

{As prepared for delivery}

**National Council of Farmer Cooperatives
June 17, 2010
Washington, D.C.**

**Remarks for
USDA Rural Development Under Secretary
Dallas Tonsager**

Good Morning and thank you for the kind introduction.

Thank you for the invitation to join you this morning and for your leadership in advancing the cooperative movement. There are so many great examples of how cooperatives have reached and impacted the lives of rural Americans – Example: NRECA – bringing electric to rural farms and ranches: Celebrating this year the 75th Anniversary of REA.

You play a critical role in rebuilding and revitalizing rural America.

Significance of Cooperative Movement

As you know, co-ops are a manifestation of all that is best about our free enterprise system and democracy. Simply put, you give marketplace clout to people who on their own would wield little power. In the case of farmers and ranchers, co-ops are the business vehicle which helps you gain the leverage

you need to earn fair prices for the products in markets dominated by ever fewer, larger buyers.

Your collective role in our rural economy is substantial, accounting for about 30 percent of our nation's farm economy. Whether you're a local grain elevator or a Fortune 500 company, the impact you are having is significant.

Farmer, rancher and fishery cooperatives set a new gross sales record of \$191.9 billion in 2008, \$45 billion more than in 2007. The total would have been even higher had it not been for a sharp drop in grain, milk and fuel prices toward the end of the year. Net income before taxes also set a new record of \$4.8 billion, \$1 billion more than in 2007.

But farmer co-ops are only one sector of the co-op economy. Utility co-ops, credit unions, food store co-ops, building supply co-ops and dozens of other types of co-ops all play a huge role in the economy. USDA recently helped fund the first ever cross-sector analysis of all types of co-ops in the United States. The study (conducted by the University of Wisconsin Center for Co-ops) found that the total economic impact of co-ops in this nation is \$653 billion and that co-ops pay the wages of 853,000 workers.

Today, cooperatives have the opportunity to play an important role in helping America reach greater energy independence. The cooperative movement has a proven track record and the business model needed to build out the second and third generations of renewable energy for America.

Carrying Out President Obama's Energy goals

We are fortunate to have Secretary Vilsack leading our renewable energy efforts at USDA.

- Renewable energy is a top priority for the Department, and
- A critical component to rebuild and revitalize rural America.

In 2009, Rural Development (Rural Business-Cooperative Service and Rural Utilities Service) committed:

Over \$460 million in over 1,600 renewable energy and energy efficiency projects.

- Assist nearly 3,000 businesses and create nearly 7,000 jobs.
- Create or save 10,258,372 million BTU's of energy (REAP program)
 - Equates to 1.76 million barrels (5.8 million BTU's per barrel of oil) of crude oil, or
 - Enough energy to provide electricity for 250,815 homes (40.9 million BTU's per year).

USDA is working across departments -- We have ongoing dialogue with Federal counterparts, public and private sector leaders through a biomass research and development board that I co-chair with the Department of Energy.

This is an important collaboration, focused on:

- Research, development and commercialization
- Meeting President Obama's goal for energy independence, creation of a green economy and green jobs.

(SLIDE #2 – The opportunities)



