

TRANSCRIPT

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USDA OFFICIALS BRIEFING WITH REPORTERS ON THE CASE FOR FOOD AND FUEL USDA

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[VIDEO Link](#)

SEC. ED SCHAFFER: Thank you all for joining us. It's a great day in America, and we're glad to have you here in Washington, D.C., and especially at USDA today. As you can see, we have been talking a lot in the United States these days and globally actually about the food versus fuel situation. And we are going to make the case today for food and fuel.

We think the time has come for USDA to join in the public conversation about the relationship between food prices and biofuels. We want to offer our perspective on what is happening in the marketplace, to share our data, and the analysis of what is happening. That's why I am joined today by Deputy Secretary Chuck Conner; Joe Glauber, our chief economist; Tom Dorr under secretary for Rural Development; and Dr. Gale Buchanan, the under secretary for Research, Education and Economics.

One of USDA's missions is to make sure the American people have access to safe, abundant and affordable fuel supplies. We are very concerned about the impact on higher prices for everyday food, particularly at a time when Americans are also facing a rising cost of gasoline. In fact, one of the points we want to make today is that these two trends are very closely linked. Higher oil prices affect much more than just the cost of driving; they are actually one of the major factors behind higher food costs.

With all the recent focus on the impact that biofuels are having, this fundamental fact seems to get overlooked. The markets, however, keep right on sending us wake-up calls. The price of oil is now holding steady at more than \$120 a barrel and giving signs that it might even go higher. In fact, we've already seen oil break through a series of price ceilings this year, and the result has been prices at the gas pump that are pushing towards \$4 a gallon.

So developing diversity in our portfolio of fuels is, if anything, an even more urgent matter than it has been in the past, and it is one that remains central to both our energy security and our national security. And that is what our biofuels program is all about. For food products, higher oil prices mean higher costs of transportation, processing, packaging and distribution, and all the other intermediary steps that bring commodities from the farm gate to the retail store. Those steps account for approximately 80 cents of every retail dollar that is spent on food here in the United States.

One theory that has been widely discussed in recent weeks is that the nation's growing demand for biofuels and the crops needed to produce them is the real culprit behind higher food prices, both at home and abroad. Yet the evidence that we have seen, and that Joe will take you through in just a few minutes, does not support this.

It's true that higher demand for corn for ethanol and soybeans for biodiesel has led to higher prices for those crops over the past couple of years. But we do not have a one on one

relationship between higher prices for those commodities and what consumers are paying for foods at the retail level. There are many factors at work, and I'd like to point out just a couple.

While corn is the feedstock for over 90 percent of the biofuels that we produce, it is actually an ingredient in less than one-third of the everyday food items whose retail prices we track. And because processed foods are such a large part of our diet here in the U.S., higher costs for a particular ingredient typically have only a small impact on their retail food price.

On the international level, the President's Council of Economic Advisors estimates that only 3 percent of the more than 40 percent increase we have seen in world food prices this year is due to the increased demand on corn for ethanol. Here in the U.S., we're fortunate to be dealing with a much smaller scale of food price increases. As Joe's slides will show you, last year our overall food prices were up 4 percent. That's about 1 1/2 percent higher than the average annual increase of 2 1/2 percent that we've been seeing since 1990.

This year we're expecting consumer prices to increase about 5 percent over last year's levels.

United States and other nations around the world are developing biofuels to cut their reliance on oil as a transportation fuel, to reduce greenhouse gas emissions, and to create new opportunities in agriculture. The policy choices we've made on biofuels will deliver long-term benefits. But we also have to recognize that there may be some short-term costs or dislocations involved, and we have to consider those costs in the light of the ultimate benefits that we hope to secure for the American people.

Those benefits are substantial, and some have already been secured. According to the International Energy Agency, the biofuels production that has been available to the United States and European markets over the last three years has cut the consumption of crude oil by one million barrels a day. At today's prices, that's a savings of more than \$120 million per day.

