

# FINAL REPORT

## VALUE-ADDED PROCESSES FOR AGRICULTURAL PRODUCTS

January 1991

### AUTHORIZATION AND MEMBERSHIP

The Value-added Processes for Agricultural Products Study Committee was established in the 1990 interim by the Legislative Council to study methods for expanding the development and marketing of value-added processes for agricultural products including livestock and grain and make recommendations to the General Assembly. Committee members included the following:

Senator Jim Riordan, Co-chairperson  
Representative Dennis May, Co-chairperson  
Senator C. Joseph Coleman  
Senator Jack W. Hester  
Senator John Peterson  
Senator John E. Soorholtz  
Representative Louis J. Muhlbauer  
Representative Wendell C. Pellett  
Representative Don Shoultz  
Representative Vic Stueland

### TESTIMONY AND MATERIALS

A list of persons providing testimony, and of materials provided to the Committee, is attached in the Appendix.

### COMMITTEE PROCEEDINGS

The Committee was originally authorized to meet on two days. The Legislative Council approved one additional meeting day. The Committee met on the following dates: July 27, September 24, and November 30, 1990.

The Committee heard testimony emphasizing that Iowa has the resources, both human and natural, to add value to products, create wealth, expand employment opportunities, and achieve diversification. The Committee considered issues associated with livestock confinement operations, including changes in agricultural technology, economies of scale, waste management, and nuisance actions. According to materials received by the Committee, between the early 1970's and the 1980's, livestock marketing receipts declined from approximately 75% to 55% of Iowa's total farm receipts. Persons stated that opportunities exist for smaller producers to capitalize upon opportunities to market nontraditional products. The Committee considered how cooperatives support small producers. It was emphasized that producers should become better educated regarding marketing opportunities.

The Committee was informed that Iowa must support its livestock industry by concentrating on areas related to slaughter, processing, exporting, and marketing. Several speakers expressed support for programs administered by Iowa State University, including transferring technology to the livestock industry, the Utilization Center of Agricultural Products, and the Center for Crops Utilization Research. Support was also expressed for developing intensive livestock research facilities to be constructed at Iowa State University. Support was expressed for a program administered by the Department of Economic Development which has awarded Community Economic Betterment Account (CEBA) grants to assist three beef cooperatives. According to testimony, members of the cooperatives utilize cooperative services, including veterinary care, feedlot monitoring, recordkeeping, and marketing.

The Committee considered testimony relating to the direct marketing of Iowa products, and in particular quality meats, to consumers around the country. Testimony indicated that direct marketing of high quality convenient products will dramatically increase in future years. The Committee considered a proposal to create a state-sponsored distribution and marketing system for Iowa products.

According to testimony, areas of potential growth include the following: meat products, canned fruits and vegetables, sugar and confectionery products, furniture, books and periodicals, drugs, and plastics. The Committee heard testimony about important industries, such as wet corn milling, which are migrating from the state. The Committee considered information regarding the canning industry and the decline of horticulture in the state.

The Committee considered testimony regarding programs administered by the Department of Agriculture and Land Stewardship, including departmental food shows, and the establishment of standards for the production of organic foods. The Committee considered testimony regarding programs administered by the Department of Economic Development, including the Value-added Agricultural Products and Processing Financial Assistance Program (to assist new innovative

value-added processing firms), and the Capital Access Program (to revitalize the cattle industry). The Committee considered a proposal to support the Resource Conservation and Development Groups in assisting persons in developing value-added processes and products.

The Committee was informed about possible new uses developed from agricultural commodities, including new fuels, fibers, building materials, lubricants, pharmaceuticals, sealants, and chemicals. According to testimony, opportunities for increasing value-added processes for Iowa agricultural products appear promising. Persons stressed the need to support research efforts between the state and private groups.

The Committee considered a great deal of testimony related to the ethanol industry. According to testimony, for each 100,000,000 bushels of new demand generated in the corn market, the price for corn may be expected to increase by five cents per bushel. The Committee was informed that Iowa is the largest producer of corn and the second largest producer of ethanol in the United States. The Committee considered positive impacts resulting from using ethanol-based fuel, including environmental benefits (in the form of reduced levels of carbon monoxide, nitrogen oxide, and hydrocarbons) and improved economic opportunities. According to testimony, the state can take important steps to encourage production and consumption of alcohol fuels, by establishing an Iowa Ethanol Office to serve as the primary entity in the state charged with the development of biomass ethanol, mandating the scheduled phase-in of ethanol-fueled state vehicles, assuming leadership at the national level to encourage the development of ethanol as a fuel and feedstock, supporting ethanol research and development, and offering incentives to encourage the ethanol industry.

