Agri-Growth Annual Meeting Illuminates Minnesota’s Global Value

The 45th Minnesota Agri-Growth Council Annual Meeting and Speakers Conference held Nov. 13 at the Minneapolis Convention Center focused on a number of timely issues including the role of the food and agriculture industry in global sustainability and social responsibility, the fight against biotech food labeling in California, the economic outlook for agriculture and views on the impact of the 2012 elections. The meeting drew 450 farm, agribusiness, food industry, government and legislative leaders, academics and trade media. The theme of the event was “Minnesota Agriculture — Proud to be in the Spotlight.”

After a morning members meeting with officer reports and elections, Richard Berman, founder of HumaneWatch.org and the Center for Consumer Freedom, spoke about his fight against misleading activist attacks on the food and agriculture sector.

Deputy Commissioner Michael Taylor of the U.S. Food & Drug Administration spoke on the spirit of the new food safety act. Walmart’s David M. Redfield, senior vice president, Northern Plains Division, explained Walmart’s sustainability index and efforts to support local farmers, reduce waste, and source the sustainability of every product they sell. He said Walmart uses a “Great for You” logo on products that meet their sustainability and nutrition scoring benchmarks.

Dr. Michael Swanson, chief agriculture economist, Wells Fargo shared views on global drivers of agricultural valuations. Dr. Jason Clay, senior vice president, Market Transformation, World Wildlife Fund and Dr. Jonathan Foley, director, Institute on the Environment, University of Minnesota gave perspective on “Global Sustainability, Corporate Social Responsibility and the Role of the Food and Agriculture Industry” in a panel discussion moderated by Steve Peterson, director of Sourcing Sustainability and CSR for General Mills.

THE DEFEAT OF GMO LABELING

The morning session included Brandon Castillo, a political strategist, and Lori Marco, vice president of external affairs and general counsel at Hormel Foods Corporation. Both speakers worked to defeat California’s Proposition 37 ballot initiative and the topic of their discussion was “How GMO labeling lost and what it means for the future of farming and food ingredients in the U.S. and elsewhere.” Castillo described the expensive and rushed effort by the food industry to educate the California electorate using focus group targeted TV spots featuring science-based expert testimony debunking the ill-conceived law. Initial polls in July had 67 percent of voters in favor of labeling but the measure was ultimately defeated 53 percent opposed and 47 percent in favor. Marco spoke on other looming threats to biotech and legal strategies with which to confront them.

2012 DISTINGUISHED SERVICE AWARD

Riverview LLP of Morris, MN was named the 2012 Agri-Growth Council Distinguished Service Award Winner. Riverview exemplifies excellence through their family run dairy business. They pioneered anaerobic methane digesters in their innovative operations and created a green, efficient, and profitable alternative source of energy – all while expanding business and serving employees and communities. With operations in Minnesota, Iowa and Nebraska, Riverview has grown to 107,000 head of cattle and 670 employees since building their first dairy in 1995. Brad and Gary Fehr, co-owners, first thanked their parents and co-workers then said, “We think the upper Midwest is a great place to milk cows. We have an advantage over Texas and California and our biggest asset is our people; whether it’s local kids, kids out of college, or people from Mexico. Our goal when we hire someone is that they stay here forever.”

ELECTION AFTERMATH

Finally, Jennifer Duffy, senior editor, The Cook Political Report; James Hohmann, national political reporter, Politico; Dr. Lawrence Jacobs, director of the Center for the Study of Politics and Governance, University of Minnesota; and Blois Olson, Minnesota political pundit, held a panel discussion reviewing the 2012 election from state and national perspectives. Duffy thought that record campaign spending in the Spotlight.
Ag Processing Inc (AGP) is a farmer-owned cooperative engaged in the procurement, processing, marketing, and transportation of grains and grain products. Since its formation in 1983, AGP has been committed to the success of its owners. Today, that includes 175 local cooperatives (34 are in Minnesota) and five regional cooperatives (two in Minnesota), representing 250,000 farmers from 16 states throughout the United States.

AGP has operations located throughout the Midwest and also internationally. Domestic operations include nine soybean processing plants (one is located in Dawson, Minnesota), three vegetable oil refineries, three soy biodiesel plants, one corn processing plant, several grain locations and a Pacific Northwest export terminal. Internationally, AGP is a partner in Masterfeeds, LP, an animal nutrition company in Canada, as well as a fully integrated poultry company in Venezuela called Protinal/Proagro.

