

(As prepared for delivery)

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Thank you Larry (Schafer)(Legislative Counsel for the Renewable Fuels Association).

I am pleased to be with you this afternoon.

As a farmer and businessman from rural Iowa I have long held a passion for developing new opportunities for rural America – Especially as we looked for new ways to utilize our natural resource base and agricultural and forestry products – in the expansion of renewable energy opportunities.

At the onset, I want to share our appreciation for the input Larry gave on your behalf during our public hearing in December on the development of the Renewable Energy System and Energy Efficiency Improvements program (Section 9006 of the Farm Bill), which I will discuss in more detail in a moment.

As I said then and I reiterate now -- you are the ones who are on the front lines in creating renewable energy opportunities, and it is most important that you have a say in how best to accomplish this goal and fulfill these opportunities for rural America.

Before joining the Bush Administration – I farmed for nearly 30 years in Northwest Iowa. I raised what all Iowan's raise – corn – beans – cattle and lots of hogs. And when I returned to the family farm in 1972. It was exciting and the opportunities looked endless.

As all of you know we – as an industry – have migrated through more changes in the last 30 years than our father and grandfathers saw the previous 50 – 60 years. Now – after bouts with hellish inflation in the 70's and ag-crisis of the 80's, the fall of the iron curtain in the early 90's and the onset of new global competition – a strong dollar and ongoing difficulties in the Middle East –one begins to wonder what choices make sense. That's what brings us together and these seminal issues are what will continue to make us strong in the long run!

So before I go any further – I want you to know that I truly understand the difficulties and often times tenuous nature of this business of agriculture – yet I am optimistic that we are on the threshold of some significant opportunities.

I like to use the analogy of the hourglass – for I think it best depicts our relationship to certain events.

The history of U.S. agriculture and its accompanying social and rural policy is essentially that of a social contract entered into by our forefathers with the policymakers and leaders of the early – mid 1800's. The leaders agreed to provide land, economic opportunity, and ultimately education to the hearty souls who were willing to travel to and settle the vast Western reaches of the continental U.S.

In return it was expected they would exploit our natural resources in order for the country to have adequate food-fiber and the necessary raw material to build our developing industrial base.

This social agreement worked. Built upon a constitutional republic form of government. Which was founded on the principle of freedom secured by the concepts of title to property, contracts and rule of law – this social agreement worked like nothing mankind had ever seen.

So where does the hourglass fit?

At the top – the widest point one might envision the mid-late 1800's – thru the late 1970's. There was great growth and opportunity – much demand and limited competition. But beginning in the early 80's – we transitioned into the neck and we've been there for nearly 20 years.

Why? Because large segments of the world formerly governed by totalitarian regimes became free – thus creating competition for our traditional commodity based markets.

In addition – the Internet and technology were developed – two more things impacted us – the free flow of capital and easy access to knowledge -- created additional international and non-traditional competition pressures.

Yet – in my view—we are near if not already moving into the other wide half of the hourglass. With numerous initiatives being developed that address a host of new opportunities ranging from renewable energy, to carbon and greenhouse gas sequestration and mitigation, to the development of an entirely new biobased products industry ---I do believe we are on the cusp of new growth opportunities for agriculture and all of rural America. We are nearly through the neck of the hourglass.

Why do I suggest this?

First, there is no greater supporter of rural America than President Bush and his Administration. You might recall his first major policy initiative in May of 2001 was to develop and give direction to our nation's energy policy – one that highlighted the issue of energy independence and national security. This initiative clearly brought renewable energy to the table.

Renewable energy which involves everything from ethanol produced from many sources of biomass to wind, geothermal, and even anaerobic digestion of animal waste -- all clearly have places at the table.

This focus and emphasis by the Administration set a tone and course for integrating renewable energy into our nation's national security, energy, and agriculture policies – that were soon to be followed up by Congress in the 2002 Farm Bill and signed into law last May.

The significance of the Farm Bill is that it continued the focus of President Bush by expanding a number of policies that responded to these renewable energy and environmental opportunities.

