

**Northeast Ag and Feedstock Annual Meeting
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Under Secretary for Rural Development**

Thank you, Rick Zimmerman, for that very generous introduction. I'd also like to thank Patrick Brennan, our State Director for New York, for helping set this up. It is a pleasure to be with you today.

I am a lifelong farmer from Marcus, Iowa, which is in the northwest corner of the state. I took a temporary job in Washington, D.C. a few years ago. One of the benefits is that I get to escape Iowa winters.

So let me say that I DO appreciate this balmy Boston February, and I understand that Boston is pretty nice other times of the year as well.

We're here to discuss the future of agriculture in rural America. There's a lot on the table as we head into 2008. Obviously the Farm Bill is important. As you know, it's still in conference. If I had a crystal ball I'd make a prediction. But I don't, so I won't. What I can say is that the

principles President Bush enunciated a year ago, at the outset of the debate, have stood the test of time:

- **We need to modernize Title I to recognize that the safety net can and should be WTO compliant ... and stop subsidizing the wealthiest of the wealthy and the Park Avenue millionaires.**
- **We need to facilitate the entry of young people into farming. There are extraordinary opportunities in rural America, including but certainly not limited to farming. There are far more young people today who would like to farm than will ever get the opportunity.**
- **Yet farming has become an aging occupation. I've been farming for more than 30 years ... but if I attend a farm meeting back in Cherokee County, I'm still one of the young guys. The barriers to entry and the obstacles to young people need to be addressed.**
- **We also need to invest more in research, conservation, rural development, rural health care, and renewable energy ... all key components of the President's proposal.**

The President a year ago offered strong proposals in all these areas. He did so within the context of a fully costed-out, balanced budget plan, and without any new taxes. The House and the Senate both came up with very different plans.

There are some areas ... notably the support for conservation and renewable energy ... where the positions are fairly close. Elsewhere there remains a lot of work to do to find a consensus.

Underlying all these issues, however, is a simple fact. Farming is changing. Rural America is changing. This is a challenge for those of us who farm. It's also a challenge for policymakers ... it certainly complicates the Farm Bill ... because technology and markets move a lot faster than politics.

We're debating this Farm Bill in the context of an economy that is being structurally transformed by globalization, renewable energy, and distributed computing.

And I would submit to you, it is important to step back from the trees and look at the forest, that the future is bright indeed.

Yes, I know there are uncertainties and challenges. There always are.

Unemployment remains low at 4.9% ... very low by historical standards ... but the rate of job growth has recently slowed. That's a concern.

From August 2003 through December, we had 52 straight months of job growth. That was an all time record. The preliminary numbers suggest that January showed a small loss. That's a concern.

10 years ago if you had told me that oil was headed from around \$20 to \$90 or \$100 a barrel, like most people who remember the 1970's I'd have been stocking the cellar with Spam. In Iowa, we grow hogs. We like Spam.

But it's not the 1970s. The economy to this point has managed to absorb dramatically higher energy prices and keep on growing. Still, the cost of oil is clearly a concern.

Then there's the real estate issue. Some parts of the country, especially along the coasts, experienced a real estate boom over the last decade. Now there's a correction. That's painful for a lot of people.

Adding it all up, the economists are divided about whether or not we're going to see a recession. I certainly don't have the answer to that.

We do know that the current economic expansion is one of the longest running in history. Real GDP grew at 4.9% in the third quarter of last year, but just 0.6% in the fourth quarter. That's still growth, but it's clearly a slowdown.

Productivity, however, grew a very strong 1.8%. Average earnings are up. Exports are surging. In agriculture we have record farm income, record farm exports, and net farm equity of more than \$2 trillion. Farm equity has more than doubled in this decade. All positive signs.

So yes, there is good news ... and bad news ... challenges ... and concerns. There is uncertainty. I can't predict next month's or next year's economic numbers. If I could, I'd be on Wall Street.

But stepping back from the day-to-day noise, I continue to believe that fundamentally the U.S. economy remains the greatest engine for growth

the world has ever seen. And the future is bright. We are in fact living in an era of new and unprecedented opportunity.

Since the fall of the Berlin Wall, between two and three billion people have joined the world market system. This is the greatest explosion of economic freedom in world history. The world is a much richer, more productive, and more competitive place than it was a generation ago.

By the way ... before we complain about some of the bumps on the road, we need to remember that this is what victory looks like.

For the 45 years of the Cold War, we preached to our adversaries that they ought to drop the barriers, embrace market economies, and make trade, not war. Now they're doing it ... and a lot of them are turning out to be very formidable competitors. This is better than the alternative.

Yes, there have been surprises along the way. There are growing pains and adjustments to be made. But to narrow the focus to agriculture and rural policy ... in very fundamental ways the agricultural economy is being restructured, not only in the United States but around the world.

We used to talk about food, feed, and fiber. It's now food, feed, fiber, and fuel. We're discovering that calories and BTU's are fungible. This changes things in ways we are still struggling to understand ...

... And if food, feed, fiber, and fuel aren't enough, we may soon be adding new markets for carbon sequestration as well.

This is a game changer. It's an extraordinary opportunity that we frankly didn't fully foresee as recently as a decade ago.

When the Iron Curtain and the Bamboo Curtain fell, we DID anticipate ... among other things ... that American agriculture would benefit from direct food sales. Rising living standards produced a rapid growth in food demand. Hundreds of millions of people are earning higher incomes and enjoying a better diet. This means new markets for American farmers. It is also reflected in rising food prices for the consumer.

This much we did anticipate. What we largely failed to foresee, however, was the even more explosive growth of energy demand as China, India, and other developing nations achieved rapid economic growth.