AGP holds the distinction of being:
- The largest “cooperative” soybean processing company in the world, processing over 16,000 acres of soybeans daily.
- The largest U.S. soybean processing company West of the Mississippi River.
- One of the largest suppliers of refined vegetable oil in the United States.
- The #1 supplier of high-performance soy by-pass protein to the U.S. dairy industry.
- The company to introduce the first value-based soybean pricing program, paying over $30 million in quality premiums.
- A pioneer (since 1995) in the production of corn-based ethanol.
- The first company to construct a purpose-built soy biodiesel plant in the U.S. (1996)

Q & A with Jim Rodenburg, Corporate Communications Manager:

What is new with AGP?
AGP has a number of exciting developments starting with the appointment of a new CEO, Keith Spackler, to succeed Marty Reagan, who has retired after leading the company since 2000. Keith joined AGP in 1985 as Manager of Business Analysis and over the past 27 years has held various positions of leadership at the cooperative, most recently Chief Financial Officer. He began his new position at the beginning of AGP’s new fiscal year on September 1.

We recently completed fiscal year 2012 which was another successful year for AGP and its cooperative owners in terms of earnings and growth. Some of the major projects include expansion of our export terminal at the Port of Grays Harbor in Aberdeen, Washington; acquisition of a biodiesel plant in Algona, Iowa which doubled the company’s production capacity to 120 million gallons annually; and soy processing plant improvement projects including our Dawson facility which has expanded storage and handling capacity.

What are the key trends affecting your industry?
Key trends affecting the agriculture industry and our business specifically include the continued expansion of global markets, biotechnology and the inclusion of renewable fuels in national energy policy. AGP is very active in government relations. We collaborate with our industry partners such as the Minnesota Soybean Association, the Agri-Growth Council, renewable fuel associations, and cooperative councils among others.

We look forward to a bright future with our cooperative ownership, a dedicated employee team, and an excellent working relationship with local, state, and national government and business leaders who have helped us succeed and grow throughout the years.

Thank you again for your membership and support during the last year. We are proud of the Minnesota food and agriculture industry and the strength we bring through working together. We’ve worked hard on your behalf and look forward another successful year. Join us at our 2013 events: Legislative Reception on January 30 and the 2013 Annual Meeting & Speakers Conference on November 5.

The Agri-Growth Council wishes you a very happy and prosperous 2013!

Merry Christmas & Happy New Year from the Minnesota Agri-Growth Council!
The Spirit of Food Safety

“We are excited about the vision behind the new Food Safety Modernization Act (FSMA) and the prospect of working with all of you to implement it,” said Deputy Commissioner, Michael Taylor, U.S. Food and Drug Administration (FDA) in his keynote address at the Agri-Growth Council Annual Conference. Taylor provides leadership to all food programs in the FDA including the Center for Food Safety and Applied Nutrition, the Center for Veterinary Medicine, and the Office of Regulatory Affairs that oversees inspection and compliance.

He told attendees that “Minnesota can help lead the way in solutions to food safety challenges here and in the global food system in which we operate.” He said Minnesota’s Department of Health leads the country in its ability to monitor and detect food-borne illnesses and that Minnesota food companies are some of the most progressive in the world in their food safety efforts.

“We want to work with this community. The dialogue we have with the Minnesota food industry is important to how we will solve the food safety problems of the future,” he said. Taylor put food safety modernization in a global context and described how important it is for local exports as well as imports, saying Minnesota ranked sixth in the U.S. in agricultural exports.

He spoke of five themes underlying the core vision behind FSMA.

- **Responsibility:** Food producers bear the core responsibility for safe food and that principle is deeply imbedded in FSMA.
- **Systems:** Comprehensive risk-based system approaches to preventing food safety problems must operate from farm to table. Consumers expect that everyone in the chain is doing everything that’s reasonably possible with the science we’ve got to prevent food safety problems.
- **Standards:** It’s important to get the standards right and have effective and credible government oversight that can verify compliance with those standards and ensure a level playing field for everyone in the industry.
- **Collaboration:** Public-private collaboration and partnership is the key to implementing FSMA. Providing technical assistance and building the science base for an effective risk-based, practical set of standards and ways of implementing them.
- **Transparency:** Striving for transparency is key to building public trust. Acknowledging and identifying problems and collaborating on solutions is a critical value for a successful food safety system.

Taylor said we must recognize consumer confidence is essential to well functioning food markets and losing that confidence can also have public health significance. “If you consider produce or dairy, the last thing you want is for people to shy away from those nutritious foods because of safety concerns.”

Food safety is a global movement and India and China are working on it, as is Europe and the rest of the world. It’s just as much of a front-burner issue in China as it is here and what we are doing in the U.S. matters globally. The U.S. has been the “gold standard” and would like to continue to lead the way. “FSMA ensures the safety of imports by relying on supply chain management going all the way back to the source of supply,” stated Taylor.

He said we want to build strong partnerships with foreign governments and want the world to rely on our products. “Let’s have standards here that we can harmonize around the world. These are areas where we continue to be leaders and set the standards globally.”

