



Minnesota Soybean Processors

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Minnesota Soybean Processors

## THE BEAN COUNTER



Minnesota Soybean Processors

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### Minnesota Soybean Processors Soybean Procurement Policy

Effective Sept. 1, 2004

MnSP is budgeted to process 36 million bushels from Sept. 1, 2004 to Aug. 31, 2005. As a result, the MnSP board and management have developed the following options to fulfill your obligation as a member during this period.

- 1. Deliver your own soybeans to MnSP at Brewster or SDSF at Volga.** Members are required to deliver 1.8 bushels of soybeans for each equity unit owned. *Example: 10,000 Equity Units X 1.8 bushels called = 18,000 bushels obligated for delivery. Soybeans must be physically delivered by Aug. 31 to meet this requirement. Soybeans delivered but unpriced do meet this requirement.*
- 2. Utilize MnSP as your agent.** (MnSP will purchase your soybean obligation on your behalf.) The agent fee for fiscal year 2004-2005 will be \$.02 per bushel. No contact with MnSP is necessary when choosing this option. Members will be invoiced the agent fee for bushels not delivered by August 31. *Example: 18,000 bushels obligated for delivery X \$.02 agent fee = \$360 for zero bushels delivered.*
- 3. Combination of above.**

### Industry Award Nominations Open

Nominations are open for two industry awards given annually by the United Soybean Board (USB). "The USB Outstanding Achievement Award" goes to an individual, organization or group that has impacted the soybean industry. "The [rotating] USB Excellence Award" recognizes achievement in communications, domestic and international marketing, new uses, and production research, with emphasis this year on domestic marketing. Recipients will be announced at the 2005 Commodity Classic Feb. 24-26 in Austin, Tex. Deadline for nominations is Dec. 17; they can be submitted to Regina Cleary, Osborn & Barr Communications, 1 N. Brentwood, St. Louis, MO 63105; fax: 314/736-6350; e-mail: clearyr@osborn-barr.com

### Biodiesel Equity Offering Still Open

**The Biodiesel Equity Offering for Minnesota Soybean Processors remains open. Class B Stock can still be purchased at \$2.25 per share with a minimum purchase of 2500 shares. To request a prospectus call Kathy at 507-842-6690.**

### MnSP Board of Directors

DISTRICT 1	DISTRICT 2	DISTRICT 3	DISTRICT 4	DISTRICT 5	DISTRICT 6	DISTRICT 7
Robert Kirchner Brewster, MN 507-842-5592	Ron Obermoller Brewster, MN 507-842-5467	Bob Crowley Iona, MN 507-425-2021	Galen Van Beek Inwood, IA 712-753-2286	Steven Hansen Clear Lake, SD 605-874-2313	David Bunde Stewartville, MN 507-533-4928	Paul Henning Okabena, MN 507-853-4669
LeRoy Kellenberger Beaver Creek, MN 507-673-2283	Bruce Hill Worthington, MN 507-842-5402	Don Louwagie Marshall, MN 507-532-6081	Keith Waltner Parker, SD 605-648-3224	Todd Stroschein Clear Lake, SD 605-876-3721	Gary Dieterich Rudd, IA 641-395-2383	Darol Schmitz Brewster, MN 507-842-5413
Steffen Van Westen Reading, MN 507-478-4552	Bill Fest Heron Lake, MN 507-793-2585	Jim Sallstrom Winthrop, MN 507-647-2546	Larry VanMeeteren Sheldon, IA 712-324-4088	Edward Verhelst Huron, SD 605-352-5564	Eric Thorn Chatfield, MN 507-867-1427	Adam Schumacher Heron Lake, MN 507-793-2588

*From the Desk of the CEO*

## Fiscal Year Ends Positively

WOW! A three billion bushel soybean crop and an eleven billion bushel corn crop slam the book closed on the 2003 crop year. Given the growing season, who would have guessed that the U.S. farmer would deliver such a bumper crop? It's surreal but seems to be a fitting end to the market roller coaster we experienced this last year. At the end, one concludes, MnSP stands in good shape after starting a new business under extreme circumstances.

1. MnSP did not run out of soybeans and fulfilled all contract obligations. Short crops have long tails.
2. Our last six months delivered a solid profit, three times our expectation in March.

3. The plant continues to demonstrate excellent efficiencies.
4. In September, 30 short days, our membership purchased \$4 million in Class B preferred shares. The equity offering is open but MnSP will not be active in solicitation while farmers are in the middle of harvest.
5. MnSP is completing the engineering and bid specification packages for the biodiesel project, and we are working with lenders to finalize financing terms and conditions.

