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Remarks by Secretary of Agriculture Ann M. Veneman

Agricultural Outlook Forum

February 22, 2001

Arlington, Virginia

Thank you for the opportunity to join you here today. It seems only appropriate that I deliver my first public address in my new position at USDA's annual Outlook Conference. Over the years, this meeting has grown in importance not only in the U.S., but also around the world.

It is a tremendous honor to have been chosen by President Bush to serve in his Cabinet. The President has put together a solid and experienced team and we have all pledged to work together to accomplish his objectives. I, too, am working hard to assemble a talented and dedicated team at USDA to help deliver on the priorities the President has outlined as they pertain to agriculture.

We will pursue an aggressive trade policy that includes new trade negotiating authority, a new trade round in the WTO, and completion of the Free Trade Area of the Americas.

We will work with Congress to provide a safety net for farmers that moves toward a more market-based economy.

We will support research and development to find new solutions for issues related to food safety, the environment, biotechnology, energy, and other new uses.

And, we will advance pro-agricultural tax policies and implement common sense regulations that are based on sound science.

These are issues important not only to farmers, but also to the entire food chain. As we advance farm policy in the 21st century, it is important, more than ever, to bring new approaches and new thinking to the U.S. food system.

When I left USDA in early 1993, many of the issues we see today were either just emerging - or were not even on the radar screen.

We entered NAFTA, and in doing so became the largest free trade area in the world.

We are now members of the WTO and have adopted the unprecedented reforms of the Uruguay Round.

The 1996 Farm Bill has altered the terms of debate over farm programs.

The use and impact of new information technology and biotechnology are transforming many sectors, including agriculture.

Food safety and BSE are on most consumers' minds in ways that were not talked about just a few years ago.

Consolidation and mergers in the food sector are forcing new strategies for operations and production in all sectors of the food chain.

Rising energy prices - and the need for a national energy policy - is a new farm financial concern. And there is growing viability of agricultural products as a source of energy.

In the face of such a list of issues, it is important that we examine the larger context in which agriculture is operating.

The U.S. Farm Economy Today

The U.S. farm economy today reveals a story of optimism tempered by on-going weaknesses. The global economy is recovering since the 1998-99 slowdown, and that is having some positive effects.

USDA has just released the export forecast for fiscal year 2001. It shows that agricultural exports are holding at \$53 billion, up from a low of \$49 billion two years ago, but still much below the 1996 peak of \$60 billion.

There are also some encouraging signs in global commodity markets. After record-high crop production in the late 1990's, world supplies are coming into better balance with demand. World grain stocks are coming down, which should help strengthen prices. And, livestock prices were much improved in 2000, aided by strong demand and slowing production.

But other factors will continue to strain some parts of the farm economy. Rising prices for fuel, electricity, natural gas and fertilizer are increasing farm production costs at a time when many commodity prices remain weak.

The dollar remains strong by historical standards, which helps keep inflation at bay here, but reduces the competitiveness of U.S. exports. And world commodity trade remains sluggish, despite improvements in many countries' economies.

U.S. Agriculture Operates in a Global, High-Tech, Consumer-Driven World

In the face of current market weakness, it is important that we here in Washington work together to address the issues important to farmers and ranchers.

However, the longer-term success of agriculture is going to require a recognition of how commodity and food markets are changing and a strategy for seizing new opportunities that are arising from those changes.

Today, agriculture operates in a global, high-tech, consumer-driven environment. The world economy is characterized by the instant flow of capital, communications, and information.

Interest rates and exchange rates fluctuate in response to global capital flows and affect a company's bottom line, regardless of whether it operates internationally.

Internet communication is creating access to new information in ways that were unimaginable only a few years ago. And, changing consumer demands are challenging existing marketing institutions and the traditional ways of doing business.

A global food system has emerged which encompasses everything from production to processing to consumption. Increasingly, companies are finding that the best way to plug into the global food system is to form strategic partnerships that increase the ability to source, distribute and transport products.