Ethanol also brings environmental benefits. It gives us cleaner air by cutting tailpipe emissions of carbon monoxide and hydrocarbons that can cause ozone and smog. It also displaces benzene and other toxic ingredients of gasoline that would otherwise be burned at a greater rate. And by replacing MTBE as the blending agent of choice in gasoline, it has relieved us of water quality problems associated with MTBE while still boosting oxygen and octane contents of gasoline.

Those are just a few of the highlights about what ethanol is doing for us. In the future as American ingenuity helps us diversify our feedstocks and expand our production base, we expect to do much more. And just as we need to continue to generate biofuels in the future, we also need to take steps to increase our domestic supply of traditional energy sources.

We have vast untapped oil and gas reserves within our borders or just offshore. We could draw on those to help expand supply and bring down the cost of oil and therefore the price of food. We can do it with government policies that offer tax incentives to help keep the thousands of stripper wells that we have around the country operating. These wells are sitting on top of fields that still contain significant amounts of oil at today's prices, and technologies are making it more feasible than ever to pull that oil out of the ground.

And we can do it by encouraging the construction of new refineries, more investment in shale oil and gas recovery, and more exploration recovery of the oil and gas assets that are located on tribal lands throughout the United States.

In the long run, keeping food prices stable requires sound energy policies that address the challenges we face on the supply side.

At this point, I'd like to turn the podium over to Joe, who has some good PowerPoint presentations here that you can see. And he's going to go through them for us.

DR. JOE GLAUBER, Chief Economist: Well, thanks very much. What I'd like to do briefly here today is go over, look at this context of biofuels, growth of biofuels here in the U.S, and in particular what the effects are on food prices. There's no question we've seen a dramatic increase in ethanol production and in particular the corn use for ethanol production over the last couple of years. We saw almost a 50 percent increase from 2006, 2007, to the current marketing year. And we're projecting with this crop that's to be harvested here in the fall that we'll see an increase in the amount used for ethanol to go up by almost 33 percent.

So legitimately there's a question: What's the effect on corn prices from all that, and what's the effect on food prices as a result?

What I'd like to do in going through it is sort of give you the context for this discussion, in particular show you I think what, one, is: we certainly don't want to minimize what's going on with ethanol because I think it is a very important factor in today's markets. But I think it's important to discuss it in its proper context.

What I have here is a chart that just shows what [concerns] many people, and certainly what's captured a lot of the headlines recently, and that's just how fast, how much prices have appreciated in the last year. This is just comparing April to April prices. We see oil up almost 70 percent and food commodities again up almost 50 percent.

Next slide, Wayne, if you would. Now here if we go to the U.S. domestic prices we see there too that if you look at the middle line there, the orange line, that all farm products are up considerably. Prices were up 18 percent in 2007 and for the first four months of 2008. Aggregate prices are up 13 percent compared to the first four months of 2007. I think what's important here is, note that while we've seen crop prices increase dramatically, livestock prices over the last few months have declined. And that is of concern. Certainly we've seen pork prices fall off considerably; we've seen dairy product prices begin to fall as well.

Next slide. Now certainly if you're considering what the impact on farmers of all this, what it means, on the input side certainly crop and livestock producers have been seeing much, much higher prices this year. One, fertilizer prices have really taken off, almost 67 percent. Fuel is up 43 percent, and feed costs up 23 percent over the first four months of 2007.

Next slide. In translating this then into the CPI, what I show here is the overall CPI over the last 30 some-odd years, and then the food CPI as well. And you can see that generally one is that they tend to track one another fairly well, but the other thing, one point, since 1990 our food prices have been very relatively low. And certainly over the last 10 years or so we've been seeing food prices in the 2 1/2 percent range. That is, until last year. And as the Secretary mentioned, we saw prices go up to 4 percent and now are looking at the all food index to be in the order of 4 1/2 to 5 1/2 percent.

Next slide. This shows the CPI breakout for food with its relative shares. You see that again it's important to understand that the food component is made up of food away from home, and there prices have been fairly stable frankly - 3 1/2 percent. Those costs are as much affected by labor costs, energy costs for transportation of goods, and other things.

And then the food at home which again essentially represents what consumers pay when they go to the grocery store. And there again we've seen some fairly sharp increases with the current estimate calling for food at home to be in the range of 5 to 6 percent inflation for 2008.

