufacture of ethanol, distillers dry grain and carbon dioxide is the best near term agri-processing operation that could be developed in the State of Minnesota. However, certain tax incentives would be required from the State.

Economic minimum size plant would be five million gallons annual production. This size plant would use two million bushels of corn annually and would cost about \$15 million.

The ethanol would be used as a motor fuel substitute blended with gasoline 1 to 4 and as a replacement octane enhancer for Tetra Ethyl Lead.

Distillers Grain (DDGS) is an excellent livestock feed and has a strong growing market in international trade.

Estimated initial market for ethanol is 20 million gallons within the State and 10 to 15 million gallons in adjoining states.

To be viable the industry would require 4¢/gallon state tax forgiveness for super unleaded gasoline with ethanol. A loan guarantee program would also be required of the state.

Thirty states have reduced state taxes on alcohol fuels to encourage its use and resultant benefits to their state.

All assumptions regarding economic viability, competition and industry capacity will be verified.

4. Vegetable Oils--Other Uses

We recommend the following in order to promote the use of vegetable oils in both the domestic and international markets:

- The Governor should work with other Governors and the congressional delegation to urge the Federal Government to negotiate changes in GATT so as ~~not~~ to eliminate the inequities that vegetable oils contend with in the export market;
- continue to support the University of Minnesota and other research institutions in working towards higher producing oilseeds; and
- enlist the help, financially and otherwise, of the various commodity organizations involved in oilseeds in further research and development of vegetable oils as an extender for diesel fuel, as a carrier for chemicals and other potential uses.

5. Agricultural Research and Technology Transfer

Minnesota's most important economic resource is its agriculture which comprises 40% of the state's economy. It is becoming increasingly a hi-tech industry deriving most of its productivity improvements from agricultural research and the agricultural experiment station. Because of the weak economic conditions and reduced enrollments the funds from the state to the University of Minnesota will be reduced in the next few years.

It is imperative that the funding for agricultural research and the agricultural experiment station be exempt from these cuts. Instead funding for these programs should be increased by a guideline in excess of inflation if we are to improve our total state economy and our agricultural economy.

Specifically, the Minnesota Legislature should:

- restore the funds to the 83-85 biennial budget that were reduced for the Minnesota Agricultural Experiment Station;

- fund in full the 1983-85 biennial request of the Minnesota Agricultural Experiment Station;
- provide funding to support the University of Minnesota Biotechnology Center to support research which would directly benefit Minnesota based agriculture and processing.

Also, the College of Agriculture and The Extension Division should increase their budget for marketing farm products and Minnesota produced agricultural products.

6. Keeping the Producer in Business

While all of the recommendations of this Commission will be of eventual benefit to the Minnesota farmer if enacted, there needs to be some suggestions for the immediate improvements in the farm economy.

One suggestion was the adoption of the Minimum Price Commodity Bill. While the Commission feels that the discussion of this issue has been very valuable in drawing attention to the farmers plight, the individual members have not had time as yet to fully read and understand the bill and its ramifications.

A second suggestion was to promote Minnesota specialty crops such as wild rice, maple sugar, honey, edible dry beans, among others.

A third suggestion was to provide in the Agricultural Department additional resources to fund feasibility studies of a number of agri-processing projects. Some possible projects are:

- Introduce beef hide tanning in Minnesota.
- Develop a project within the Metropolitan Airport Commission for exporting high value perishable products such as fish and fresh meat by air cargo.
- Direct sale of agricultural products in international trade such as cattle, swine, sheep, turkeys, specialty crops, bagged commodities and barrelled vegetable oils.
- Develop more interest in the sheep industry in Minnesota.
- Sunflower oil as fuel ingredient.
- Investigate rabbit processing for Minnesota.
- Investigate UHT Aseptic packaging of milk and milk products.

7. State Support of Federal Legislation Re Agriculture, International Trade, Etc.

We recommend the establishment of a Governor's Agriculture Policy Advisory Commission (hereinafter "Commission") to address the shortcomings of the Concurrent Resolutuon: limited availability, limited impact on Washington and limited legislative resources.

Commission membership would represent a broad cross-section of participants in Minnesota's agricultural economy: producers, ag-transport, ag-processors; ag-financers, state executive and legislative personnel.

The Commission would be responsible for providing the Legislature with a draft Concurrent Resolution (say in late January of each year and from time-to-time thereafter as necessary) that:

- Identified specific federal legislative or regulatory proposals which have a proportionately greater (positive or negative) on Minnesota's economy than on other states (reactive);
- identified specific proposals for federal policy initiatives (legislative or regulatory) which would positively impact Minnesota's economy;
- identified specific proposals for state policy initiatives (legislative or regulatory) whch would positively impact Minnesota's economy; and
- prioritized all identified proposals for action.

It is also recommended that if this Advisory Commission is appointed, it be directed to work with any multi-state consortium on agriculture that may be in place.

8. Dairy Processing and Research

We recommend the support of research into more efficient production, processing and distribution of dairy products and financing incentives on a short-term basis when economically viable in the long-term in the following areas as well as others:

- Developing and/or evaluating genetic engineering technology directed at increasing milk production, increasing the more valuable milk components and improving culturing of commercial milk products such as cheese, yogurt and so forth.

- Economic research and computer modeling for hauling systems related to picking up milk on farms and delivering it to production or milk-utilization facilities.
- The hauling costs of milk being used for manufacturing could be reduced substantially with a respective improvement in farmers' revenues through the use of new technology which would eliminate a significant portion of the water in milk at the farm level. This technology, known as membrane technology, uses specialized membranes to separate the water from the valuable milk solids that are in milk. The reduced cost of hauling or transporting these concentrated solids to the milk manufacturing plants would provide an economic benefit to the dairy industry and particularly the dairy farmer.
- Whey proteins are a relatively low-valued and priced component of milk and result as a by-product of basic cheese production. Research into the utilization of whey proteins as a base in flavored or recreational drinks would substantially increase the value of the whey protein and provide a significant nutritional benefit to those that would be normally drinking soda-types of soft drinks.

9. Railroad Bonding

We recommend the support of a Railroad Bonding bill to implement the adoption of Amendment No. 4 to the Minnesota constitution and provide the financing for the rehabilitation of railroads that are essential to service our rural communities.

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