

STATE OF MINNESOTA AGRICULTURE

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JIM NICHOLS
COMMISSIONER OF AGRICULTURE

THANK YOU FOR THIS OPPORTUNITY TO SPEAK TO YOU ON THE STATE OF AGRICULTURE IN MINNESOTA. IT IS MY DUTY TO SHARE WITH YOU MY PERSPECTIVE OF WHERE WE HAVE BEEN, MY SENSE OF WHERE WE ARE, AND MY VISION OF WHERE WE CAN GO IN MINNESOTA'S LARGEST AND MOST VITAL INDUSTRY.

MINNESOTA AGRICULTURE ALWAYS HAS AND, I HOPE, ALWAYS WILL BE A MARVEL OF FOOD AND FIBER PRODUCTION. BUT AS COMMISSIONER OF AGRICULTURE, I MUST REPORT TO YOU THAT THE STATE OF MINNESOTA AGRICULTURE IS NOT GOOD.

- THE NEWSPAPER I AM HANDING YOU IS FULL OF FARM AUCTIONS FOR JUST ONE WEEK IN S.W. MINNESOTA.
- FARM FORECLOSURES, BANKRUPTCIES, AND LIQUIDATIONS ARE RUNNING TWO TO THREE TIMES NORMAL RATES.
- TWENTY-TWO PERCENT OF PRODUCTION CREDIT ASSOCIATION LOANS ARE CLASSIFIED AS PROBLEM LOANS--OR WORSE. THIS COMPARES TO 10% IN 1977.
- IN FEBRUARY--LAST MONTH--THE 9TH FEDERAL RESERVE RELEASED ITS MOST RECENT SURVEY OF RURAL BANKERS. A MAJORITY FEEL THE AGRICULTURAL ECONOMY WILL WORSEN.
- ONE-FOURTH OF ALL FMHA BORROWERS ARE BEHIND SCHEDULE IN THEIR LOAN PAYMENTS.
- AGRICULTURE--MINNESOTA'S LARGEST INDUSTRY--WITH GROSS ANNUAL SALES OF OVER \$7 BILLION--LOST 2,000 FARMERS LAST YEAR.

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THERE ARE OTHER INDICATORS AS WELL:

THE OFFICIAL QUARTERLY ESTIMATE OF THE NUMBER OF CATTLE ON FEED FOR BEEF SLAUGHTER IN MINNESOTA LAST OCTOBER 1 WAS THE LOWEST IN 25 YEARS.

IN THE PAST THREE YEARS, MINNESOTA HAS LOST 13,000 HOG FARM OPERATIONS, MORE THAN ONE-THIRD OF THE 35,000 FARMS THAT WERE PRODUCING PORK AT THE END OF 1980. IN THE PREVIOUS THREE YEARS, MINNESOTA ALSO EXPERIENCED THE DISCONTINUED OPERATION OF SOME 4,000 BEEF CATTLE FARMS.

RECENT NEWS STORIES ABOUT PIK PAYMENTS AND IMPROVED FARM INCOME GIVE A FALSE SENSE OF SECURITY. THE STATISTICS DO NOT DISCLOSE THE STILL AGONIZING TURNOVER OF MANY OF OUR FARMS DUE TO OVERPOWERING DEBTS AND SHRINKING ASSETS. NET FARM INCOME, WHICH PLUNGED TO A SIX YEAR LOW IN 1982, RECOVERED ONLY SLIGHTLY, IF AT ALL, IN 1983.

A DAY DOES NOT PASS WITHOUT SEVERAL CALLS AND LETTERS APPEALING FOR HELP IN OBTAINING AN EMERGENCY LOAN OR AN EXTENSION ON DELINQUENT MORTGAGE PAYMENTS BEING RECEIVED BY MY OFFICE OR BY THE GOVERNOR'S OFFICE.

THE APPEALS COME FROM ALL CORNERS OF MINNESOTA, NOT JUST FROM NORTHWESTERN MINNESOTA FARMERS WHO HAVE EXPERIENCED JUST ABOUT EVERY POSSIBLE TYPE OF WEATHER DISASTER AND MASSIVE CROP LOSS FOR FIVE STRAIGHT YEARS.