There you can see some of the major components that have contributed to this increase. Certainly because of the high wheat prices that we've seen globally, cereal and bakery products are up considerably; fats and oils, vegetable oils have been very high; and also egg prices which were extremely high last year and still are seeing some increase in prices this year.

Next slide. If you look at the consumer dollar for food purchases, you can see that a small portion of it, about a fifth, is attributed to the farm value of the underlying commodities. Much

of it, I think as I mentioned before, is of labor costs, advertising, energy costs and other factors. The underlying food value, a little less than 20 percent of the overall food dollar cost.

Next slide. Well, the factors influencing food prices - we've seen a lot of things occur over the last year. There's no question that global economic growth, which just isn't something over the last year but it has really been for economic growth, has been quite substantial over the last few years. And in fact if you were to look at countries like India and China where the GDP there has been increasing on the order to 5 to 10 percent annually, that has expanded demand, particularly demand for meat products, which has contributed to both a growth in livestock exports in the case of this country and also demand for protein meals, soybean meal, other sorts of things. And that has continued and is projected to continue.

The other major factor that we've seen, certainly affecting world prices, has been the weather situation. In particular, droughts that have affected Oceania; Australia is suffering now or is just beginning to come out of a drought that really affected the last two crops quite adversely. We also had problems in the Canadian crop last year, problems in the Ukraine, problems in the European Union. All contributed to a very low wheat crop.

This current year, 2008, which will be harvested beginning this summer and continuing into the fall, we're expecting world wheat production to increase by about 50 million tons. That was just according to our last crop estimates that were just put out two weeks ago now. So we're expecting this to be mitigated a lot over the next year.

Next slide, please. The other major factor that I think has really affected a number of markets, wheat market in particular, rice market, those two in particular, has been the fact that countries have started last fall putting export restrictions in place, bans on exports, or increasing export taxes to the extent that a lot less wheat made it on to the world market than we had originally anticipated. And in particular rice, many countries shut down exports of rice. And this started to accelerate as many countries sort of adopted this beggar thy neighbor policy if you will that as one country would shut off rice exports another country in response also was concerned. So we've seen several countries put these things in place.

The hope would be that -- particularly as these crops are coming on, the wheat crop in particular, the rice crop, both of which we're projecting to be above the current year (our projections for next year) -- that the hope is that countries would relax these and that we could get back to a more free flow in terms of world trade. This indeed would have, I think, a mitigating effect, particularly in the rice market.

The other major factor on food prices of course has been the energy costs, and the impact that they've had on food marketing and transportation costs.

Lastly, no question, biofuels also has been a very, very important part of this picture. As I mentioned, in the U.S. we've seen increases over the last two or three years, and as we increase capacity and add more capacity to the ethanol processing manufacturing sector, that we're going to see -- again we're calling for about a 33 percent increase in corn use in ethanol this year.

Then that, at least with our projections, that should start to taper off as the corn-based ethanol production starts approaching the renewable fuels standard called for in the 2007 Energy Act.

Next slide, please? If you look at corn use, you can see a number of things. One is, currently we're projecting corn use for 2008-2009 to fall slightly from over 13 billion bushels used last year. But at the same time, as I mentioned, we're seeing corn use for ethanol to increase from around 3 billion bushels in 2007, 2008, to about 4 billion in 2008, 2009. The rest, we're expecting exports to drop off a bit this year, and some drop off in the feed and residual category.

Next slide. I think what's important here is to at least talk about the effect of increased ethanol production on corn products and the effect of increased corn prices on CPI. I think it's easier to answer the second question first.

We know that the dollar share or the farm value of the food cost bill is about 20 percent, so we know that's fairly small in terms of translating that into the overall CPI; and that in fact if you look at corn there's two strict uses for it that directly affect the CPI. Certainly things like corn sweeteners, corn use -- increase in price. Corn sweeteners go into a lot of products obviously and that has some effect on overall food prices. But the other issue is the indirect use of feeding corn into livestock. We saw on the early chart I showed initially that feed costs have gone up substantially for livestock producers. That does get translated over time into higher livestock prices. It gets translated, not because livestock producers can pass those costs on to producers, but livestock producers tend, when margins get squeezed they tend to reduce herd sizes. Because there's fewer animals, less meat being produced, prices then will go up.

