

**Statement by
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The Rural Economy and Rural Development

Madam Chairwoman and Members of the Committee, I am pleased to have this opportunity to discuss the leadership role USDA plays in the economic development of our Nation's rural communities, as well as the impact that the development of renewable sources of energy will have, not only for rural America, but for all Americans.

I want to start by emphasizing what many of you no doubt already recognize: a vibrant American economy depends on a prosperous rural America. Home to our Nation's agricultural industry, rural America supplies a healthy and abundant source of food for our country and the world, and it is also a vital contributor to employment and exports from the United States. While many sectors of our economy are running trade deficits, American agriculture has enjoyed a trade surplus for nearly 50 years. Agriculture is responsible for one out of every 12 jobs in America, and America's farmers and ranchers are the most productive in the world. Last year, agricultural exports reached record levels of sales—\$137.4 billion, resulting in a \$42 billion trade surplus. Moreover, in recent years, rural communities have experienced strong job growth, particularly in the manufacturing and clean energy sectors. Despite this job growth, rural communities are still facing significant challenges, including outmigration, lower incomes, higher poverty rates, and access to capital. Yet this Committee recognizes we can build upon our successes of the last few years by realizing the significant economic opportunities that exist in rural America, not only in agriculture, but also in other sectors such as manufacturing, broadband infrastructure, and clean energy.

Through the Consolidated Farm and Rural Development Act of 1972 (Con Act), Congress charged USDA with leading the Federal Government's efforts to ensure a prosperous rural America and declared this task "so essential to the peace, prosperity, and welfare of all our citizens that the highest priority must be given to the revitalization and development of rural areas." Today, the USDA has the responsibility to implement a suite of programs with the sole mission of improving the quality of life and economic condition of rural communities.

President Obama and I care deeply about rural communities. Over the last three years, we've made historic investments in rural America designed to drive job growth and form the foundation of a rural economy that is built to last. We want to build a better future for the men and women who live, work and raise their families in rural communities - and to extend the promise of middle class jobs where hard work pays off and responsibility is rewarded.

As you know, rural America has unique challenges and assets. Rural communities are characterized by their isolation from population centers and product markets and benefit most from

initiatives that integrate local institutions and businesses with state and federal agencies that have intimate knowledge of their local needs. Delivering effective programs to rural America, that comprises over 75 percent of the total land mass of the United States, is a continual challenge. USDA is the only Federal Department with the primary mission of serving rural areas and has a field office structure in every state that helps us serve the specific needs of local rural communities. The long-standing relationships established through the communities and direct personal contact has allowed us to deliver our programs with great success. Our footprint in the field allows us to provide critical technical assistance and credit counseling among other services that might otherwise be unavailable in rural areas.

For example, Rural Development's direct and guaranteed rural credit programs help families to find affordable housing, assist businesses to create economic opportunities, and allow communities to build or improve essential infrastructure and facilities. Between Fiscal Year 2009 and Fiscal Year 2011, Rural Development provided homeownership opportunities for over 435,000 families, provided grants and loans to assist over 50,000 rural businesses in creating or saving 266,000 jobs, upgraded community facilities, boosted the reliability of the electric grid, funded renewable energy and energy efficiency projects, and made available reliable internet service to people across rural America.

Recognizing that a strong rural economy is a strong American economy, President Obama established the White House Rural Council last year to reinforce the Federal Government's commitment to rural America. The Rural Council, which I chair, is comprised of 25 heads of Federal executive branch departments and agencies. Over the past year, numerous Cabinet members and senior officials have participated in over 100 White House rural roundtables across the country talking with stakeholders about how USDA and the rest of the Federal Government can best support economic development in rural America.

Rural Energy

I would first like to talk about a particular opportunity that this Committee wisely focused on in the last Farm Bill – energy policy. Because biofuels, biomass, wind and solar rely primarily on farm, ranch, and forest lands, the potential for renewable energy development resides predominantly in our Nation's rural regions. Certainly, renewable energy is an important source of jobs and economic growth in rural communities across the country, while biofuels and biomass offer exciting new opportunities for entrepreneurs and, in particular, for American agricultural producers. Our nation's future depends on out-innovating, out-investing, out-educating, and out-building our competitors in an increasingly integrated and competitive world economy. The President has shared his vision for a new era in American energy, with an economy built to last fueled by homegrown and alternative energy sources designed and produced by American workers. This is why the accelerated deployment of clean and renewable energy has been a high priority for the Obama Administration, as well as for Congress on a bipartisan basis, for many years. The President is committed to reducing our imports of oil by one-third by 2025. We are all partners in this effort, and I welcome this opportunity to discuss USDA's role in helping to build a cleaner, more secure, more sustainable domestic energy sector for future generations.