The end of a fiscal year provides the opportunity to reflect and learn from what we have experienced. As I review the landscape, I am proud of our risk management and business execution that generated over \$3 million in profits from April to September. I am proud of the world class soybean processing plant our team built. And I am proud of the operating efficiencies that our team is delivering. My disappointment: MnSP will record a loss during our first nine months of operations. The silver lining is that MnSP's depreciation will exceed the recorded loss. Rest assured we will also be reviewing last year to understand where we can improve our performance.

The Bioenergy Industry received an October surprise when Congress passed, and President Bush signed into law, the American Jobs Creation Act of 2004 (AJCA 2004) on Oct. 23. The AJCA includes a blender's credit for biodiesel. The credit for virgin vegetable oil will be 1¢ for each one percent included in a biodiesel blend (or \$1 for B100). The difference between the rack price (no taxes) of #2 diesel fuel and B100 is less than \$1 per gallon! The blender's credit starts Jan. 1, 2005. This bill provides a strong boost for MnSP's biodiesel strategy.

Rodney Christianson,  
CEO, Minnesota Soybean Processors

### AJCA 2004 Highlights

The American Jobs Creation Act of 2004 was passed by Congress and signed into law by President Bush on Oct. 23, 2004. Biodiesel highlights of the Act are:

- Creates a new tax credit for biodiesel
  - \$1.00 per gallon for biodiesel made from virgin oils derived from agricultural products and animal fats; and
  - \$.50 per gallon for biodiesel made from agricultural products and animal fats;
- Allows the credit to be claimed in both *taxable* and *nontaxable* markets;
  - Tax exempt fleet fuel programs
  - Off road diesel markets (dyed diesel)
- Streamlines the use of biodiesel at the terminal rack
  - The tax structure and credit will encourage petroleum blenders to blend biodiesel as far upstream as possible, which under the Renewable Fuel Standards or Minnesota's 2% volume requirement will allow more biodiesel to be used in the marketplace
- No affect on the Highway Trust Fund—the biodiesel tax credit will be paid for out of the "General Fund" not the "Highway Trust Fund."

To Sell Soybeans: 1-888-842-6677  
To Buy Meal: 1-888-289-6325

President's Report

## First 30 Days Brings in \$4 Million

I was reflecting back on the challenging weather we experienced this past growing season with locally some of the highest rainfall amounts ever. Nationwide the soybean crop is large and I hope that includes yours. Considering the large draw area of our processing plant we should have a good soybean supply to draw from.

The variable rainfall amounts of this season could be compared to MnSP's financial performance since start-up last Dec. 8. As we explained at our summer district meetings, in the December through March period, we experienced negative crush margins as well as the expected initial start-up expenses. Now to bring you up to date: the good news is that since April 1, MnSP has produced six consecutive months of profitability totaling over \$3 million in net profits. This includes the months of August and September, when we earlier had concerns that we might run out of beans (which did not happen).

You may ask how this impacts the Biodiesel Project. Two million shares were sold in the preferred equity offering we initiated Sept. 1, successfully bringing in \$4 million in the 30 days before harvest. The equity offering authorized the sale of four million Class B shares and remains open to new membership. I ask our members to inform their non-member acquaintances about this good 8% equity investment while it is still available. Please remember that non-farmers can invest in this of-

fering. The Board feels that it would be financially prudent to raise at least \$1 million more in additional capital.

Presently, we are in discussions with our lender to finalize a loan commitment for the Biodiesel Project. I expect that we will get the foundations in this fall.

**Bob Kirchner,**  
President, Minnesota Soybean Processors



Bill Hawks, USDA Under Secretary for Marketing and Regulatory Programs in Washington, D.C., toured the MnSP processing plant Sept. 24. Pictured (from left) are Rodney Christianson, MnSP CEO; Bob Kirchner, MnSP Board President; Under Secretary Hawks, and Jim Palmer, Executive Director of the Minnesota Soybean Assn.

## Soy Products on List for International Nutrition Aid

Recent observance of World Food Day Oct. 16 also marked the second anniversary of the first purchase of a high-protein soy product for an international nutrition program.

In the fiscal year ending Sept. 30, the federal government has purchased or made commitments to use more than \$2 million in high-protein soy products. These purchases are the result of efforts begun in 2000, World Initiative for Soy in Human Health (WISHH).

