

**TESTIMONY OF JEAN-MARI PELTIER
PRESIDENT
NATIONAL COUNCIL OF FARMER COOPERATIVES
BEFORE THE
SENATE COMMITTEE ON FINANCE
SIOUX CITY, IOWA
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Thank you, Mr. Chairman. We appreciate very much the opportunity to appear before you today and want to commend you for holding this important hearing on promoting economic growth and opportunity in rural America.

My name is Jean-Mari Peltier and I am President and CEO of the National Council of Farmer Cooperatives, which is headquartered in Washington, DC. Farmer cooperatives, their farmer owners, employees and their families all have a significant interest in the subject of today's hearing because rural America is where they call home.

NCFC is a national trade association representing America's farmer-owned cooperative businesses. Our members include nearly 50 national and regional marketing, supply and credit cooperatives that, in turn, are comprised of more than 3,000 local cooperatives whose member owners represent a majority of our nation's nearly 2 million farmers. Here in Iowa, there are over 160 farmer cooperatives, making it the 7th largest state in terms of number of cooperatives. In addition, NCFC's membership includes 26 regional and state councils, such as the Iowa Institute of Cooperatives.

These farmer cooperative businesses handle, process and market virtually every type of commodity produced in the U.S.; manufacture and sell farm supplies; and provide credit and related financial services for and on behalf of their member owners. They provide farmers with the opportunity to:

- Improve their income from the marketplace;
- Better manage their risk;
- Capitalize on potential value-added business opportunities beyond the farm gate; and
- Compete more effectively in a changing global economy.

Being farmer owned and controlled, the earnings from these activities are returned to their farmer members on a patronage basis. This not only helps improve their overall income from the marketplace, it also promotes additional economic activity in their rural communities.

Farmer cooperatives also play another important role when it comes to our rural communities by providing jobs for over 200,000 full and part-time employees with a combined payroll of more than \$8 billion. These include an estimated 22,000 jobs here in Iowa.

Clearly, maintaining and strengthening the ability of farmers to join together in cooperative self-help efforts is critically important to their economic well being as well as rural America.

Rural America faces a number of challenges as a result of a combination of factors, including changing demographics, the advent of new technology, and globalization.

It has been pointed out that over the last 20 years a majority of rural counties have experienced out-migration of more than 10 percent. Such a loss has had a ripple effect on many communities in terms of their available work force and tax base, as well on their schools and the availability of various services.

To help illustrate this, I have included with my testimony a map (Exhibit 1) highlighting those counties that have experienced high out-migration of 10 percent or more in recent years, along with a separate map (Exhibit 2) showing the location of America's more than 3,000 farmer cooperatives. As you can see, many of these counties continue to be the home of a significant number of farmer cooperatives and their farmer owners, their employees and families.

This has strategic importance. Job growth in agricultural areas is now more likely to come from rural industries related to farming rather than farming itself. Farmer cooperatives and other agribusinesses involving agricultural inputs, processing and marketing of agricultural products, as well as the wholesale and retail trade of agricultural products, have increased their presence in rural communities.

Farmer cooperatives and their farmer owners have a strong commitment and vested interest in their communities. Again, as I indicated at the beginning of my testimony, rural America is where they call home.

Addressing the challenges facing rural America, however, will require not just a strong commitment on the part of those who call it home, but a combination of public policies and programs, including tax incentives and other initiatives.

Accordingly, we want to commend you and Senator Baucus, among others, for introducing the Heartland Investment and Rural Employment (HIRE) Act of 2004 (S 2761). Title I of this important legislation contains a number of key provisions for farmer cooperatives and their farmer members, including:

- Elimination of the triple tax on cooperative dividends paid on capital stock. Such a provision is a top priority for NCFC. Currently, such dividends are taxed 60% higher than regular corporate dividends. Eliminating this unfair tax penalty would better enable farmer cooperatives to raise the equity capital they need to modernize and expand, and would help their farmers capitalize on value-added business opportunities beyond the farm gate. This, in turn, would also help maintain and create needed new jobs in many rural communities.
- Clarification of the definition of "cooperative marketing" to include value-added animal processing such as the conversion of corn into feed for chickens that lay eggs that are then marketed by a cooperative on behalf of its farmer owners. The IRS has held that since this involves a biological process rather than a mechanical process it doesn't qualify. This provision addresses that issue.