THE FINANCIAL CRISIS FACING MINNESOTA AGRICULTURE IS MORE SEVERE THAN AT ANY TIME SINCE THE GREAT DEPRESSION.

ONE YEAR AGO THE LEGISLATURE WAS FACED WITH BILLS CALLING FOR MORATORIUMS ON FARM FORECLOSURES. AT THAT TIME, IT WAS APPARENT THAT THE STATE OF AGRICULTURE IN MINNESOTA WAS NOT GOOD. GOVERNOR PERPICH ESTABLISHED A COMMISSION ON THE FARM CRISIS, THEN THE PIK PROGRAM WAS IMPLEMENTED, AND WE HOPED THAT THE PROGRAM WITH ITS PAYMENTS WOULD ALLEVIATE SOME OF THE CASH PROBLEMS FACED BY MINNESOTA FARMERS. UNFORTUNATELY, THE HIGH INTEREST COSTS AND HEAVY DEBT LOAD OF MINNESOTA FARMERS CONSUMED ALL OF THE AVAILABLE CAPITAL OF THE PIK PROGRAM AND, IN FACT, IN MANY CASES WAS NOT ENOUGH TO ENABLE FARMERS TO MEET THEIR OBLIGATIONS.

TODAY TWO CRITICAL FACTORS HAVE COMBINED TO BRING MANY FARMERS INTO TECHNICAL BANKRUPTCY-DEBT AND ASSET DEVALUATIONS. THE CURRENT DEBT LOAD OF MINNESOTA FARMERS STANDS AT ALMOST \$12 BILLION. THE INTEREST PAYMENT ON THAT DEBT LOAD AMOUNTS TO OVER \$1 1/2 BILLION. IT IS NOT UNUSUAL FOR A FARMER TO BE PAYING INTEREST COSTS IN EXCESS OF \$100 PER DAY. DEBT SERVICE IS THE LARGEST SINGLE ITEM AMONG MINNESOTA FARM TOTAL PRODUCTION COSTS. AVERAGE COMMERCIAL LENDING RATES HAVE INCREASED 4 1/2% SINCE 1977 (9% TO 13.6%) AND FMHA RATES HAVE INCREASED 2 1/2% (8% TO 10 1/2%).

IN ADDITION, FARMERS HAVE FACED SEVERE DEVALUATION OF THEIR FARMLAND AND MACHINERY. IN THE PAST TWO AND ONE-HALF YEARS, THE ASSET VALUE OF MINNESOTA FARMLAND HAS PLUNGED BY AN AVERAGE OF \$245 AN ACRE STATEWIDE. THE PLUNGE HAS BEEN EVEN SHARPER ON THE MORE VALUABLE LAND, BEING DISCOUNTED BY \$500 TO AS MUCH AS \$1,000 AN ACRE IN RECENT SALES AND LENDER APPRAISALS. THAT DECLINE, BY ITSELF, REPRESENTS THE LOSS OF MORE THAN \$72,000 PER FARM AND SOME \$7.4 BILLION STATEWIDE ON THE VALUE OF MINNESOTA FARM REAL ESTATE ASSETS.

THERE ARE OTHER ISSUES AND CHALLENGES I WISH TO BRING BEFORE YOU AS WELL. THESE INCLUDE THE EROSION AND LOSS OF OUR AGRICULTURAL LAND RESOURCE, THE GROWING DEPENDENCY OF OUR FARMERS UPON FOREIGN MARKETS, THE POTENTIALLY DEVASTATING EFFECT OF FEDERAL FARM POLICY, AND ENVIRONMENTAL MATTERS THAT WE IN THE AGRICULTURAL INDUSTRY MUST BE AWARE OF. BUT BEFORE I EXPLORE THESE OR THE FINANCIAL CRISIS, IT THINK IT WOULD BE HELPFUL TO GIVE YOU SOME PERSPECTIVE ABOUT MINNESOTA AGRICULTURE--WHAT AND WHO IT IS.

THERE'S NO SUCH THING AS AN "AVERAGE" FARMER. BUT, IF MINNESOTA FARM STATISTICS WERE DISTRIBUTED EVENLY OVER ALL THE STATE FARMERS...THEN HERE'S WHAT A "MINNESOTA FARMER" WOULD BE.