This is just a simple pass-through on the CPI showing the pass-through of corn prices into the CPI. It just says here essentially a 50 percent increase in corn prices would raise the CPI less than 1 percentage point above the normal rate of food price inflation.

Next slide. I think the next question, the other side of this is, what is the effect of ethanol on corn prices? Certainly we've seen again a rapid increase over the last year, but a lot of other things as I've mentioned have been going on in world markets. We've seen high protein demand which has meant that soybean prices have been high, which has meant that corn that maybe last year we saw corn acreage expand substantially in response to higher prices, this year certainly soybean prices were high as well. Again, largely determined by other factors. Corn had a much more difficult time competing for acreage.

So I think it's a difficult thing to sort out ex post, after the fact, to say well what exactly caused -- how much of the increase in corn prices was necessarily due to ethanol?

There have been a number of studies that have looked at the issue of: What would happen if you were just to eliminate the blender credit or the renewable fuel standard or other sorts of things? Those are interesting because they're more controlled. They look at simulations looking forward, letting markets sort of accommodate the higher or lower corn prices and how that factors into increased area for soybeans. Those studies tend to show what I would consider a relatively small effect: and that is, elimination of blender credits showing somewhere on the order of 10 to 15 percent effect on corn prices. That is, if you were to eliminate the blender credit that corn prices would fall in the order of 10 percent, 15 percent.

There have been a number of food studies done out of Iowa State and University of Missouri among the FAPRE (sp) people and then also the card (sp) unit at Iowa State. These seem consistent at least with a number of other studies that have been done. The other interesting thing those studies tend to show is the actual effect on corn prices depends a lot on whether the capacity is in place; that is, assuming you have an ethanol capacity now of 9, 10, 11 billion gallons, that if you were to eliminate the credit at this point obviously that's a very different issue than if you said, We're starting five years ago, and what would happen in the absence of a blender credit?

The other very big effect here is the price of oil. I think these studies also tend to show - a number of studies have considered the effect of these programs assuming low or high oil prices. Not surprising there that they tend to show if oil prices are high, the effects are far less than the average 10 percent or so effect on corn price than if oil prices were very, very low. Not surprising with very, very low oil prices then operations tend to be less profitable and less would be produced. So the greater the impact on corn prices.

All it's to say here is, I think there's no question in looking at the overall effect on corn prices, I think it's fair to say the increase in biofuel production has had some effect, but again, what I'd consider a relatively small effect and one that in looking at it it's important to take into

account a lot of other things that are going on outside of the biofuel sector.

Even then when one looks at biofuels and how much they contribute to higher corn prices, it's also important to realize that when these corn prices pass through to retail prices that again is a much smaller effect.

Again, just hearken back to that food dollar. Remember, that's impacted more by processing, marketing than the cost of the underlying commodities themselves.

CEA of course has put out an estimate that estimates total global increase in corn based ethanol production accounts for only about 3 percent of the recent increase in global food prices.

So I think I'll conclude there.

SEC. SCHAFER: If you haven't had enough numbers and statistics and percentages and percentages of percentages, we thought we'd give you just a few more. No.

Let me say a few words about the international situation. We've seen a jump in prices for major commodities in the world market over the last year. One of the slides show that according to the International Monetary Fund for the 12th month ended in April world prices for major food commodities were up 46 percent. These higher prices, combined with supply shortfalls, have brought on the suffering and social unrest we've seen in poorer nations around the world in recent weeks.

There are many factors driving these higher prices. As we've talked about the rising costs for oil and fertilizer, the impacts of drought and other adverse weather conditions, and government actions like export restrictions and taxes some countries have imposed on rice and wheat, all have affected the supply side of the ledger.

But we're also seeing a new dynamic on the demand side of the ledger in the form of continued strong economic growth worldwide and growing prosperity in developing nations. That translates to a greater demand for food of all kinds and especially higher value foods such as meat and dairy products in nations like India and China where the growing middle class is emerging. That trend increases demand for feed grain for livestock as well. And just to make sure that the opposing political party in India gets this, this is a good thing.

