

**AGRIBUSINESS AND BIOENERGY:
A CASE OF DYSFUNCTIONAL PARTNERSHIPS
AND ANTI-COMPETITIVE BEHAVIOR**

Presented by:

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The Agribusiness Council

The Agribusiness Council, Inc., (ABC) is a nonprofit, tax-exempt association dedicated to strengthening U.S. agro-industrial competitiveness through increased trade and development ventures between the United States and emerging countries such as Russia, Ukraine, Bulgaria, Philippines, China and Mexico. The Council's programs highlight new exports and foreign investment, related regulatory and policy change, and network services for entrepreneurs starting up or expanding business abroad with foreign associates.

Council programs embrace a food systems' approach comprising the full scope of enterprises and technologies that constitute U.S. agribusiness. These include agricultural production, research and marketing, food processing, agricultural inputs, transportation, storage and distribution, finance, and allied services such as computerization, business development consultation, insurance and farm management.

Founded in 1967 at a White House meeting between President Lyndon B. Johnson and Henry Heinz II, chairman of the Heinz Food Company, the Council is financed by contributions, dues and meeting service fees from companies, organizations and individuals interested in improved private enterprise action programs for world food security. ABC has also received grants for project work from the U.S. Department of Agriculture, the U.S. Agency for international Development, the Department of Energy, and the Overseas Private Investment Corporation.

The Council augments business information, education, market development and investment capabilities of small and medium-sized companies and agro-entrepreneurs by working with and encouraging the formation of state and local agribusiness organizations. The Council informally links this U.S. network with newly forming counterpart agribusiness associations overseas modeled after the ABC and its international parent, the Agri-Energy Roundtable (AEP).

The Council is guided by a Board of Directors, the Washington Advisory Committee, and a small Washington-based staff headed by the President and Chief Executive Officer, Nicholas E. Hollis.

Recent Council activities include trade missions to Poland, Hungary, Bulgaria, Russia, Botswana, and Jamaica, and bi-annual conferences on export programs (1988), agricultural research and industrial uses for commodities (1990), and U.S. foreign cooperation programs for agribusiness (1992). The Council publishes trade and investment reports and other special summaries for limited distribution.

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Introduction

Ladies and gentlemen of BioEnergy '98, it is my distinct privilege to speak before you today on a subject of paramount importance to our nation's rural development. Our chairman has limited panel remarks to provide ample time for questions so I will be brief.

I have been following the renewable energy/agriculture nexus for twenty years, first in government as an appointee in the Carter Administration (AID) and later as executive director of the Agri-Energy Roundtable (AER) - a non-profit organization accredited by the United Nations, and more recently as president of the Agribusiness Council (ABC), a tax exempt nonprofit association which is privately funded and administers an informal network of some twenty four state agribusiness councils. We have also assisted the formation of counterpart programs overseas in cooperation with U.S. Government agencies. As a result of these networks, we have gained a unique perspective on developments in global agribusiness, energy and the world economy.

Bioenergy, as a key subset of renewable energy, provides a natural platform to convene agriculture and agribusiness interests with energy and conservation practitioners. We have successfully elevated many of today's meeting themes in conferences, and workshops dating back to 1979. We have supported the formation of special subcommittees on renewable energy in relation to the ag/food system and we encouraged state councils to establish focus groups to advance technologies and ideas relevant to different geographical and sectors. Our overall policy was to encourage the diversity in feedstocks for agri-fuels and fertilizers, including ag residues and wastes (i.e. biodigestors) in order to increase value added farm income. At the same time, we have witnessed one of this century's most savage economic downsizings (American family farms) and the rise of predatory, even criminal, corporate agribusiness.

Origins of Dysfunction

Back in distant 1972, USDA paid the largest export subsidy in history (\$700 million) to the Russians, helping them corner a quarter of the U.S. wheat market. The result was a quadrupling of wheat prices from \$1.25 a bushel to \$4.75 almost overnight. This triggered the onset of a decade of world inflation as OPEC cut production and quadrupled oil prices in 1973. One of their spokesmen linked the wheat price increase to their decision. Later, in 1978 when OPEC delivered the second price jolt. Carter declared our energy independence a national goal - the "moral equivalent of war"... and the long dormant renewable energy industry revived.

Against the backdrop of crisis and long gas lines, Dwayne Andreas, a longtime political contributor, who had boosted both Hubert Humphrey and Richard Nixon (i.e. \$100,000 cash of Andreas' money was found in Nixon's White House safe and returned after his resignation in 1974), came to President Carter with a "solution": the USG would provide Andreas' Company, Archer Daniels Midland, a grain processor, with a market by mandating that ethanol from corn be blended as a lead-free octane enhancer. Andreas had a surplus of corn syrup at the time. With the help of Bob Dole and Robert Strauss, the DNC chairman, Andreas convinced Carter. The ADM Age for corn 'ethanol was born when a 10% gasoline blend' (gasohol) was granted a tax exemption from the 4 cents a gallon federal fuel excise tax at the pump. In addition, on the eve of the 1980 election a deluge of federal loans were made to companies for building ethanol processing plants.

