UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL BUSINESS - COOPERATIVE SERVICE

AGRICULTURE INNOVATION CENTER DEMONSTRATION PROGRAM PUBLIC MEETING

Room 107-A, Jamie Whitten Building
U.S. Department of Agriculture
1400 Independence Avenue, SW
Washington, D.C.

Wednesday, July 31, 2002
9:00 a.m.

Attendees

GILBERT G. GONZALEZ, Deputy Under Secretary
Rural Development Policy and Planning

JOHN ROSSO, Administrator
Rural Business - Cooperative Service

LUIS A. LUNA, Associate Administrator
Rural Business - Cooperative Service

RANDALL E. TORGERSON, Deputy Director
Rural Business - Cooperative Service

JAMES E. HASKELL, Assistant Deputy Administrator
Rural Business - Cooperative Services

JOHN R. DUNN, Director
Cooperative Resources Management
Rural Business - Cooperative Service

MARC WARMAN, Program Leader
Value-Added Development Grant Program
Rural Business - Cooperative Services

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P R O C E E D I N G S

9:00 a.m.

MR. ROSSO: Good morning, ladies and gentlemen. Thank you for joining us here this morning.

I'm John Rosso, the Administrator of Rural Business - Cooperative Services, the mission area under which this particular program falls and has the responsibility for.

We've called this public hearing today to hear your thoughts and ideas before we formulate this program. So, you're basically in on the ground floor of what we hope to be able to attain here, and we value your input. Can you all hear me? Well, I can hear an echo in my ear. So, at this point, I assume you can since nobody's waving.

We're finalizing the Notice of Funds Availability for this program, and we hope that your input will help us address the new issues that are facing the agricultural community out there as well as the tried and true traditional ones. In shaping this program, we hope that you won't take this opportunity today to make the spiel for it. That's going to come later on after the NOFA has been announced and you've provided your proposal. We hope today that you'll address some of the issues that are very relevant in our community, our agricultural community.

As I said, the tried and true traditional issues, crop rotations, soil rotation, all the other

things, but we hope to have what is by its title an innovative center. We hope that perhaps you might share your thoughts for us today with some emphasis on providing assistance in marketing, market development and business planning for farms and co-ops, something that we're sorely in need of.

Our economy has changed. Our world has changed. Everything has progressed, and so must the needs of the farmer and the responses of the farmer to those needs. We hope you'll give us some emphasis on effecting outreach to rural America, to make them aware of these business planning tools. I know 85 percent of the households in the United States have Internet access, but still a lot of our farmers are out there fairly isolated and don't have the outreach means to them to make them available and aware of the programs that are available to them.

We also need to have an emphasis and encouragement to interested parties to submit your applications to foster the development of rural value-added efforts. This may involve environmental, amenity or food services. Value-added seems to be the panacea for the farmers of today, to take their existing crop to which they have a locked-in margin basically in the marketplace, to obtain more value from their existing crop by going to a secondary processing situation. So,

we need your ideas and your thoughts to make these centers as innovative as possible and as responsive as possible to the needs of our farmers in this changing world.

Just a couple ground rules. Each of our presenters will be limited to 15 minutes. We encourage you to submit your written remarks as well. Those on the stage here are strictly to listen to you. I'm going to appoint Mr. Dunn as the timekeeper. He'll give you a nod about two minutes before your 15 minutes, sort of a reminder to, shall we say, sum up. Those of you that only need five minutes, well, that's fine, too, but we welcome -- we do welcome all your thoughts, if it takes 15 minutes, five minutes, 10 minutes, and your written responses and your written proposals or information and ideas or thoughts, and they will be fairly evaluated and we do appreciate your taking the time to come with us to try and shape this program.

I've asked Dr. Jim Haskell over there to run the meeting today, and after my opening remarks, I'll turn the microphone over to him. Here as listeners with me are my Associate Administrator, Luis Luna, Dr. Haskell, Assistant Deputy Administrator for Rural Business Services, John Dunn, Director for Cooperative Services, and Mark Warmar, who's supposed to be here

but is still having coffee, but he'll be here. He's the Program Leader for the Value-Added Development Grant Program.

I'm honored at this point to introduce our Rural Development Deputy Under Secretary for Policy and Planning, Mr. Gilbert Gonzalez, who will give you a few further remarks.

MR. GONZALEZ: Good morning. Can everybody hear me clearly? Welcome to USDA, and let me just echo some of John's comments, but what's critical today is we're here to listen and to learn. We have people out there that are experts and have been doing this for some time, but we're here seeking new approaches and ideas for bringing sound business practices in the areas of value-added product development to farmers and farmer groups. We are seeking your help in strategic thinking. The innovation centers will allow our focus to be on business development for farmers and other rural entrepreneurs who are contemplating the formation of new value-added businesses.

Most of our programs, as you know, provide financial assistance in the form of loans, grants and loan guarantees. The innovation centers will help us bring some additional resources to the table to augment our financial programs. The statute is rather clear in what Congress directs us to do in terms of bringing

advisory services in terms of technical assistance in the areas of business development, feasibility assessment, engineering expertise and financial guidance. But beyond that, this is an opportunity to bring new thinking, and I underscore that, new thinking in terms of new approaches to creating a successful value-added initiative.

Congress has given us this rare opportunity to combine both financial experts and intellectual services to create a new business venture for rural and agricultural markets. We want to make the most of it, and I want to encourage you today to use this opportunity to help us create a program that will have a lasting effect and impact on rural America. We welcome your thoughts and ideas, and I want to just thank you all for being here this morning.

I just want to say that I will not be here for the entire -- all presentations, but I will be in and out throughout the day, and I hear events are actually scheduled until about 3:15-3:30 this afternoon. So, with that, thank you again, John, and thank you for putting this effort together.

MR. ROSSO: Dr. Haskell?

DR. HASKELL: Thank you.

I get the distinguished privilege of running this show in terms of keeping you on time and that's

essentially all I'm going to do. But I want to point out just a couple of the ground rules and just some housekeeping items.

Each speaker is going to have 15 minutes, and we want to keep it at that. This is in terms of a presentation. We're here to learn. You've heard that already. We need your help in implementing this very important program. Even though the dollar amount is not real high, we want to be able to use that government money to leverage as best we can the assistance that can be provided to ag producers who are trying to develop value-added enterprises and market those value-added products, extremely important, and we're looking for a lot of good advice from you.

We want to develop the Notice of Funding Availability just as quickly as we can following the input that we receive from you. In the Federal Register Notice announcing this meeting, we indicated that any written comments could be sent in to the agency in addition to those that you have already sent in and that you'll be presenting here today, and the deadline for that was August 6th, and we anticipate just as quickly as we can move all of the clearance folks that have to sign off on the NOFA of developing just as fast as we can after that, and if we could convince the attorneys, we're going to go with only a

30-day notice, so that you will have only 30 days to get your applications in.

How that's going to be done is that you will simply forward your application to the relevant state office and that state office is where the entity would be located. They will immediately forward them to the national office here in Washington where they will be scored by an expert panel, and once that score is complete, we'll make that announcement.

We have some very tight deadlines that we're trying to meet. We would like to get the notice out yet in the month of August and August 1st is tomorrow, with a 30-day turn-around, so that hopefully we can get these scored and announced likely in October. So, obviously we need as much input as we can from you and others in making this the best program possible.

Now, we're not going to have meeting breaks. We do have two open time slots late morning where those who have not already signed up would have an opportunity to speak, and then later in the day, at the last, we have a couple of time slots open, but we do want to oblige those people who have taken the time to call in, set up those appointments, try to keep it at 15 minutes, and as far as questions and answers, there may very well be time for that, at least for questions, perhaps not answers, after those time slots.

First on the list, I believe, is Missouri Enterprise. What we'd like to have you do, sir, is just to introduce yourself when you come up and your organization and then give us all the information you can.

MR. THOMPSON: Good morning, Distinguished Panel.

I'm Bob Thompson, Agriculture Director, representing Missouri Business Enterprise Assistance Center located in Rolla, Missouri. We're a private not-for-profit company, and with me today here is Dr. Bern Pierce, Agriculture Economics Professor with Commercial Agriculture Programs at the University of Missouri at Columbia.

We do appreciate this opportunity to express our views on implementing the new Agriculture Innovation Center Demonstration Program. I will limit my remarks to identifying innovation center characteristics that we believe are key elements of the success and making an impact based on many years of experience in public-private partnerships.

Just very quickly by way of background, Missouri Enterprise operates a new business incubator. We have since 1984. We also provide manufacturing assistance through the Manufacturing Extension Program funded through the U.S. Department of Commerce, and we

also deliver value-added agriculture consulting services with funding through the USDA Rural Cooperative Development Grants as many of you know.

We believe a successful agriculture innovation center must have the following. First and foremost, of course, is the technical, marketing, business and managerial expertise to offer the services to the producers. It must be able to manage other resources, other services, and assist producers in their leadership efforts that form the necessary organizations for value-added agriculture. Summing this up, offering project management capabilities is an important part of an innovation center.

Networking with proven sources of expertise is critical. Cooperative agreements or partnerships between colleges and universities, state departments of agriculture and experienced private consultants would result in a most effective agriculture innovation center in our opinion. This structure of true partnerships, along with a systematic approach to refer producers to the best resources, is a formula for success and will provide the assistance needed to our agricultural producers.

For example, in Missouri, we believe a structure such as the University of Missouri, the Agriculture Department, Missouri Enterprise, private

consultants, having the private, government and academic factors, all involved, all those organizations involved, would be a very significant way and a good formula for success. I think it could effectively fulfill many of the agriculture innovation center demonstration program objectives that you've set forth. The center needs to be more than staffers providing information. They need to be hands-on to provide leadership to these groups. They must be able to fill the needs of producers moving from production agriculture to value-added enterprises.

Another important aspect of the innovation center is making assessments to screen projects for probability of success. There needs to be a way to focus our efforts and resources on those particular projects that have a highest degree, highest probability of being successful. Obviously the issues of feasibility, marketing, business assistance, including equity acquisition, and going on finally to commercialization are all important elements.

So, in addition, we need to provide this kind of assistance and also have the ability to identify, source, manage and partner with other resources with expertise in specialized tasks. I think it's important that an innovation center have multiple locations across the state or region. With these partnerships

that I've suggested, that would make that possible, and services would be accessible to as many producers as possible.

Last but not least is the importance of being facilitators, being able to take groups and facilitate groups to focus them and help them focus on what their real mission and view and vision for their company should be. That's a key element, I think, in success.

So, having said that, I'll turn the program over now to Dr. Vern Pierce who will address the specific questions called for in the Federal Register.

I thank you for your attention.

DR. PIERCE: Thank you, Bob.

Gentlemen, I'm Vern Pierce. I'm part of a multidisciplinary system approach team work group at the University of Missouri, called the Commercial Agriculture Program. We take disciplinarians from around the university, put them on teams and work to answer and solve people's problems and improve their lives.

Comments today will focus, because I'm an academic, had an assignment from you and so I'm going to try to fulfill that assignment, focus on the three areas, I think, that the agriculture center for innovation demonstration program asked for comments, and those are the Farm Bill language and the presumed

legislative intent of that program, the USDA announcement and the Bush Administration priorities that were in the press release, and the call for specific comments from the Federal Register.

So, first, the Farm Bill language. Section 64-02. As it states there, the purpose of this is to establish a demonstration program under which agriculture producers are provided technical assistance consisting of engineering services, applied research production services, and enabling producers to establish businesses to produce value-added agriculture commodities, market development, marketing assistance, business planning, the whole host of technical and core competencies.

So, the comment is or the suggestion is that to implement a successful program, one which goes beyond the scope of current programs designed to assist producers, might the Department consider seeking entities which have core competencies and competitive advantages in not only helping producers in some of these skills but doing so in a manner that integrates the skills, so a center which demonstrates its ability to look at all of these skills as a host, like we do in our systems approach, all of the skills that the producer needs and select the ones and balance the ones that they need to help the producers, that the entity

ought to have a core competency in doing just that.

These entities could present a plan showing how each of the steps of the business development process are integrated with the next step and the previous step, using experts at each level, yet focused on the final intended product of developing, capitalizing and incubating successful value-added businesses. The teams of experts at these entities should be part of an integrated center which works together on a daily basis so as to maximize the impact of their intellectual synergy on a daily basis.

The systems approach has advantages over a traditional entity which has a few core competencies and then contracts out for other missing skills. This hire-a-consultant as we need them approach lacks the ability to provide this integrated approach. It lacks the ability for continuity between the entity and the producers that are trying to help, and I think that would help integrate the charge of the legislative intent and not in parts but as a whole.

Second area. The announcement from USDA and the Bush Administration priorities. The press release for this meeting today, expanding business opportunities. Expanding business opportunities in rural areas and increasing farmer's income is an important priority for the USDA and the Bush

Administration.

First comment. The name Agriculture Innovation Center has some unique implications. The intent is to have entities show producers how to succeed. This innovation focus is different from a service focus in which producers are instructed on how to write a business plan and a marketing plan and then sent out the door to accomplish their business and make that work, accomplish their missions.

Unfortunately, such producers are often also sent out the door, emphasis on that section, with instructions that they should also consider getting additional guidance on their own to implement their plan, the demonstration part of helping producers. Unfortunately, producers often don't have the skill set to get these services. They don't understand how to integrate them as we're talking about further with what they had already learned, and it's often just a, well, yeah, I know, I also need a balance sheet and financial statements, but they don't know how to integrate them and that's an important part of that.

We suggest USDA look for strategic alliances that can incubate these entrepreneurial ventures and then can mentor or demonstrate for the producers through the process using a cluster approach, getting the producers involved with their service providers and

the people they're going to sell their products to. This approach would also allow interaction between clients which can multiply the effects of the program and perhaps spawn even more entrepreneurial efforts which I think is an important part or opportunity that this legislation provides.

The content of the call for comments, continuing on with the press release, the content for this call of comments stated in the intent that the Ag Innovation Center Demonstration Program is to help farmers realize their full potential, and I just loved that language. That is so different and such a contrast from the traditional farmers must get larger to succeed. We want to help them get their full income potential, and so it doesn't mean or at least it's not interpreted by me to mean that the purpose is to help farmers get large.

We recommend the Department attract entities that have the ability, have it currently through the core competencies of their staff and their strategic partners, to work one-on-one with the producers and guide them through the innovation and the implementation process. There's plenty of research out there that says consultants have a 4:1 advantage if they actually help people do what they suggest, not just suggest it, and that has a lot of effectiveness

and a lot of opportunities for this program, I think.

This combined effort of entities and their partners can help each project fit uniquely into the marketplace so as to maximize income potential. This can also be accomplished by integrating each of the items on this menu of services that we mentioned earlier that is in the call for proposals, so that the relative servings of those services are appropriate for that individual project, not just the cookie-cutter approach.

The third comment. Entities should be sought which can demonstrate to producers how to expand the scope of their business plans, how to expand once they get going. From the very beginning, the business plan of the producers ought to have the ability to see how they expect to expand and realize the full income potential of the producers involved and the potential producers involved.

Third and finally, the Federal Register announcement for this hearing asks for several comments on several specific areas, and I'll make specific comments on those. The first one in the Federal Register, focus work by the proposed innovation centers, comment on the relative importance of technical assistance, engineering services and this host of skill sets. What's the appropriate mix, the

Federal Register asks?

We suggest that the relative mix of these factors of success is unique to each project that the entity might work with on the producers. The equity drive is appropriate for that project and the emerging market that that market is -- that that producer is after. Areas which have high specialization in some of these areas, balanced and integrated with entrepreneurial capabilities of producers, have the greatest potential for success. So, systems approach teams that have a host of these skills that they can balance.

Therefore, the Department might consider seeking entities with proven track records of integrating each of these important success factors as well as those whose own business plan, the business plan of the entity, includes monitoring and measuring and looking for marketing opportunities to help spawn entrepreneurial efforts.

The second thing in the Federal Register, viable methods of raising equity capital necessary for many producer-owned value-added ventures. How can assistance to ag producers best be structured for this purpose?

Equity drives are somewhat new in the ag industry. Again, I think the innovation centers should

have staff and experience in advising customers in equity acquisition. This is often in this kind of world, this is often where our services, say okay, now go out and raise the equity and that's often where we lose the momentum. The Ag Innovation Centers can help producers plug into these programs and need to again walk them through the process. That ought to be in their business plan.

Number 3. How the innovation centers might best coordinate with existing technical assistance, business advisory and other assistance providers? We suggest identifying centers which have partnerships between service providers. By partnerships, I underscore this, we mean that they have developed a structure by which the staff provides opportunities for daily interaction on the entity, not on what they're trying to -- who they're trying to help. Organizations that have tried partnerships without opportunities for constant synergy between the people and the entity, the people with the skills, miss opportunities for their clients. In short, they must not only work together, they must be together in order to keep that synergy going.

Number 4. How to meet the demand for value-added assistance in traditional crop and livestock enterprises? Identify entities that have well-

established connections. You need to have the ground work already there.

DR. DUNN: Two minutes left, please.

DR. PIERCE: Number 5. The desirability of entities having the required assistance and expertise in house versus contracting. Entities which have an in-house panel of experts can understand, interact and have the synergy with each other. The process of having a core and outsourcing a lot of this stuff again removes that synergy possibility.

Finally, Number 6. Suggestions for criteria for scoring and selecting proposals. We have submitted in our comments a written scoring system with detailed analysis from three sections which I'll just highlight.

One. Nature of the proposed venture, 10 points. Describe the proposed venture, the expertise of the entity, business plan of the entity and that business plan ought to have a strategy and that this ought to be a clear part of that strategy.

Number 2. Skills of the entity leadership team, a very important part of that because that's what it's all about. If you don't have the skills, you don't have much to work with, 15 points, and then we have the details in the written comments.

Finally, the structure of the plan and that is, an important part of not only working together but

how can we ensure that the people who are helping the producers are actually being together?

Finally, we believe the innovation centers should have three characteristics. Summarize, let the experts -- it should be led by the experts with the best skill sets available in the private sector, government, and in university partnerships. Two. It ought to be implemented with teams who have demonstrated the ability to deliver effective results using a systems approach, using the latest technology of business development, and finally, Number 3, the centers should be focused on individual entrepreneurs, guiding each of them through the entire process and integrating all of those skill sets.

Thank you for your time.

DR. HASKELL: Very good. Thank you very much. We greatly appreciate it.

I have become a little bit negligent in my duties but I did it on purpose because we didn't -- we weren't sure that we're back there yet. But we have outlined the major points in 64-02 for the innovation centers, and these are available outside on the table. They should be available now.

Basically, it's things you probably already know, how much money is available, how many centers can there be, what they're supposed to do, etc. That's for

your information and you can pick those up any time, as long as we don't interrupt other speakers.

Thank you very much.

MR. THOMPSON: Thank you.

