

CountryMark

Submitted testimony for the U.S. Senate Committee on
Agriculture, Nutrition and Forestry

Congressional hearing to review “The Role of Agriculture
in Global Warming Legislation”

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As Congress proceeds with consideration of Climate Change legislation, CountryMark believes it is important for Congress to know about the companies this legislation will impact. It is also important for Congress to understand how this legislation as currently drafted will affect companies such as CountryMark.

CountryMark’s History

CountryMark’s history dates back to the 1920s, when several local Indiana farmer-owned cooperatives joined together to collectively purchase lubricating oils for their farm equipment. By 1930, 77 of these farmer-owners formed the Indiana Farm Bureau Cooperative Association (IFBCA).

With the discovery of oil in the Illinois Basin in the late 1930’s, IFBCA’s farmer-directors saw the need for better quality and more reliably supplied fuels. In pursuit of these goals they began construction of an IFBCA financed refinery in southwestern Indiana. The selected location was ideally situated between the Illinois Basin crude oil fields and the Ohio River barge traffic.

Refinery construction was completed in 1940 and crude processing of 2,500 barrels per day (BPD) (35 million gallons per year) started in April of that same year. IFBCA’s initial investment was \$330,000 for the refinery, crude oil pipelines, and truck fleet. At the time, the new farmer-owned cooperative had 60 employees and anticipated annual sales for refined products of \$1 million.

By the late 1940s, IFBCA was fully involved in drilling for crude oil, refining crude oil into fuel, and distributing its end products to its farmer owners. In the 1950s, IFBCA's operation expanded to justify construction of a 238-mile proprietary pipeline. The pipeline was constructed to better transport and distribute refined products from the refinery in Mt. Vernon, Indiana through the Indianapolis area and north to Peru, Indiana. CountryMark’s flagship product, *Super Deselex-4*, was introduced to the agricultural market in 1961. The current version of this fuel remains the company’s marquee product today.

Eighty-nine years later, CountryMark owns and operates over 400 miles of crude gathering pipelines serving the Illinois Basin, a 26,500 BPD (400 million gallons per year) refinery, and a 238-mile proprietary pipeline – as well as five product terminals. Since IFBCA's refinery investment in 1940, CountryMark's assets have grown to nearly \$600 million. CountryMark now employs approximately 350 people and in 2008 annual sales were \$1.3 billion.

CountryMark fuel and lubricants are delivered daily to individuals, companies, farms and government entities throughout Indiana and the neighboring states of Michigan, Ohio, and Illinois. CountryMark's fuel products power approximately 75% of Indiana's production agriculture industry, as well as about half the public school buses that deliver Indiana children to school each day.

Over the years, CountryMark's facilities and processes have been updated as fuel technology and refining innovation have occurred. CountryMark has actively promoted the growth and adoption of renewable fuels. CountryMark has been a longtime proponent of ethanol blended gasoline, and the majority of CountryMark gasoline contains ethanol. Also, in partnership with Indiana's soybean growers, CountryMark is the state's leader in the offering of biodiesel. In fact, the Central Indiana Clean Cities Alliance estimates that in 2008 85% of all biodiesel sold in the state was sold at one of CountryMark's four Indiana petroleum terminals. By focusing on the integration of American-sourced petroleum and biofuels, CountryMark has emerged as a recognized leader within the Indiana energy industry.

CountryMark - A Legacy of American Energy

CountryMark is Indiana's only American-owned oil refining and marketing company and is recognized nationwide as a leader in the distribution of biodiesel and ethanol.

CountryMark fuels are all-American fuels. The CountryMark refinery uses 100% American crude oil sourced from the Illinois Basin, a 53,000 square mile depression underneath most of Illinois, western Indiana, and western Kentucky. This light, sweet, American crude oil, domestically refined, helps reduce dependency on foreign oil, strengthens domestic energy security, and fuels the American production agriculture economy.