Most onlookers failed to realize that ADM already had an iron grip on the emerging industry since it had enormous processing capacity and controlled a huge proportion of the key feedstock: corn¹. As time passed non-corn feedstock promoters learned that ADM was ruthless in its determination to crush other would-be competitors. A monopoly had been born. But unlike normal infant industries, this one was already an 800 lb. gorilla with high-level political connections on both sides of the aisle.

Subsidy Bridge to the Future : Cost Benefit Analysis

Over the years huge Federal payments have been made to ADM, and new organizations have emerged with ADM sponsorship to consolidate and expand the company's growth into biotechnology and other hi-tech ag sectors. Efforts to launch other feed-stock based ethanol production (i.e. rice hulls, sugarcane, bagasse, cellulosic fiber and others) have foundered after much opening fanfare, leaving only King Corn with ADM at the helm. Yet, after twenty years ethanol remains a dominated, rather anemic industry. With plunging oil prices beginning

¹ ADM exerts de facto control with numerous ag cooperatives

in the mid-80's, ethanol has been plagued with high corn prices and other uncertainties. At times ethanol has become such an economic absurdity that Andreas had to pressure the secretary of agriculture into providing \$29 millions worth of free corn to keep ADM's processing plants running. More recently, ADM led arm-twisting for mandated use of oxygenated fuels by EPA have scorched the political environment. Dwayne has tried to douse this with scandalous perks and campaign contributions, legal and otherwise, reaching ever higher, permeating our political establishment.

Any cost benefit analysis on corn ethanol suggests that this concentration in renewable fuels is net loser for nearly everyone except ADM, a handful of ADM controlled ag group executives and perhaps a few very large farmers - although benefits for this group are far from certain. Other distortions linked with the ADM Era in ethanol include damaged trade relations with countries such as Brazil, undermining of key elements of U.S. policy (i.e.the Caribbean Basin Initiative), increased costs for livestock producers due to feed price hikes, rigged research/development designed to benefit ADM while discouraging projects deemed in potential conflict with "ADM objectives" (i.e. corruption at land-grant universities).

Among the biggest losers in this picture are those who have invested in other renewable fuels, or have tried to develop markets for ethanol from non-corn feedstocks. Publicly the corn promoters preach principles of open markets, competition and alternate feedstocks. Behind the curtains, veiled in chicanery and raw power exercised from Decatur, Dwayne's message is quite different - corn will remain the only "real" feedstock for ethanol. This is backed by a phalanx of corn groups receiving federal check-off funds for "promotion" and "research", who routinely steer money to ADM "friendly" projects.

End of the Era of Andreas?

Corn based ethanol and its massive subsidies have been defended by many in this room (including myself) as a "bridge to the future" and therefore tolerable. However, we have not been honest with each other. If Rip Van Winkle had slept over these past twenty years, upon awakening he would find ADM's world of renewable fuels quite recognizable. There are far fewer real players in the business and far fewer corn fanners. ADM has grown larger, faster than any agribusiness company on the planet. (sales went from \$4 billion in 1978 to \$16 billion this year), yet U.S. agriculture has not seen a worse stretch in sixty years.

A few weeks ago in a packed Federal District courtroom in Chicago a jury convicted Dwayne Andreas/son Mick and former ADM Corn Processing Division president Terrence Wilson of criminal price-fixing in lysine, a feed additive for

poultry, swine and livestock. It was a landmark case with enormous implications yet the farm bureaus and corn groups, who claim to represent the farmer, were silent. The case had dragged on for more than three years since seventy FBI agents raided ADM headquarters in June 1995. Dwayne dodged the bullet of his own possible indictment by cutting an unique immunity deal with the Department of Justice in October 1996 where ADM - the corporate entity - pleaded guilty and paid a \$100 million dollar fine. During the trial FBI tapes provided a glimpse of the unethical business practices, which characterize this "criminal culture", including the use of prostitutes to obtain information on competitors, the use of ag trade associations as facades for price-fixing, offshore bank accounts and illegal campaign contributions.

Ladies and gentlemen, I ask you to consider the future of ethanol after Andreas since there is now the prospect of more indictments and management changes. The Era of Andreas may be coming to an end at ADM, and I would suggest this may be a blessing for American agriculture, the broader food system and the bioenergy sector. It would mean more competition, more diversity and possibly a chance for other feedstocks.