- Extension of Declaratory Judgement Procedures to Section 521 cooperatives on the same basis as other similar types of entities, which would allow a cooperative whose application for Section 521 tax status is rejected to seek judicial review of the denial without first creating a tax controversy.
- Establishment of a general business credit that would allow cooperatives to pass through certain tax credits to their farmer members. The ability to pass through credits will enable cooperatives to take advantage of tax incentives otherwise available to businesses.

The HIRE Act would also establish a special commission to help identify and recommend additional tax changes to encourage and promote cooperative self-help efforts by farmers. NCFC would welcome the opportunity to work with you to develop the composition of this Commission.

The HIRE Act also includes several other individual tax provisions relating to farmers, including Alternative Minimum Tax (AMT) relief, exclusion of certain income such as Conservation Reserve Program (CRP) payments from self-employment taxes, establishment of Farm, Fishing, and Ranch Risk Management (FFARRM) Accounts, along with charitable deductions for food contributions.

In addition, the bill incorporates several other provisions to help revitalize rural America and address the challenges resulting from out-migration. These include:

- (1) Rural Investment Tax Credits for businesses, including farmer cooperatives, in high out-migration counties to help encourage and offset as much as 80 percent of new business investment over a 10 year period; and
- (2) Micro-Enterprise Tax Credits for small business for qualifying start-up or enterprises with 5 or fewer employees.

These initiatives, including similar provisions contained in the *New Homestead Act* (S. 602) introduced by Senators Dorgan and Hagel, as well as the *Rural Renaissance Act* (S. 1796) by Senator Coleman and others, would help provide needed capital and encourage greater investment in rural America.

Many of these provisions are also included in several other bills, including the FSC/ETI or *JOBS Act* (S 1637) as passed by the Senate, and we appreciate your continued strong leadership and support for such initiatives.

It is important for Congress to complete action on legislation relating to FSC/ETI (S. 1637/HR 4520). Unless Congress acts, European tariffs on many U.S. exports, including agriculture, now at 10 percent, will continue to increase 1 percent monthly until reaching a high of 17 percent.

Both the House and Senate bills address this issue by phasing out FSC/ETI benefits and providing new tax incentives and other provisions for domestic manufacturers, including farmer

cooperatives and their farmer members, to help maintain and improve U.S. global competitiveness. In addition, the Senate bill provides special rules for farmer cooperatives to allow the pass-through of such tax benefits to their farmer members, which we hope will be included as part of any final agreement. It is essential that any new tax incentives for domestic manufacturers are also available to farmer cooperatives.

Since it continues to be a top priority, it should be underscored that both the Senate and House-passed FSC/ETI bills (S. 1637/HR 4520) also include legislation as introduced by you, Mr. Chairman, and Senator Baucus, and by Representatives Herger and Pomeroy in the House, to eliminate the triple tax on cooperative dividends on capital stock. Enactment of this legislation is critically important to farmer cooperatives and their farmer members and we appreciate your efforts to help achieve this important objective.

Congress should also complete action on comprehensive energy legislation. Many of its important tax provisions, however, are included in the Senate-passed FSC/ETI or *JOBS* bill (S. 1637). These include tax incentives for ethanol and biodiesel, along with provisions for farmer cooperatives, and to help small petroleum refiners - including farmer cooperatives - comply with costly EPA low sulfur regulations. Such provisions are important not only to meet environmental requirements, but also to help ensure U.S. agriculture and rural America have access to a dependable supply of energy at reasonable prices since farmer cooperatives provide for as much as 40 percent of on-farm fuel use. Passage of these provisions would also have a positive impact on the rural economy in terms of strengthening farm income, providing new value-added business opportunities, maintaining and creating jobs, and promoting economic growth. Again, we appreciate your leadership, along with that of Senator Baucus, in support of these important provisions.

Given the important role that farmer cooperatives and their farmer members play when it comes to the overall economic health and vitality of rural America and local communities, there are a number of other actions that Congress can and should take.

These include:

1. Strengthen USDA programs, including research, technical assistance, and education, in support of farmer cooperatives. This includes providing full funding of \$40 million as authorized under the 2002 Farm Bill for the Value-Added Producer Grants Program. The program provides matching grants up to \$500,000 to farmer cooperatives and other eligible participants to help farmers capitalize on new value-added business opportunities and create jobs. It has been a tremendous success by any measure. Value-Added Grants awarded to Iowa businesses in 2003 totaled over \$2.8 million and included grants for pork production, bio-diesel generation, dairy processing, and other ventures.
2. Ensure that farmers that choose to cooperatively market their commodities and related products are fully eligible to participate under USDA and other programs, including federal procurement programs. In addition, farmer cooperatives can play a key role when it comes to environmental and other types of programs in terms of helping improve the delivery system, encouraging participation, and providing important services to their farmer members.