### COMMITTEE DISCUSSION

The Committee discussed a proposal to establish an Ethanol Fuels Office whose function would be to promote the use of ethanol fuels and facilitate research related to ethanol production in Iowa and nationwide. It was noted that one of the functions of the Ethanol Fuels Office would be to determine the most effective use of incentives in Iowa. It was suggested that the Ethanol Fuels Office should be responsible for researching all the possible methods for producing ethanol from alternative crops.

The Committee discussed a proposal to repeal the termination of the one-cent excise tax exemption on gasohol. The exemption is due to expire on June 30, 1992. It is estimated to cost the state \$4,000,000 each year the incentive is retained.

The Committee discussed a proposal to recommend that the state establish a compact of ethanol-producing states in order to work toward establishing uniformity

among states providing incentives for ethanol distribution and production, and to ensure that ethanol production is centered in the Midwest. It was suggested that members of the Midwest Grain Compact be invited to join the compact.

The Committee discussed a proposal to require that the state purchase a minimum of 10% of its new vehicle fleet per year with engines which operate using NEAT ethanol, and that the State Department of Transportation be required to maintain an available supply of ethanol to fuel the vehicles. It was suggested that the proposal emphasize Iowa's confidence in the functionality of ethanol as a fuel and Iowa's commitment to the environment.

The Committee discussed establishing two pilot projects which would support two producer-controlled cooperatives for broiler and pork production. The Committee agreed that cooperative members should own livestock produced by the cooperative.

### RECOMMENDATIONS

The Value-added Processes for Agricultural Products Study Committee makes the following recommendations:

1. The state should establish an Ethanol Fuels Office whose functions will be to promote the use of ethanol and other alternative fuels, and to facilitate research related to ethanol production in Iowa and nationwide.
2. The state should repeal the provision contained in section 324.3 which provides that on June 30, 1992, the one cent per gallon exemption for gasohol from the excise tax on motor fuel is terminated.
3. The state should invite other grain-producing states, including states which are members of the Midwest Grain Compact, to join in the establishment of a compact to develop joint projects and uniform incentives related to ethanol production.
4. The state should establish a schedule to provide that each year 10% of purchases of new state vehicles for the state vehicle fleet shall be vehicles with engines, if available, that burn NEAT ethanol. The State Department of Transportation should be required to provide an available supply of ethanol to fuel the vehicles.
5. The state should establish two pilot projects to support two producer-controlled cooperatives for broiler and pork production.

da/mc

## APPENDIX

### PERSONS PRESENTING TESTIMONY AND MATERIALS PRESENTED

#### Persons Presenting Testimony

Mr. Jack Bailey, Iowa Area Development Group  
Ms. Mary Harding, Iowa Area Development Group  
Mr. Ken Mitchell, Commodity Consultants, Inc.  
Mr. Rollie McCubbin, Department of Agriculture and Land Stewardship  
Mr. Steve Pederson, Department of Agriculture and Land Stewardship  
Mr. Richard Timmerman, Department of Economic Development  
Mr. Jim Lein, Agricultural Products Advisory Council  
Mr. Mike Doyle, Department of Economic Development  
Mr. Mike Miller, Department of Economic Development  
Mr. Don Latham, Soybean Promotion Board  
Mr. Evan Stadlman, Iowa Corn Growers Association  
Dr. Ravindra Datta, University of Iowa  
Mr. Ollie Kaldenberg, Resource Conservation and Development Group  
Mr. Don Johnson, Resource Conservation and Development Group  
Mr. Dennis Hilger, Resource Conservation and Development Group  
Ms. Becky Lane, Resource Conservation and Development Group  
Mr. Roger Hill, Manildra Energy Corporation  
Mr. Andrew Baumert, Iowa Pork Producers Association  
Dr. Dennis Olson, Iowa State University  
Ms. Sally Smith, Chops of Iowa, Inc.  
Ms. Kathy Berry, Department of Economic Development  
Mr. Joel Bervid, Department of Employment Services  
Dr. Mark Love, Iowa State University

#### Materials Presented

Job Creation in Animal Agriculture, Iowa State University  
An Overview of Iowa New Manufacturing Facilities, Iowa Area Development Group  
Commercializing Industrial Uses for Agricultural Commodities, Commercializing  
Industries for Agricultural Commodities National Conference  
Iowa Fruit and Vegetable Marketing Study, Iowa State University  
Look Where Soybeans Go, Archer Daniels Midland Company  
The Technology of Agriculture, Archer Daniels Midland Company  
Corn 2000 The Future of Ethanol, National Corn Growers Association  
Alcohol Fuels 1990, United States General Accounting Office  
Ethanol: Fuel and Feedstock of the Future?, University of Iowa  
Outlook for Ethanol Fuels in Transportation, University of Iowa