Globalization of eating habits, although not without its detractors, continues apace as U.S. fast food trends continue to grow. The ever-demanding consumers drive the market today. They want simplified, tailored solutions that bring convenience and help improve their lives.

Companies and retailers require specific and consistent product characteristics, assured supplies, and timely delivery. Retailers are increasingly contracting directly with producers to meet consumer desires and reduce marketing costs.

Technology is also changing production and marketing of food and fiber. Improvements in transportation, storage and food technology mean more fresh food can be moved further and faster at lower costs. Information technology is being used to generate new efficiencies throughout the food chain.

The potential of biotechnology, will drive changes in the food system through products that make farmers more productive and consumers more healthy and satisfied. And technology is providing farmers new tools to reduce costs and adopt practices that solve environmental problems.

Seizing the Challenge

The combination of globalization, technology, and ever-demanding consumers means a more tightly connected food chain with stronger linkages among producers, processors and retailers. Evolution of the new food system may be viewed in different ways, but ultimately, requires new relationships and new thinking.

On the one hand, consolidated retailers want large volumes of branded, high-quality products. Processors are expanding operations, acquiring new product lines, or merging with others in order to meet the retailers' needs.

We have seen these forces at play in the meatpacking and grain industries. These changes have sometimes left farmers feeling vulnerable about their ability to benefit from the new market structures.

At the same time, many producers are finding ways to participate in the changing market for food products, while improving their bottom lines.

These farmers are taking the lead in more efficiently synchronizing farm production with market demand by recognizing higher value production and value-added processing businesses.

In some cases, these are large farmers with the capital and the scale of production needed to get started. In other cases, farmers have joined together to create scale by forming partnerships or other business alliances.

For example, 1,100 durum farmers formed the Dakota Growers Pasta Company, to manufacture from their own production.

U.S. Premium Beef, now operating in 33 states, is a beef-processing farmer-owned cooperative.

Tennessee Pork Producers, with the help of USDA, formed a cooperative with the goal of marketing pork to Hispanic markets in the middle Tennessee area.

Small farm operators all over the country are successfully producing organic and specialty crops for niche markets, up-scale restaurants and farmer's markets.

In California, there are many examples of producers taking advantage of marketing opportunities with new products such as baby carrots, bagged salads and ready-to-eat fruit snacks. Dairy farmers have joined to create private companies to produce cheese and capture added value from milk production.

A New Process for Success

Today, the interests of the various links of the food chain are more closely aligned than ever. Retailers cannot survive without processors and farmers. Farmers cannot survive without processors and retailers.

In this current environment, government cannot force solutions.

There is no question that USDA must and will carry out its traditional duties, such as vigorously protecting farmers and the public against unfair and uncompetitive markets, ensuring food safety, pest and disease prevention and eradication, and continuing to provide a basic safety net for producers.

But as we look to the next Farm Bill, we should consider new approaches to policy development.

Traditionally, interested parties have independently presented their views before Congress, often as competing interests. House Agriculture Committee Chairman Larry Combest has taken an important step by establishing a framework that encourages commodity groups to work together to develop Farm Bill proposals.

The next step could be a process that brings together commodity groups, general farm groups, processors, wholesalers, retailers, and consumers to find the best approach for all to succeed in the new, consumer driven food system.

The interdependency needed for success is the force that should drive the participants to come together. One recent example of a collectively developed policy approach is biotechnology.

In the U.S., farm groups, seed manufacturers, processors, and retailers have come together to address the challenges that biotech has confronted, including consumer acceptance and access to overseas markets.

The common interest is to be successful in efficiently producing food that meets consumers' needs for affordable, safe, convenient and healthy products.

Another quite different example is concern over the adequacy of price information in livestock markets.