3. Modernize the Federal Farm Credit Act. In an effort to better finance and capitalize their businesses, farmers and their cooperatives are looking at various business models and corporate structures that were not contemplated just a few years ago. In response, Minnesota and Wyoming are among the states that have adopted new cooperative laws to provide farmers and cooperatives with more organizational flexibility to meet their capital needs. Several other states, including Iowa, have similar proposals under consideration. There is also under consideration a proposal to establish a uniform cooperative statute. As a result of changing state laws, the Federal Farm Credit Act needs to be modernized to ensure that both existing and evolving new types of cooperatives continue to have access to a competitive source of credit through CoBank and the cooperative Farm Credit System.
4. Maintain support for basic farm and export programs to provide an adequate safety net for producers, meet subsidized foreign competition, achieve important environmental goals, and help ensure consumers a dependable supply of high quality food and fiber at reasonable prices.
5. Create a Cooperative Conservation Initiative. According to a recent USDA report on trends in rural America, “Natural amenities are the trump card for rural areas.” Programs to enhance and protect the quality of these natural resources are in the interest of rural residents and the tourists they can attract. However, compliance on the farm with environmental regulation can be complex and costly.

In an effort to address some of these burdens and to strengthen rural environmental stewardship, the 2002 Farm Bill increased authorized expenditures for a wide range of conservation programs by over 80%. The very structure and mission of farmer cooperatives makes them ideal organizations for the efficient implementation of these green programs. Because farmer-owned cooperatives represent producers and marketers, as well as input suppliers, they are uniquely qualified to provide specialized expertise and help craft practical conservation solutions to complex environmental challenges facing rural America.

New conservation programs call for USDA (and the Natural Resource Conservation Service) to help farmers address increasingly intricate conservation issues involving soil erosion and water quality, along with air pollution issues and pest management concerns. These latter two areas of involvement are largely beyond the expertise of most NRCS staff - thus underscoring the need for a functional program for certifying third party vendors to provide these services to farmers. Cooperatives could lend much needed technical assistance to NRCS, at the same time helping their farmer members by providing technical services (such as developing nutrient management plans, or pest management plans) while accessing government funding assistance for these services. Much the same as cooperatives serve as a delivery mechanism for Farm Services Agency support programs in rice or cotton, farmer-owned cooperatives should be allowed to help deliver conservation payments, adding environmental expertise and streamlining the delivery mechanism for government conservation program payments. Instead of multiple contracts with individual farmers for conservation activities, NRCS could administer single contracts with farmer cooperatives,

which could in turn help the Agency track environmental benefits of programs across a wider scale.

Given the unique farmer-focused mission of America's farmer cooperatives, they are an ideal delivery mechanism for conservation programs. Their ability to serve as an efficient interface between the federal government and farmer members will enhance the viability of current and future green programs.

Tax provisions you have championed, Mr. Chairman, could play a major role in this process. For example, dairy farmers are increasingly called to reduce potential run off of nutrients into waterways, as well as address concerns about air emissions of hydrogen sulfide and ammonia from animal feeding operations. One potential solution to both issues is to run manure through anaerobic digesters, where the methane captured could generate electricity, which would in turn be wheeled out to the power grid. One of the stumbling blocks to implementation of this technology can often be price differentials. The provision in the *JOBS* bill that would modify section 45 to allow for a 1.8 cent per kilowatt hour credit for the production of electricity from animal waste could benefit cooperatives' farmer members by off-setting these price differentials.