First, there were significant environmental initiatives presented in the Conservation Title of the Bill – such as EQIP and the Conservation Security Program and which for the first time clearly reflected a new approach by society “to conserve and improve the quality of soil, water, air, energy, plant and animal life and any other conservation purposes - as determined by the Secretary.

Then, Congress wrote and President Bush signed as part of the Farm Bill a new Energy Title – known as Title IX (9).

In this title a number of new initiatives were authorized – although not all were funded. Yet this major push toward the establishment and development of various sections were quite telling.

9002 – Federal Procurement of Biobased Products

--Simply stated – If biobased products have comparable performance and purchase of such items are less than \$10,000 and they are reasonable in price – all Federal agencies are required to give preference to them.

This was funded at \$1 million per year for 5 years.

9003 -- biorefinery Development Grants

To assist in the development of new and emerging technologies for the use of biomass (no funding provided)

9004 – Biodiesel Fuel Education Program

Funded \$1 million each year for 5 years

9005 -- Energy Audit and Renewable Energy Development

Program to assist farmers, ranchers and small businesses to become more energy efficient (no funding provided)

9006 -- Renewable Energy System and Energy Efficiency Improvements (\$23 million per year)

Loans and grants to farmers, ranchers, and rural small businesses to purchase energy systems and make energy efficiency improvements.

9007-- Hydrogen and Fuel Cell Technology

9008 -- Biomass Research and Development

\$5 million in 2002

\$14 million – 2003 –2007

To carry out research to promote understanding and flux and exchange of carbon and greenhouse gasses in soils and plants.

9010 – Continuation of Bioenergy Program

\$100 – 150 million annually

Program under which the Secretary makes payments to eligible producers to encourage production payment based on formula.

Although all of these initiatives have not been funded. The significance is that they are lines in the sand. – Placed all together – the Presidential and Farm Bill Initiatives are creating significant policy and enormous new opportunity for rural America. – Although these initiatives are ebb and flow.

And we haven't even talked about the fact that half of the renewable energy produced today is electricity – coming mostly from highly efficient wind turbines as well as anaerobic digesters.

Last Monday President Bush announced his intention to ask Congress to extend both the Federal Income Tax Credit and the Ethanol excise tax exemption from 2007 through 2010.

Also, the Energy Bill may be taken up in this session of Congress. If the renewable fuel standards mandate of 5 billion gallons by 2012 is still in it – that becomes another major building block for the renewable industry.

Finally – there is potential promise for the many biobased products being developed by innovative companies like Cargill-Dow, DuPont, and other research and development firms that are eyeballing the 350 billion pounds of polymers consumed by this country every year – and a number that is growing by 5% annually.

All in all these renewable and biotech advances are no longer simply visionary concepts – They are the realities which are upon us.

And as your industry has identified through studying the economic impact of producing renewable fuels, it has far-reaching benefits. Case in point -- Larry (Schafer) shared during his testimony in December that 'a 40-gallon ethanol facility generates 40 local jobs and 700 jobs throughout the entire community -- generating \$140 million boost to a local community.' These ventures hold tremendous potential for creating new jobs and providing a strong economic boost for rural America.

All this brings me to the supportive role that USDA and USDA's Rural Development can help play in expanding the economic base in rural America.

Implementing the Energy Title of the Farm Bill

How is Rural Development supporting the President's renewable energy efforts?

I assure you that USDA's Rural Development is firmly committed to working with agricultural producers, cooperatives, and businesses to facilitate the development of not just the new renewable energy related business opportunities -- but all job creating ventures.

As an example of our commitment during the last two years, Rural Development has financed 73 loans and grants in 25 states totaling \$45 million to fund biobased and bioenergy related businesses. This is a significant step toward fulfilling the objectives of President Bush's energy plan.

As just one example, here in Arizona, a grant is assisting a Mesa dairy farmer complete a feasibility study for the development of an ethanol and distillers grain plant in Arizona that would benefit 114 livestock producers.