DR. HASKELL: Next, we have one or two people from the great state of Minnesota.

MR. OLSON: Members of the panel, my name is Edgar Olson. I'm Executive Director of the Ag Utilization Research Institute, referred to as AURI, and with me is Kai Bjerkness, the Director of Planning and Development for AURI.

AURI is a 501(c)(3) not-for-profit corporation created to improve the economy of rural Minnesota through the development of new uses and new markets for agricultural commodities. Our mission is to provide assistance to producers, commodity groups and agricultural processors in an effort to develop new value-added uses for the state's farm products.

As the Research and Development Institute for Value-Added Agriculture in Minnesota, we are excited about the establishment of the USDA Ag Innovation Center Program because we believe it mirrors what AURI has been doing for 13 years. Since inception, AURI's sole focus has been in the development of value-added products that provide direct producer impact, create innovative and new uses and expand markets for raw

commodities and is keeping the rural economy strong.

AURI provides technical assistance, applied research and engineering services to producers, producer groups and agricultural processors. We offer laboratory facilities for product development and test scale-up. These laboratories are equipped to enhance food products, cereal grains, meat and animal products, oils, as well as cold products, like food processing waste, crop residues and more. With a staff of over 30 people, AURI offers appropriate expertise to complement our unique facilities.

In addition to technical assistance and access to pilot plants, AURI offers business and marketing assessment services to increase the likelihood a product will meet commercial success. This evaluation allows us to provide the appropriate assistance to meet the needs of each venture. Much of our assistance our clients seek is provided by AURI.

In addition to our services, we have a strong network of both public and private organizations to which we can make referrals. Our sole focus is to make value-added ideas as viable as possible from a technical and from a business standpoint. In addition to working with producer-driven projects, AURI undertakes industry-wide initiatives designed to pro-actively engage emerging opportunities being on the

leading edge of research into new opportunities to give Minnesota and Minnesota producers an edge through having better information and the ability to react quickly.

Minnesota has been a leader in producer-driven ventures, including cooperatives involving ethanol, sugar beets, hogs, aquaculture and soybean processing. AURI's provided assistance to create the new uses for these nearly 40 other commodity or also for the nearly 40 other commodities that are grown in our state. AURI's experience in working with value-added products includes fuels, industry products, consumer goods, personal care items, and food products.

As an organization, AURI has logged hundreds of thousands of hours of assistance to more than a thousand different projects. It is with these experiences in mind that I and Kai Bjerkness will offer to you the comments regarding -- Kai Bjerkness will offer to you the comments regarding the establishment of an ag utilization or ag innovative center and demonstration program.

Kai?

MR. BJERKNESS: Good morning, gentlemen. Happy to be here today.

What I want to do is just work down the questions in the Notice and try and quickly move

through some of the things that we view as important based on the experience that Edgar Olson just mentioned.

First of all, the focus of the work of these innovation centers. Based on experience, it's our recommendation that an ag innovation center's primary focus should be on the delivery of feasibility and support; namely, technical assistance, applied research assistance, and some engineering review and services. So, it's important to understand the feasibility of producing an ag product before moving ahead, and feasibility concerns really need to be addressed at an early stage.

While it's our opinion that the technical aspects of product development should be the primary focus, other concerns for an agricultural innovation center should also be added to the mix. Consideration should be given to the area of market assessment in particular. A product needs to be developed with a market in mind to maximize the potential for success and knowing as much as possible about where a product will find a market is certainly vital for success.

Further, tapping into a network of marketing and business resources would allow an agricultural innovation center to focus on the technical service and feasibility while also addressing critical issues

related to markets.

In terms of Question 2, raising capital, an ag innovation center can assist in raising needed capital by helping producer-driven ventures to develop sound products or processes as well as a comprehensive business portfolio. The ag innovation center could serve as the pivot point and work through its resource network to develop feasible product, sound business plan, and viable market information, in essence, a package. Those components strengthen a venture and make it more attractive to funders who support new business venture opportunities.

By their very nature, producer-owned value-added ventures involve capital investment by producers themselves. Having a sound business package which includes the elements I mentioned can result in financial opportunities, such as access to grants, revolving loan funds, matching contributions from state and federal organizations or even private capital.

How might an innovation center coordinate with existing providers? We see this as critical in any kind of center that's developed as a result of this program. Ag innovation center can coordinate delivery of service by being the entry point for value-added projects. The center could initially work on project assessment-type activities, evaluate needs and apply

appropriate resources. This includes a coordination of internal resources as well as the solicitation of external collaborators that could help add to the project.

It's been our experience that maintaining a network of resources that can be accessed to meet the project needs also allows services and expertise to be applied efficiently and effectively. While technical services should be a central function of an ag innovation center, a thorough needs assessment for all projects will help determine the greatest priority of need. This approach would help focus on factors that can translate to success in the end.

Item 4. Meeting the demand for value-added assistance in traditional crop and livestock enrich opportunities. The process for providing assistance to value-added ventures should be the same whether it impacts traditional or niche crops, and we end up working with both. The evaluation should be the same. However, the amount of resources dedicated to each project would vary, depending upon the potential impact for producers or the commodity, and we're faced with this type of issue daily as we evaluate projects. There are many good ideas in the niche area, but in the end, you really try and focus on the ultimate impact of the project.

Ag innovation centers can also assist both traditional and niche crop producers by sharing good information. While it's imperative that a center maintain an environment that protects proprietary information, it's also valuable for producers to have access to research that falls within the realm of public domain. So, sharing information is a key issue in our opinion.

A visionary organization that identifies emerging opportunities can benefit producers by sharing this knowledge with those who may be able to develop a project and ultimately capture a market and make an opportunity.

Item 5. Desirability of expertise in-house versus contracting. Experience has shown us that having strong resources internally offers efficient delivery of services for clients. Service can be provided in a timely fashion, an economically efficient manner and as seamlessly as possible for clients. An impartial staff and organization can also provide objective analysis for projects which is critical.

In-house services may also serve as a bridge to help select appropriate outside resources that may be needed. It's been our experience that collaboration and partnering with other entities allows us to serve a broader range of client needs, with the added benefit

of not duplicating services that are already out and available. This collaboration and partnering can take place any time during the life of the project but certainly should happen after a needs analysis, when a determination has been made what outside resources would most benefit the project.

Suggestions for criteria for scoring and selecting proposals. There will undoubtedly be many organizations interested in developing proposals for this program. We'd offer the following criteria. Just a quick comment as a preface. We all know that there can be a steep learning curve for any new organization. So, it's our belief that a strong track record is first and foremost in developing value-added projects and products to help minimize that curve and offer the most benefit.

As such, the following factors should be considered in the scoring of proposals. The first item is organizational capacity and infrastructure, both in terms of staff and facilities. Item 2, demonstrated experience in developing value-added projects through the application of technical and business assistance. Item 3, the strength of the network of collaborators that can provide additional services, complementary services. Item 4, the accessibility of those services for producers. In other words, how can they most

efficiently get what they need from the program? And the level of cooperation with producer groups interactively pursuing value-added projects. These factors represent some of the key ingredients for developing proposal evaluation criteria in our opinion.

In closing, at AURI, the Board is represented by the major farm organizations, cooperatives and commodity groups, all working for a common purpose. That kind of partnership is critical for success, and we can't stress that enough. So, we appreciate the opportunity to offer these comments today, and we're encouraged by your commitment to value-added agriculture and look forward to the program development.

DR. HASKELL: Thank you very much.

We also appreciate you keeping well within the time frame. You said a whole lot in less than 15 minutes. So, that's very good, which gives me an opportunity to address one other issue that may be pressing to some of you. If you want to check out the Department's facilities, just go out the door and turn to your left and there's both women's and men's rooms out there. So, you can take that opportunity if you feel the need.

Thank you, gentlemen.

Next, we have the Sustainable Ag Coalition.

Ann?

MR. ROSSO: While they are coming up to the podium, I'd like to apologize to Dr. Randall Torgerson who is Deputy Director for Cooperative Services, who I forgot to introduce earlier.

MS. WRIGHT: Good morning.

My name is Ann Wright, and I am here on behalf of the Sustainable Agriculture Coalition, a network of organizations in the Midwest representing farmers, environmentalists and rural people who develop sustainable practical solutions to the challenges facing agriculture in rural communities.

One of the most significant challenges for farming communities today is the loss of income and opportunity for independently-owned farms and ranches. The day has passed in which raw commodity production can provide middle class income for enough farmers and ranchers to create a stable economic base for agricultural communities.

The producer's share of the consumer dollar decreased from 46 percent in 1913 to 24 percent in 1997 and reached an all time low of 20 percent in the year 2000. If the current trend continues, the farmer's share of the farm system profit will grow to zero in a few decades. In response to this trend, producers have been looking for ways to capture a larger share of the

consumer dollar. This has resulted in significant growth in the marketing of value-added agricultural products.

In agriculture today, we see growing opportunities for farmers and ranchers to tap into higher value niche markets. To the extent that the Agriculture Innovation Center Demonstration Program is able to create and distribute new information about production systems and marketing strategies that allow farmers to capture new and emerging markets, we can strengthen the viability of independently-owned farms and ranches and create real economic opportunity in rural America.

Let me share an example of how shared knowledge and sustainable production systems can create real financial opportunities for family farms. A growing number of farmers across the country are now producing pork, beef, poultry and milk without putting therapeutic dosages of antibiotics in the feed. Smaller scale management intensive operations able to respond more to the needs of the animals have an edge when it comes to drug-free production. No where is that being seen more clearly than in the hog industry. Tom Franzen, an Iowa farmer, raising hogs using technology, this low-cost technology is inexpensive to construct, has low input costs, allows for more

flexibility in managing farm operations, has minimal environmental impact, and meets consumer demand for naturally-raised antibiotic-free meat.

The Franzens, who market about 1,200 pigs annually as a part of their overall farming operation, see this alternative swine production method as the way to capture a premium price for their pork. All the low-cost sustainable livestock production in the world means little, however, if farmers can't get paid a fair price. The good news is that farmers are receiving a premium price for sustainably-produced pork through labeled products to direct marketing. These alternatives are just beginning to take root but more and more farmers see a glimmer of hope. People are buying pork raised in sustainable ways and paying a premium for it. That sends a message back to rural America about what sort of farming is valued.

These markets present an opportunity for farmers and ranchers to add more of the value to ag products and capture more of the profit. For the most part, however, they lack the cooperatives and small businesses to link consumers looking for these products with the family farmers and ranchers who have what they want, while capturing a profit in the rural community.

To address these critical issues, the Sustainable Agriculture Coalition, SAC, makes the

following recommendations for implementation of the Agriculture Innovation Center Demonstration Program. In the area of research and education, we recommend that the center allocate resources to develop and promote innovative and sustainable production systems that create marketing opportunities for value-added enterprises. We recommend that the centers coordinate with existing on-farm research programs like the Sustainable Agriculture and Research and Extension Programs there to identify successful farming practices and ways of providing technical assistance to farmers and ranchers developing value-added enterprises. In recent years, the SARE Program has championed value-added marketing innovations with producers and the knowledge gained should be tapped into by the demonstration program.

In the area of technical assistance and assistance in market development and business planning, we recommend coordinating with existing assistance providers that offer services to small cooperatives. This type of help would support cooperative development and provide support to family farm and sustainable agriculture organizations engaged in these efforts. In the case of small local initiatives, the centers themselves might directly provide a quick and modest feasibility study.

Farmers have to be able to coordinate with end users, so these centers should also be a place to bring several small businesses together, like processing companies, small food distribution companies and regional grocers. Each part of the food chain has special needs. If all of these parts are in balance, then farmers get a fair wage for what they are doing and the small grocery store makes a profit, too.

We recommend that membership on the board of directors go beyond the minimum requirements outlined in authorizing legislation to represent the full range of agriculture within a state. This is of critical importance. Representation should be diverse, including the full range of farm size and cropping enterprise types, as well as representation by minority and beginning farmers.

Lastly but certainly not least, in developing criteria and scoring for selecting proposals, we recommend that high priority be given to innovation centers that advance the purposes outlined by Congress in the Farm Bill and in the subsequent appropriations bill. Specifically, that proposals support a broad diversity of value-added enterprises that help increase agricultural producer's share of the consumer dollar, including projects likely to increase the profitability and viability of small and medium-size farms and

ranches as well as projects that create self-employment opportunities in farming and ranching and contribute to conserving and enhancing the quality of land, water and other natural resources.

These fundamental purposes of the program should be a major consideration in any request for proposals in project ranking and evaluation criteria. The recently-passed Farm Bill offers us valuable opportunities to strengthen and protect the economic viability and cultural integrity of family farming in rural communities. The Sustainable Agriculture Coalition strongly believes that those opportunities reside in a competitive market where entrepreneurship and innovation increase market opportunities for small and mid-sized farms and ranches and where real opportunities for increasing net income are realized.

Thank you.

DR. HASKELL: Thank you, Ann, and you were very timely. In fact, you only used about half of your time.

MR. LUNA: Before you leave, could we ask a few questions?

DR. HASKELL: Questions?

MR. LUNA: What would you define as an appropriate size small to mid-sized operation?

MS. WRIGHT: Well, I think that's a difficult

question to answer these days, but I think one of the key things to acknowledge is whether a farm is independently owned and run and operated by the person owning it.

DR. HASKELL: And in fact, as long as we're running ahead of schedule, if any of the listeners have questions, feel free to ask those questions.

We appreciate your comments, Ann.

Next is the Organization for Competitive Markets.

BROTHER ANDREWS: Good morning.

I'm Brother David Andrews. I'm the Executive Director of the National Catholic Rural Life Conference which for 80 years has been helping farmers achieve a sustainable and just lifestyle. For 61 years, we have been located in Des Moines, Iowa. I'm speaking today for the Organization for Competitive Markets on whose board I serve.

The Organization for Competitive Markets is a multidisciplinary non-profit group made up of farmers, ranchers, academics, attorneys, political leaders and business people, and some faith-based folks like myself, although I have to add that most farmers and ranchers that I have met have very deep and meaningful faith lives.

OCM, the Organization for Competitive

Markets, provides research, information and advocacy toward a goal of increasing competition in the agricultural marketplace and protecting those markets from abuses of corporate power. OCM views the current consolidation of agriculture as market failure, resulting in a misallocation of resources and the destruction of rural communities and culture.

The Organization for Competitive Markets believes that these agricultural innovation centers should promote real innovation, farmer-led innovation, real competition and not merely foster the consolidation of agricultural production into fewer and fewer hands. We should not utilize the rhetoric of innovation and carry out our reality of technical efficiencies achieved at the expense of communities and ecologies with diminished rather than enhanced human entrepreneurial capacity-building and expansion.

Proposals to create innovation centers should be evaluated in part according to criteria which will promote creative and diverse boards, strategies which will enhance farmer self-employment, ecological diversity and enhancement, and collaboration with existing assistance providers. Board representation should go beyond the minimum requirements to represent a wide range of organizations and producers involved in value-added initiatives within the states.

Innovation comes best from a diversity of points of view. A synergy can be created if we go beyond a few dominant interests and think outside the box. The strategy of the centers for ensuring that the services they provide would enhance the purposes articulated by Congress for the value-added program, specifically to increase the agricultural producer's shares of the food and agricultural system profit, including the profitability and viability of small and medium-sized farms and ranches, creates self-employment opportunities in farm and ranching and conserve and enhance the quality of land, water and other natural resources.

The centers should coordinate with other assistance providers, other existing assistance providers, to value-added cooperatives, including contracting with them to provide services. This would help provide funding to some agriculture and family farm groups by assisting cooperative development and for some small local initiatives, the centers could provide a quick and modest feasibility study.

The Organization for Competitive Markets believes that innovation has always been a hallmark of agricultural entrepreneurs and innovation comes from many sources. On-farm innovation is a feature promoted by many farmers and farm groups. The Practical Farmers

of Iowa are one such group. The Sustainable Agriculture Working Groups across the country are more. The criteria of fostering self-employment, independence, conservation, enhancing air, land, water quality and natural resources need to be a clear criteria in the scoring system we use to fund projects.

OCM would like to see proposals evaluated on these criteria. Rural America would be well served by a program which supports real innovation in agriculture, a new agriculture which is sustainable, which is capital efficient by providing independent farmers the capital efficiency of more profit per unit, and the holistic benefits of multifunctional agriculture. This approach will help maintain our family farmers and ranchers, our environment, our future. It will, we believe, unleash a new entrepreneurial spirit in rural America.

The Organization for Competitive Markets believes in innovation. As Jane Jacobs wrote in Cities and the Wealth of Nations, "Economic life develops by grace of innovation." Innovation is one of the master economic processes and is a major function of local economies. The other master economic force which Jacobs identifies is import replacing, to encourage local farmer entrepreneurs to do for themselves and for local consumers what communities have depended upon

from the outside to have done for them. Successful import replacement, such as local food systems, local food production, often entails adaptations in design materials or methods of production and these require innovation and improvisation, especially of producer goods and services.

Our innovation centers can give a new lease on local economic life, on farmers and their communities and their environments. Local farmer entrepreneurs can attain more sustainable livelihoods. Governments can't and shouldn't do everything, but this kind of center can be a new source of extending farmer-led and farmer-friendly innovation and creativity.

The Organization for Competitive Markets supports centers which will advance real innovation, supports self-employed independent sustainable farmers engaged in support of local communities across this great land, and I thank you, this committee, for your time and your listening to me.

Thank you

DR. HASKELL: Any questions from listeners?

(No response)

DR. HASKELL: Thank you very much, sir.

Next, we have from the great state of Nebraska.

MR. GARBACZ: Good morning, and thank you

very much.

My name is Stan Garbacz. I'm the Administrator for the Ag Promotion and Development Division for the Nebraska Department of Agriculture.

I appreciate the opportunity to address you concerning the implementation of the Ag Innovation Centers Demonstration Program as it has been established. Agriculture throughout the United States, including Nebraska, is in a very challenging period. Traditional agriculture and the way we have been marketing our agricultural production is antiquated and needs to be re-examined and refocused to ensure the success and the viability of agriculture now and in the future.

Value-added has been an overused buzzword by many individuals. We do not need to look -- we do need to look at adding value to agricultural products but not from its traditional point of view. We need to analyze and look for opportunities that exist for either new production or new uses for that production and to look at new enterprises that utilize this agricultural production. Then we must encourage and develop those products.

The success of this endeavor will be greatly enhanced by a solid business plan. Many of the products now being produced have origins based upon

needs expressed not by looking at the current supply of materials because agriculture for many years has looked at marketing as an afterthought to production. Business principles should be developed and followed more accurately and methodically. Until marketing and the true business outlook are incorporated into agriculture, then and only then will we see a turn-around to a bright, clear and profitable future for agriculture.