In the long run there are positive developments. They create new economic opportunities, not only for farmers in the United States but for those in developing nations in Africa and in Asia as well. They too will benefit from new market demands and higher prices for basic commodities.

In the short run however, these changes have created market disruptions that call for humanitarian response. That's why President Bush has asked Congress to approve \$770 million in new global food aid. And we are glad to play our part there at USDA by providing \$200 million of emergency food aid that the President directed me to provide through the Bill Emerson Humanitarian Trust.

The President is also urging Congress to approve \$350 million in supplemental emergency food aid this fiscal year. United States has traditionally been the world's most generous food aid donor, and we are proud to continue to do all that we can to bolster food security around the world. But in a world where the population is growing by more than 50 million each and every year, and where rising prosperity is bringing with it rising demand for personal food preferences, we need longer term solutions as well.

Our need for food and fuel is only going to grow. For agriculture to meet that need, we must work with other nations to get more productivity out of the land that we have through wider use of biotechnology and better farming and irrigation and pest control methods. We must build our fair framework for international trade so every nation can build on the strength

it brings to agriculture and to benefit from the strengths that other nations can offer.

These are the end of our prepared comments and charts. And we'd be glad to answer any questions that you may have. Yes?

REPORTER: My first question is, you mentioned the rising export restrictions. How do you plan to work with trading partners to ease that? And have you approached them to talk about that in the last days?

Then secondly, I know that Brazil may be considering a WTO case against the reduction of the blenders credit. Have you been approached about this by Brazil? And how much of a challenge do you think they might have considering they were given compensation in the WTO when the blenders credit was actually put into place?

SEC. SCHAFER: Let's see if I can remember where we started here. Let me go backwards. The issue with the blenders credit and the WTO case, I've not been approached by Brazil or any representatives of Brazil. I'm not aware that the department has in any manner. And so I don't have any comments to make about that.

The reality is, as we were trying to point out, if you look at the long-term trends of what's going on, the blenders credit isn't the issue here. Consumption, energy, the other factors are in play.

As far as how to convince other nations to drop these restrictions, tariffs and export barriers, we're working with the State Department to deal with those nations; and the USTR, U.S. Trade Representative, as well, so that these countries are being approached to outline the facet that by their restrictions they are exacerbating the very problem that they're trying to avoid. So we've got some work to do there, and there are more and more countries that are putting these restrictions in place. But I think we can clearly point to the fact that that doesn't solve the problem; it only makes the problem worse.

Yes?

REPORTER: But we have our own tariff on ethanol that was scheduled to expire this year I think, and it's in the Farm Bill to extend this. Is it a good idea to extend this tariff when we are looking for more ethanol, more biofuel? Why keep it out?

And maybe for Dr. Glauber, if this tariff did drop, how much more ethanol might we import?

SEC. SCHAFER: From a policy standpoint I do not think it's a good idea to extend the import tariff. That is one of the elements that lines up on our veto side of the ledger. And as you know, the President is going to veto this Farm Bill.

As far as the economics of it and what might - Joe, do you want to weigh in?

DR. GLAUBER: Yes. You're right, that dropping the tariff would increase imports. However, I don't think that, with the current standard in place with the current capacity that we've seen, I think there's no question this would not have a huge impact on ethanol production here in the U.S.

One must understand that right now at least the capacity in Brazil - they do produce a lot of ethanol but they don't have huge supplies to export. So I don't think this would have a large effect in the near term certainly.

JC: Yes. Go ahead. You.

REPORTER: My name is Higuchi. I'm a reporter with the Juji (ph) Press. My question is regarding the food price crisis and the Japanese rice issue. So under the WTO obligations,

Japan must purchase imported rice on (URA?) (ph). Japan currently has stocks of 1.5 million metric tons of this rice, and about half of them are from the United States. So far the United States has requested Japan to consume them, domestically, and has been against using them as a food aid. Because of the food price crisis, some have called upon Japan to (unclear) relief aids rice market livestock on to the international market. So my question is, is the United States considering allowing Japan to sell imported U.S. rice on the international market in an effort to curb the soaring prices?