A 2011 study produced in collaboration with the Department of Energy, the USDA, the University of Tennessee, and other university and industry representatives found that the U.S. has the potential to produce more than a billion dry tons of biomass each year for the energy industry by mid-century, without impacting other farm and forestry products. That would be enough to displace

approximately 30 percent of our country's present petroleum consumption. This is encouraging, but we as a nation have much work ahead of us to develop this capacity and bring renewable energy to market.

In an effort to better inform citizens about the impact our energy programs are having, USDA recently launched an Energy Website that includes an interactive map, graphing analysis tools, and the USDA Energy Matrix. These instruments provide a user-friendly environment where visitors can explore past USDA investments, learn about USDA energy programs, and compare and analyze biofuels and bioenergy data from the USDA, and we invite everyone here to take some time to explore the site.

The Rural Energy for America Program, or REAP, is USDA's renewable energy flagship. Initially authorized under the 2002 Farm Bill, this program was reauthorized and expanded in the 2008 Farm Bill. REAP is authorized to provide grants and loan guarantees to agricultural producers and rural small businesses so that they can purchase, install, retrofit, and construct renewable energy systems and make energy efficient improvements to buildings and facilities.

One recent example of REAP's success is the construction of anaerobic digesters, machines that collect methane-rich biogas from organic farm waste. In FY 2011, USDA awarded \$7.8 million in grants and \$13.1 million in loan guarantees for 19 anaerobic digester projects. These projects alone will help create 86 jobs, generate 140 million kilowatt hours of renewable energy, and reduce greenhouse emissions by the equivalent of an estimated 153,000 metric tons of CO₂. New Energy Two LLC in Idaho is one of four anaerobic digesters in the state that generate electricity from manure delivered by local dairy farmers, who then receive high-quality bedding material and nutrient management services in exchange.

Our programs are also encouraging the production of biofuels across the United States. The Agricultural Research Service (ARS) and the Forest Service (FS) have formed five regional Biomass Research Centers (the Central-East Region, Southeastern Region, Northern-East Region, Western Region, and the Northwestern Region). These intramural research centers have developed regionalized strategies for developing different feedstock systems using the resources available in the different regions with an emphasis on partnerships with other federal agencies, universities, 1890s, Tribal Nations, and Hispanic Serving Institutions. These regional efforts leverage the Agricultural Technology Innovation Partnership Program (ATIP) to strategically form geographic partnerships with well-established economic development entities to increase the likelihood that USDA research outcomes are adopted by the private sector and commercialized.

USDA's National Institute of Food and Agriculture's (NIFA) bioenergy programs include the Agriculture and Food Research Initiative (AFRI), the Biomass Research and Development Initiative (BRDI), and the Small Business Innovation Research (SBIR) Program. The Agriculture and Food Research Initiative is specifically taking a regional approach to developing bioenergy systems through Coordinated Agricultural Projects (CAPs) that consist of partnerships between academic, government, and industry experts, and drawing upon research, education, and extension to develop a variety of regionally appropriate feedstocks, conversion facilities, and end-use products. This program represents experts from 23 states, 28 Land-Grant Universities (including 5 minority-serving institutions), 20 industrial partners, and several federal and non-land-grant universities.

Under Section 9008 of the Farm Security, and Rural Investment Act of 2002, NIFA and the Department of Energy's Office of Biomass Programs jointly implement the Biomass Research and Development Initiative (BRDI). The majority of funding for 2011 and 2012 is awarded through USDA. This collaborative effort supports research that will improve the entire cycle of production, development, and delivery for biofuels, bioenergy, and bio-based products. Most recently it has focused on rural-based

processing and manufacturing, with an interest in small scale production of advanced biofuels and biobased industrial products. USDA has shaped the program to be a source of bridge funding for developing and emerging technologies to cross the “economic valley of death.” The intent of the program is to help develop and demonstrate technologies to the point that they might attract additional private or public financing to scale-up and/or produce commercial quantities of biomass-based energy and/or materials.

Through BRDI, for instance, the USDA was able to fund a project at the University of Colorado that focused on the solar-thermal conversion of cellulosic biomass to synthetic gas, a project that involved the direct participation of 11 Ph.D, Master’s, and undergraduate degree students and exposed over 100 other undergraduate students to bioenergy concepts. The principal investigators were able to use the project to spin-out a start-up company that has been purchased by Sun Drop Fuels, and three students working on the grant landed jobs with Chevron and Sundrop Fuels. Research initiatives like this spur innovation in the minds of our young people, create jobs and new technologies, and will likely have far-reaching ripple effects on our economic future.