The ag innovation centers will play a vital role in trying to change the thought process of value-added as it has been defined in the past. The centers should provide the missing link in looking at potential and possible products -- excuse me -- possible products needed and in working with the producers in an innovative way to produce a commodity that could be utilized for this end. These agriculture innovation centers will have to be comprised of multifaceted, multidisciplinary subject areas in order to fully integrate the essentials necessary to implement a successful business plan.

We hope you look at past successes of similar activities of the requesting entities. In addition, the entities who seek to implement these innovation centers should have the ability to react quickly if their proposals are approved by your agency. The

backing of local, regional and state governments through actual cash funding of not only the matching requirement but beyond that matching requirement is vital.

Another factor to be examined when evaluating the applications are the years of experience that could be brought together quite rapidly. A quick response in this area is of utmost importance, and the entities applying for these innovation centers should be in a position to be up and running now and in doing similar activities. In these cases, your monies would be able to be put to use in a more quicker, a more innovative and efficient way without the concern of monies being used to establish a program from the ground up. In the case of using existing facilities, your monies could then be more appropriately directed to projects that show innovative possibilities.

I appreciate the time you've given me to present our viewpoint. I know that you, as we all do in our positions of promoting and developing successful futures for agriculture, will look to past experience and past successes as you look towards making the projects that will be funded through the Ag Innovation Center monies successful.

Thank you very much for this opportunity, and if you have any questions, I'd be glad to respond to

them.

Thank you.

DR. HASKELL: I've got one quick one, and I may have missed it, but you're talking about more than the match.

MR. GARBACZ: Hm-hmm.

DR. HASKELL: Can you explain that?

MR. GARBACZ: I think in many times, and many of us obviously in state government have been fortunate enough to apply for and receive federal funding, and in many of them, such as federal-state marketing improvement programs and other programs, always require 50-percent match, and I think many times, you know, people try really hard in not only in hard but in soft ways to provide that match, and I think that's going to be more important to show the support beyond that so that instead of looking at minimum matches, that you look at activities and proposals that go beyond that.

DR. HASKELL: Okay. Quality of the match is important.

MR. GARBACZ: Absolutely.

DR. HASKELL: Very good. Thank you.

Since we are well ahead of time, I'm going to suggest that we take a break for about 20 minutes, and feel free, you can ask questions during that time, too, but since we are ahead of time and we don't want to get

too far ahead of time because some of the speakers may not be here, let's take a break, and, you know, I personally will stick around to try to answer any of your questions and so forth.

So, let's do 20 minutes and then we'll start officially again.

(Whereupon, a recess was taken.)

DR. HASKELL: Let's get going.

We'd like to hear from the National Corn Growers.

MR. GLASS: Good morning.

DR. HASKELL: Good morning.

MR. GLASS: Just want to make sure I don't abuse my time.

DR. HASKELL: Don't worry, John does over here.

MR. GLASS: My name is Richard Glass, and I'm the Vice President of Research and Business Development at the National Corn Growers Association.

I'd like to thank the panel for giving me the opportunity to testify on behalf of NCGA and to express our views on implementing the Department's new Agricultural Innovation Center Demonstration Program.

The National Corn Growers Association is an organization founded in 1957 and represents more than 32,000 dues-paying corn growers from 48 states. The

Association also represents the interests of more than 300,000 farmers who contribute to corn check-off programs in 19 states.

Traditionally, commodity groups, like NCGA, provide a voice for farmers in Washington, D.C., and throughout the country on policy issues confronting the agricultural community. Representing the interests of our nation's corn growers in Washington, D.C., still remains one of our primary missions. Our Association continues to be at the forefront of farm policy and actively participates in the public policy process on all issues confronting farmers.

However, of foremost concern to our grower members is how to construct a farm economy that will eventually provide opportunities where farmers are independent of government assistance while at the same time providing value-added ventures that increases grower-owned equity in the processing stream.

Our growers are small business owners, and like all small business, they have a profit motive and they're not satisfied with a stagnant bottom line. Furthermore, changes in rural America are forcing associations like ours to think differently and to evolve into entrepreneurial organizations that facilitate and provide new business opportunities for grower members, such as locally-owned and operated

cooperatives, to produce ethanol.

In the past few years, our growers and our state affiliates committed NCGA to a research program that provides a healthy balance between basic and applied research. More recently, our members are seeking to maximize our ability to invest in programs that increase the utilization of corn and further develop the bioproduct industry. Corn is already a vital feedstock in the biorenewable industry. Ethanol produced from corn is commercially available and growing in market share which reduces our dependence on petroleum and foreign sources of oil. Products like polylactic acid or PLA or bioplastics from starch provide green alternatives for products that are biodegradable.

As far as new directions, over the past year, Congress has wrestled with policy options to help farmers in rural America. At every juncture, policymakers debated the conditions of rural America and lack of economic opportunity afforded our nation's farmers. Both the Administration and Congress set forth proposals aimed at improving the economic conditions of farm country while devising mechanisms that will hopefully attract capital and economic opportunity to rural areas rather than promote its departure.

Last Fall, Secretary Veneman released a report entitled "Food and Agricultural Policy: Taking Stock of the New Century", detailing the enormous changes taking place in agriculture. Focusing on the complexity of rural America, I quote from the report. "Its diversity presents opportunities for the creative application of programs and policies and calls for unique partnerships among the spectrum of American institutions, different levels of government, the business community, public advocacy groups, and local organizations." The report continues by stating, "An environment should be created that will attract private investment to rural America."

We at NCGA concur. That is why we have begun a process to form a commercial development center. This commercial development center will provide opportunities and knowledge for grower members to develop business partnerships and explore economic ventures related to NCGA's goals. We believe that the vision for the new Agricultural Innovation Center Demonstration Program is similar to ours, and we would like to partner with the Department of Agriculture on its implementation in a joint venture.

As USDA begins to develop an implementation strategy, four-year program, we strongly encourage the Department to seriously use our model as a blueprint or

consider utilizing NCGA as a candidate for an agricultural innovation center. As a national commodity organization, we have direct access to over 32,000 farmers. Our Association's already putting into place a resource with a similar mission to the Agriculture Innovation Center Demonstration Program.

NCGA has consistently proven its ability to focus on a goal, implement it, and achieve outstanding results. Our commitment to a vibrant research program and value-added agriculture illustrates the utility of a joint venture between USDA and NCGA. NCGA already has the bricks and mortar in place and our long working relationship with other commodity groups and farm groups provides our Association with the ability to expand outside the Corn Belt. While NCGA's mission is to represent the interests of corn growers across the nation, we firmly believe that efforts to revive rural communities and promote economic opportunity should not be commodity-specific. We believe this opportunity should be afforded to all of rural America.

Let's turn to our vision for the NCGA commercial development center. We believe the USDA innovation centers can take a similar form and provide the services that our growers are already telling us are needed in rural America to improve their economy. NCGA's greatest asset in this regard is the network and

communication infrastructure at our disposal. As a national organization with 32,000 grower members and 27 state affiliates, we have ready access to producers in virtually every state. Our sustained relationship with growers can be utilized to provide a communication tool, to facilitate economic development and provide information seamlessly to grower leaders in local communities.

It's our intention to implement the CDC in three phases. First, to create a knowledge base and information tools for growers to utilize. This information infrastructure will provide growers with assistance and a knowledge base on how to apply for grants and low-interest loans and other sources of capital. Cooperatively, the center can act as an incubator for companies by providing industry contacts, research and other resources available through NCGA. The center can sponsor business forums designed to allow start-up companies to share ideas and opportunities for commercial development.

The CDC can investigate new forms of business models, such as limited liability companies that are regulated as new generation cooperatives. For example, it could send delegates to other countries to study their version of new generation co-ops and ownership models. The center would be well situated to promote

start-up companies using grain and to promote new uses through how-to seminars. The center will then expand its commercial activities towards the ultimate goal of engaging in joint ventures with industry and growers.

As the panel discusses the next steps for the direction of the innovation centers, we want to emphasize the need to provide a tool that helps farmers in rural America -- I beg your pardon -- that farmers in rural America can use. The economic crisis in rural America is real, and the time for study has long since passed. What we need now is action. The Department of Agriculture has successfully confronted pressing issues in farm country before.

The current rural economic crisis calls for a new approach and new tools. Farmers in our organization are making it known to our leadership that they want to be active participants and owners in the value chain, not just producers of bulk commodities. The new innovation center program needs to help commodity producers across the country achieve the entrepreneurial vision and goal of economic independence. Together, we have a unique opportunity to construct a tool that can help rural America achieve economic success and to provide a value-added venture to increase grower-owned equity downstream while also providing opportunities where farmers are independent

of government assistance.

We have the matrix of a new paradigm. Now we need to think about new ways of doing business and take advantage of the existing networks and organizations by providing the resources and tools for growers to succeed in the changing agricultural economy. We believe the Agriculture Innovation Center Demonstration Program is an appropriate tool to begin the process and NCGA stands ready to work with the Department on its implementation.

I'd like to thank you for the opportunity to address the panel, and if there's any questions I could address and answer for you, I'll try.

DR. HASKELL: Thank you very much.

Any questions?

DR. DUNN: I'd like to just mention to everybody a question for you but also for something Mr. Gonzalez had wanted people to address or be thinking about, and that is, how we link the producers as they build their businesses to sources of equity capital, venture capitalists, other sources, because that ultimately is going to have to be a piece of the commercialization of these enterprises.

So, if you want to respond to that, and the rest of you as you go through your presentations, that's something that Gil had asked me to raise.

MR. GLASS: Well, I'd like to address that question, if I may. Is that one of the things we do have in place, is the development of a website that I think will afford the opportunity for the grower to have this kind of information. I actually am putting it together myself in which I'm taking a look at providing opportunities for entrepreneurs to exhibit their wares on our website, take a look at what kind of LLC-type attorneys are available to help them out with consulting. I'm taking a look at what can we do in terms of venture capitalists that can perhaps help them out, all from an advisory point of view because really from NCGA, we don't have that opportunity to solicit funds. We can't do that, but we certainly can provide information and that's one thing we are doing and will be doing.

DR. HASKELL: Well, thank you very much for your time and effort. We appreciate it.

MR. GLASS: Thank you.

DR. HASKELL: Next up is Cook College, Rutgers University.

DR. ADELAJA: Good morning.

My name is Adesoji Adelaja. I'm the Executive Dean of Agriculture and Natural Resources at Rutgers University and the Dean of Cook College.

I really do appreciate the opportunity to

speak in front of this committee that's looking at the topic that I think is extremely important, the introduction of new innovation and value-added opportunities into agriculture.

This is a very serious issue for those of us in the land grant system in the Northeast, particularly in New Jersey, where agriculture is particularly under stress. When you look at the pressures that agriculture faces, rising costs of doing business, higher costs of labor, wildlife issues, excessive regulation at the local level, it's clear that there's a significant profit squeeze for agriculture, and as a result of that, we're losing farmland and farm businesses at astronomical rates.

When we did our build-out analysis on New Jersey, we found that in 40-50 years, very, very few of our agriculture businesses would remain. So, the whole notion of the viability of agriculture and creating new business platforms upon which agriculture can have a future is something that's very, very important to us. In New Jersey, we're beginning to talk about the concept of new agriculture, and it's now going to have to happen just because farmers are doing what they're doing today in the future. It's going to happen because we create infrastructure that could serve as platforms for farmers to build new businesses and

that's a real task. It's a challenging thing.

The Agriculture Innovation Center Demonstration Program is really a great opportunity for the government to have an impact, tremendous impact across the country. I come here with the experience of having helped to create the Food Innovation Research and Extension Center which is a formal outlying station of the Experiment Station in the state of New Jersey, which is focused on helping farmers move from just producing primary agricultural commodities into producing value-added-type products, and so I come from that perspective. But I also come from the perspective of having helped to create New Jersey's Economic Viability Program for Agriculture.

What I'll try to do today is draw on those two experiences in answering some of the questions that you had raised, to address some of the issues that you're interested in having answered.

Let me tell you a little bit about FIRE, the Food Innovation Research and Extension Center. After many years of assessing the problems facing the food industry in the southern part of New Jersey and other parts of New Jersey, where we've experienced massive departure of businesses and migration to other states, failures and so on and so forth, we realized that if agriculture was going to move into the area of value-

added, there weren't too many good role models for agriculture to look at because the food enterprises in the state themselves were going under, and it became quite apparent to us that we needed to be thinking simultaneously about strengthening the economic base of the food industry as well as helping farmers gain access to opportunities in that industry.

So, the mission of FIRE was dual. Supporting the food industry but at the same time helping to provide incubation services that would help farmers who are ready to make that move in the direction of value-added. We realized that this would require a one-stop shopping type of a scenario which addresses one of the questions that you have about the range of services that would be provided through an innovation center.

Well, it really does need to be one-stop shopping. Technical assistance, marketing assistance, business assistance, and outreach. This is an example of one of the products that we've helped the blueberry industry to generate at Rutgers. This is not just marketing, it's not just product development, it's not just outreach. It's everything. Our researchers at the university did research on phytochemical properties in blueberries, patented the technology. We licensed the technology to a company that we created, if you see what I mean. That company was helped by faculty and by

other consultants and so on and so forth to understand how to move the product into the market. It's now sold on retail shelves in the state, but it quite frankly takes a variety of expertise from, you know, technical assistance, product development, shelf life extension, helping to get the growers together to understand the importance of forming a company, if you see what I mean, to market and promote and improve the technology inherent in this product. So, I hope I've answered that question very well by saying that these centers really need to represent one-stop shopping places where a variety of expertise can be accessed.

There was a question you were interested in and that's the whole notion of equity capital. One of the major hindrances to the formation of value-added businesses or innovative businesses is access to capital. Traditional agricultural lending organizations are not very comfortable with lending farmers who are very good in production, lending them money to take on much more complicated businesses. We have certainly thought about a variety of approaches to doing that. We recognize that rural banks tend to be very interested in enhancing the economic base of their region, so they could be potential partners. Perhaps they could create a special innovation fund, high-risk fund, but with risk sharing by several banks in the

local area. That's something that an innovation center could help to negotiate with the help of state officials and so on.

But one of the things we've also thought about is the creation of a fund for innovation in agriculture perhaps that the state can help create out of its economic development authority funds, and again in the case of New Jersey, our center, FIRE, has been key in promoting that kind of a concept, trying to get the state to realize that there's a vacuum and there's a need for a pool of funds that would invest in agriculture.

But one of the things, and this may be a little bold, that one might want to consider is the possibility of actually having an innovation center begin to take part equity in some of the business to help spur, especially if scientists from the university are involved in product development and in developing some of the technologies that underlie some of those businesses. So, it may be the center or an offshoot can take part ownership. There's some legal ramifications that need to be looked at, but that's one of the things that one might want to look at.

I think it's extremely important to coordinate the activities of a center with activities of existing entities. What we found in our state is

that we literally have most of the expertise that's needed to deliver services to small businesses in creating new value-added enterprises, but the problem and the challenge is that of coordination. It's extremely important for a center to tap into the expertise that already exists. In the creation of our new center, FIRE, which started about a year ago, we decided that we would hire people in marketing, business development, and in technical assistance and outreach, but also hire consultants in some of the other areas. It's very difficult to predict ahead of time the range of needs that your clientele are going to have. So, having some base level of expertise but also relying on experts that are consultants when they are needed, I think the combination, I think, makes quite a bit of sense.

Regular staff are helpful in the sense that they provide continuity. Farmers that are interested in going into new businesses want to know who they are dealing with. They don't want consultants that are coming and going. There needs to be some permanent staff but also at the same time, there's some expertise that one just needs to tap into from consultants when they are needed.

Another issue I think you'd be interested in is the criteria for scoring the proposals that you

receive under this program. We have found that what was most useful to us is the work we did ahead of time in assessing the needs of the growers in the area, in the region, visibility analysis of the viability of our center itself, you know. We had to do kind of long-term planning to see whether the center itself was visible. I think that's essential, an essential feature of an innovation center, and a long-term plan for sustainability. I would perhaps propose that you offer two types of grants, planning grants for those that don't already have that type of a detailed analysis already done, maybe $30-40,000 for people that can apply for planning grant in the first phase, and then come back and apply for full implementation grant the second year, and the first year, you might also offer full implementation grant for those that have done and completed those visibility studies and needs assessments. So, I think that's really from my perspective the Number 1 criteria.

The second is an innovation center has to have a very clear mission and very clearly-stated goals. You have to know where you're going to be able to help others develop businesses. So, I think it's going to have to be very clear what those centers are intended to be doing. I think they need to be very specific as to what their clientele base would be. One

of the most difficult things in getting an innovation center going is how to prioritize requests that you get. Potentially, every farmer in New Jersey is a clientele of FIRE, our center, and we've had to be very, very careful in prioritizing or developing protocols for how we choose to engage a particular business when they come to us, whether or not we respond to them when they approach us.

I think it's extremely important, also, that the support of local, state government and community organizations is strong because that also adds to the potential sustainability. In the case of FIRE, we're proud to say that one of our partners is the empowerment zone. We decided to look at FIRE in an urban area where that's a core urban area surrounded by a lot of agriculture. We're partnering with the county. The county is a very strong supporter of what we are doing. We're partnering with the community college. They have expertise in workforce development which we don't have at our state university. We're partnering with the Food Processors Association who have been a very strong source of support, particularly in lobbying the legislature and getting funding from the legislature this past year to support the activities of our Food Innovation Research and Extension Center.

I think it's also going to be important for an applicant to be very precise in terms of the services they will be offering through the center. The clientele certainly would like to have that kind of information. I think it facilitates much better clientele relationship and also gives you a benchmark for information that could serve as a benchmark for assessing those centers once you've made those investments in those centers.

I think you need to require a detailed development and implementation plan for the center that includes things like staffing priorities, the provision of services, whether it's in-house or contracted, program implementation and outreach strategies, which I think are very important, marketing plans, how is the center going to market its services to its clientele, and management plans. How is the center going to do management? I firmly believe that management is everything, almost everything, in something like this.

I think, also, an assessment plan for the measurement of impact is key because obviously the goal of creating an innovation center is to have a place where new functional, viable businesses will be created and given, you know, that requirement, I think it's important to be extremely clear how the impacts of the center would be measured over time. I think applicants

should be encouraged to spend some time detailing how that is going to be done.

Then finally, a long-term plan for financial sustainability of the center. For example, in our case, we took the long-term approach --

DR. DUNN: Two minutes, Dr. Adelaja.

DR. ADELAJA: Sorry?

DR. DUNN: Two minutes.

DR. ADELAJA: Two minutes. Okay. I'm almost done.

We took the approach that in the long run, the experiment station was going to establish FIRE as an outlying station of the college and the experiment station. However, we were looking for funding from the legislature in our state.