JC: I do not know the answer to that question. It's above my pay grade someplace. So I apologize that I'm not in a position to say whether the United States is considering this or not. Different department. Yes.

REPORTER: (unclear) from Phoenix Satellite Television of Hong Kong. Do you expect the recent earthquake in China to affect world food prices? For example, do you think China may put export restrictions on food commodities or increase its imports? What was your assessment?

SEC. SCHAFER: Well, certainly it's going to have an effect, and the one immediate effect that seems kind of not in the traditional effort is the increased use of diesel fuel. And all the generators and everything plus all the transportation to get the foodstuffs and construction equipment in place, that increase in diesel is tightening up the world's supplies. And as world supplies tighten, diesel fuel prices are going up. When diesel prices go up, that means inputs into agriculture operations to get crops out of the ground, those prices go up as well.

So there's one impact that's going to have an effect. And Joe, do you have some idea of others? Or anybody else?

DR. GLAUBER: Well, again I've just seen some preliminary assessments, but I don't anticipate huge new demands for grains. I think they certainly have problems getting food into that area right now. And so I think that is very much an issue. But in terms of impacting world food production, I think the impact there should be fairly small.

SEC. SCHAFER: Work our way back up this way. Yes.

REPORTER: Thank you. Strader Payton, TV Tokyo. Given the American position seems to be that the increase in biofuel productions due to requirements seems to have some impact on the prices, but it's just one of several factors - I'm wondering at the same time there's been a growing course of international criticism of the American policy to require increases in biofuel production. How do you plan on answering critics who say that even if it is a small increase, now is not the time; there have been food riots going on, and this is surely going to be brought up at the UN Conference on the Food Crisis next month in Rome, and the Prime Minister of Japan has also mentioned he plans on bringing it up at the G8?

SEC. SCHAFER: I think what we're pointing out here today is it's clear that while bioenergy generation does have some effect on prices, it is not a major effect; it's not even a big effect. And I think what's important here is, we need to focus on what can be done, what can cause some relief, and we can't overlook the energy side of the equation.

I've talked to several organizations and several people who have initiated some of these campaigns against ethanol. They've initiated these underground things that have been going on for several weeks to generate public opinion that some of these things ought to be changed. And interestingly they don't overlook the fact that energy is the driving factor here. What they say is, well it's easier to do corn, or maybe it's a brighter target, or whatever the case is.

You know, what I'm to encourage people to do is to look at the factors at hand and figure out how we can develop good public policy to make a difference in what the factors are. As Dr. Glauber pointed out, the change in the renewable fuel standard, the change in tariff or duty isn't going to affect food prices. We need to focus on things that will actually have an effect instead

of a short-term political solution. We need to look long-term because we've got a long-term problem here.

Yes?

REPORTER: I actually have a couple questions. One to follow up on the demand. I mean you've mentioned that part of the crisis stems from more demand for meat on the part of China, India, as well as some countries sort of clamping down on exports. Yet 33 percent is the projected growth for ethanol production. So I'm not hearing anything on the ag department side as to what's going to be done.

You've mentioned kind of turning it over at the energy level, but what exactly are you anticipating doing to mitigate, because certainly you can't mitigate growth. You can't mitigate certain countries perhaps shutting down their exports. So what do you see doing on your end of the table?

SEC. SCHAFER: You know, as I mentioned in my comments, I think, again getting back to somewhat the previous question as well is, what are the factors involved here and what can we do about them? One of the issues is, we have a platform shift here in global consumption. And as we see the emerging economies come on board, as we see people have opportunities to spend higher incomes on food and foodstuffs, it is important to know that that's not going away, that the consumption side of the equation is going to continue to be big, and it's going to continue to grow.

We need, if you look at how to deal with this, you look at two or three nations in the world who are staying ahead of consumption by yield increases. And what we at USDA need to focus on specifically is, we need to convince other nations in this world to increase yields. And that means the use of biotechnology products, it means better water management, better fertilizer management, and precision farming methods that would bring other countries' yields up to the levels of the United States, Argentina and Canada to some extent so that we can increase the amount of production on available land that will allow us to feed people in the future.