Our All-American operation produces an important financial consequence in our region as well. By sourcing American crude oil, more money remains here in the Midwest, supporting our local economies. CountryMark purchases over 9.5 million barrels of crude oil per year. In 2008, that meant \$800 million went into the Indiana, Illinois, and Kentucky economies. This money constitutes revenue in the Midwest economy to over 40,000 people and supports employment of over 14,000 in Illinois alone, and as many as 20,000 people in the tri-state area. Since none of the major oil companies operate in the Illinois Basin, CountryMark has emerged as the dominant purchaser of the area's crude. To support continued development of this American resource, CountryMark recently began partnering with local oil-producing companies to invest in additional well drilling.

CountryMark's operations employ 350 workers, nearly all in the rural economy of southwest Indiana and southeast Illinois. In Posey County, Indiana alone, nearly \$27 million in wages and benefits are provided every year. These wages are over twice the local average and are paid mostly to hourly workers with little or no opportunity for other employment equivalent to CountryMark. In addition to the positive financial impact of CountryMark's crude purchases and payroll, the company placed over \$200 million into the local economy for the purchase of other goods and services.

CountryMark's Cooperative System

Unlike most other fuel refiners, CountryMark is a cooperative business. CountryMark is owned and controlled by its member cooperatives that are in turn owned and controlled by individual farmers within our trade territory. Over 100,000 farmers in Indiana, Michigan, and Ohio participate in these local cooperatives who own CountryMark. CountryMark's Board of Directors is comprised of farmers. Each year, profits are distributed back to these farmers via the cooperative system. Over the past five years, CountryMark has returned over \$90 million to the member cooperatives. These distributions remain in local communities where the dollars support the local economy. This annual distribution of profits represents a critical financial connection between CountryMark, our member cooperatives, and the 100,000 farmer-owners that have equity in the cooperative system.

Beyond distribution of profits, CountryMark represents a significant capital investment by our regional farmer-owners. The ownership of gasoline and diesel manufacturing represents vital, vertical integration of farmer's production agriculture operations. This investment by CountryMark's farmer-owners represents a time-honored business model of joining resources for the common purpose of purchasing vital goods and services in a manner they simply couldn't do individually.

CountryMark's cooperative purpose is to produce and wholesale gasoline and diesel fuel for retail sale through the local member farmer cooperative network. Due to this mandate, we have a unique mission compared to the conventional oil refineries in the country. This mission is the core meaning of farmer cooperative ownership. As said by one farmer, "When it is time for the combine to run, the fuel had better be available." This was never more apparent than during hurricanes Katrina and Rita early in the harvest season of 2005. At a time when much of our nation's refining capacity was crippled, every single farmer co-op member was able to get the fuel they needed to operate their farm equipment. CountryMark will remain critical to farmers as they lead America's transition to biofuels.

Simply put, CountryMark's cooperative purpose is to supply vital goods and services to farmers. CountryMark's mandate is to supply these fuel needs even when purely capitalistic market forces might dictate otherwise. The needs of our farmer-owners are our single organizing principle. CountryMark was created to exclusively meet these needs, and our cooperative ownership ensures fidelity and accountability to our farmer-owners, not external shareholders. As a result, our farmer-owners unquestionably rely

upon CountryMark for goods and services necessary for production agriculture, profit sharing, and repurchase of ownership once the farmer retires from operation.

Impact of Cap and Trade Legislation

As one of the country's smallest refineries, CountryMark has built a durable operation by disciplined capital spending, controlling operating costs, and providing value-added goods and services to our farmer-owner customers. However, our resources do not provide a cushion to absorb climate change costs. We compete with much larger multinational oil companies with substantial earnings from oil production, petrochemical manufacturing, and other highly diversified operations. To provide perspective, CountryMark represents 0.15 percent of the total U.S. refining industry's capacity. However, climate change legislation as drafted provides no distinction between these large, multinational companies and very small, farmer-owned companies like CountryMark. If the pending legislation passes without recognition of the different financial capabilities of these two segments of our industry, the first casualty will be companies such as CountryMark that today are one of only a few petroleum refiners providing 100% American energy to the marketplace.