Let me, you know, wrap this up by saying that, you know, this could be a program that would -- in fact, I expect this to be a program that would change the face of agriculture. Value-added is not just something that's nice to do. It is indeed the very platform upon which new generations of agriculture would be created. In our state, we feel that our farmers cannot continue to grow the same products as their competitors in the Midwestern part of the country where they don't face the same challenges that we face, where production costs are cheaper. They don't have

right-to-farm issues and still expect to be able to compete in a global market.

Technology and innovation has to make the difference, and these innovation centers could be very critical in keeping agriculture alive in the Northeast and in maintaining open space because we can preserve all the land that we want, but if we don't equip farmers with the opportunity to be able to make a decent living off of the land, we really are wasting our time.

I also would want to take the opportunity to invite anyone interested to our Food Business Incubation Summit which we're planning for September 18th and 19th of this year. We're hoping that most food business incubators will come to New Jersey and participate in this program. Very elaborate program being planned. It will cover issues, such as, you know, why centers like this are important, international incubation models, what works and what doesn't work, best management practices, how do you get started, facilities planning, clientele services, advisory boards, how to structure them, things of that nature, and your very own Colin Hefferan is going to be one of the speakers at that event.

Thank you very much for the opportunity to speak with you.

DR. HASKELL: Thank you very much.

MR. ROSSO: Question, Dr. Adelaja.

We're also constrained with the long-time sustainability of not only the projects but of the center. You spoke to the centers needs as being in terms of specifically grants from various levels of government, state, federal and so on.

Do you have any thoughts or perhaps do subsequent speakers have any thoughts on how we can make these centers self-sustaining to a degree or with matching funds of some sort from a revenue stream? Do you have any revenue stream sources in mind that the centers could promote, shall we say?

DR. ADELAJA: We see our center as really a modern experiment station, similar to a field station that you might have for like blueberry-cranberry research center which has been in operation for over a hundred years. So, we do feel that we have an obligation to try to maintain it from the revenue sources of the experiment station, state funds and the federal funds that we get.

But supplemental to that, we also feel that we have an obligation to work with our state to look for public sources of funding for agricultural innovation. We don't think that it's far-fetched to ask the public to invest in the creation of new

generations of agriculture, especially when you consider the quality of life and open space benefits of agriculture. But we really think that this whole notion of a center being able to take part equity or revenue share with enterprises that they create is going to be a good source of revenues. We have to think about some of the legal implications, but if you have intellectual property involved, which has to be, you're creating a business that's unique and competitive and differentiated, if you're going to have those intellectual properties involved, you should be able to capture some return from those intellectual properties.

In the case of this product, our scientists own 10 percent of the company. So, Blueberry Health, Inc., which we helped to create, that's owned by growers, is 10 percent owned by the university, and we think that would bring back some revenues to continue our work. So, I think that's something to look at, and as far as we know, it's extremely legal because there's intellectual property involved, and intellectual property can go from patents to copyright. The workers own it.

DR. HASKELL: Actually, there's a lot of competition between New Jersey and our next speakers from Michigan. They claim they've had blueberries out

there, too. So, Michigan is next. You want to sample some really good stuff, it's right there.

MR. GUTHRIE: Chair Haskell, Mr. Rosso, other panel members, I'm Tom Guthrie with the Michigan Integrated Food and Farming Systems, and my colleagues here, Arlen Leholm and Chris Peterson, are both Professors of Agricultural Economics at Michigan State University.

We're here representing the Michigan Partnership for Product Agriculture. This is a coalition of farm organizations, public agencies, educational institutions as well as individuals, who have come together to form a voluntary roundtable and to look at opportunities and challenges facing Michigan agriculture.

We wish to express our thanks to the Department of Agriculture for allowing us this opportunity to provide testimony on implementing the Agriculture Innovation Center Demonstration Program. This program is much needed in the agricultural community. The search for value-added and differentiated product opportunities on behalf of producers and food-related entrepreneurs requires a diversity of technical, business marketing, and organizational assistance.

Many producers come from a history and

experience based in commodity agriculture. They are not well prepared for the dramatically different demands of managing in the value-added product world. Likewise, many traditional agricultural support institutions do not have the necessary expertise or delivery system to provide fully useful assistance. Even if and when expertise does exist, it is often available in fragmented ways, causing producers to access numerous individual sources rather than one efficient provider of such support.

The rules under which agriculture center demonstration programs should operate must, above all else, protect this fragmented service of assistance and delivery. Producers must have the right assistance delivered in a coordinated and integrated manner. In Michigan, we have recognized the need for this coordinated and integrated support and assistance. The Partnership has committed to create a complete delivery system for value-added product agriculture in the state. We want to do this by building on the strengths of existing providers while creating new expertise in coordination where they do not now exist.

The Agriculture Innovation Center Demonstration Program provides an ideal opportunity to put in place the needed coordination we have identified as being critical in supporting entrepreneurs and

innovative products within our state. We also believe that other states share this need for coordination and enhancement of existing efforts and resources.

With this brief background in place, we would like to address each of the six key issues identified in the public notice for this hearing. Number 1. Focus on work by the proposed innovation centers. The three categories of work, technical assistance, business marketing assistance, and organizational assistance, should be equally weighted in the work plan of any agricultural innovation center. All three types of assistance are essential to meet the needs of agricultural entrepreneurs and managers striving to make the transition to more value-added differentiated products and business models.

The innovation center should support technological innovations through testing facilities, pragmatic research and product and market development. In fact, the broadest possible set of services should be provided or networked by innovation centers in order to properly match the needs of a particular project with the expertise available. A full set of services would help assure the success of value-added ventures from initial product business development through full commercialization.

DR. PETERSON: The second key issue we would

like to address is viable methods of raising equity capital for ventures. Without question, the need for equity capital is a critical one. However, innovation centers should focus on technical assistance and not on creating venture capital. Other private organizations would be better suited to serve the equity and venture capital roles. This does not mean, however, that innovation centers are without responsibility in this arena. Innovation centers should coordinate with existing venture and other equity capital entities. Centers should have expertise in organizational alternatives and the relative ease or difficulty of raising capital under each alternative.

Centers also need the ability to help advise on planning for equity-raising efforts. Finally, centers should enhance the ability of entrepreneurs and managers to secure funds through proper preparation of planning and funding documents. Also appropriate, due diligence efforts are needed to assure the financing community that projects are well prepared to move from planning phases to commercialization. In reality, the surest path to raising equity capital is having a sound business concept. The centers will do well to focus on assuring that agricultural entities have such sound business concepts.

The third issue we'd like to address is

coordination with existing providers. We have found in Michigan that we have no shortage of providers of entrepreneurial business and product services. Rather, our challenge stems from having a patchwork of multiple providers who are not well coordinated. They present a bewildering complex of options that potential clients cannot navigate effectively in finding the service they need. Coordination of existing providers is a critical missing link. We suspect that this is true in many other states.

To solve this problem, agricultural innovation centers should work as closely as possible with existing providers. Reinventing the wheel is neither efficient nor effective. However, centers should strive to determine places in the value-added delivery system where critical services are missing or suffer from inadequate resources and then move to provide or expand such services.

The Michigan Partnership for Product Agriculture has been working diligently to create an effective system of coordination among existing providers in our state while identifying those places where new or expanded services are critical. As a basic principle, innovation centers should leverage, utilize and build upon as much as possible the services and expertise of existing providers. Public entities

and agencies, universities and other educational institutions and private providers should be linked into center operations and governance. Centers should enhance the efficient coordination of existing services and create new services that are missing from the current mix.

The first centers in particular should provide an effective model of such coordination and partnership. Further, centers should create appropriate institutional memory solutions and approaches to common recurring problems that value-added entrepreneurs and managers face. Here, too, coordination with existing providers augments the efficiency arising from their expertise.

The fourth issue is to meet the demand from traditional crop and livestock value-added enterprises as well as new unique niche opportunities. Innovation centers must provide access to services consistent with the full range of potential clients, small to large, new entities or existing ones, food or industrial uses. If centers cannot provide access to a breadth of service, they run the risk of not being able to meet the legitimate business needs of any given client and may inappropriately limit the access of many relevant clients, most especially non-traditional, minority and under-represented clientele.

While value-added opportunities come in all forms, they also come in differing sizes of market. Centers must be equally capable of addressing any of these markets. For states that have a highly-diverse agriculture, a centers capability to service a broad client base is especially critical for serving the best interests of their overall agricultural industry.

This breadth of service offering will be challenging. On the one hand, many of the services that centers will provide are generic across clients' needs. For example, centers will need to focus on transforming mindsets from a commodity orientation to a differentiated product orientation, no matter whom they serve. On the other hand, some center capabilities will have to be differentiated by type of client. For example, the design of centers should provide multiple points of entry consistent with varied client needs and offer coordinated services no matter where clients enter the support system.

To be sure the centers are responsive to the needs of all appropriate clientele, the board structure of any center should be broadly representative of all types of clients and providers. The legislative language of Section 64-02 does mandate seven specific board seats. However, centers being funded under Section 64-02 should treat these seats as a minimum and

not a maximum. To the extent allowed by the law, the board should be broadly represented in order to assure proper access and utilization by all potential clients and commitment by all types of providers.

The fifth issue you asked us all to address was having the required expertise in house as opposed to it being contracted. If we're to follow some of the principles we've set out in addressing the third and fourth issues, it seems to us that the centers are going to have to be coordinating entities with existing providers and that means that contracting and subcontracting with providers will need to happen effectively within these centers. Only where services are needed to fill deficiencies in the total delivery system should the expertise be developed and provided in house.

Further, it is impractical to believe that any center can have all of the needed expertise and thus contracting is essential. Again, as with Issue 4, clientele and states with a very diverse agriculture have an especially great need to access a range of services that cannot fit comfortably or feasibly within a single in-house set of services. To assure the contracting works effectively, the centers should be allowed the maximum flexibility in organizational design. A 501(c)(3) or perhaps even a trust structure

might be appropriate.

Center proposals to USDA should be allowed to include contractual providers that the center works with in order to establish both the expertise, the existence of appropriate expertise and the existence of the appropriate matching funds. The organizational design, however, for any center must assure appropriate accountability for the funds expended and the services delivered.

The sixth and final thing that the public hearing asked us to address was the criteria for scoring and selecting proposals. In this regard, we believe that they need to be consistent with what we have in essence given testimony to in regard to the first five issues. In particular, breadth of services delivered, either in house or through contracts, maximum leveraging of existing provider resources and services through appropriate coordination, integration and partnering.

Third, demonstrated ability to identify and address existing weaknesses in service delivery for value-added ventures. Fourth, breadth of service or breadth of support from client entities and coordination and support from potential providers. Breadth of client types served, small to large, new and existing food and industrial uses. Level of cash and

in-kind match beyond one-for-one as a concrete measure of local support and commitment provided that that match includes amounts from partnering and contracting entities, and finally and obviously, the competence of the service providers, either in house or through contracts. We suggest that these criteria be given approximately equal weight in the overall selection process. All of the criteria are critical to truly support successful ventures.

One final point that we would like to make that doesn't fit too neatly under the six that we were given is the time frame here. One year hardly seems an adequate time to design and create a center and seek permanent funding from other sources for its effectiveness. The legislation is a bit unclear as to exactly what the time frame is, --

DR. DUNN: Dr. Peterson, two minutes.

DR. PETERSON: Okay, and I'm going to easily make that.

The legislation seems unclear about the time frame of the funding and thus we would hope that funding would be allowed for multiple years with the amount limited year-by-year instead of in total over time. Submission of a proposal renewal year-by-year would certainly seem reasonable. Most especially in this time when local and state budgets are stretched to

the maximum and deficits are large, these funds from the federal level are critical to create the needed changes in the economic health of producers and their rural communities.

Once again, we express our gratitude for the opportunity to testify and we hope our comments have been helpful and supportive in the work that will be on-going under this program.

DR. HASKELL: They certainly have been very useful. Appreciate that.

Questions?

MR. ROSSO: Just a comment. Recognition of your concern that you stipulated regarding venture capital and its availability.

I'd just like to call the attention of everyone here that we have another Farm Bill program that is going to be implemented. While this one is mandatory funding and must be done immediately, the other one is not and will go through the rulemaking process, but you can anticipate towards the end of 2003, the early part of 2004, there will be accepted what is called a Rural Business Investment Program which will recognize subcorporations, rural business investment corporations, who will then be able to make equity investments in these fledgling companies. It will be a combination of grants and guaranteed loans.

We haven't figured out exactly. It makes about $400 million budget on the thing and a certain mix will be for grants, a certain mix will be for guaranteed loans that you might want to consider as a partnership, shall we say, when you've brought your initial group out of gestation and are ready to go into something further, that this might be a partnership concept that you can work with when the final rule is out.

DR. HASKELL: Thank you very much, gentlemen.

Next, we're going to have AgAmerica Empowerment Agency, Inc. I believe that's Georgia, and we're going to have a small change. The Connecticut Agribusiness Cluster has agreed, they're on the 3:00 time slot, to move that up. So, we'll give Georgia 15 minutes and then go directly to Connecticut for 15 minutes.

MR. SHIRAH: Mr. Chairman, committee, thank you very much for having us up here from Georgia.

First, let me tell you a little bit about who I am and then I'll tell you a little bit about AgAmerica in my prepared talk, and then finally, I'd like to say within my 15 minutes the Andy Thompson story. I'd like to share that with you. But in 1996, I retired from Bell South and went back to a family farm that had been in the family for over a hundred years. In 1997, the family that had farmed on halves

with us went bankrupt. So, in 1998, I became an owner operator and began going from an 80-20 relationship of debt to equity, where I had 80 percent equity and 20 percent debt, to today an 80-20 percent relationship where I have 20 percent equity and 80 percent debt, but I'm still farming. I farm 400 acres of cotton right now.

The AgAmerican Empowerment Agency is very pleased to have the 2002 Farm Bill and appreciates the opportunity to provide inputs to the USDA as it implements new opportunities arising from the bill, like the creation of Agricultural Innovation Center Demonstration Program.

First, I would like to briefly say who AgAmerica is and what we have done since our inception. AgAmerica is a 501(c)(3) non-profit corporation initially funded through the Southwest Georgia United Empowerment Zone. AgAmerica's mission is to stimulate the depressed agriculture needs within the empowerment zone. Its limited funding was used to buy conservation tillage equipment and place it into an equipment library for the shared use of farmers operating within the empowerment zone. Farmers within the zone were able to migrate to conservation tillage methods without having to make the heavy funding investment of minimum tillage equipment. The equipment was checked out and

checked back in for a minimal usage fee. Local farmers were extremely positive in their reaction to the program and have asked for expansion to additional pieces of equipment. Current plans are to add grain drills for Fall plantings of cover crops to support increased migration to conservation tillage practices.

AgAmerica hopes to add caddy planners to conservation tillage equipment which will further reduce costs and add efficiencies to the 2003 planting season. AgAmerica has only one paid staff member and a board of non-compensated directors consisting of farmers, bankers, government advisory members. Additional resources will be added as funding becomes available. AgAmerica was envisioned to be a model, if successful, which could be expanded beyond the local empowerment zone.

Farming in rural Georgia over the past few years has shown a tremendous need for innovation in farming. The new Farm Bill goes a long way towards facilitating that innovation through programs like the Agriculture Innovation Center Demonstration Program. For the small and mid-sized farmers, a future trying to grow high-volume commodity crops with low margins will not work. Even with the price supports of the new bill, the yield must still be there. Weather conditions in the Southeast over the past few years

have been devastating to achieving the yields required, especially for dry land farmers.

We strongly recognize the need for innovation and value-added opportunities. Hence, we are here to assist with our thoughts in response to the six specific issues USDA sought comment regarding the centers. The focus of work proposed for the centers and a relative weighting of each of the three areas, technical, engineering, and applied research, 60 percent, marketing, market development, business plans, 30 percent, organization, outreach and development assistance, 10 percent.

It is our view that the closer the centers can get to where the rubber meets the road, the better. Farmers know what they know but will need close support from outside expertise to migrate to new activities outside of their existing paradigms.

Two. Viable methods for raising equity capital for producer-owned value-added ventures could be achieved through awarding tax credits to the commercial sectors for investing in agriculture innovation. Proctor and Gamble, pharmaceutical companies, equipment manufacturers, should all show interest in investing in new product development. Tax credits would be incentive for what should be simple corporate responsibility.

Three. How would innovation centers best coordinate with existing resources in regard to the areas mentioned in Item 1? Clearly, we don't always need multiple resources working in vacuums to invent the same wheel. Therefore, tieing in nicely with another USDA initiative, Rural Broadband, group work could be shared through coordinated webcasts. Group web work among colleges, agricultural extension agents, FSA, and other interested parties could provide the synergies needed for successful innovation and maximizing value-add.

Multiple disciplines working on the same initiative without regard to geographical dispersion will produce a greater result than anyone could produce alone. This would also facilitate synergy among the five centers launched this year.

Four. How do we meet the demand for value-added assistance in traditional crops as well as niche opportunities? In our area, the major traditional crops are cotton and peanuts. Georgia's the third largest cotton-producing state and the largest peanut-producing state. Traditional crops, like cotton and peanuts, have check-off dollars going to support a lot of innovation efforts. However, with the changes made in the Peanut Program, new opportunities are needed. Peanut farmers and quota holders are looking for

replacement opportunities. So, for traditional crops, the innovation centers need to be closely linked to the commodity crops, industry organizations, for coordination of activities and efforts.

What is the desirability of in-house expertise versus out-source resources? The problem with most entities responsible for development of new products, processes or innovation is the "not invented here syndrome". The core competency of the centers is to bring forth innovation and unique niche opportunities. To do so, it will have to be outstanding in coordinating efforts of many and differing individuals and organizations. We would therefore recommend that the out-sourcing of project initiatives be the methodology of choice to avoid the chance for empire building and support the center for orchestrating results.

Six. Some thoughts on the criteria for scoring and selecting proposals are that they should be more quantifiable and less subjective in evaluation. They should also align with the scoring criteria for determining the success and evaluations of the centers. Weighting should be determined and communicated over the web. Alternative farming opportunities and risk-taking opportunities should have a correlation with the amount of risk. In other words, the greater the risk,

coupled with the greater reward, should receive a higher weight.

We thank you for the opportunity to share our thoughts and stand ready to assist in any way we can as this innovative and critical initiative is implemented.

Now, let me tell you the Andy Thompson story. This is a perfect example. Three years ago, we're having a real tough time in Georgia with drought and dry land farming. So, Andy Thompson works for Bluebird, and he has a 200-acre family farm, and I'll get this in my 15 minutes. So, Andy got innovated, and he said, "I'm going to start growing fresh water prawns." So, he dug a pond behind his house where it would hold water, pumped water in it, aerated, did all the studying he could on how to grow fresh water prawns, bought the larvae, took out a personal loan for $5,000 and put those larvae in the pond behind his house and started feeding them and doing everything he could to tend to those shrimp. At the end of the day, he had a big sign built up. Everybody subscribed to buy the shrimp locally. Nice beautiful prawns. We had a sampling of about 20 at a little get-together and they were delicious.