Taylor said progress is being made nationally in these key areas of FSMA: food tracing, inspection compliance strategies, state and federal collaboration, and faster response to and detection of outbreaks. To find out more about FSMA Taylor suggests visiting the website at: www.fda.gov/fsma.
**Bullish on Agriculture — Bearish on Valuations**

Wells Fargo economist Dr. Michael Swanson told the Minnesota Agri-Growth conference, “I’m bullish on the economic fundamentals of agriculture and the food industry, but I’m extremely concerned about valuations.” He said everyone wants to predict the future but in an era of global volatility we kid ourselves into thinking we are forecasting and making correct decisions. The point is you can’t predict the future in volatile global markets but you can manage your risk by being disciplined and being aware of market drivers.

He invited Agri-Growth Conference attendees to openly consider some of the drivers in the current economic environment and the net present value of farms and ranches. “When you ask what something is worth, you are asking how much income can it produce in the future and what’s my opportunity cost for borrowing the money to buy it now or investing in something else,” Swanson explained.

In early 2000 total valuation for the ranching and farming sector was $1 trillion and today that same sector is valued at $3 trillion, Swanson said. “This exponential growth in valuations is not something you normally see in a mature business like agriculture. What drives the valuation model? It’s an anticipation of income (high grain prices) and opportunity cost (cheap money).”

**KNOWN MARKET DRIVERS AND UNCERTAINTY**

**Energy policies:** The importance of biofuels came out of left field and the price of ethanol has proven to track with the price of crude oil. He said, “We’ve tied ourselves to the energy sector and there is massive volatility there. We have a lot of open questions in this sector and policy could change rapidly.

**Crude oil vs. natural gas:** Increased U.S. energy production in the Bakken field and cheap natural gas relative to oil may develop as a driver. Currently, the price of a Btu of oil is nine times that of a Btu of natural gas and the market will adjust to this as we learn to use our domestic supply of natural gas. “The price of corn is tied to the price of energy and if you can’t predict the value of energy how can you predict the value of corn and the value of ground.” Ethanol and corn have an 84 percent correlation in prices, so if crude oil prices go down so will corn prices. U.S. gasoline consumption is dropping.

**Fiscal and monetary policies:** The cost of money will go back up eventually and we should be careful because we don’t know how that will influence one’s ability to borrow.

**World markets and competition:** Many countries will get better in a hurry at producing grain and world response to the price of corn will increase the supply very quickly. “As long as there is a price incentive to produce grain, competition will get stronger,” Swanson said, 

**We are awful quick to readjust our long term thinking based on short term events.”**

**Buy land — don’t buy land:** We’ve seen land values go up at double-digit rates for the past five years, but the cost of land improvements hasn’t risen dramatically. The supply of land is inelastic compared to improvements like tilling, irrigation, leveling, and soil enhancement and if you compare the cost to produce a bushel of corn based on present land values to that same cost based on land improvements, you’ll see that land improvements are a much better value (see chart above). Swanson thinks by a factor of two.

**Stupid Markets:** Economist John Maynard Keynes said, “The market can stay stupid longer than you can stay solvent,” in order to caution people that while one could recognize an opportunity where the market is out of adjustment and bet against it, then, the market does something even stupider and blows out your investment. Swanson said, “The market is out of whack and valuations for land do not justify the opportunity costs for the future income it can produce. However, he qualified himself by saying, “I’ve been wrong for four years now saying that land is overpriced. Every year money gets cheaper and corn prices go higher and it makes me look even stupider.” He cautioned that when the market eventually corrects itself we won’t be able to predict the cause and that it may be a panic situation for which you should prepare.
There is a movement to marginalize animal agriculture and the goal is to make consumers uncomfortable, said Richard Berman, a Washington D.C. based public affairs specialist and founder of HumaneWatch.org, an organization dedicated to defending the food system.

Fifteen years ago hormones and antibiotics were not on the national radar, but there were people in the animal rights movement talking about them back then, said Berman. “Today a vegan lifestyle is part of the conversation and the animal rights movement is framing it in a way that says it’s immoral to eat meat. Their philosophy goes something like this, ‘If the animal could talk and wouldn’t agree with what you do to it, then you can’t do it.’”

Berman said, “Let me tell you how this story ends.” They are not going to stop their campaign until people stop eating meat and the way they will do this is to make animal protein more and more expensive and depress sales. They want every day to be a “Meatless Monday.”

Berman said it’s time for the food industry to go on the offensive and though they might not have the stomach for negative attacks the tipping point for losing this debate may be closer than they think. The Internet has created public opinion dynamics that have never existed before.

Radical activism is more than a fad; it’s a trend now, he said. “They have staffs and money — there are over 50 lawyers at the Humane Society of the United States (HSUS) — and they will control the discussion unless there is a push-back from the food industry. They are committed, have a religious zeal, see a north star and will keep pushing towards their eventual goal,” Berman said.