The Price of Denial

Denial is not a river in Egypt, and we have only recently begun to reckon the cost our society may pay for countenancing dishonest public statements. I call it the Doctrine of Dysfunctional Levels of Public Dishonesty. Anyone who has tried to watch ADM's infomercials understands the subtlety of this "mind control" spin game, which has serious implications for where the Supermarkup to the World would take us - if they could. Farmers and other practitioners in agriculture are too vulnerable to stand up to the 800 lb. gorilla yet their anger is deep.

With proven reserves of oil and natural gas far higher than twenty years ago, those of us who have labored in these trenches for renewable fuels, better nutrition for the growing world population and a cleaner environment, need to face reality. The Age of Andreas has done much to damage our long-term aims. It has built a formidable juggernaut, which enriches a few while sprinkling grants and contributions strategically to insure greater corruption and control of the ag/food and ag/energy sectors.

We are not blameless for the coming train wreck in rural America. The causes for the growing economic dislocation are as complex as they are obscure and intertwined. As Shakespeare wrote nearly four centuries ago, the "the fault is not in the stars, but in ourselves". We cannot continue to look the other way and pretend that the 800 lb. gorilla is not in the room.

Ethanol: Blunt Tool or Development Enabler?

Andreas has cleverly framed his corn based ethanol with histrionics of "Bushel versus Barrel" and other inflammatory rhetoric. He urged his friend John Block, ag secretary under President Reagan, to visit the mideast and deride Saudi Arabia's desert agriculture development program (Block is now on the ADM board). Block delivered the insult to Saudi Arabia's ag minister and the damage resonates even today.

In the mid-80s Andreas reportedly used his considerable influence with certain Rockefeller family foundations (Happy Rockefeller was a longstanding member of the ADM board), to engineer problems for the Bio Energy Users Network (BUN). BUN had been developing in partnership with the U.S. Agency for International Development (AID). Sources indicate that BUN'S mistake was to press Andreas for help to reduce protective tariffs effectively blocking Caribbean sugarcane based ethanol from entering the U.S. BUN was duped, believing Andreas' "freer trade/development rhetoric" and learned the truth too late. AID watched helpless as BUN grants evaporated under a negative stampede of rumours, followed by an exodus of key staffers to jobs with close links to other Andreas' influenced groups. Before long AID'S Office of Energy stood virtually alone behind BUN, which was quietly moved to Costa Rica and oblivion. The BUN network in numerous developing countries, built up with generous U.S. taxpayer dollars, was allowed to atrophy.

AID kept up the good fight for ethanol projects in development and partnered with the Tennessee Valley Authority (TVA) and another non-profit organization called the Agri-Energy Roundtable (AER). This cooperative effort was also infiltrated and by 1989, the program remnants moved under the safe control of Winrock International, another Rockefeller backed foundation. ADM's "take no prisoners" attitude surfaced a year later when proxy groups and political toadies inside the Bush Administration launched renewed attacks to crush the AER. After a period of vicious kneecapping, when the smoke lifted, Andreas had launched two new ag associations, with generous USDA funding. Not surprisingly, Andreas family members, including Dwayne, Martin, and G. Alien, were found at the helms of these associations. The mandates of the new groups appeared identical to programs espoused by BUN and AER - but the promotion of overseas ethanol production using potentially more economical feedstocks was nowhere to be seen.

Conclusion

I have devoted some time to the organizational history here not to dig up bodies but to reinforce a message: the renewable fuels arena cannot prosper as long as we tolerate the predatory dominance of one company led by management, which

shows no real regard or decency for the little guy. And if we are to effectively organize to bring more farmers and others of quality into the bioenergy sector we must apply some new standards for association members - in effect limiting those with records of unethical, anti-competitive and/or criminal business practices from participation. We can find and develop new channels to reach the grassroots, circumventing the tired control groups - toadies of the "Ag Mafia". We can link up with farmers, small food processors, technology investors, transport and utility leaders who want a level playing field with a new paradigm.

But we had better act soon. There is a storm building out here in the heartland and if the cows here in dairy land could speak to us they would urge us to get down and get together. There are far fewer dairymen out here than just a few years ago and like other living things the cows probably know the score: like the Titanic - bigger isn't necessarily better. We must pay more attention to honest work, stewardship of our environment, our institutions, our families. Bioenergy solutions can; play a vital role in our future. If we can work together, we can win together!

Our late chairman Jennings Randolph (former US Senator from West Virginia 1958-1985) was an early supporter of renewable fuels. As a congressman, he authored the Synthetic Liquid Fuel Act in 1944, but also used to quote Daniel Webster, who stated that "farmers are the founders of human civilization." Randolph fought for the little guy, "the man by the side of the road". Even as an ethanol backer, JR stood firm against pressure from Andreas, never buying Dwayne's ethanol "game" because he doubted much good would come to farmers. In closing speeches Randolph would remind audiences:

*"The doctor heals and the lawyer pleads,
and the miner follows precious leads,
But this or that, what ere befall,
The farmer, he must feed us all."*

Thank you for your kind attention.

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