The meat industry was fraught with competing interests over mandatory price reporting. Nevertheless, producers, feedlots and meatpackers came to the table and worked out a compromise that will give farmers the price information they need, yet will not impose an undue burden on processors.

Yet another example of successfully working together occurred when dozens of food and agriculture associations forged a consensus about their priorities for the upcoming trade negotiations prior to the Seattle Ministerial in December 1999.

The Seattle Round Agriculture Committee encompassed a wide range of producer, commodity, and processor interests and was able to develop many common positions on trade reform that were conveyed to and accepted by U.S. negotiators.

In California, to meet the growing food safety and environmental challenges to production agriculture, we successfully developed Quality Assurance Plans - partnerships among state and federal government agencies, producer groups, and academic institutions-to develop guidelines for best management practices.

Diverse interests were able to work together to develop specific best management practices for commodities such as eggs, produce, and dairy to ensure safe food production and sound environmental practices.

These examples clearly show that by bringing the links of the food chain together, solutions can be found that will benefit everyone.

Areas of Opportunity/Focus

We will focus our efforts in the coming months in key areas.

First, we will seek opportunities to expand trade. Some today are suggesting that things might be better if we retreated within our national borders and worried less about trying to further liberalize and expand world agricultural trade.

What U.S. agriculture needs is more trade, not less.

We must pass presidential trade negotiating authority so that we can enter into new market-opening agreements, including the Free Trade Area of the Americas and a new WTO agreement.

The lack of this authority has undermined America's fundamental ability to lead global market-opening efforts.

We must also advance an ambitious agenda for the next round of global trade talks. And we are honored to have Director-General Mike Moore here today to help bring urgency to this quest.

Second, technology development and adoption through research, education and extension are leading to new products, increased productivity, and more environmentally friendly farming. Farmers are on the front lines of the new "knowledge-based" economy.

In order for the U.S. agricultural economy to remain competitive, we need to accelerate our search for innovative uses for farm products. Energy is a prime example.

The nation needs new sources of clean, dependable energy and agriculture needs new markets - a coincidence of needs upon which we should capitalize. Research into biomass technology could develop efficient fuels and other chemicals from virtually any plant or plant product.

We should step up development of new technologies for cost-effectively producing important fuels like ethanol, bio-diesel and other bioproducts that not only provide markets for products but have environmental benefits as well.

Third, our regulatory environment must not be so burdensome that it places undue costs on the farm economy. That's why we will ensure that regulations must be based on sound science and common sense with solutions involving local input wherever possible.

A continuing challenge to agriculture is pest and disease prevention and eradication. We will make strengthening pest and disease programs a priority. They are the very infrastructure of production agriculture and only through pest and disease prevention, will agriculture in this country continue to thrive and prosper.

Food safety also continues to make headlines, with emerging pathogens such as E coli 0157:H7, Cyclospora, Hepatitis A, Listeria and Cryptosporidia. We must maintain consumer confidence in our food supply by building coalitions that encourage education and research, as well as policies that are based on sound science.

Finally, it is important that farmers have in place an adequate economic safety net, which is consistent with a market-based farm economy. It is also important to achieve estate and income tax reforms that will assist farmers.

All these issues provide opportunities to build new coalitions throughout the industry, and work with the Congress and State and local governments, in helping move agriculture forward in this new, consumer-driven economy.

At this forum, you will hear first-hand from various experts about the future direction of all aspects of the food system.

Again, the transformation taking place is tremendous. The pace of the change will continue to be at high speed, requiring that we constantly adapt to emerging new technologies, customer needs and competitive challenges.

Ken Blanchard in his book, "Mission Possible" says, "If you are not involved today in creating tomorrow's markets, or knowledgeable about what's happening in these markets, you are unlikely to find yourselves competing in them."

That, I think, neatly sums up the challenge before us.

We must recognize our common interest in having a healthy and growing agriculture and food system. And, we must work together if we are to meet the challenges of the new millennium.

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