The Opportunities

President's Goals

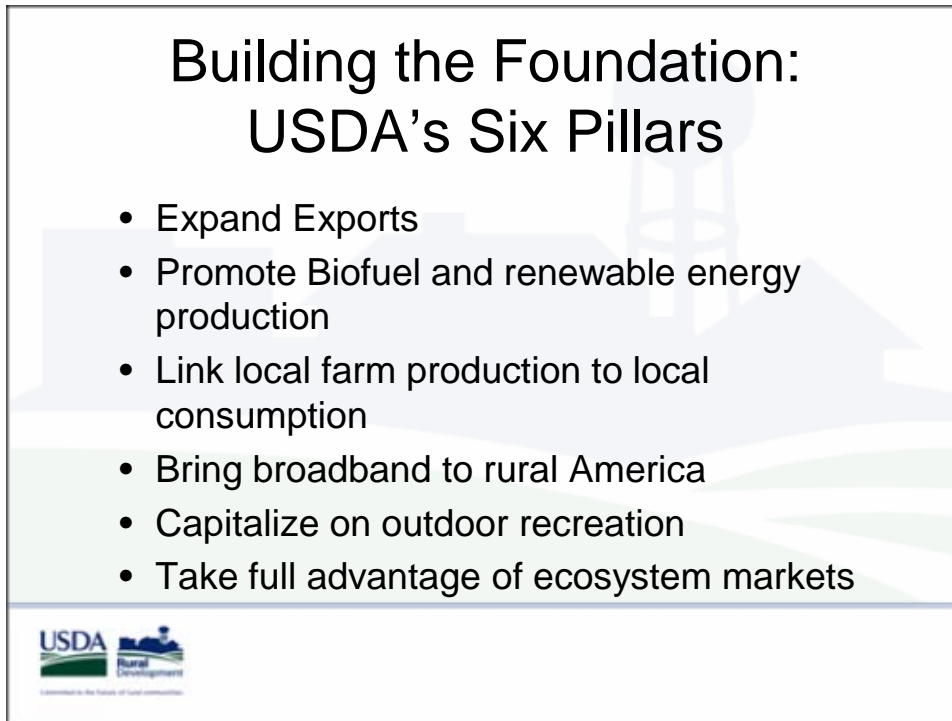
- Energy Independence
- Create Green Economy
- Create Green Jobs

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An example of this collaboration came with the December 2009 announcement by Energy Secretary Chu and Agriculture Secretary Vilsack that USDA Rural Development selected San Diego, California based Sapphire Energy to receive a non-ARRA loan guarantee for up to \$54.5 million through the Biorefinery Assistance Program to demonstrate an integrated algal biorefinery process that will cultivate algae in ponds, and will use dewatering and oil extraction technology to produce an intermediate


that will then be processed into drop-in green fuels such as jet fuel and diesel. DOE is providing \$50 million. This project will be constructed in Columbus, New Mexico.

(SLIDE #3 -Building the Foundation: USDA's Six Pillars)



**Building the Foundation:
USDA's Six Pillars**

- Expand Exports
- Promote Biofuel and renewable energy production
- Link local farm production to local consumption
- Bring broadband to rural America
- Capitalize on outdoor recreation
- Take full advantage of ecosystem markets


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Building a Strong Rural Economy

Building a strong new rural economy requires a solid foundation - communities coming together to build regional economies – that can support an entire hub of communities.

In support of building regional economies that support growth and opportunities in rural America, the Secretary has laid out six pillars:

- Expand Exports
- Promote Biofuel and renewable energy production
- Link local farm production to local consumption

- Bring broadband to rural America
- Capitalize on outdoor recreation
- Take full advantage of ecosystem markets

President Obama took office amid an array of challenges:

- Our economy was in freefall – deepest downturn since the Great Depression

The President took strong and politically-difficult steps to rebuild the economy; and for USDA, our budgetary commitment includes almost \$26 billion to build on:

- New opportunities from renewable energy,
- Local and regional food systems, and
- Environmental markets and green jobs.

As part of this effort, President Obama released the “Growing America’s Fuel” report on February 3rd. It came from his May 5th directive to establish a Biofuels Interagency Working Group with the responsibility for developing the Nation’s first comprehensive biofuel market development program.

The report lays out our Administration’s strategy to advance the development and commercialization of a sustainable industry – continued support for first generation biofuels while accelerating the focus on second and third generation biofuels development.

- 300 to 400 new plants will need to be built to meet the Congressional mandate to produce 36 billion gallons of biofuels per year by 2022.
- And we also estimate that farmers' incomes will increase by \$13 billion annually by 2022.

“Growing America’s Fuel” puts rural America on the forefront again.