At the end of the day, when Andy drained the pond and got the prawns out, he had 30 pounds of prawns. Now, I applaud Andy for his efforts on trying

to do something innovative and produce a new crop when peanuts and cotton weren't getting it. If he could have had the support from an innovation center to help him a little bit along the way, they would have at least said your plan's going to fail, don't even waste your $5,000.

So, I applaud the fact that we will have less Andy Thompsons failing as a result of what USDA's doing with the innovation centers.

Thank you.

DR. HASKELL: Thank you.

MR. THOMPSON: Question. How many producers are participating in this equipment-sharing arrangement that you have?

MR. SHIRAH: There are about 29 producers, and it works out quite well because the equipment has moved from farm to farm. One farmer would try to use it on one day and it wouldn't work because of weather, different conditions, but the farmers have cooperated tremendously.

MR. THOMPSON: Thank you.

DR. HASKELL: Connecticut Ag Business Cluster. Paul, appreciate you changing times. We may have more time for questions and answers this afternoon.

MR. GAGNON: Well, thank you, and good

morning.

My name is Paul Gagnon, and I am the Assistant Secretary and Member of the Board of Directors and Managing Director of the Connecticut Agricultural Businesses Cluster. We are a 501(c)(6) non-profit Connecticut corporation.

Thank you again for organizing today's public meeting and providing the opportunity for the Connecticut Agricultural Businesses Cluster, the acronym I'm going to use is CAB, the CAB, to describe for this forum our vision of entrepreneurial agriculture in Connecticut and how both the intent and spirit of the innovation center program is at the heart of that vision.

My comments today will be focused on two areas. First, I'd like to describe what the CAB is and how and why it was created and our goals for agribusiness development in Connecticut and more broadly Southern New England. Laying this foundation is important because it might be a natural reaction for some to conclude that I must be in the wrong hearing room today when they hear the words "Connecticut" and "agriculture" in the same sentence. But they would be sorely underestimating the immense contribution that the agriculture industry makes to our state's economy and overall quality of life.

I then will shift to briefly summarize how the CAB is already hard at work building collaborations and initiating projects that directly address the spirit and scope of the Agricultural Innovations Center Demonstration Program and this forum's specific issues of interest, notably the CAB's focus of work, our capital fund-raising mechanisms, collaboration, program facilitation and organizational coordination processes, and our phenomenally deep and broad agricultural knowledge base that resides within the CAB membership.

Connecticut has a proud and diverse agricultural legacy. The industry is a very large one in Connecticut, generating in excess of $1 billion annually in sales. The Connecticut agricultural industry is made up of more than 5,500 farm businesses some quite small and some quite large, that produce, harvest and/or further process goods ranging from dairy to orchard products, from ornamental plants to poultry and from wines to mushrooms. Together, these businesses work the land to the tune of nearly a half a million acres and directly employ some 50,000 people in production, processing, distribution and retail establishments.

That said, however, two years ago, a group of the state's leading agricultural business persons, representing the major commodities and agricultural

trade organizations in Connecticut, recognizing that the state's producers could capture some of the estimated $956 million worth of agricultural products currently imported into Connecticut from other states and countries, developed an economic plan to increase the awareness, productivity and competitiveness of the state's farm businesses.

Further, these same agribusiness leaders saw opportunity for Connecticut farmers in the broader $5 billion agricultural product markets of Southern New England and Metropolitan New York City as well as foreign markets. The vehicle they chose to pursue this agribusiness development effort was the CAB and today, as I said, the CAB is a bona fide 501(c)(6) non-profit corporation with a very strong board of directors comprised of members representing the state's Department of Agriculture and leading agricultural trade organizations and commodity producers.

Under the CAB operating structure, agricultural business people, that is farmers, are responsible for the implementation of the program initiatives that our organization undertakes to address those challenges and funding is both through private and public participation. The organization is structured to be self-perpetuating, sustainable, and entirely inclusive and there's a conscious effort to

avoid bureaucracy with each CAB board member contractually committed to provide a minimum of 40 hours of service to the Cluster in addition to their member fees.

Expansion of agriculture in Connecticut would have the dual effect of, first, preserving the working lands and the natural environment of an urban/suburban state and, secondly, providing jobs and tax revenue. But to expand agriculture in Connecticut, the industry first needs to deal with investing in the development of leading edge systems to handle waste byproducts, more aggressively marketing our own products, cost-effectively managing regulatory challenges and developing a qualified labor force, to name a few of our pressing matters.

To address those and other issues, the CAB was organized to pro-actively seek solutions and to investigate avenues that will help farm businesses improve profitability through both operational efficiencies and increased market penetration. The decision to create this unique organization was based on the compelling need to change the situation in which Connecticut agricultural businesses operate today. Rising costs for input and a highly competitive market that does not allow for price increases are squeezing margins to a critical point for many Connecticut farms.

Many farm businesses today tap equity capital to generate sufficient cash flows in order to continue operating and for most, long-term sustainability is not possible unless changes are made.

Connecticut agriculture has faced challenges in terms of keen competition for increasingly concentrated market opportunities. Developing cost-efficient waste byproduct utilization, the availability of land suitable for production and urban encroachment. However, the CAB's founders believe the current situation can be improved and that the state possesses a strong agricultural base on which to build new marketing and operational program initiatives, such that the agricultural industry in Connecticut can be a viable industry well into the future.

As such, the programs initiated by the Cluster are (A) critical to the future of Connecticut agriculture industry and the quality of life of the state citizens, (B) doable, and (C) likely to enhance the productivity and competitiveness of the state's agricultural businesses.

Now, why is this Cluster initiative going forward when there already exists in Connecticut several allied agricultural associations? The motivation is really very simple. It's a more comprehensive and unified approach toward economic

development. In the Cluster, we have assembled a small working group of some of the brightest minds in Connecticut agriculture with one and only one goal in mind. How do we improve the climate for economic development of agriculture in Connecticut? This is the first time in the history of agriculture in the state of Connecticut that such collaboration has gone forward and it has gone forward with the blessing and support of the state's top economic development agency.

Our narrow targeted focus has the support of the major Connecticut agricultural organizations, including the Department of Agriculture, the Governor's Council for Agricultural Development, the Farm Bureau Association, the horticultural industry's trade association, and other major sectors.

Now, I'd like to turn to the specific issues of interest to the Rural Business Cooperative Service as they relate to the way the proposed innovation centers might operate and how the CAB is tackling those challenges today.

First, the focus of our work is directed squarely on improving farmer incomes by actively creating the mechanisms and systems and then bringing to the producers the engineering and value-added marketing tools and techniques related to handling waste byproducts as managing them is an enormous

challenge confronting Connecticut farmers.

The Cluster and our producer members are currently conducting, in collaboration with well-regarded economic and market research and engineering institutions, the applied research, organizational outreach and business planning work that will lead to the development of a new set of interlocking business development initiatives for Connecticut farmers that will both mitigate farm-operating costs and establish new revenue streams in the area of biomass waste management.

Second. The CAB business model envisions establishing under the umbrella of the primary organization a series of separate profit-seeking businesses working on behalf of and controlled by Cluster members in the areas that we have targeted as being a clear and present threat to the future viability of Connecticut agriculture; notably, radically changing the way we manage the -- and capture value from biomass and plastic wastes, establishing more effective and aggressive value-added marketing programs and how we apply technology to and in agriculture.

The separate businesses are envisioned to be financed like any other new venture with a combination of owner cash and in-kind capital, debt and investment

capital from outside investors. We are flexible as to the ultimate organizational structure these entities will take, but our sense is that a variation of the cooperative business model is certainly possible.

Third. The CAB is at its core a business collaboration development and business-building enterprise. We coordinate many of our initiatives directly with our state agricultural land grant college, the University of Connecticut and its College of Agriculture and Natural Resources, the Cooperative Extension Service, the State Department of Agriculture, the Farm Bureau Association, the County Offices of the USDA, and other organizations with an interest in agriculture.

We are able to do this by virtue of having as our Cluster board members and general Cluster business members representatives from most of these institutions. Thus, we are able to utilize our board meetings, our executive committee meetings, our subcommittee meetings, and our extensive direct communication links to maintain a very tight and robust project coordination process. This same communications and project coordination effort extends beyond Cluster membership, however, to our legal counsel and other external service assistance providers, and we work extremely hard at building and expanding this process

because we view it as absolutely central and essential to how the Cluster creates value for Connecticut agriculturalists and our members.

Fourth. The CAB sees an enormous opportunity to deliver value-added product market and business development assistance to Connecticut agriculturalists through an innovation center that has as one of its prime directives the goal to become the central information and knowledge clearinghouse for all Connecticut agribusiness venture market research, development, and planning as well as product sales and distribution management.

The CAB sees its powerful collaborative network as greatly facilitating this process and we believe we are already well on the way to establishing the framework for such a repository of value-added assistance expertise.

Fifth. The CAB is structured to take advantage of both an enormous pool of our in-house talent, skill and knowledge found in our members, in our member organizations, while being able to tap into at a moment's notice a rich and wide array of expertise spanning nearly every engineering, legal and business profession.

DR. DUNN: Two minutes.

MR. GAGNON: Thank you.

Having that type of flexibility is crucial in this time of change where speed and the ability to shift gears and alter the plan of attack are just as vital as a good idea and a sound business plan.

Finally, I believe that it would be a bit presumptuous for us as a relatively new organization and for me personally to think that I'd be able to suggest alternatives for what makes a good or a bad way to score innovation center proposals that you'll receive later this year. My colleagues and I on the board at the Cluster felt that that task was best left to the collective insights and the knowledge that's been accumulated by the people at the USDA.

However, I'd like to leave you with just this one observation, and that is, that talent makes capital dance, and the Connecticut Agricultural Business Cluster, together with its producer members and collaborators in higher education, the engineering, legal and business services and ag tech assistance centers, is today creating an entity that is starting to make great music for Connecticut agriculturalists.

Thank you very much for your time and attention today.

DR. HASKELL: Thank you.

Questions?

(No response)

DR. HASKELL: Okay. I might suggest that we take our lunch break. We'll be back on schedule, in fact a little ahead of schedule, but at least the speakers will know the exact times for this afternoon. That will also give us another slot for additional speakers if one or more emerges from that pack.

So, I'll personally stick around here for awhile and I'll be here at 1:00, we won't start until 1:15 for any discussions that you may want to have.

Let's break now. There's a couple of five-star restaurants right here in the building. One of them is just down one stairs, a cafeteria here.

(Whereupon, at 11:30 a.m., the hearing was recessed for lunch, to reconvene this same day, Wednesday, July 31st, 2002, at 1:15 p.m.)

A F T E R N O O N S E S S I O N

1:15 p.m.

DR. HASKELL: I think we are about ready to start again. There's not quite as many people here as there were this morning.

Let me just clear up one question that seems a little bit confusing and involves funding. The allocation between the Value-Added Grant Program and the Innovation Center Program, Sections 42-01 and 42-02 of the Farm Bill. All of that funding comes out of the $40 million allocated to the Value-Added Program, but it's split four different ways. The announcement that has already been made for the producer portion of the Value-Added Grant Program was, it said, approximately 33 million. The Innovation Center one, when it comes out, will likely say approximately 3 million. In the Value-Added Section, there is also a $2 million item that will go to the Value-Added Resource Center, and in the Innovation Center Section, there is $300,000 that will go for research on the innovation centers to a university. If you add all those up, you don't quite come to $40 million but you come pretty close. That means that either in the producer grant side for value-added, we may spend more than $33 million and/or on the

innovation center side, we may spend more than $3 million, and so we're complying with the wishes of Congress in those. I just wanted to clear that up.

Okay. First speaker this afternoon is from the Ohio Farm Bureau, and our enforcer is here on the 15-minute rule. So.

MR. PULLINS: Keep me on time.

Mr. Chairman, distinguished members of the committee, I do appreciate the opportunity to share with you the thoughts of the Farm Bureau and Heartland Agdeavor in regard to the proposed centers. I would share with you a little background on myself and Heartland Agdeavor and then share with you our thoughts primarily looking at the structure of the proposed centers and what we think is important to be successful.

I do serve as the Vice President of Business Services and Commodity Relation for the Ohio Farm Bureau. I'm also a producer of corn, soybeans, and raspberries, and do serve as a leader and a producer member of Heartland Agdeavor and have invested in some of the projects that Heartland has brought to producers for investment.

Heartland Agdeavor is a somewhat new organization, starting just about a year ago, is made up of producer members, is also made up of partner

members, producers being self-explanatory, partner members are agribusiness and non-farm investors that are interested in agriculture value-added projects, and we also have a number of affiliate members and those are government agencies, research institutions, such as Ohio State, such as Battelle Research, the largest private research organization in the world, and with those three entities, we feel we've brought together a lot of expertise and a lot of the knowledge that farmers will need to be successful in value-added.

We do congratulate Congress and the Department of Agriculture for having the initiative and forethought to launch this program and to assist and encourage farmers to get involved in value-added, to enhance their income and to foster entrepreneurialship. The Agricultural Innovation Center Demonstration Program is a welcome step in providing farmers with a means to participate in value-added. Our long history of support for agriculture through commodity programs has been important to the sustainability of farms.

However, the centers promise to encourage farmers to participate in self-help income-enhancing value-added businesses. Agriculture sustainability for farmers can be significantly enhanced with more opportunities for vertical integration in the post-harvest activities, capturing more of the consumer's

food dollar. U.S. farmers have been very proficient in production, but for producers to be equally adept at developing value-added enterprise, they require quality assistance.

Producer production efficiency has been built on producer innovation and the adoption of new technology. This was supported by farm organizations, public research, extension and available credit. The role of the Agriculture Innovation Demonstration Program should be to provide this same type of broad assistance to producers to ensure their success. Some principles for structure of the centers are provided and are at our suggestion.

First of all, the centers should be implemented as a self-help program for producers. One of the more effective means for producers to create value-added enterprises has been through the establishment of producer alliances. Examples: Heartland Agdeavor Association, of course, the Farm Connect, the Agrialliance Program in some other states. These were all organized as producer cooperatives or associations. The alliances are the initiative of farmers and have experience with encouraging and assisting farmers in value-added activities. It's critical that producers see the center as a self-help alliance to assist them in commercializing the added

value opportunities between production and consumers.

Second. The assistance must truly provide opportunities to producers for income enhancement. There will be many additional benefits to accompany the enterprises, but it must be focused on the enhancement of the income opportunity for producers. This assistance must include honest evaluations of the return on investment across numerous projects, so that farmers can decide how to allocate their off-farm investment dollars.

An example here, I would say that it's important that the center foster enterprises that are new, that are on the cutting edge, that are innovative and not just additional processing or manufacturing opportunities and businesses that compete with some of the agribusinesses that are already out there. We're not going to be successful in those enterprises by starting more slaughterhouses and those types of projects.

We need to look at the cutting edge technology, new markets and opportunities and focus on those opportunities, identify them, to be truly successful and provide sustainable profits back to the producer owners.

Third. The centers should evaluate projects in terms of job creation for rural America. As much as

practical, enterprises should be located in rural areas to provide jobs and economic stimulation. It's the old adage, when you cut wood, you are twice warmed. When you can start a new business that produces profits for the producer owners that is in their community, the community also benefits by the jobs and by the economic activity.

Fourth. The centers should be implemented so that farmer control is maintained. It's important that farmers participate in the decisions that are made so that they gain and maintain confidence in the advice they receive relative to various value-added projects. Unbiased information is vitally important. Unbiased information from the public sector and from the private sector.

Lastly. The centers should contain a mechanism to facilitate outside investment and expertise yet again maintain farmer control. That doesn't mean that that investment mechanism has to be internal. It's most likely to be external, but there needs to be a relationship and again a network to provide that opportunity for additional investment.

As we started Heartland Agdeavor and we shared the concept with farmers, some of the most effectively comments were these, and I think address some of the comments we've had. Farmers, first of all,

do not have all of the value-added ideas. Many of those are with researchers and other business people. Farmers don't have all the ideas and most farmers, after thinking about it, agreed with that.

Second. Farmers don't have all the business and technical expertise to make these value-added enterprises successful. Yes, they're good business people in production, but many times processing and manufacturing and marketing are a little different type of enterprises that require some additional and outside expertise.

And lastly. Farmers really agreed that farmers don't have all the capital that's needed to fund some of these $20-30-50 million projects, and while farmers need to benefit, if they can fund a portion of that and take advantage of some of the profits, that's better than none, and currently, in most cases, farmers are receiving none of the profits from the value-added enterprises that are out there.

The priority of expanding business opportunities and increasing farm income to its full potential demands a great deal from each center. We believe that keys for successful centers are many but we have strong feelings that the most important ones are as follows.

First. The created centers should assist

farmers in becoming entrepreneurial. Farmers are entrepreneurial as far as production in their own operations, but I think you'll all agree with me that the track record of farmers operating and managing a processing or manufacturing business has not been good, and so farmers need to first understand those processes. They need to access the expertise that they need beyond themselves to be successful.

Second. The centers should provide for farmer control but include persons with non-farm business experience and technical expertise and again both from the public and private sectors. They should be non-profit structures, such as Heartland Agdeavor and, I think, most of the other agricultural alliances. They should have true expertise for fostering and commercializing innovation. They need to be on the cutting edge. They need connections with basic research scientists and applied research scientists to know and understand where the next opportunity is, not where the past opportunities have been.

They should possess or have easily accessible the ability to do feasibility studies and business plans. They must include business experts able to analyze and prioritize business opportunities. Again, these need not be internal to the organization but rather a part of a network or system that can provide

those needed services.

They should have close working relationships with existing organizations serving rural America and the agricultural producers. The federal land grant universities, for example, the Farm Bureaus, various producer organizations, commodity groups and so on. Many commodity organizations through check-offs have funded research that resulted in value-added opportunities that farmers were not able to participate in, and a closer working relationship with the commodity organizations in helping farmers to commercialize those opportunities that come from the research that farmers paid for is important.

They should have the ability to provide responsive technical assistance to the new and existing producer entrepreneurial value-added businesses. It's not just getting the business started. They are going to need on-going assistance and technical expertise. They should include formal and informal relationships with financial experts and institutions that provide credit and competent business analysis advice.

That will probably be external. The Heartland Agdeavor Association is in the process of working with others to develop an arm's length and separate Heartland Agdeavor fund that would fund perhaps some but not all of the Heartland projects.

In conclusion, we see the centers as a network or system that efficiently brings together the public and private information and expertise producers will need to be successful in the value-added arena.

Thank you.

DR. HASKELL: Very good. Thank you.

Any questions on the part of the listeners?