Climate change legislation is the single biggest threat to the viability of CountryMark and the investment of our farmer cooperative owners. Our latest estimate, based on the Waxman-Markey Climate Change bill as reported by the House Commerce Committee, is that the cost of carbon taxes on CountryMark will exceed \$100 million per year for both our direct manufacturing emissions and emissions produced from consuming our product. This burden, compared to our average annual net income over the past five years of \$37 million per year, clearly indicates the magnitude of the current legislation's impact on our economic sustainability.

If required to purchase allowances exceeding \$100 million per year CountryMark could be rendered insolvent. The end of CountryMark as a business would not only deprive our Midwest economy of the investments described above, but would even more significantly, seriously impair our local farmer-owned cooperatives' balance sheets. The insolvency of CountryMark would trigger a cascade of financial doubt through the farmer cooperative system. CountryMark bankruptcy would require the write down of currently viable assets on the cooperative system's books. Local cooperatives, which in turn would be impacted by the loss of equity, would see their ability to borrow money, at a time of economic stress due to volatile input prices, undermined. The violence of these economic forces could drive local cooperatives out of business, which in turn would significantly impair farmer's ability to pursue their livelihood. As a result of this cascade, the currently drafted climate change legislation threatens the basic farmer cooperative system.

Such a financial series of events would have far-reaching consequences for production agriculture and our national economy and must be avoided. CountryMark bankruptcy and the financial damage to our farmer cooperative system will not be the end of the impacts felt on our nation's future. The survivability of the farmer cooperative system,

and CountryMark, is vital to the development and implementation of future renewable fuels.

The reality of a viable renewable fuels industry is that it will be regional in nature. Transportation of both renewable feed stocks and fuels will be vital in ensuring economic sustainability well into the future. Renewable fuels production will not develop along the lines of the centralized petroleum refining in the gulf coast, where crude oil is pumped or shipped vast distances to be refined. To keep the cost of bio-fuels low for consumers, efficiency will be important. Production facilities will need to be close to both the feed source and the product distribution network. CountryMark and our cooperative members are well positioned to participate in the regional renewable fuels industry. CountryMark is already a recognized leader in renewable fuels distribution in the nation. Cap and trade legislation as proposed in HR2454 will force an undue economic burden on CountryMark, forcing our company into insolvency. If this is allowed to happen, a key contributor to the future renewable fuels industry will be lost forever.

The legislation as currently drafted will also reduce the quantity of diesel fuel available to the marketplace. The legislative proposal focuses on increasing availability of ethanol fuels to replace petroleum-based gasoline. However, today there is no comparable technology to produce enough renewable diesel fuel to replace the large volumes of diesel fuel now used within the nation's economy. By raising the cost of petroleum gasoline through cap and trade, less of it will be consumed. This will reduce crude through-put rates in the nation's petroleum refineries, necessarily reducing the co-production of conventional diesel fuel. This will disproportionately increase diesel fuel prices, significantly impacting diesel-consuming industries such as U.S. production agriculture.

Similarly, nearly all of the federal Renewable Fuel Standard is focused upon ethanol as a replacement for gasoline. However, the commercial viability of a suitable diesel fuel replacement is years behind the ethanol curve. Furthermore, renewable fuels standard regulations virtually eliminate the viability of increasing the use of soy-based diesel fuels because of the alleged impact on worldwide land use changes.

In the end, this legislation will increase the cost and decrease the supply of diesel fuel that is vital to our rural economy and negatively impact the local family farms that Americans are counting on to supply the renewable bio-based feed stocks for the renewable fuel industry.

CountryMark urges Congress to reject this legislative proposal and re-think the important strategies needed for this nation to reduce its carbon emissions, develop viable renewable gasoline and diesel fuels, and avoid destruction of critical aspects of our economy in the process. The legislation as currently drafted does not achieve these goals. These goals are, however, achievable. Through a transparent and practical dialogue with America's Production Agriculture Industry, we can succeed. The current draft of cap and trade legislation unnecessarily risks destroying the farmer-owned cooperative system, of which CountryMark represents a major success.