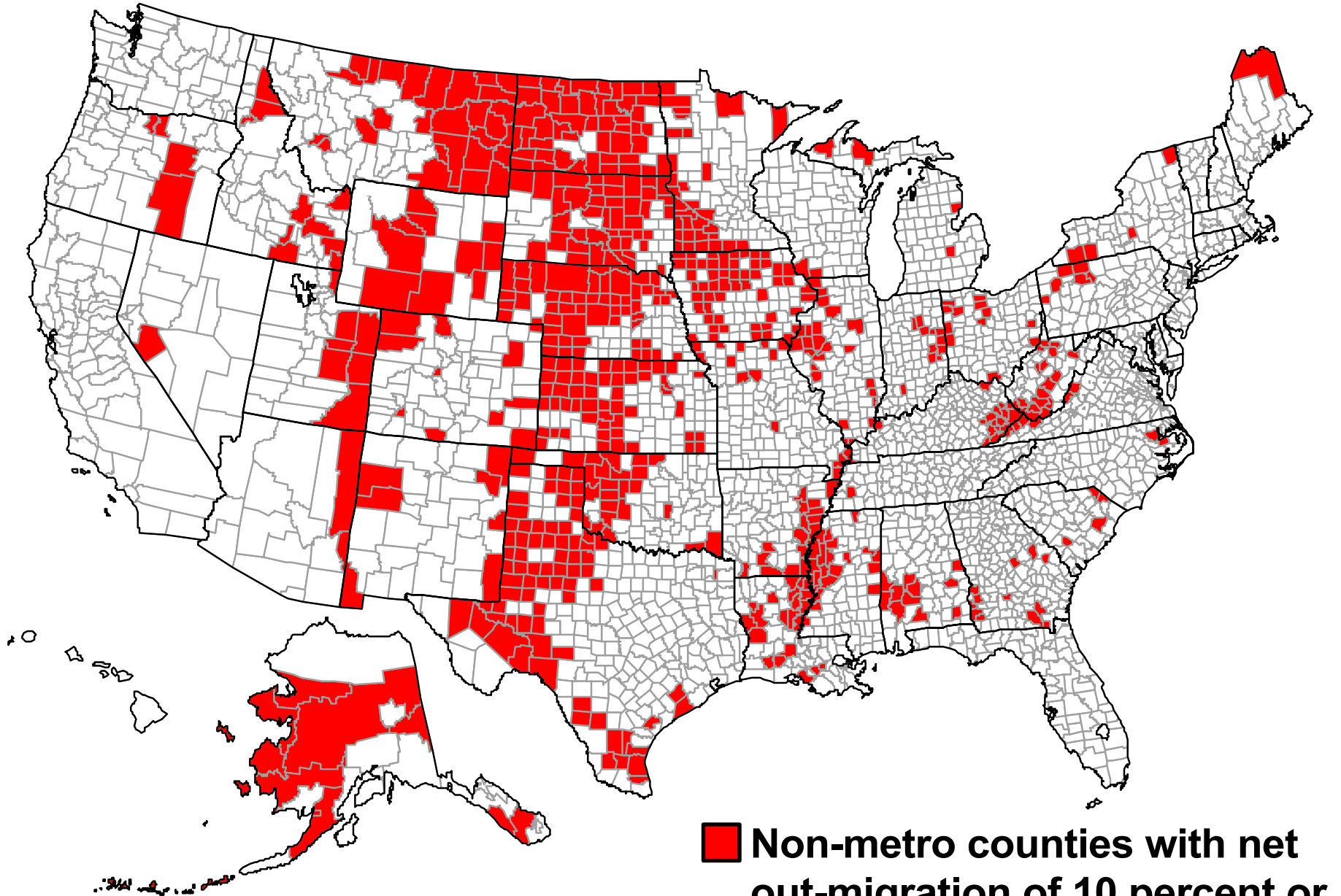
However, another significant impediment is the reluctance of farmers to undertake the role of power generator. Here, farmer cooperatives could provide the expertise to install the digester systems and help in the movement of the product to the electric grid. With the enactment of a general business credit for cooperatives, the section 45 credit could be passed through in the form of patronage to the cooperatives' farmer members. We are happy to see that the HIRE Act includes language that would amend the IRS code to include such a general business credit.

Again, Mr. Chairman, on behalf of America's farmer cooperatives and their nearly 2 million farmer owners, we appreciate this opportunity to share our views and we look forward to working with you and the members of the Senate Finance Committee to achieve these important objectives.

Attachments:

1. Map of U.S. counties with high out-migration
2. Map of U.S. farmer cooperatives

DECIMATION OF AMERICA'S HEARTLAND



Source: Produced by Economic Research Service, USDA, using data from U.S. Census Bureau.

■ Non-metro counties with net out-migration of 10 percent or more, 1980-2000.

America's Farmer Cooperatives