Trends are dangerous because you don’t know where they will end. “If I told you all the animal rights movement wanted to do was eliminate gestation crates I would be wrong. Later they would say there are too many sows in the open area. There is no end to their demands,” he noted.

Berman told attendees not to engage in the debate the other side wants. The way it stands, they are on the offensive and are controlling the agenda. While we use white papers and logical, scientific arguments that get lost in the shuffle and people don’t understand, “they use something emotional that fits on a bumper sticker.”

Berman said, “If one of my retail customers gets a letter from an organization like PETA I tell them not to answer the letter because I guarantee if you answer it you’ll get another letter, and another. If two out of 15 retailers responds they will keep working on those two and they’ll work and work until they get a concession and then hold them up to the other retailers and try to force the same concession.”

Instead, agriculture has to repeat its message like a tooth paste commercial, until it becomes “common knowledge.” This is an economic war like Coke vs. Pepsi and instead of playing defense, play offense. “We should attack their credibility using ridicule and humor not for what they’ve said but for who they are. We need to prove that they are not a credible messenger.” Berman’s firm has publicized HSUS only spends 1 percent of its funds on pet shelters, contributes heavily to their own pension fund and gets a D rating from the American Institute of Philanthropy.

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spending had little impact, Obama’s campaign was better at winning key states, and Republicans need to appeal to other demographics to compete. Hohman, who traveled extensively with Romney’s campaign, said, “They thought they were going to win and did not write a concession speech.”

Olson explained that the state electorate was reticent this cycle and candidates reported voters really didn’t want to talk. Both ballot initiatives in Minnesota backfired on Republicans and “the Republican Party in Minnesota is at war with itself and its brand is broken,” but cautioned that if the new and inexperienced Democratic majority in the House overreached their majority could quickly evaporate. Agriculture will take a backseat to budgets and health care, but the need and opportunities for educating legislative leaders about agriculture has never been greater. Panelists noted that one-third of the members of the U.S. House will have served three years or less and in Minnesota nearly 80 percent of the House members have served four years or less. “The depth of knowledge and institutional memory of our legislative bodies continues to erode. The education curve is steep for these new members and it’s up to groups like Minnesota Agri-Growth to help inform them. We need to give them the insights to govern,” says Olson.
Fixing the Future Food Conundrum

“While the end of population growth may be in sight, the end of consumption is not,” that’s the issue, said Dr. Jason Clay, senior vice president at the World Wildlife Fund (WWF). Though most experts say world population will top out at 9 or 10 billion by 2100, we haven’t come to grips with what increased global incomes will do to consumption. Clay and Dr. Jonathan Foley, director of the Institute on the Environment at the University of Minnesota spoke about efforts to affect the future of sustainable agriculture.

Clay and other thought leaders from the WWF warn, “If we don’t get the where and how we produce food right, we can turn off the lights and go home. There won’t be a planet that’s recognizable in terms of biodiversity and ecosystem services. It will all be farmed or ranched.” He said new land from deforestation is too costly because today’s deforestation rates already equal emissions of the entire transport sector. It’s about calories and we’ll have to produce twice as many on the same amount of land we use today.

A new global middle class wants more meat, dairy, fats and oils — foods that use a lot of resources to produce. The trajectories of populations and income trends indicate a doubling in food demand.

Dr. Foley said, “Environmentalists should not be pointing fingers at agriculture, but because agriculture is so big, it uses 40% of the land and 70% of the water, it has a responsibility to the environment. It’s unfortunate to think of it as the environment vs. agriculture because we have to work together to simultaneously address both environmental and food production challenges.”

CLAY’S SOLUTIONS
We need to control waste and convert it into energy and profits.

A quarter of the world’s calories are wasted and those who have worked at capitalizing on their waste are making new profits.

We need to stress genetics because the Green Revolution is not keeping pace and we rely on very few crops. Only sugar beets and cotton will double yields in the next 50 years, but bananas in the tropics produce 20 times more calories per acre than corn in Iowa and sugar in Brazil produces three times the calories of bananas. The highest calorie output points to trees in the tropics.

We must export our knowledge and efficiency to the world. Top producers are 100 times more efficient in their use of resources than bottom producers and the bottom 25 percent create over 50 percent of the environmental impacts. Moving the bottom forward will have the best result.

Clay says products should reflect a true price in terms of their global sustainability and that transparently measuring results, processes, and productivity is the only way to move forward. He noted only a few hundred companies control the top 15 commodities and when they certify producers on efficiency those producers use dramatically fewer inputs and as a bonus make higher incomes in the process. “We’ve found that’s true across all the commodities we have measured,” said Clay.