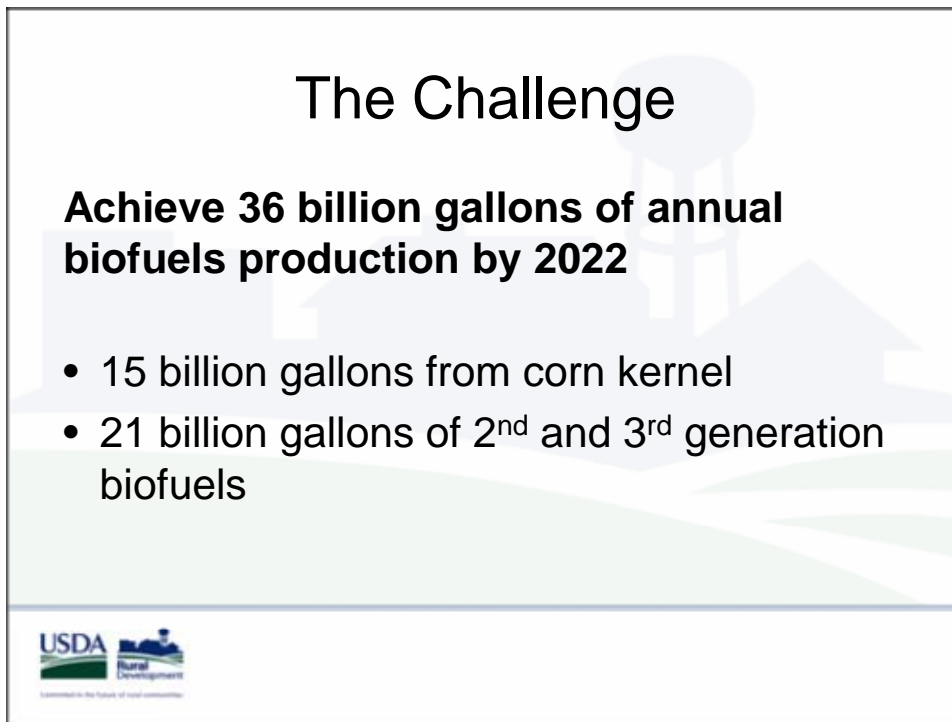
We all know what it’s like to have the large business or plant in your town shut its doors and friends and family out of work. Manufacturing has been hit hard, but it doesn’t mean it can’t come back again. What we’ve learned is - we can’t rely on just one industry or one pathway to energy. Our plan believes that manufacturing and a green economy can and should go hand in hand.

Over the 90’s, we were successful building the ethanol industry because we approached it strategically. Our ag producers knew how to efficiently produce corn, the technology for corn starch-based ethanol was there, and increased corn acreage could support greater ethanol output. This was a significant accomplishment and a compliment to our American farmers and their investments in cooperative ventures. The industry grew from meeting 1% of U.S. gasoline supply in 2000 to 7% in 2008.

The Business Model

We can do what we did for ethanol with other forms of biomass, but we need to be smart about it. We’ve funded hundreds of projects, but so far we’ve had little effective integration of these efforts across government agencies and no real plan for achieving our target.


“Growing America’s Fuel” is that plan. **(SLIDE #4 – The challenge)**



The Challenge

Achieve 36 billion gallons of annual biofuels production by 2022

- 15 billion gallons from corn kernel
- 21 billion gallons of 2nd and 3rd generation biofuels

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When Congress passed the Energy Independence and Security Act of 2007, it established a significant challenge:

- 36 billion gallons of biofuels by 2022.

However, only 15 of the 36 billion gallons can come from corn ethanol.