If other countries do not increase yields comparable to those that we see here in the United States, people are going to go hungry. It's that simple. And that's what we need to do.

REPORTER: With respect to the international side and the President's \$770 million allocation or proposal to increase food aid. But my understanding is, food aid has actually been cut back in the Farm Bill, and also there was a pilot program to actually purchase food from local farmers in various countries. Where does that stand, and what kind of reaction do you think you'll get from American farmers in terms of purchasing abroad and not here to ship abroad?

SEC. SCHAFER: Well, there are two elements in the Farm Bill that we're not happy with, another couple of those elements on the veto column of the President. You know, one is the request from the administration to be able on emergency basis to spend up to 25 percent of the available funds to buy locally. That meant we wouldn't buy commodities here. In an emergency basis where you need to get stuff fast, where you need things on the ground immediately we could be able to buy locally. The Congress has not seen fit to do that in the current Farm Bill which is one of the reasons the President is going to veto it.

The other restriction is a requirement of food aid, the one you mentioned, that a requirement of the dollars available cannot be used for emergency food aid. So they restrict us for using emergency food aid on one side and then they require that a piece of it be not used for emergency. So these are two sides of the equation. They both squeeze the United States' ability to respond for emergency food aid in emergency situations. It's a bad idea' it's in bold letters on the veto side.

The President is going to veto this bill. Whether he gets overridden or sustained we're

going to see here in a few weeks, and then we'll go from there. But these are very restrictive issues, and just flat out wrong that are in this new Farm Bill legislation.

REPORTER: Thank you. It's Sally Schuff at Feedstuffs. Aside from food aid which you have mentioned is a short term humanitarian issue, in the long term aspect of increasing yields globally the United States has been seriously criticized for reducing its budget over a period of several years, maybe as many as 15, over several administrations, on agricultural development assistance to other countries.

Do you see a turnaround in that? Do you see anything coming up in terms of an initiative on international agricultural assistance or any leadership coming from the United States on that?

SEC. SCHAFER: Well, you know, criticisms abound, and it's always easy to look back and say, we shouldn't do that or we might not have done that. But I think importantly what we're recognizing here is this shift in consumer demand and the disruptions that it's causing in the marketplace. And I don't mean disruptions from a bad standpoint; I mean disruptions from a good standpoint. And as we try to deal with that, it becomes very apparent that we need to increase agriculture productions across the country.

I'm proud that USDA has 90 offices in foreign countries, people who are there who are responsible and capable and who are trying hard to enhance the agriculture arena with our global partners.

But I have to say, I had the honor this morning of meeting with Dr. Norman Borlaug, and we had these conversations about feeding people across the world, and as you are aware he is credited with probably being the person who saved more lives in this world than anybody else ever, through his agriculture research.

And we talked about the fact that we're going to have to start funneling dollars into research; we're going to have to provide better products especially in wheat where we've seen a downturn, and now we have serious rust problems and issues across the world.

But very much so. I mean we have to start focusing on the real problem here, which is increased consumption, and what we're going to do about it. We need to focus dollars into research, we need to focus dollars into development in other countries, and we need to make sure this happens or people are going to go hungry. So very much on top of mind here and a direction we need to take.

Jerry?

REPORTER: I have two questions. First of all, on the rice question and the U.S. position about the sales of the Japanese rice. You said it was in another department above your pay grade. Are you referring questions on that to the White House or to another agency? And the second is, you mentioned something about talking to the people who have been leading the underground campaign against ethanol. Was that the Grocery Manufacturers Association? And what reaction do you have to the manner in which they went about this in the last couple of weeks?

SEC. SCHAFER: On the first part, you know I think the issue with the rice in Japan belongs in the State Department and belongs in the White House. And USTR, yep. So definitely there, and we'll refer the issue to their capable hands.

Yes to the Grocery Manufacturers Association. And you know we spent several weeks trying to say where is this stuff coming from? You know, we're getting headlines all over, getting people globally, we're having former presidents, heads of the World Bank. You know, all these people are saying, You know, ethanol's a problem, ethanol's at fault.