(No response)

DR. HASKELL: We appreciate it. Real good presentation and also very timely.

We will move on to the next one. The Association of Small Business Development Centers.

MR. WILSON: Mr. Haskell, we appreciate the opportunity to appear before the panel today to discuss the Agricultural Innovation Center Demonstration Program.

I am Donald Wilson, President and CEO of the Association of Small Business Development Centers. I'm here today representing the Association whose members are the 58 small business development center programs located in all 50 states, the District of Columbia, Puerto Rico, the Virgin Islands, Guam and American Samoa.

The ASBDC is a partnership program uniting private enterprise, government, higher education, and local non-profit economic development organizations.

It represents small business development centers across the nation which provide technical and management assistance to help Americans start, run, and grow their own businesses. With more than 1,000 centers across the nation, the SBDC network assists about 600,000 small businesses every year in face-to-face counseling and training, in addition to hundreds of thousands of more small businesses that SBDCs assist through the mail, telephone, fax on demand, e-mail and drop-in visits.

I would like to address two issues on which the USDA is seeking public comment with regard to the establishment of the Agricultural Innovation Center Demonstration Program.

One. How the innovation centers might best coordinate with existing technical assurance business advisory and organizational assistance providers, and the desirability of the entity having the required assistance expertise in-house versus contracting out for that expertise.

The message that I would like to deliver at this hearing today is this. As USDA considers the implementation of the Agricultural Innovation Center Demonstration Program, you should be aware of and hopefully take full advantage of the network of SBDCs in farm states and across the country which are already

providing many of the kinds of services that the agricultural innovation centers are intended to provide. We believe a cooperative effort between the USDA and the SBDC national network can enhance the implementation of the demonstration program.

SBDCs in farm states across the United States have the infrastructure, the expertise, the experience and the trust of their local communities to deliver some of the services that Congress envisioned for the agricultural innovation centers. By using the SBDC network in implementing the demonstration program, by contracting with SBDCs or subcontracting or general coordination with the program, the USDA's efforts will be more successfully, more easily and more smoothly implemented and more efficiently and quickly delivered to America's struggling farmers and ranchers.

Let me give you some examples of the kinds of value-added agricultural projects that SBDCs around the country are helping farmers today to implement. In Western Illinois, the SBDC is working with farmers to establish ethanol plants to allow farmers to turn their corn into fuel. The same SBDC's also working with farmers to establish meat-processing facilities to allow farmers to grow organic beef, process it themselves and sell it directly to restaurants and stores.

In Kentucky, the SBDC centers there work with farmers across the state providing training on assessing the feasibility of value-added ideas and opportunities. In Iowa, the SBDC works closely with the state department of agriculture and the state department economic development. Every SBDC in Iowa is experienced in value-added agriculture. The state department of agriculture contracts with the Iowa SBDC network to review all value-added agricultural business plans. The Iowa SBDC network has helped establish ethanol plants, ostrich-processing plants, and value-added enterprises in biotechnology, pharmaceuticals, disaster protection, and many other technology-based innovations.

In Texas, the Victoria, Texas, SBDC helped a third generation farming family develop a business plan to run a grain cleaner and stone mill to bag and sell their own brand of deer corn and their own stone ground corn meal using the products from their soil. That center has become renown for their 13-week course entitled "Tilling the Soil of Opportunity" which shows farmers and ranchers how to establish value-added enterprises.

In Missouri, the SBDC has developed a formal partnership called Missouri Business Development Network which includes the Missouri Department of

Agriculture, the Missouri Department of Economic Development, the Missouri Small Business Development Centers, and the University of Missouri's University Outreach and Extension Program. The focus of this effort is to provide seamless and systematic support to Missouri's value-added efforts and their entrepreneurs. The effort has been recognized officially by the Governor of Missouri.

During the past year, the SBDC network in Missouri has offered several planning and business plan development programs across the state to farmers interested in value-added initiatives. The primary offering, like in Texas, is the 13-week course entitled "Tilling the Soil".

In North Carolina, the SBDC routinely provides traditional counseling services to farmers on non-traditional agriculture enterprise opportunities, such as grape production, winery operations, aquaculture, new production and harvest equipment. Another example is the North Carolina SBDC's leadership role in pulling together the wide array of federal-state agricultural resources to develop and continue an annual multiday event for the state's aquaculture industry.

In Oklahoma, the SBDCs regularly work with farmers. Some of the examples, helping a farm couple

develop a bottled water plant from natural springs on their property, using farm land to develop an ethanol plant, helping poultry farmers to use chicken litter to market it for lawn and garden fertilizer, helping cattle operations to begin calf finishing operations, assisting farmers to establish horsemanship schools on their property.

As you well know, the recently-enacted Farm Security and Rural Investment Act, which created the Agricultural Innovation Center Demonstration Program, calls for the Secretary of Agriculture to establish a demonstration program under which agricultural producers are provided with, among other things, assistance in market development and business planning and organizational outreach and development assistance to increase the viability, growth and sustainability of businesses that produce value-added agriculture commodities or products.

SBDCs in farm states across the country are experienced in delivering this assistance to farmers and ranchers. They've been doing so for 20 years. We have brick and mortar facilities, experienced counselors, support in the agriculture community, and working relationships with local organizations in agricultural communities to deliver many of the required services that farmers and ranchers who want to

expand into value-added enterprises need.

I want today to pledge my cooperation and the cooperation of the SBDC network to you and to the Secretary and to all at USDA. We look forward to working with you to help implement the Agricultural Innovation Centers Demonstration Program.

ASBDC is committed to making its resources available to form a partnership with USDA. I urge you to consider the option of contracting with SBDCs to use the resources of its national network in the implementation of the program. Many of our centers are located at land grant colleges. We have direct relationships with the farming community and with farm organizations. Farmers have been turning to us in terms of value-added for years, and we want to make those resources available to USDA to make this project a success.

DR. HASKELL: Thank you.

Questions by anyone?

MR. LUNA: Mr. Wilson, I just want to make sure I understand where you're coming from. You say that SBDCs have the infrastructure, the expertise, etc., to deliver the services that Congress envisioned, and I presume that Congress --

MR. WILSON: Some of the services.

MR. LUNA: And I presume that Congress is

familiar with SBDCs --

MR. WILSON: Yes, they are.

MR. LUNA: -- but chose not to task SBDCs with this particular project.

MR. WILSON: I think the Department of Agriculture obviously has a key responsibility here, the predominant responsibility. My point is that we have been serving farmers for 20 years and to ignore those resources and not to utilize them, I think, would be a terrible mistake.

We certainly are not indicating at all that we want to have a monopoly on these services. That's the last thing we want. We're partnering right now with EPA, with the Department of Labor, all kinds of agencies and departments in delivering services to entrepreneurs. Right now today, we're working with the Forest Service in training their personnel and their vendors. They have contracted with us to do that, and so what we're saying is that we're one resource, one of many. We have no desire to indicate that you don't need to do this, we've got it covered. Far from it.

The number of farmers that need help and want to move in this direction are myriad. We certainly don't have the network to serve them all, but what I'm saying is we're required to provide geographic coverage in every state. It's difficult to do, but we want you

to know that there's a resource out there that you can call on and that we're delighted to be a part of this program, if you choose to utilize it.

MR. LUNA: Appreciate the clarification.

DR. HASKELL: Thank you, Mr. Wilson.

North Dakota Association of Rural Electric Cooperatives.

MR. PATRIE: Members of the committee, my name is Bill Patrie. I'm pleased to be with you. I think I'll tell you just a brief joke, and I wondered if you heard about the two extension agents that were seated on a perch and one said to the other, "Do you smell something fishy?"

DR. HASKELL: Is that the extent of your testimony?

(Laughter.)

MR. PATRIE: Are there any questions?

I'll address the six issues that you called for in your meeting notice.

First, the focus of work by the proposed innovation centers, the relative importance of technical assistance, engineering services, applied research, scale production, assistance in marketing, market development, business planning, and organization outreach and development assistance.

Because there is no bottom to it, I would

caution USDA to be very careful about providing too much emphasis on applied research through this program. You will not have enough money to really make any difference and the commodity groups with their check-off dollars are already spending million of dollars on applied research.

I would also limit spending for engineering and scale production. In most cases, these are hard business costs that should come out of the equity and debt financing. I would limit allocation of money in these categories to those projects that have done market analysis and business planning and are organized in a manner that will allow them to go into business once the facility is in place. I do believe there's a need for funds dedicated to scale facilities and for engineering, but it must be provided in the right sequence.

I would look for proposals that have well-thought-through strategies to apply innovation to a profitable venture in which the producer receives significant benefit. That means that the proposed enterprise should be owned or in some manner controlled by the producer. Multinational corporations don't need help on applying innovations. Producers need the help both on the technology side and the organizational side. In most cases, an innovation does not spread by

the innovator but by someone else who has the resources.

Walter Baggett in Physics and Politics and quoted by Everett Rogers in his book "Diffusion of Innovation" said, "One of the greatest pains to human nature is the pain of a new idea. It makes you think that after all, your favorite notions may be wrong, your firmest belief ill-founded. Naturally, therefore, common men hate a new idea and are disposed more or less to ill treat the original man who brings it." I think we've all experienced that.

You've also asked about viable methods of raising the equity capital necessary for many producer-owned value-added ventures. How can assistance to agricultural producers best be structured for this purpose? I'll just refer you to a publication that I had the pleasure to write with USDA's help called "Creating Co-Op Fever: A Real Developer's Guide to Forming Cooperatives", and it was published as Service Report 54, and in that, I discuss methods of raising equity capital and techniques that have been used, and in North Dakota, these are not official numbers by any stretch, but I, in the last 12 years, have worked with about a 104 enterprises that have together raised debt and equity capital somewhere near $600 million.

It is a right question to ask, and it's not

an easy answer, but there are understandings about how to put those deals together. You've asked how the innovation centers might best coordinate with existing technical assistance, business advisory, and organizational assistance providers. We just heard testimony about people out there willing to do that.

I would just say that there are many, many existing technical assistance providers, including the Cooperation Work Centers, USDA's own personnel that are already doing cooperative development assistance, extension staff, the small business development centers, and a way to do that is to get those organizations to talk to each other. How do we accomplish that? I don't have that advice.

I also think that beyond all of that, the problem that we have in rural America is learning from all of those others, and I think we need to investigate some method to capture the learning that occurs and spread it and perhaps there's software that can be developed that can capture the feasibility studies that have been done so that I can access that on the Internet and I don't have to redo another feasibility study that's just been completed somewhere else.

You've asked how to meet the demand for value-added assistance in traditional crops and livestock value-added enterprises as well as newer,

unique niche opportunities. It is my belief that change will not occur in traditional crop and livestock-processing enterprise until demonstrated in other venues. New generation cooperatives are innovative in their ownership and investment structure and in the discipline of delivery rights and obligations. That innovation has had some diffusion with successful demonstrations in fruits, vegetables, sugar, corn, soybeans, hard wheat and durum wheat. It has little demonstration in livestock.

The ability to apply innovation, either in technology and organizational structure, is somewhat dependent on size and necessity. The larger the organization and the more profitable it is, the less likely it is to be innovative. Perhaps the single largest business innovation that can be applied to agriculture in the last decade has been the idea of systems thinking developed by Peter Singi. By examining the entire system of production, processing and marketing of a commodity, bottlenecks, inefficiencies and opportunities to add value are discovered.

The USDA Value-Added Grant Program provides financial help to conduct feasibility studies and pays the organizing costs for producer-owned enterprises. This USDA grant program encourages systems thinking

which in turn makes the adoption of innovations more likely. Existing technical assistance providers, such as the Cooperative Development Centers, Extension Service, USDA Cooperative Development personnel, business consultants, are all available to provide assistance to existing commodity groups as well as the new niche market producers. The innovation centers should be able to rely on those services without duplicating them. The application process should require that those assistance providers be identified.

You've asked about the desirability of the entity having a required assistance expertise in house versus contracting out for that expertise. It is in my view and that of my colleagues in North Dakota that an innovation center is not and should not be a facility with a significant staff of technical assistance experts. Rather, the innovation center is operated to facilitate the profitable deployment of innovation for the benefit of farmers. Since no one skill or technical expertise will always be the one in demand, most services will need to be contracted out. Sometimes the center will need to find legal, engineering, marketing, business planning or other similar technical skills. In our view, it's our view that the successful facilitation of procurement of those services is the role of the innovation center.

Most of the commodity groups have experts they already rely on in technical fields.

We do not intend to duplicate the expertise of beef, wheat, sugar, or soybean producer groups. Instead, we intend to provide them a forum to convert useful innovations into profitable enterprises that they have some interest in.

Lastly, you've asked about suggestions for scoring criteria. I believe that the scoring should be weighted to select for two main attributes. One, a demonstrated track record of providing assistance to producer-owned enterprises and, two, the reliability of the plan for the commercial application of the innovation. Since the federal funding for centers is limited to a million dollars, a third criteria should be the strength of the commitment of the funds and assistance. Scoring should measure not so much how much match but rather the strength of the commitment. How likely is it that a match will actually be there?

A fourth scoring criteria should be the extent of previous work to advance the innovation. Initial research on the application of a new technology should score lower than the application of existing research technology.

A fifth criteria may be the appropriate sequencing of the project, giving higher points to

those innovations that are closest to commercialization, and finally, sixth, I would also select for the breadth of the application for the innovation how many other producers or other groups can use it.

So, I summed it all up. Six criteria weighted in the following manner. Number 1. A track record of the applicant and qualifications of the personnel. I would give them 25 points. The strength of the plan for the commercialization of the innovation, 25 points. Commitment of other funds and non-cash assistance, 15 points. Previous work to advance innovation, 15 points. Proximity to commercial application, 10 points. The diffusion potential, 10 points.

Innovation in agriculture is very difficult, and I commend you for taking the time to think through this granting process. I mentioned to others I can't remember you doing this very often, and I sure appreciate the effort that you have made to solicit these comments, and I look forward to your decisions.

Thank you very much.

DR. HASKELL: Thank you. We appreciate your input into it. Very useful.

Questions for Bill?

(No response)

DR. HASKELL: Thank you very much.

MR. PATRIE: Thank you.

DR. HASKELL: The next presenter is the International Center for Water Technology at Cal State University.

MR. CLAWSON: Good afternoon and thank you.

Not having done this before, I just want to talk about our center and what we're focusing on.

California State University was established in 1912. We're not a land grant college. So, maybe we're disqualified to start with.

DR. HASKELL: Nope.

MR. CLAWSON: Okay. Good.

Our focus I would like to bring to you is energy and water. Water is very precious, as you know, and in California, it is very dear, also, and the cost of pumping is constantly going up. Approximately 16 percent, all the power we use in the state is related to pumping water around.

I represent the Center for Irrigation Technology which has been on campus about 25 years, and we provide a world-class training and assistance and evaluation for irrigation technology that is used throughout the agricultural world, both in the U.S. and around the world.

Recently, we have put together a cluster of

manufacturers and growers in the Valley because we felt that if we don't start innovating, the business is in trouble, the business of farming, the business of manufacturing equipment in the water field, and so we have formed the International Center for Water Technology which is a $60 million complex that we're in the process of putting funding together from industry as well as government sources, and it's going to have four basic divisions.

The first is a Division on Research and Development and Innovation not only for a product but product application and systems. We have a thousand acres of land at Fresno State that is dedicated, most of it is dedicated to agricultural production. It's student-driven along with the College of Agriculture, of course, the Dean would have to get his two cents in there, but we do a complete cycle of the agricultural side, and the students get involved in every aspect of not only row crop, field crop, as well as dairy, and all of those systems rely very heavily in California at least on water, and the innovation that we bring hopefully to the table through the International Center for Water Technology as well as the established Center for Irrigation Technology can be used throughout the country. It is a technology that we all need to address and address badly.

We also have obviously our own problems in California with salt, salt contamination, and this is also something that's part of the system innovation that we would like to work with. So, the center is going to have research and development aspects. It will have a certification and testing that will provide the industry and the end user with independent third source validation of products as well as their systems.

The third division that we're going to have in the International Center is one of training. Sixty percent of our high school students don't go on to college, and we believe that the level of educational and apprenticeships needs to be addressed. As some of the growers and manufacturers said when we formed our cluster, our junior colleges are developing wonderful hamburger flippers, and that has got to stop if we're going to address the problems of growing and surviving in this coming century.

And the fourth division, which is, we think, going to be a unique aspect and we hope from the innovation side will find results, is it's cooperative marketing programs, and we believe you're going to have to trade to survive in the future, trade with products, trade with equipment, trade with technology, and that's the primary goal of those four divisions of the International Center for Water Technology.

I've brought some information I can leave. It also describes the center. We do have an Agricultural Business Center that is involved in constantly trying to try to innovate on the produce side and if I have any other questions, feel free to ask me.

DR. HASKELL: Well, thank you very much.

MR. CLAWSON: All right.

DR. HASKELL: And we know Mickey Paggy well from the -- we know Mickey Paggy very well.

MR. CLAWSON: Oh, do you?

DR. HASKELL: Yes, we do.

MR. CLAWSON: Very good.

DR. HASKELL: Thanks. Thanks so much.

MR. CLAWSON: Thank you very much. Appreciate your opportunity.

DR. HASKELL: Next, we go to the Montana Business Incubator.

MR. GREEN: Good afternoon.

First of all, I'd like to thank you all for this opportunity. Second of all, you're going to see some chicken scratch here. My luggage was lost. So, my notes aren't here.

Listening to everybody that's had the opportunity to speak today, there's several things that I was going to say that I probably would have just

rehashed. So, I'm going to kind of speak from a different point of view.

I'm the Executive Director for the Montana Business Incubator. We're a business incubator, and as many people know, business incubators have a high level of success of helping small businesses, start-up fledgling businesses succeed. Across the nation, it's about 87.7 percent. Quite a success rate. If you look at the numbers, it's between 25 and 33 percent that try to do it themselves.

Where I live is on a farm and ranch just outside of Harden. We're in the middle of a four-year drought, and the use of technology innovation at this time is very critical to us there. Our business incubator focuses in on evaluating companies. This is something that I didn't really see in the questions that needed to be answered here, but what we do is we understand -- there was a gentleman earlier that -- from the SBDC that was speaking of complimenting what people have. What we understand is that an engineer is not an accountant and an accountant doesn't necessarily understand legalities.

So, we've used the Harvard School of Business model to evaluate each one of the clients that we work with, and those issues are legal, finance, marketing, engineering, accounting, in their own particular

industry. Small businesses and farms are ran very similar in that they need assistance with, in one way or another, each one of these areas.

The uniqueness of our incubator is we're not trying to develop another Silicon Valley. The strength of our area is agriculture, and we believe that complimenting the strength of a solid economy, not high-growth economy, we see what happens to high-growth economies as we see what's been happening with the tech companies, but ag is solid. It's always going to be there. It's going to maintain this growth. There wasn't these high fluctuations up and down, but driving innovative technologies into the ag industry will help create good jobs and that's the focus of the incubator that I work with.