(SLIDE # 5 - The timeframe)

The Timeframe

To meet the challenge of producing 36 billion gallons by 2022 we need:

- Adequate capacity operational by the end of 2021
- All projects in construction by 2020

We have 10 years



(SLIDE #6 – (The plan))

The Plan – Growing America's Fuel

- President's May 5, 2009 Biofuel Directive
 - Create a "deal flow" - assuring the development of enough projects to meet the goal
- Include business structures for broad investment and the potential of "wealth creation" in rural areas
- Spread the risk as wide as possible, with different forms of businesses



(SLIDE #7 – The five elements)

The Five Elements of Feasibility

- Technical feasibility
- Management feasibility
- Economic feasibility
- Market feasibility
- Financial feasibility



We can meet this challenge if the technology and lender confidence is there. Uncertainties must be addressed up-front for all supply chain components to build confidence for creating markets, investments, and credit to sustain long-term biofuel production by focusing on:

- Technical feasibility
- Management feasibility
- Environmental feasibility
- Market feasibility
- Economic feasibility
- Financial feasibility

Biofuel production is an evolutionary process. Like computer technology - the newest version is always ahead of us. Ten years ago, we couldn't buy Windows 7.0; the other versions had to come first. Second-generation technologies that turn crop residue like corn stover or energy crops like switchgrass into ethanol, and third-generation technologies that turn feedstocks into advanced biofuels – will need to become commercially viable. Our USDA Research Education and Economics Service does the technology research and my agencies, in Rural Development, we put the deals together.

Today, our current energy model is oil – ship the oil from the Middle East, to the middle of the United States and use that oil to produce agricultural commodities.

We could grow 200 bushels of corn and produce about 540 gallons of ethanol:

- 40 gallons to produce the crops
- 500 gallons left over to distribute to plants and pump into cars. This is a comparison of two models.

Secretary Vilsack has been talking about economic opportunities within emerging local and regional food systems; we can also talk about economic opportunities afforded by a regional energy system. The production and use of renewables on a regional basis makes the most economic sense and it's a historic economic opportunity for agricultural producers and rural America.

So how do we do this? By working back from our 36 billion gallon target, using a regional supply chain approach. We will focus on a diverse group of dedicated feedstocks that our researchers have identified:

1. perennial grasses
2. energycane
3. biomass sorghum
4. oil seeds crops and algae
5. woody biomass


We can address the environmental challenges in a sustainable manner using a project by project basis, taking into account local implications.

(SLIDE # 8 – Re-engineering the Process)

Re-engineering the Process...

To meet the goal we need to:

- Re-engineer our government-wide processes to serve the needs of project development
 - Bring predictability and clear White House and departmental policy/guidance throughout
 - Support regionalization of feedstocks
- Integrate the process from all steps of the project
 - R&D, Demonstration, Commercialization, Distribution and End-user
- Bring capital together with technology
- Aggressively encourage the creation of well-funded high-quality projects to meet all elements of feasibility



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On the business side – we can use similar models for the ethanol industry. As you may remember, the way we put capital and projects together in the

90's, was by putting out proposals to the public, asking them to participate in the project – and asking for project membership fees. With those fees, we developed business plans and prospectuses to sell stock in the company. If there were enough people willing to invest, we were able to do the project. We could spread the investor and credit risk, as widely as possible.