To bring these efforts into greater focus, I want to expand upon two initiatives that are center stage at Rural Development:

- Agricultural Value-Added Product Market Development Grants
- Section 9006 of the 2002 Farm Bill - THE RENEWABLE ENERGY SYSTEMS AND ENERGY EFFICIENCY IMPROVEMENTS

1) VALUE-ADDED

Over the past two years, the Administration has placed a significant emphasis on helping producers to increase profit margins by adding value to their commodities.

While agricultural policy is focused mainly on production, Rural Development strives to help maximize the return on all available resources in rural areas. Particularly including those derived through value-added endeavors.

In support of President Bush's economic agenda, USDA Rural Development provided \$57 million in Agricultural Value-Added Development Grants for 291 recipients in 43 states, including \$10 million in proposals to develop and market bioenergy in 22 states. Roughly \$7 million was specifically for the development of ethanol production.

Overall, the focus of these grants is on helping to fund feasibility analysis, developing business plans, and providing the initial working capital for new value-added initiatives. The grants will help to strengthen the competitive edge for farmers and ranchers who can create additional profit and marketability for their raw commodities.

2) SECTION 9006 -- Farm Security and Rural Investment Act of 2002 (Farm Bill)

As I stated, it is the first time an energy title that focuses on renewable energy systems and energy efficiency improvements has been included in a Farm Bill.

And it "Establishes a grant, loan, and loan guarantee program to assist eligible farmers, ranchers, and rural small businesses in purchasing renewable systems and for making energy efficiency improvements."

I felt it was especially important to ensure that as we implement this program, we do it in a way that is useful to those who may best be able to develop and implement and benefit from these opportunities. Accordingly our rule development process is composed of an inter- and intra-agency working group involving folks for NRCS, FSA, ERS, EPA and DOE.

Why? Because the new opportunities aren't commodity opportunities – they are value added—further into the supply chain – my goal is to see that producer have an opportunity to participate as far up as possible.

BUSINESS PROGRAMS

The one thing I've known from the start of my transition from being a farmer and businessman to someone assigned to administer an agency within USDA was that Rural Development is well positioned to facilitate the delivery of needed services and programs to rural America. One way to assist in this effort is through Rural Development's rural business loan and grant programs.

Rural Development is not the lender of last resort. We are instead rural America's venture capital firm.

When a venture capitalist invests in an entrepreneur what does he get in return? -- Equity – If the entrepreneur is successful – the venture capitalist is much better off. So why is Rural Development the venture capitalist of rural America? Because we, the President, and Congress believe in rural America. The return on our equity from rural America is a stronger rural economy, a higher quality of life, and the benefits from exploiting the talents of all rural Americans.

How can Rural Development support this effort? By keeping our eye on a simple but clear vision:

OVERALL RURAL DEVELOPMENT VISION

To increase economic opportunity throughout rural America

To improve the quality of life for all rural Americans

Although these two goals sound simple enough, as most of you who live in rural areas know, this is easier said than done.

We propose to do this by pushing the President's agenda, exploiting opportunities in the Farm Bill, and working with organizations like yours. We do this with:

Economic Opportunities:

- Capital Investments
- Infrastructure
- Technology
- Energy

Quality of Life:

Basic

- Housing
- Food and Water

Essential

- Education
- Health Care

Necessary

- Recreational; and
- Cultural

If we begin to succeed at these initiatives, that of increasing economic opportunities and improved quality of life, many of which are already in play, then opportunities will move into these rural areas.

CLOSING

I want to close my remarks with this message. When you look at the whole picture of the Bush Administration's record on renewable energy and biotechnology development, you will see a President and an Administration that is firmly behind you. We fully support your efforts to bring energy independence to our nation and to develop clean energy alternatives.

Rural Development is one of the core agencies affecting development in Rural America. We have the delivery mechanism and technology to make things happen.

We have 850 offices across the nation staffed with outstanding personnel who are capable of innovation and problem solving.

We are working to help improve the flow of capital, strengthen technology, rebuild infrastructure and increase opportunities of all types.

By working together, we hope to increase economic opportunities and improve the quality of life. We will create a stronger rural economy and reduce our country's dependence on imported energy supplies.