The Biomass Crop Assistance Program (BCAP), created in the 2008 Farm Bill, is designed to help grow the volume of crops needed for the U.S. to meet the Renewable Fuels Standard, which requires 36 billion gallons of renewable biofuels to be used in our nation’s fuel supply by 2022. Unlike conventional crops, where there are millennia of experience among producers, growing energy crops in the sustainable quantities we need and in the time we need them is an unprecedented endeavor. That’s why last year USDA awarded \$54 million for farmers in 10 states to grow miscanthus, switchgrass, hybrid poplar, and camelina – energy crops that do not take away from food commodities. USDA anticipates offering a new round of funding this spring. BCAP has the potential to enhance prosperity in rural America by providing for new sources of crop revenues and job creation in the countryside while allowing family farms and forest owners to play even a bigger role in ensuring our domestic energy security.

Our Biorefinery Assistance Program is sharing risk with private lenders for construction of first-of-a-kind commercial-scale biorefineries that will produce advanced biofuels. Three loans have closed and the loan guarantees have been made to projects in Michigan, Florida, and New Mexico. Applicants in four other states, Mississippi, Oregon, Iowa, and Alabama, have been issued conditional commitments and are at various stages of meeting those commitments and closing their loans. Similarly, our Advanced Biofuels Payments Program is building on the success of corn-based ethanol production by making payments for the production of advanced biofuels that are derived from biomass other than corn kernel starch. In many respects, our biofuel production potential will only be realized through the work of all fifty states, and these two programs move us in that direction. Proof of concept from refineries like these have willing customers demanding development. Both the military and commercial air transportation sectors spend a tremendous amount of budget every year on a fuel which currently has no substitution. With our Farm-to-Fly effort, working across the supply chain, USDA is accelerating the development of commercial scale, cost competitive aviation biofuel, creating competition in the marketplace and reducing cost with a cleaner alternative. And last year we entered a partnership the Department of Energy and U.S. Navy to invest up to \$510 million in funding from the three departments during the next three years to produce advanced, drop-in aviation and marine biofuels to power military and commercial transportation.

The Woody Biomass Utilization program, administered through the U.S. Forest Service, helps to improve forest restoration activities by using and creating markets for low-valued material and woody

biomass removed from forest creation activities on both public and private forest lands. These funds are targeted to help communities, entrepreneurs, and others turn residues from hazardous fuel reduction and forest health activities into marketable forest products or energy products. For example, last June USDA awarded a grant for almost \$200,000 to F.H. Stoltze Land and Lumber in Montana to develop engineering, designs, and permits to replace an aging boiler system with a new biomass boiler. On January 31st, Stoltze Land and Lumber announced a power purchase agreement with Flathead Electric Cooperative for the renewable energy produced at the lumber plant.

As you can see, across the supply chain, from research to feedstock production to the development of conversion technologies for biofuels and other biobased products – USDA programs will help the United States to become a global leader in the renewable energy and bio-based product marketplace.

In addition to renewable energy, the production of bioproducts continues to be a growing opportunity for rural economies. Bioproducts range from plastic made from corn starch to rubber made from dandelions. The feedstock that fuels biofuel production can also fuel production of chemicals from biomass, and other bioproducts, and can be co-products from integrated biorefineries, or be part of entirely different supply chains that start with biomass and end with a high value product for consumers or the industrial sector. A bioproducts sector marries the two most important economic engines for rural America: agriculture and manufacturing. To sustain a bioeconomy, agricultural and forestry sectors must be able to cost-effectively provide a variety of feedstocks at a range of scales for increasingly diverse end-use purposes while conserving the natural and human resources that make up our rural lands. Encouraging this kind of economic diversity will increase opportunities for the producers, reduce risks for manufacturers, and advance the sustainable production of bioproducts. Producers of food, feed, fuel, fiber, and other biobased products will need to utilize the full potential that improved biomass feedstocks can bring to ensure cost-effective biobased products can be produced. Innovative scientific research enables feedstocks to be genetically improved and sustainable production systems to be developed so a wide array of bioproducts can be produced. Here too, USDA's intramural and extramural research programs have made significant contributions in developing new biobased agricultural and industrial products and chemicals that can replace the use of petroleum.

A great success story in this growing sector will be testifying later this in hearing – Virent Energy Systems. In 2007 USDA provided funding to Virent through Section 9008, the Biomass Research and Development Initiative (BRDI) for research on high-value chemical production from biodiesel-derived glycerol. From this seed money Virent developed a biobased bottle that would be 100 percent recyclable. Just this last month Virent has signed on as a partner with Coca-Cola, whose goal is to have all their bottles made solely from biobased ingredients by 2020.