For example, China is now the world's leading coal and steel producer, with more than double U.S. coal production. China, by the way, is also the world's leading CO₂ emitter, which is why it is essential to enlist China's participation in the ongoing discussion of climate change.

China has also passed Japan as the world's second largest automotive market ... and the second largest oil importer. It will be the largest automotive market in the foreseeable future. India is making similar strides. That's a lot of people graduating from busses and bicycles.

As a result, energy is being revalued in world markets. Oil recently topped \$100 a barrel; it's currently over \$90. Natural gas prices have soared. We see the impact every time we pull up to the pump or pay the heating bill. I've been growing corn for more than 30 years ... and I've watched the cost of inputs double in the last 5. These are real challenges.

But challenge is another word for opportunity. Markets work. As painful as \$60, \$80, or \$100 oil is in the short run, the good news is that today's energy prices are clearly enough to begin calling new resources into play on a large scale. This is phase I of the renewables revolution.

The benchmarks tell the story. Since the beginning of this decade ... since President Bush took office and made a comprehensive national energy strategy a central policy goal:

- The United States has quadrupled ethanol production. We are on track to double it again in the next two years as we build out to a 15-18 billion gallon corn ethanol industry.**
- Cellulosic ethanol is moving from the labs into production. The first commercial scale demonstration plants are being built now.**

This is not a done deal. We still have to demonstrate that the technology is cost competitive on an industrial scale ... but if the current plants hit the mark, second generation biofuels will take off in the next decade.

This will move ethanol out of the corn belt and create opportunity in every region of the country with a significant biomass potential ...clearly including the Northeast.

- **To ensure that we achieve that goal, the Congress in December enacted ... and President Bush signed into law ... a new, 36 billion gallon Renewable Fuels Standard. This calls for a five -fold increase in production over today's levels by 2022.**
- **At the same time, biodiesel production has increased from 2 million gallons in 2000 to 450 million last year. This is another potential opportunity for agriculture in the Northeast.**
- **So is wind. Because of its siting requirements, wind is a largely rural resource. Installed wind capacity in the U.S. has increased seven-fold since 2000.**
- **We led the world in new wind capacity the last three years running. The United States also leads the world in waste to energy, geothermal and solar thermal power. We are the world's second leading producer of biodiesel. We lead the world in total biofuels.**
- **Solar is still building out from a very low base, but shipments of photovoltaic equipment have increased tenfold since 2000. Solar is**

gaining market share for a wide range of off-grid applications, and there are some extraordinary technologies now in the labs or in commercial development that may slash costs even further.

All of this is important for us today because, from a rural development perspective, renewable energy ... thanks to its feedstock and siting requirements ... is inherently distributed and predominately rural in character. The potential is very large.

Just consider: if we displace even one billion barrels of imported oil with biofuels ... with oil at \$90 or \$100 a barrel ... that's a new market larger than today's net farm income.

That's just biofuels. The potential from wind and solar may be even larger. Carbon sequestration may become still another opportunity if it turns organic capture of CO₂ into a paying proposition.

Again, we didn't anticipate these developments as recently as a decade ago ... and I frankly don't know if we fully anticipate the effects even now, as we scramble to adjust to the new food-fuel paradigm.

But what IS clear is that for rural America, this presents an historic opportunity. There will be adjustments, for the livestock industry and others. Commodities are being re-priced. We're not going to stop eating hamburger and chicken ... food in the U.S. will remain a bargain by historic standards ... but it will cost a little more.

But when all is said and done, the renewables revolution represents a new and extremely powerful development engine for rural America. The challenge for all of us is to figure out how to participate.

Globalization and renewable energy are two of the factors driving the change. Distributed computing is a third. The synergy between broadband and distributed computing and inherently distributed rural resources ... including but not limited to renewable energy ... is very powerful. It's transformative.

This is a big deal. To take just one example, the ability to sell Adirondacks or offshore wind power in Boston or New York isn't just a matter of putting up windmills and plugging in the air conditioner.

What is required is the ability to integrate distributed generation seamlessly with a regional and national grid that balances loads across a continent ... plus the ability to measure and appropriately price distributed generation ... plus the availability of transmission corridors to gather and move a highly distributed resource to new markets.

Connectivity plugs everyone into the game. It empowers distributed production. It also allows dispersed, networked systems to achieve economies of scale ... something that has been very important, for example, in the buildout of a highly decentralized biofuels complex that is dependent on localized sourcing of feedstocks.

Put all of these things together and the result is literally a “Rural Renaissance.” This won’t happen overnight. It will be the work of decades. It will pose challenges to the scientists to identify new feedstocks and progressively increase energy yields.

It will pose challenges to rural investors and traditional lenders to stake an equity claim to these new industries being built out in our own

backyards. There are opportunities at every point ... production ... transportation ... conversion ... distribution and marketing ... banking, finance, and insurance. The spinoffs are endless.

It will pose challenges to State and local governments to resolve tax, regulatory, and logistical affecting renewables. We need to resolve the blend wall issue for ethanol. We need more E85 pumps and flex fuel vehicles on the road. We need new transmission corridors for large scale rural wind and solar production. And we need a regulatory environment that facilitates the necessary investments, particularly in a way that allows their use in rural areas.

So there is work to do at all levels. But the opportunity is enormous ... and I am convinced, when we look back 20 and 30 years from now ... we will be astonished at how far and how fast we have come.

So in closing, what does all of this mean for the future of agriculture in the Northeast?

It means, I think, the same thing that disruptive change has always meant. A new paradigm is emerging. People who are not prepared to adapt face a long, tough ride. But for those who embrace the changes, the future is bright indeed.

My grandfather, and probably yours too, started out plowing behind a team of horses. He would have understood the need to adapt. Change is nothing new. Let's make it work for us, not against us. Thank you.