And our numbers didn't show that. Clearly we have a difference of opinion with the GMA,

and I'd just as soon, now we're talking about sharing information. I'd just as soon we share information ahead of the fact. But they are a trade organization driven by their membership, and evidently that's the course they chose to do, not one that I would do.

Bill?

REPORTER: You talked about food prices as a long term problem. I think that's part of the criticism that's been directed at biofuels that yes it is a long-term problem. And in that light it's not a good idea for the United States and also Europe as well to mandate ever-increasing amounts of biofuel uses, not just ethanol but biodiesel as well. It's affecting vegetable oil prices globally. Can you address that, not just the impact this year but -

And you've essentially tied in many ways some of these commodity prices to energy.

SEC. SCHAFER: Yeah, I think what's important to note here are the economics that take place in free market systems. And let me give you an example. In 1982 we had 80 million acres of wheat in the United States. In 1992, 10 years later, we had 60-some million. Last year we did 47 million acres of wheat. And you know why? Because bakers were saying, Oh the prices are too high. Millers were going, Oh my goodness, we can't afford it. And producers were forced into production levels that were below where they could make money.

So what did they do? They went into other crops. So now we're suffering from it 20 years later. You know, we have to make sure that we don't disregard the demands of the marketplace, the laws of supply and demand, the free market system that are going to drive prices. And if we artificially lower prices and people can't make any money growing those products or raising those products, what happens? They go out of the marketplace, and we don't have any. And it gets worse.

So we don't want to do something here that's politically expedient, that sounds good, that makes headlines or 30 second sound bytes. We want to make sure that what we do here doesn't suppress production but increases production so that we can feed people across the world.

Yes?

REPORTER: Alan Bjerga. Following up on your point about the marketplace. You talked about how the response of the market in wheat acres dealt with the baking situation. But you have a government policy given to the Renewable Fuels Standards that does increase demand for acreage for corn. I mean in that case you do have a governmental thumb on the scale.

SEC. SCHAFER: Um-hum.

REPORTER: Given that, do you have any sympathy for the 24 Republican senators who on May 2nd signed a letter saying that we need to look at potential waivers of the Renewable Fuels Standard and let the marketplace take care of the issue on that end as well?

SEC. SCHAFER: I have no sympathy for 24 or 28 or 50 senators, whoever signed it, that clearly aren't seeing the facts. As we look at this situation, as we've shown on the charts that you get to take home with you, we can't affect the change within Renewable Fuels Standard change. Today the capacity is above the Renewable Fuels Standard in the ethanol industry. So change in Renewable Fuel Standard isn't going to change capacity any; it's not going to change the amount of corn that's being used for ethanol any. So again it's these things that sound good, but where are we going with accomplishing something?

And my opinion, I always like to develop public policy that accomplishes something, that solves the problem. This doesn't solve the problem. So the other thing I just mentioned is you said that the Renewable Fuels Standards dictates corn acreage? It does not dictate corn acreage. It dictates how much fuel will come from ethanol and what percentage of a cap on that is. It's not tied to acreage. Yield increases a huge issue in that. And as we can clearly see to date yield increases have taken up all of the increased uses in ethanol, hasn't pulled it out of any

traditional markets at all.

Yes?

UNDER SECRETARY TOM DORR: If I could just add, I think your point about the Renewable Fuels Standard not being a binding constraint, the reason it isn't is because we have \$120 oil. And the fact is, you can make an argument about what caused the capacity to be built. But the fact is, with the plants out there, you can make money making ethanol. And I think as long as that's the case, the Renewable Fuels Standard isn't going to have an effect on that. I mean, at some level it might. At 15 billion it might. But not anything that we see right now in the short run.

We clearly did not start producing large quantities of ethanol even with the blenders credit in place until crude oil got over \$50 a barrel. With the blenders credit was really very minimal. Renewable Fuels Standard may have had some impact, but what really drove the production of ethanol was \$50-plus barrel of oil.

SEC. SCHAFER: Thanks, Tom. Thank you all. We appreciate your questions. Thanks for showing up and for your reading enjoyment we have all copies of the documents in the back. Thank you.

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