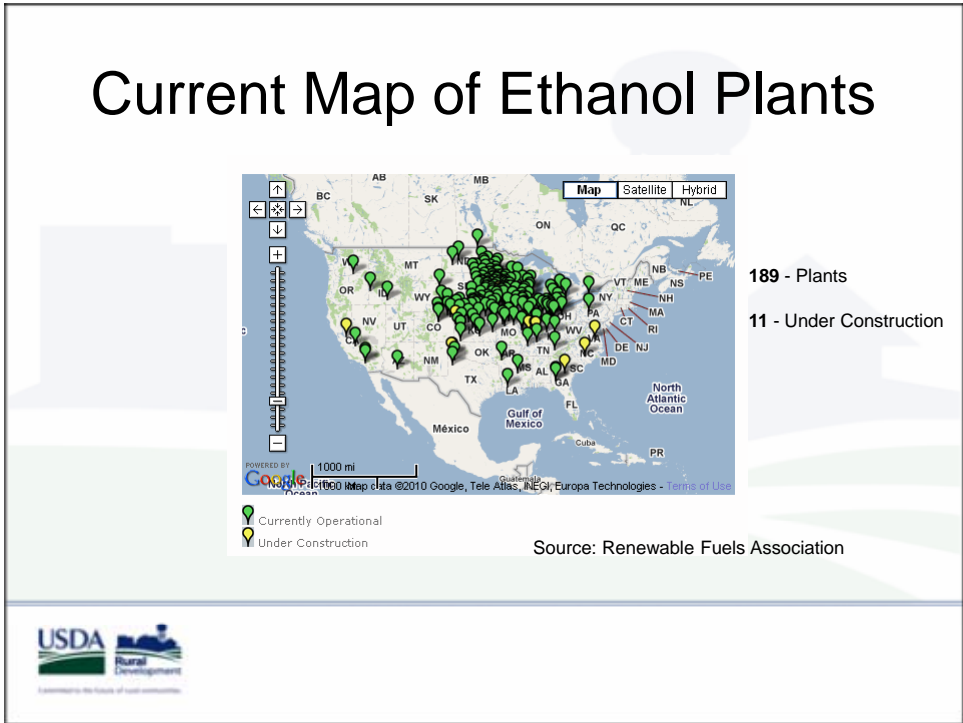
Role Cooperatives will Play:

To encourage public support, cooperatives are a great business model. New Generation Cooperatives, unlike traditional cooperatives, are financed through the sale of delivery rights. Delivery rights represent a member's right to deliver a specific amount of commodities to the cooperative.

I like to mention the example one of our staffers in Iowa talks about - A New Generation Cooperative for a producer-owned ethanol plant that is producing more than 30 million gallons a year. Within two months of formation, they had more than 400 residents invested and part of the member-owned company. The shareholders are area farmers and the largest suppliers of the corn processed each year in the facility. They're contractually obligated not only to give funds, but to deliver their products to the cooperative. The farmers are invested because they're getting their feed and their fuel from the cooperative. All of the corn that is processed is used in some capacity, whether it's liquid, wet and dry feed for livestock or alcohol for fuel; there's no waste. As you know well, the key is to spread the investments widely, with lots of opportunities to limit risks.

The cooperative model has 90 years of success. It works.

(SLIDE # 9 – Current Map)



Financing

To fund the new plants, my back of the envelop estimate is that current cost of new corn-based ethanol production is about \$2.50 per gallon. New generation plants will likely cost two to three times that. With this assumption, meeting our goal will cost about \$150 billion.

- 1/3 will need to come from well capitalized investors, and
- 2/3 from lenders.

Actual gross cost to the federal government will be what is lost over the timeframe of the project.

At USDA, we are keenly aware of how sensitive lenders are to risk mitigation. And we are dedicated to addressing these issues and to get capital flowing again. We've been meeting with lenders, establishing new

relationships and building on old ones. As we continue to invest in and develop advanced biofuels technologies; many will become eligible for more conventional forms of financing.


On the issue of policy uncertainty, whether or not we have cap-and-trade legislation, we must continue technology development and demonstrate to lenders the importance of transitioning to advanced biofuels. There will always be uncertainties. There will always be surprises. Neither markets nor technologies are static. But the President and the Congress have clearly outlined our role. Our job is to implement legislation. Our responsibility is to support the entrepreneurs that have the initiative and the drive, to go out there and compete in the marketplace to build a new energy future.

(SLIDE #10 – Path ahead)



Path Ahead

- Biomass Board will coordinate Federal efforts to include biofuels, biopower and biobased products
- President's Biofuels Interagency Working Group will coordinate to accomplish the RFS2 mandate of 36 billion gallons by 2022
- USDA will focus on Public/ Private Partnerships to accomplish challenges


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Looking to the future

As the ethanol industry continues to build out and shore up those experiencing financial challenges, USDA will aggressively work to provide an array of financial and technical assistance resources needed.

Thank You

Thank you for the opportunity to join you today and I look forward to working with you to build out America's Energy Independence.