The only thing that we can do -- you always hear ag producers complain about two things, the market and the weather, and those are things that an individual farmer and rancher cannot affect. Well, what we can do is we try to help farmers and ranchers improve their efficiencies. If we can help them reduce their overheads -- we increase their overhead profit, their overall profit, sorry about that, which in turn allows them to become a little bit more flexible with their money to become more innovative. We do this in the innovation side and research by accessing all of

the federal agency technology transfer programs.

The gentleman before me, the SBDC. The SBDC is a wonderful program that we oftentimes use, but it is a reactive. They have so much work that it comes to them. Farmers and ranchers do not go in to an SBDC where I come from because we have such a large area, but we actually go out and we help them. We teach them, here's these technologies, here's help with their business plans, here's how we can help you overcome different things. Then in order to find dollars for these technology transfer programs, we often find the innovators in the area and introduce them to the SBIR and the STTR programs, which is another good way to get some capital for them to encourage them to develop things, and the USDA, I must say, has the most open and the most friendly SBIR program. It's really a joy. I met with William Golder a couple of weeks ago. Just a really positive gentleman.

Those are the two areas that we kind of focus in on, and on the comments that you were looking for some responses to, the focus of work, I think, when it comes to technical assistance and the engineering and the applied research, I think that all of these are important, but the one thing that I haven't heard is the critical outreach component. I agree with the gentleman before me that it shouldn't be a facility.

It should be an -- there should be a central place for people to go to, but this program should have fingers everywhere. If you're looking at affecting people the most, the area I live in, our average annual income per capita is $11,000 per year. I mean, it's -- we have a 36-percent unemployment rate. We are very low on the totem pole. We have -- our demographics is crucial. The dollars that you put into a program like this in an area like mine makes a significant impact, just the economics of it, much less the opportunity for these people who are hungry right now, who are looking for ways to go out and to change their lives.

I've got a 10-week old daughter, and when she grows up, I want her to have a job that if she wants to stay in this area, she'll have the opportunity, but the component of outreach is something that I haven't heard stressed at least enough to my satisfaction and that would be a component that I'd appreciate the panel looking at, and I don't know what that percentage is.

At this time, I've kind of hit all the areas that I wanted to hit, and I want to tell you that I do appreciate your time, and if there's any questions.

DR. HASKELL: We much appreciate your time.

Questions?

(No response)

DR. HASKELL: Okay. We're running just a

little ahead of schedule which is terrific because it leaves more time for other interaction, plus our next presenter from GV Labs has a plane to catch at Dulles Airport later this afternoon, so he'd probably like to get up here right now.

MR. OTSUKI: Thanks.

DR. HASKELL: You bet.

MR. OTSUKI: I want to thank everybody for the opportunity to address this audience regarding the Agricultural Innovation Center Demonstration Program.

I'm the CEO of a company called GV Labs. We're a business innovation company. We have a very strong partnership with another group from -- that is, the Consulting Business Unit of CoBank, called Business Advisory Services, and we leverage their 60+ years of experience and expertise to help agribusinesses increase their changes of business success.

Relative to the innovation center, we also are partnering with Bill Patrie from North Dakota, and he spent some excellent time outlining his thoughts relative to the six points in the program and what we'd like to be able to spend a little bit of time is to express our views about innovation. How the changing marketplace in agriculture as it applies to innovation and how this can be applied to this program.

We believe true innovation changes the

marketplace, providing more opportunity for producers and more choices in quality for the consumer. Innovation is rarely only or merely technical issues. They're almost always related to changes in markets. A signature of innovation is the change in the mental model, the paradigm shift, if you will, on the part of producers and consumers regarding something previously so familiar that it was part of the way things are.

When successful innovations are launched, the changes in marketplace will eventually bring the paradigm shift to all in the marketplace. However, to launch an innovative idea requires a mental shift to occur among the pioneers and entrepreneurs who champion the idea. This is accomplished with what we describe as "deep learning". Tools are needed to enable innovators to grasp the concept, to view the financial consequences of specific decisions related to an innovation, and to reveal the deep structures between new relationships which materialize when a change is introduced.

Support for mental model transformation is a necessary component for successful innovation. Good ideas do not succeed by themselves. They need to be nurtured by the agents who are confident they can successfully change. Since the end of World War I, we have been in an accelerating agriculture production and

efficiency mode as the population growth and mass shifted from rural to urban. The increasing competition in agriculture during this time is partially due to the growing urban U.S. demand for food as well as export demand and the economic scale efficiencies that were introduced. At the same time, further processing expanded product mix and branding have steadily increased the gap between what the grower does and what the consumer sees.

In addition to the gap between agriculture production and the consumer, the fact that agriculture production has historically been a commodity game has broken the communication loop between the producer and the consumer. More and more, the food people eat looks less like what the farmer produces. In this situation, the only innovation that has occurred in agriculture pre-biotech was production or cost focused.

We are now in the infancy stage of a new era where science, technology and consumer trends are positioning the producer to participate pro-actively in an integrated system between the producer and the consumer. In the new era, producers are better positioned to produce differentiated products that are integral to the value to the consumer. Product traits, what's in it or what's not in it or on it, and as important, they can be the first link in tracking

products between the farm and the consumer. Food safety, security, quality assurance, all those things are becoming more and more important.

What they need is the deep learning business understanding from which they can take best advantage of this new era. The innovation centers, as they're currently envisioned, we feel, have multiple challenges. The proviso that they be state centric and that they be guided by the four largest commodity producers in the state puts the innovation center or may put the innovation center at odd with research programs which are already funded and supported by the four commodities. Moreover, the people who dominate the market have very little incentive to promote or support initiatives whose stated goal is to change the market.

If they introduce innovations at all, it will be on their own terms and time frames. As has been noted in literature, innovations do not normally spring from the dominant players in the marketplace. It is difficult, if not impossible, for dominant players to deliberately undermine their own existing revenue streams.

That said, we believe that deep learning is the means to help create sustainable innovation within the agribusiness space, especially for the smaller and

independent producer-led business enterprises. Often, the key missing ingredient for most small to mid-sized agribusinesses is the deep business understanding necessary to be adaptive, to be different, to sustain success in a continually-changing business environment.

The person before who I believe was from AgAmerica, who used the shrimp story, is a perfect example of one of the key innovations that the innovation center should be able to bring and that is the hard lessons learned, the results of failure, if you were, the things that you don't want to get into, you know. It's as important to be able to learn about the failures, the mistakes, the lessons learned, as it is a way to innovate something that's new.

Change is a concept few like to embrace, mostly out of fear of the unknown. Not knowing what you do not know often creates a status quo or paralyzing effect. Sharing information and understanding to a broad audience about business fundamentals as well as advanced practices provides the practical means for innovation to take place for it provides the necessary base from which to add industry-specific insight, change, value-add, etc. After all, the intent of innovation is to bring about the fundamental changes that result in new and sustainable business success.

Thank you very much.

DR. HASKELL: Thank you. That was sure fast, John.

MR. OTSUKI: Well, I told you that.

DR. HASKELL: Questions?

DR. DUNN: Just a statement. It's not so much a question but just to sort of clarify that the dilemma that we have as we try to design this program on a national basis, there are elements in the statute that suggest a state centric structure. Yet the way the statute's limited, we can't have 50 centers. Therefore, we have to somehow deal with the board representation issues on one hand that suggest state centricity, yet at the same time we've got to get national coverage. So, I just kind of put that out on the table for everybody as something that we're going to be tussling with as we continue down the design road.

MR. OTSUKI: One of the things that we feel from the innovation center standpoint is if they -- granted you can't have 50 of them, but for the ones that you do have, that they look at things that are applicable broadly and across the marketplace that are not necessarily state centric and/or if they happen to be based on a specific aspect, a vertical segment of the industry, that they're not just viewed from the

state standpoint but how it could be broadly applied across the industry segment.

So that, the fact that they are geographically located in a given location should not prevent, especially if they're done from more like Bill Patrie said, from a facilitation standpoint, where they're not really a large center. For the most part, they're a virtual collection, if you will, that you are then not bound by the geography of a given state, that you can go across an industry segment because there are aspects of innovation, especially when you look at things that are needed from a business understanding, business discipline standpoint, that go across state borders.

You then can actually apply incrementally things on top of it with things like value-added development grants, etc., those things that may be more geographically germane, and that's, quite frankly, where we see there's going to be the balance that's needed. For the most part, an innovation center, if it can be -- if they can provide a practical broad baseline, there are other means from where you can do the vertical specialization, if you will, that may have geographic parameters, regionalization localization parameters.

DR. HASKELL: Very good. We appreciate it,

and if you want to hang around for our next speaker, you might get a ride out to Dulles because they're from Leesburg, Virginia.

MR. NICHOLS: Thank you very much, Mr. Chairman. We'd be delighted to give you a ride out to Dulles. We'll take the Metro out in a few minutes.

I've got a hand-out which I've -- one of which I'm going to hold for a minute and then give you that for the record and we're in Loudon County, where they got lots of trees. So, that's why I've got some paper to hand out. They cut the trees down for a development that seems to be going on.

If any of you all haven't been out to Loudon County before, it's the place where farming is. You cross the Potomac River and turn right, and it's about 30 miles, you can see some green space, farms, horses, cows, unknown to the people further in from that, but it's a place where farming is close by here.

Thank you very much for having me.

I wanted to talk to you a little bit about Loudon County and an idea that we've been working on our own version of an agricultural innovation center for the last 10 years. So, I thought with all this conversation you've had today, much of which there's no need for me to restate because I agree with everything that was said, I thought it might be good if I could

show you a picture of what one would look like, if you did it. So, I'm going to get to that in just a minute.

Loudon County is the second-fastest growing county in the United States. Douglas County, Colorado, is Number 1. I wish we weren't Number 2. I wish we were somewhere way down the line, but we aren't. So, we have terrific growth. We have 333,000 acres of land in the county, of which roughly 200,000 is still relatively rural. So, what do you do? Do you, as they did in Los Angeles, pave all the way up to the mountains? We have the best farmland in the Mid-Atlantic Region right here outside of Washington. So, this is truly farming on the edge and it's different farming than you've heard from many people today just because of where it is, but it's very important to keep that kind of farming going.

So, the county has been very proactive in funding agricultural staff. I work for the Department of Economic Development. I'm called an agricultural development officer. In Virginia, there are about four or five similar positions at the county level and then you up to the state level for the State Department of Agriculture and their part of it. So, we work with Extension. We work with other agencies but we are the economic development part of the county level of keeping agriculture viable.

What I wanted to talk to you today is about our idea for the Center for Rural Innovation. We call -- we have a project we call the Center for Rural Innovation. The county has decided to acquire a site, a 200-acre site. In our area, farmland is going for $15 to $20,000 an acre. So, to buy a 200-acre site could cost us $3 to $4 million. So, that's different from some of the places you heard from today. Okay. But when we talk about a match, I'd love to go matching with you because I'm hoping that they'll go ahead and put up this $3 million.

When we do this, though, we have a lot of partners that we want to bring in to it because we won't be successful if we just extend our economic development efforts. We'll be successful if we bring in the land grant university and if we bring in the USDA itself in the form of you guys sitting here but also in the Agricultural Research Service. So, let me tell you what we've already done. We're working with the land grant university. We're developing a memorandum of understanding. We'll probably sign that in the Fall with Virginia Tech. I'm working with the Dean of the College of Life Sciences and Agriculture and that's going to give us a list of starting projects, things that are as simple as how do you really do sustainable agriculture? How do you take

your new rules for organic agriculture, which I have never actually read through the whole thing but I've seen the stack of it, how do we take that and convert it to a viable business opportunity for our people? Because we've got the market.

I don't know how many million people there are right around here, but from downtown Washington, it's an hour's drive out to our farmers' markets. So, the whole four or five million people here that can come out to our place and buy food. So, that's what we're trying to do, is bring the best techniques of producing food and Christmas trees and wine and anything you can imagine in agriculture. I need to somewhat preface this by saying that I'm a Christmas tree grower, and I hope you don't hold that against me.

I grew up on our farm with hogs and cattle and all that when Leesburg had a small number of people and you knew most of them. I actually learned how to drive with the old family pick-up truck driving in the feed mill in Leesburg which is now a restaurant. This mill has been converted. So, I've been there for all of that, but now the future for us is direct market value-added products that sell to the retail consumer. So, folks come out to cut Christmas trees, and you all probably all live right here. If you look in the Washington Post in the Weekend Section at Christmas,

when they list their Christmas Tree Guides, you'll see all the different states, Maryland, Pennsylvania, so forth, and then you see Loudon County, and Loudon County has a bigger section of the paper than all the rest of them put together. So, we're the place to buy a Christmas tree.

But why do we do that? We do that because we have the consumers. So, our form of agriculture is different from many of the others that you've heard from, and one of my points to you is when you think about these centers, don't create a rubber stamp that all centers have to be the same because agriculture in this country is not the same and not remotely close to being the same. You're going to have different activities that are going to require different things to do, although the innovation part remains the same.

So, let me pull up this picture and show it to you, and I've given you the hand-out which you can read, which I'm not going to read because it really restates everything that's already been said. Okay. I'm going to try to hold this so everybody can see it. Originally, we called this project A Country Life Center and there's a reason for that. Back when President Theodore Roosevelt came to power, agriculture, believe it or not, was going to hell in a handbasket, and so the new President then said, well,

I've got to create a country life commission. That's what he called it. So, he had the Country Life Commission go out and report on what could be done about saving agriculture.

One of the principle recommendations of the Country Life Commission came from a Virginian, a fellow named Carter Glass, who turned out to be the first head of the Federal Reserve Board. He was a dairyman in Virginia, and they didn't have enough banking, talking about venture capital, in those days, they didn't have a banking system that could support the money that was loaned to the dairymen, and they were the strongest farmers in Virginia in those days.

So, what we propose is a center that brings not only the innovation but brings the innovation to the consumer, that provides an attraction for the people to go to the innovation and actually see it. One of the problems is we hear so much controversy about genetically-modified food products and genetically-modified anything that people are scared to death of it, but if people could actually see it growing and understand the science and technology of it, they might gain better acceptance.

So, I think that you need to think about a place where you not only innovate but you gain acceptance for the innovation. Now, I'm sure we've all

been to field days at different agricultural research stations. We have a number of stations in the state and I've been to a bunch of them, and you go one day and you see the crop and that's it, but the general public rarely goes there. So, they don't understand the best methods of growing whatever. So, here's the picture. Here's a welcome center for tourism. Here's a farmer's market. We're going to have innovative crops. We're going to have organic crops. We want to sell them to the public. So, this is the economic part. Here's the commercial kitchen where the chef is cooking the fresh food and doing the demonstrations, all of which is attractive to the public. Here's the restaurant where the same chef is selling the stuff. You've got to make some money. We're talking about funding this. We have to make this somewhat self-supporting, and I'm not expecting USDA to pay for all this. I mean, a lot of this is privately-funded and county initiatives, but it all needs to go together. Here's a gift shop. Here's a horticultural garden where the National Arboretum could show new plant introductions from their National Arboretum right across town here. That's one of their missions.

Here's a science and research laboratory with greenhouses where some actual bench lab, web lab, dry lab research could be going on, and the public could

walk in certain days and see that research and understand that this is what happens, and the high school kids could go in there with mentoring programs with the researchers.

We've got an animal component. People like to see animals. So, I thought if we had a rare breeds conservancy, it would be preserving the germ plasm of the rare breeds of farm animals for the most part and that's always an attraction for the people. So, the point of this is to get the people in to see the innovation and to see the agriculture and understand more about it, get you a chance to speak to them.

We've got a museum and an auditorium, a movie theater, all those things that you would use to explain what you're doing, a large exposition hall that could be used as an indoor riding ring or could be used to demonstrate anything you want. Again, all of this puts innovation in a context in which it can actually be used. It could be commercialized, and the other side of this is in the bigger picture, this is the compound I just described. This is the 200 acres and here's the field with -- this is an artist's version. He doesn't know there's wetlands down here and you can't grow some things in some of this land, but the fact is you have field demonstrations and so you can have field days all the time and have events there all the time. So that,

as this project goes along, people understand more about what agriculture is about. I think it's one of the problems we have.

Let me get back to the microphone so I don't yell too loud. So, those are the things we have in mind. Let me just tick off on part of my list of the actual facilities that would be at this. Virginia Tech would like to build an urban agricultural research center on the property. So, we would lease them a certain portion of the property and they'd have a typical research station. That's part of what you see there.

Also, we want to do natural resources training. So, there would be GIS labs and students would be there and there would be natural resources training. We've talked about agricultural and rural economic development. The business planning, feasibility, all of that stuff that you've heard so much of today, we do that. We partner with the SBDC in our area. I think all that's very important and that would occur there as well.

Okay. Farmers market. All those things that I talked about. I've given you the list of my answers to your questions. I would say what you need to do, though, is create a system that incentivizes land grants, agricultural research, all of the agencies to

come together, and when they do come together, create memorandums of understanding so that they all know what their baseline contributions should be.

I will stop right there. One minute for questions.

DR. HASKELL: Thank you very much.

Maybe more than that if anybody has questions.

(No response)

DR. HASKELL: Okay. We appreciate you stopping by and for a fine presentation.

MR. NICHOLS: Thank you.

DR. HASKELL: Thank you.

Now, we have Oregon and John promised not to disclose the location the last time we exchanged ideas.

MR. WELLS: Thank you.

My name is John Henry Wells. I'm the Superintendent of the Food Innovation Center Experiment Station.

The Food Innovation Center, located in Downtown Portland, Oregon, is a joint initiative of Oregon State University and the Oregon Department of Agriculture, an initiative that combines elements of Oregon's federal land grant university with the state's statutory authority for food and agriculture. The Food Innovation Center provides research, education,

marketing and analytical services that enhance and sustain Pacific Northwest agricultural and food industries.

The Food Innovation Center opened in June 1999 with broad stakeholder support from the agricultural community and financial participation of local and state governments. Today, the Food Innovation Center is home to seven public service programs that offer an integrated suite of strategic programs and extended services to address technical, regulatory and market access concerns associated with food and agricultural products. We serve producers, processors, and marketers of food and agricultural products with an outreach emphasis that targets companies and individuals that want to develop new products for a consumer food economy.

Our experience with assisting new entrants to the food industry relates directly to the proposed Agriculture Innovation Center Demonstration Program. Let me cite one example to illustrate the impact of focusing on new entrants to the food industry. Last year, a small company from rural Oregon came to us with the goal of using Oregon cranberries in a locally-manufactured sauce. The company had no prior experience in food manufacturing. Our staff assisted in formulating several prototype sauces, evaluating the

sauces with consumers, establishing a final process specification with nutrition labeling, introducing the company to co-processors capable of manufacturing the product, and designing a test market plan. The product was introduced into test market and the commercial market potential of this value-added product was demonstrated in the real world.