WISHH has worked to gain USDA and USAID approval of five value added soy protein products (defatted soy flour, textured soy protein, soy protein concentrates, isolated soy protein and soy milk replacer) for use in international food assistance programs.



MnSP members can now access the latest market bids on soybeans using their cellular telephones.

## Closing Bids Available on Cellulars

Now you can get Minnesota Soybean Processors' closing bean bids delivered directly to your Midwest Wireless or Cellular One cell phone as a text message, at no cost to you. The daily bids are e-mailed in the form of a text message to your phone by 3:00 p.m. each trading day. Verizon customers may also receive the closing bids as a text message with a charge of 2¢ per message. Call 888-842-6677, ext. 1306, to sign up to receive our bids on your cell phone.

## 2003-04 Crop Year One of Exacting Challenges

By Tom Kersting, Commercial Manager

Now that new crop soybeans have finally arrived, it's time to reflect on the past crop year. The 2003 / 2004 crop year will go down in my book as the most challenging to date. We knew by the time the combines started rolling that we would be facing a sharp reduction in the soybean crop with yields in our main draw area being particularly hard hit. In addition, two new soybean processing plants were coming on line in the region.

As production and yield data began to come in, many analysts were predicting that the U.S. would run out of soybeans by the end of the summer. These predictions caused panic buying of cash bean supplies, resulting in skyrocketing basis levels. Processors and exporters alike began gobbling up beans like they were the last ones on the planet. At the same time, instead of showing some restraint, processors continued to crush at alarmingly high rates feeling that if they didn't run hard early, there might not be beans for them to process later in the season. In their defense, many processors have long-term

oil commitments, so the idea of not being able to meet those commitments later on in the season compelled many of them to run hard early hoping to build some cushion of oil stocks for the summer months.

The high crush rates eventually resulted in the over-production of soybean meal and, since soybean meal is not as readily stored as soybean oil, huge quantities of meal were forced on the market, causing a catastrophic drop in meal premiums. During the December to March period our worst fears became reality. MnSP was not able to purchase soybeans at levels which would allow us to cover our costs let alone earn a profit.

By the time April rolled around soybean prices had climbed to a level at which exports out of the U.S. had started to slow. At the same time the processing industry started to show some discipline in the attempt to become profitable again. By the end of April, MnSP was able to record a small profit and started to dig its way out. During the balance of the spring and summer, meal premiums began to respond to the slightly lower crush rates and tightness in bean supplies. Board margins also began to turn higher and oil premiums remained strong.

Finally we had bean and meal premiums going in the right direction. During the months of June, July and August soybean processing became profitable. But the challenges continued throughout this period. Wild markets caused huge daily price swings and dramatic movement in the spreads. Hedging and other risk management activities became extremely difficult.

The fact that the plant started up during the worst margins seen in many many years and was able survive is a testament to the hard work and dedication of the employees of MnSP. I would also like to thank members for their patience and support during this start-up year. One thing is for sure: the challenges of this past year have taught us many lessons and have made us better prepared for the years to come.

## Import Group Tours Area Farm

A 22-member trade group from the Philippines visited a south eastern South Dakota soybean farm Sept. 15, curious about farming practices and agricultural production. The "Import Group," representing one of the biggest buying blocks of agricultural raw material and promoting the welfare of small and medium sized companies involved in the feedmilling industry there, buys 25,000 to 30,000 metric tons of meal and feed wheat monthly.

They toured the farm of Kevin Scott near Valley Springs, east of Sioux Falls. From there they went to Grays Harbor, Wash., site of a new export loading facility.

### MnSP Board Awards Biodiesel Contracts

The Minnesota Board of Directors, in a meeting on Oct. 29, approved contracts for site work and foundations for the biodiesel project. The contracts total approximately \$1.5 million. Work is expected to begin the first part of November.

## Attention Producers

Effective Oct. 28, 2004, MnSP is offering **FREE** Price Later for bushels delivered on or after Oct. 28, 2004. Price Later soybeans need to be priced before *Dec. 31, 2005*.

- When pricing **Price Later** soybeans, the nearby cash bid will be used.
- **Note:** Beneficial interest passes to MnSP when the soybeans are placed under our Price Later Program.
- **Free Price Later** program is subject to space considerations and may change without notice.

## MnSP Associate Reports for Duty

Our thoughts and prayers go out to Mark Enninga and his family as he has been activated for duty with the Minnesota National Guard, awaiting deployment to the Middle East. Many of you may have talked with Mark in the Brewster office as he was our Commercial Department Intern this past spring and summer. All of us at MnSP wish him a safe and timely return.