USDA also is encouraging the development of the bioproducts industry under the Biobased Markets Program. Initially authorized under the 2002 Farm Bill, this program was reauthorized and expanded in the 2008 Farm Bill. Under the “BioPreferred” program, USDA designates categories of biobased products for preferred Federal procurement and oversees a voluntary labeling program to increase consumer awareness and stimulate retail markets. You may have seen an example of this in your local grocery store where our “USDA Certified Biobased Product” label can now be seen on Seventh Generation laundry detergent. While we have made good progress in stimulating the growth of biobased product markets - which in addition to growing rural economies also reduces our reliance on imported petroleum - I urge the Committee to consider how our current programs could better align with this important opportunity.

Rural Regionalization Initiatives

Several of USDA's innovative rural initiatives are important support mechanisms for President Obama's "Blueprint for America" and building a prosperous American economy that is "Built to Last." Through a number of regional efforts, USDA is supporting rural communities that are building durable, multi-county coalitions that foster economic development on a regional scale. In addition to providing direct economic benefits, regional collaboration allows rural communities to capitalize on economies of scale in infrastructure and public services, to encourage the development of specialization in industrial sectors that would make them more competitive, and to locate facilities and services where they provide the greatest benefit at the lowest cost.

In 2011, we highlighted seven regional projects as part of the Great Regions effort. For example, South Carolina is focused on value-added food processing and agribusinesses; Iowa is promoting small and emerging agricultural businesses interested in regional food systems and technologies that will enable fruits and vegetables to be grown year-round; California is focused on biomass utilization, value-added livestock processing and marketing, and alternative energy, in addition to developing regional food systems.

In addition USDA, together with the Nation's four Regional Rural Development Centers (RRDCs) and their land-grant university partners, is leading a collaboration called Stronger Economies Together, that brings together key state and federal agencies, land-grant university extension programs, and other organizations, to provide 35 hours of training and technical assistance to regional teams in 19 states. USDA is also working with the Economic Development Administration, the Appalachian Regional Commission, and the Delta Regional Authority on a job accelerator program to help rural regions capitalize on the benefits of regional innovation clusters.

Historically, innovation and small business development have been essential to our global competitiveness and regional economic development. As such, USDA's Agricultural Research Service established the Agricultural Technology Innovation Partnership Program (ATIP) to strategically form geographic partnerships with well-established economic development entities to encourage commercialization of USDA intramural research outcomes would be adopted by the private sector for commercialization. Ten organizations across the U.S. have Partnership Intermediary Agreements with ARS Office of Technology Transfer.

Later this year the Economic Research Service will administer a survey to collect information on innovation happening on the ground in the form of new products, services, marketing methods or ways of doing business. These innovations represent the true genius of America, but we know little about them from official statistics. A better understanding of these issues is critical to providing an environment where resilient businesses can thrive.

Reaping the Opportunities in the Next Farm Bill

As you consider the next Farm Bill, I would like to suggest you consider two key themes: streamlining and flexibility. This Committee and Congress has provided USDA with an impressive range of authorities to provide grants and direct and guaranteed loans to communities and rural businesses. Over the years, as the programs have been added in each successive Farm Bill, we are left with 40 programs in Rural Development, many of which have overlapping authorities and goals. I would like to

work with this Committee to consider how we might streamline our grant and loan authority to reduce the number of programs, but maintain the flexibility in authority to continue to serve rural communities and businesses in an effective and comprehensive way.

In particular, I would like to suggest more flexibility in the way USDA and Rural Development supports regional development. While we have looked to our current authorities for every opportunity to support communities that are working regionally, more could be done. In the budget released this week, we repeated our call to target resources for projects or communities that are part of a regional strategy. I urge the Committee to consider this strategy to encourage communities to take on what can be a little more organizational work on the front end, but that will yield better and more lasting results.

In addition to these themes of streamlining and flexibility, I would like to suggest that an essential component of building a rural economy that lasts is new farmers. As the average age of farmers continues to increase, and interest in farming continues to grow, I believe this Committee has a unique opportunity in the next Farm Bill to craft policy to ensure that there are people to take care of our rural lands in the future. While this area is challenging, there are a number of tools to encourage new entrants into farming and current landowners to pass on their farm to a new producer. Now is certainly the time to focus energy on what policies will be most effective.

Conclusion

Thank you for this opportunity to speak briefly about what USDA has accomplished through authorities in the last Farm Bill, in particular in renewable energy and regional economic development. I look forward to working with you as you craft the next Farm Bill on how you can streamline our authorities, provide flexibility so that USDA can effectively deliver the programs, and continue to focus on emerging opportunities such as renewable energy and bioproducts.