Based on the demonstrated success, the company moved forward to secure pre-production orders and currently plans to produce between 1,500 and 2,000 cases of product this year. This represents an enormous new market for Oregon cranberries that might otherwise be unsold and provides the opportunity to support local food manufacturing jobs.

I believe this example resonates with the intent of the Agriculture Innovation Center Demonstration Program.

My comments below address specific questions raised in the notice of this meeting. Who might we expect to use an agriculture innovation center? In the past 24 months, the Food Innovation Center has provided direct service to over 250 clients. Over half of these clients meet the federal criteria of a small-sized enterprise. About a third of our clients are women or minority-owned businesses and many are individuals starting new first-time businesses, entrepreneurs that

are seeking family wage jobs for themselves through new business development.

While generally serving needs of producers, processors and marketers of food and agricultural products with technical and market development activities, special opportunity exists to partner in demonstration programs with individuals seeking to change the paradigm in which they view themselves. For instance, we have worked with several producers, all third generation farmers, who seek to improve their financial outlook by developing on-farm processing capabilities. Also, we have worked to assist new entrant processors with no agricultural background in developing food businesses that use local ingredients.

What might an agriculture innovation center team look like? Innovation centers should be encouraged to critically examine strategies that are aimed at increasing the economic return on agriculture production. Through these efforts, the aim should be to better understand the framework of establishing the value of food and agricultural products by considering the place, process, purpose, promotion and perception of the products.

In our experience, it is clear that such a task requires a resident multidisciplinary staff, preferably with some individuals having food-industry

backgrounds, and collaborators, cooperators and consultants with a depth of technical specialties. As a group, there should be a committed focus on technology transfer, commercialization, and market-based success. In establishing a new center, it could be expected to hire a mix of personnel at different experience levels. In Portland, we have resident staff from higher education and the state department of agriculture with committed assignments to the center in the areas of economics, market development, business planning, product development, process engineering, packaging and logistics, consumer sensory testing, enterprise finance and market development. Generally, there is a depth of personnel in each area with senior and support full-time professional staff.

In addition to technical staffing, which may already be in place in many states, the Agriculture Innovation Center Demonstration Program could anticipate allocating resources for dedicated staffing in tactical areas, such as product management, information technology support, and outreach and communications coordination.

How can producer-owned value-added ventures be supported? Support for ventures will be needed in two stages. (1) Approaches to underwriting initial risk and (2) approaches to underwriting capital

expenditures. The Agriculture Innovation Center Demonstration Program might best be suited to helping underwrite initial risks with an asset-matching model popular in micro-enterprise circles.

Currently, we are piloting such a program with a tri-county regional investment board in rural Central Oregon. In this program, an individual producer or processor submits a brief proposal describing the value-added venture that they would like to demonstrate. The proposal is reviewed locally by the investment board for its strategic impact within the region. If accepted, the total project cost is budgeted as a dollar-for-dollar match between the client and the investment board and a funded contract is awarded directly to the Food Innovation Center.

In addition to risk-sharing among the client and the investment board, the center shares in underwriting risk investments in staff and facilities. This approach distributes the risk of demonstration failure among client, investment board and the center. Conceptually, the scope of the demonstration projects might be on the order of a few hundred or a few thousand units of handcrafted product at one or two local retailers committed to local food systems. A requirement of the demonstration project would be to collect requisite real world data in an effort to focus

and strengthen business and market planning that will be needed to secure funding to underwrite capital expenditures.

For a successful demonstration with actual market sales, it could be anticipated that a mix of conventional and community development financing, personal investing, or others would be used for capital expenses. I've listed other suggested ideas as well for market grant loans, and I'll call attention to one at the bottom of my list. Partnering opportunities with NGO, non-governmental organization, development agencies in sponsoring the equity basis for financing aimed at targeted populations, such as refugee immigrants, who settle in rural communities.

How can innovation centers collaborate with other assistance services? The first step in collaboration and coordination is engagement. Clearly, there should be a significant effort invested to formally engage various statewide resources and associations in planning and operation of an innovation center. Mechanisms to encourage the producer community could include organization of regional agriculture strategy committees that would in turn recommend locally-important projects for a demonstration program.

Collaboration in statewide forums supported with information technology, like webcasting, video

conferencing, should be thought about to increase participation. Participation should include rural federal assistance programs, state agriculture services, state and local investment in economic development boards, county extension offices, branch experiment stations, and others. By the way, I'll diverge briefly. We found a great ally in the local SBDCs within Oregon.

Additionally, there should be opportunity to use novel approaches to gain citizen service in helping to introduce innovation centers to the public. For instance, in Oregon, we have engaged community volunteers trained in consumer education programs, such as the OSU Extension Service Master Gardener and Master Food Preserver Programs.

With respect to coordination, there is a real need to guard against unjustified duplication of resources within a state, to engage other centers, agencies and associations actively as stakeholders, to engage collaborators with new services not otherwise available, and to engage land grant programs with state government programs.

How can programs balance demands of new and existing ag clientele? Segmentation of clientele should not be considered at a commodity level or an enterprise level alone. Efforts must focus on better

understanding of the framework for establishing value of food and agricultural products based on consideration of place, process, purpose, promotion and perception.

Consideration should be given to the notion that farming is not a commodity-driven agriculture enterprise but an essential part of a consumer-driven food economy. I believe that demonstration programs should focus on offering support for early adopters of this paradigm. Demonstration partnerships with entrepreneurs and innovators should aim at the production, preservation, distribution, and marketing of high-quality locally-produced food and agricultural products that return significant value to the producer.

The aim should envision that transformation of depressed rural economies founded on agriculture commodity markets into robust producer communities, value-added chain suppliers within a consumer-food economy. At the same time, there should be some measure of accountability for innovation centers to safeguard that access and assistance programs are broadly offered and utilized to all sectors within the state's agriculture community.

Additionally, efforts are needed to ensure that services are accessed to persons of every economic and/or social class. In Oregon, we use an internal

report card to monitor the distribution of services, recording the commodities, client demographics, and economic impacts for which our services are used. In continuously reviewing this data, we guard against the Food Innovation Center becoming a more exclusive singular commodity technical assistance center, like the Potato Innovation Center.

Let me skip forward to the criteria. What should the criteria for scoring and -- what should be the criteria for scoring and selecting proposals? Because of the significance of this program, a three-step screening and selection procedure may be appropriate. First, a first step could be an electronic submission of the limited scope binding pre-proposal with an initial selection criteria focusing on capability and programmatic performance. Based on this screening, full proposals could be invited with a second stage criteria focusing on organizational commitment and approaches as well as budgetary effectiveness.

Among semi-finalists, a third and final selection process should include site reviews with emphasis on identifying relevant related commitments of the organizational partnerships required in the Farm Bill as well as verification of local advisory boards. Other considerations for selection could include

portfolios of relationships maintained beyond the required partnerships, breadth and diversity of the agricultural and food system served, proposed enterprise structure of the innovation centers, including memorandums of understanding, agreements, operation plans, etc., and the integration of education research, extension, public service activities, and mechanisms of reporting and public service accountability.

In conclusion, in a book entitled "Leading for Innovation", Peter Drucker defines innovation as "change that creates a new dimension of performance." Certainly, we are looking for a new dimension of performance in our food and agricultural systems. However, I believe that we should also be looking for a new dimension of performance in the institutions that serve food and agricultural systems.

For the Food Innovation Center, this has meant the initiation of partnering relationships with investor networks, business associations, and non-government agencies, and a forging of these connections into clusters of business relationships that enable agricultural and food systems not to be viewed solely as a natural resource base but also as an enabled economic development engine.

Thank you.

DR. HASKELL: Very good. A lot of food for thought, if you'll pardon me.

Questions?

(No response)

DR. HASKELL: There's another, I believe, food processing center at the University of Nebraska. Thank you.

MR. O'NEILL: I wish to ask that you bear with me since I don't have a prepared statement and this is going to be somewhat off the cuff.

My name is Ed O'Neill. I'm the Associate Director at the Food Processing Center at the University of Nebraska.

A little background about the center. It was formed in 1983. It was started to provide technical and business services to producers and food companies. Initially, it was for the state. Since then, we have expanded so that we currently have clients in 42 states and about two dozen foreign countries.

The center is set up so that we have a permanent staff, almost all of whom have experience in the food industry. There's a few that don't. We coordinate heavily with other groups in the state in order to compensate for some of the areas where we don't have expertise. We work closely with groups like the Nebraska Department of Agriculture and the

Department of Economic Development, closely with the Nebraska Business Development Center. We are actively involved in the manufacture and extension partnership, and we work with consultants and various businesses in the state as we need to, and in addition, we can draw upon the academic folks at the university. Commonly, we work with the Department of Food Science, the Industrial Ag Product Center, the Center for Agricultural Rural Innovation, Animal Science, College of Business Administration, can't forget those. So, we work with quite a diverse group of people.

What I want to talk about is primarily some of the characteristics I think you might want to consider as you're moving forward with this RFP. First of all, I think you need to make sure that the groups that are involved can adequately cover all the steps that it takes to create a product from a concept or a basic idea to the point where you actually get it to the market and there are a lot of things you have to do to accomplish that. Some of them are large. Some of them are pretty small.

As an example, we use graphic designers from the local industry rather than try to design labels ourselves. That lets us leverage our people, but we do need to look at it across the entire spectrum. Another example would be there's been a number of people

talking about building manufacturing facilities. We actually find with the entrepreneurs that go through our program coming in, 90 percent of them are going to build a plant. Going out, 90 percent of them contract pack, and there's some very good reasons to do that, both from an economic standpoint and from the sleepless nights standpoint for the entrepreneur.

I think you should be looking for programs that can combine the government, the academic, and the private sector very effectively as they're looking at agricultural innovations and have a proven track record in doing that. There needs to be coordination, proven coordination programs in place as you're working with a lot of groups. The coordination, the conversations, really become, I think, the limiting factor, the management of that, and lastly in this area, you need to assure that you're bringing functional excellence to the program, meaning that those people that are responsible for product development have some mechanism in place to assure that the quality of what they're doing is in fact very good, and you need to do that for each one of those segments of that process. Likewise, there needs to be a project management piece in place to make sure that all of these projects that are coming in in fact are going to be handled fairly, equitably and in a timely manner.

I jumped ahead. I covered this. I think that the centers should understand both the push and pull concepts, and what I mean by that is push is, as an example would be entrepreneurs come in with a new product. They're highly enthusiastic. They're driven. They work hard to get that product out to the market. They're going to push it through the system.

Now, there are also other ways of getting products to the market. One is through some technical innovation done by an academic. Another is quite often and we do this frequently as we're doing market research, we find certain segments of the market out there where there's a demand but there's no one filling the demand. But in that case, you have to go back to the growers and convince them that maybe there's actually a concept here that's worth pursuing, and you have to get them involved and you have to sell it to them and then you have to go and work with the people in the final market to get them convinced that there's something there and pull the two groups together.

It should be able to support both food and non-food applications. It should also, I think, be able to support both commodity and niche products. Obviously in Nebraska, corn, wheat, beef, you know, are rather important to us, but we do have a lot of smaller non-commodity-type products, like yellow perch, if

anybody knew we grew yellow perch in Nebraska, and we need to be able to support both of those extremes.

One of the folks earlier talked about success, and I think the definition of what is successful is also very important. Successful, obviously you have the people that are putting up the $30 million plant and they're selling it all and they have great cash flow and they're bringing money in, that's successful.

The flip side is that many of our entrepreneurs, especially from the western two-thirds of the state, are coming in to look at ways to allow them to stay on their farm, on their ranch, or in their small community. So, they're looking for something that will bring in maybe $20 or $30,000 a year, something that supplements their income and allows them to stay there. If that's not successful by the program, then I think that needs to be spelled out or what the criteria for success would be.

The sustainability of the center, I think, is very important. I personally wouldn't want to see the centers being kind of a one-year shot and then dying away. I think that the applicants should be able to demonstrate that, you know, if the funding goes away, whether it's next year or three years or five years or whatever it is, that in fact they have a decent shot at

keeping the center and the concept going.

I think it's very important that the applicants understand the depth and the breadth of the end markets. Again, 98 percent of the people that come into our entrepreneur program are going to sell at Kroger's or Sam's or one of the mass merchandisers. In fact, there are a lot of markets out there, not just the mass merchandisers. There's many specialty food stores, food service operations, distribution operations, mass feeding, organic stores, natural stores. I mean, there's many, many ways of getting the product to the consumer. Some products, some concepts are better suited for some modes of distribution than are others, and I think the applicants need to understand the depth and the breadth of those issues.

Then lastly, I think the applicants should have some way, proven way of both promoting the services they're having, both in state and regionally, and they should be able to disseminate information about the success of their program and have some mechanisms in place by which that can be done.

Thank you very much.

DR. HASKELL: Very good. Thank you, sir.

Questions?

(No response)

DR. HASKELL: We really appreciate it. Very,

very cogent comments.

I do not have anybody else on the list, but here's one. In fact, I was going to open it up to whoever may want to say a few words or at least up to 15 minutes' worth.

MR. WHEELER: Thank you, Mr. Haskell, and members of the panel. I'll be much briefer than that.

My name is Dan Wheeler, and I'm the Commissioner of Agriculture in Tennessee as of today. Ten days from now, I'll be the Director of the Center for Agricultural Profitability at the University of Tennessee, and I apologize for not having prepared remarks. If it's necessary, I can submit prepared remarks, but we -- I came here today to listen. I didn't really know about this meeting or hearing until just a couple of days ago. So, I didn't come prepared to make any comments but to listen and to learn, and I'm extremely glad that I came because the comments today have been very, very good and I have learned a lot. So, I'm in the transition. My cheese is in the process of being moved, and I'm getting used to that.

As I've listened to the comments today, I just had a couple of thoughts that I think may be germane to your purpose here of taking input into the evaluation process and the scoring process. Before I make those couple of quick points, let me just explain

that the center which has been known as the Agricultural Development Center has been in place for some four or five years at the University of Tennessee, and I can say as an observer of the work of the center over that period of time, they have now gotten to the point that they can point to success stories that number several dozen of individual farmers, farm families, and agribusiness entities that they have worked with.

My work for the last seven and a half years has been at the Department of Agriculture in our state, and we have devoted more resources of our department to agribusiness development, to market development activities. We have partnered with all the traditional partners, but we have forged a new alliance with our Economic Development Department in our state as well as regional economic development councils and the Rural Development Agency of the USDA and other partners and also worked with our Agricultural Development Center at the University.

Our agricultural economy in Tennessee over the last 10 to 15 years has been basically in a no-growth state. We've just basically held our own. The growth, the areas of growth that we can point to, I think in most every case, are a direct result of some of the agribusiness development activities that all of

our partners have been involved in. So, obviously this whole area is tremendously important as has been expressed here today. The future of commodity agriculture is certainly in question as we've known it in the past, and I was just reading an article in my last issue of the Progressive Farmer as I came up on the plane yesterday about the lure for U.S. farmers of going overseas for production in South America, Brazil, and other places, and incidental to that, just it kind of strikes home to me because my son works for a privately-owned agribusiness entity in another state and the owner of that business is an agribusiness entrepreneur, and he is engaged very heavily in purchasing land in Bolivia and has a good-sized cattle operation in Bolivia with the intention of producing commodities there in the future. So, it's going on all around us.

So, the development of these centers, innovation centers are extremely important, I think, and I think all of us in this room probably would agree on that, and that brings me to my point. We are probably a bit less mature with the innovation center in Tennessee compared to some of the ones that I've heard from here today, even though we've had a considerable measure of success, but we are on the verge and there has been a partnership forged between

the university and private entities. There have been memorandums of agreement signed that put into place a good bit of the infrastructure that has been talked about here today as being necessary for an innovation center to perform successfully, such as a board of directors, a technical advisory board. As a result of the agreements that have been reached, there will be considerable evidence of sustainability for the future and those sorts of things.

But we are in a different stage of development than some of the other groups that you've heard from here today, and my point is this. I would just encourage that in the evaluation process and in the scoring process, that consideration be given to emerging entities that have the promise of delivering the kind of services that have been talked about here today but may not be as mature as some of the centers that have been in place for some time.

Again, if this whole process is as important as we think it is to give farmers in Tennessee and across this country opportunities that are available to them, then let's try to look at it, I guess I'm saying, in a broader perspective, and if we have these kinds of centers and this kind of activity that in some places may be in a stage of infancy or immaturity but show promise of developing that infrastructure that's

necessary to be successful in a relatively short period of time, then I would hope that we would not -- that they would be given an equal opportunity.

I think that also would enhance our ability to have the kind of geographic spread that is necessary to provide these kinds of opportunities to farmers all across this country and agribusinesses. So, those are really my points.

DR. HASKELL: Thank you, Mr. Wheeler. Very, very good points.

I did get a call from Dan Beasley last evening who said that you were going to be here.

MR. WHEELER: Yes.

DR. HASKELL: Yeah. So, that's terrific.

MR. WHEELER: Well, Dan in fact is with me today. He's my traveling partner.

DR. HASKELL: Good. Okay.

Questions on the part of any of the listeners?

(No response)

DR. HASKELL: Okay.

MR. WHEELER: Thank you.

DR. HASKELL: Any other member of the public that would like to say a few words?

(No response)

DR. HASKELL: How about the non-public, just

government people?

(No response)

DR. HASKELL: Well, let me then just sum up. We greatly appreciate everybody's testimony here today and it won't go unheard. We've not only listened to it, we have copies of most of it, and as I mentioned to kick this thing off, now we're challenged with writing the Notice of Funding Availability as quickly but as best we can, incorporating the best of your comments. Obviously there are going to be some decisions that we have to make. Some of your comments, while very good, we can't take verbatim. Others, we may have to modify, but there were some very good ones, I thought, and I'm not even going to give you a lead as to which ones they were, but I particularly enjoyed this afternoon because we heard a variety from different kinds of centers and entities that offered a different perspective than we've heard before.

I am encouraged by the emphasis put on the marketing angle and with much less emphasis on some of the engineering-type data. This fits with my biases, also. So, I'm glad to hear that.

We are going to get this thing out as fast as we can and as I mentioned, we'll go through the state offices. If you need a contact in your respective state, it will be exactly the same contract as we have

listed in the Value-Added Announcement which closes on August 8th. So, that same person or persons should be able to answer your questions. If they cannot, call me directly, and I wish you well.

I thank you again and we're looking for having a fun time with this program and hopefully it's useful.

PARTICIPANT: Hear, hear.

(Whereupon, at 3:15 p.m., the meeting was adjourned.)