- A FAMILY FARMER ABOUT 47 YEARS OLD.
- HIS FARM COVERS 295 ACRES AND IS WORTH NEARLY \$400,000.
- HIS FARM MACHINERY AND EQUIPMENT ARE WORTH ABOUT \$45,000.
- AFTER HE PAID HIS 1980 PRODUCTION EXPENSES, HIS "NET" WAS ONLY \$11,000 (AND ONLY ABOUT \$7,000 OF THAT AMOUNT WAS CASH).
- HE FEEDS 78 PEOPLE--52 AMERICANS AND 26 PEOPLE OVERSEAS.
- THE AVERAGE FARMER'S EXPENSES RUN \$170 TO \$270 PER DAY, MUCH OF IT IN INTEREST.

BUT AGRICULTURE INVOLVES MORE THAN JUST THE FARMER OR PRODUCER--IT INVOLVES EACH OF US AND 30 MILLION ACRES OF LAND CURRENTLY IN FARMS. SOME 60% OF MINNESOTA'S LAND BASE IS IN FARMS. CONSIDER THE FOLLOWING:

- MINNESOTANS SPEND 16% OF THEIR INCOME ON FOOD BUT THE FARMER RECEIVES ONLY 35¢ OUT OF EACH DOLLAR--OR ABOUT 5¢ OF EACH MINNESOTA DOLLAR.
- THERE ARE 103,000 FARMS IN MINNESOTA.
- MINNESOTA FARM CASH RECEIPTS TOTAL OVER \$7 BILLION ANNUALLY.
- IF FARM PRICES WERE 100% OF PARITY, AGRICULTURE WOULD HAVE BROUGHT \$5.2 BILLION MORE DOLLARS INTO MINNESOTA.
- THE FOOD INDUSTRY EMPLOYS ONE OUT OF EVERY TEN STATE WORKERS.
- OVER 662,000 MINNESOTANS--ABOUT ONE-THIRD OF STATE'S WAGE EARNERS--ARE EMPLOYED IN JOBS RELATED TO FARM PRODUCTION.
- AGRICULTURAL INDUSTRIES ACCOUNTED FOR \$4.2 BILLION IN PURCHASES, AND THE FOOD PRODUCTS MANUFACTURING INDUSTRY SPENT ANOTHER \$5.6 BILLION. THIS IS A TOTAL OF \$9.8 BILLION SPENT, OR 21% OF ALL IN-STATE PURCHASES OF THE STATE'S PRIVATE BUSINESS SECTOR.
- AGRICULTURE ACCOUNTS FOR 40% OF THE STATE'S TOTAL ECONOMIC ACTIVITY.

BUT TO COMPREHEND AGRICULTURE'S CONDITION, ONE MUST REALIZE WHERE MINNESOTA AGRICULTURE HAS COME FROM. IT HAS CHANGED DRAMATICALLY.

- IN 1950, THERE WERE 184,000 FARMS IN MINNESOTA; TODAY THERE ARE 103,000.
- IN 1950, THE AVERAGE SIZED FARM WAS 181 ACRES; TODAY IT IS 295 ACRES.
- IN 1950, FARM DEBT AVERAGED \$12,000 PER FARM; TODAY IT IS \$116,500.
- IN 1950, MINNESOTA EXPORTED 20% OF ITS PRODUCTS; TODAY THE PRODUCTION OF ONE OUT OF EVERY TWO ACRES IS SENT INTO FOREIGN MARKETS.
- IN 1950, FARMLAND WAS WORTH \$169 AN ACRE; TODAY THAT SAME ACRE IS WORTH \$1,065.

THERE HAVE BEEN CHANGES AS WELL IN THE STRUCTURE OF MINNESOTA AGRICULTURE...IN THE PRODUCTIVITY OF OUR FARMERS...AND IN THE TYPE OF CROPS WE GROW. THESE FACTORS, TOGETHER WITH OTHERS, HAVE HELPED SHAPE MODERN MINNESOTA AGRICULTURE.

- IN 1950, 69% OF ALL FARM RECEIPTS CAME FROM LIVESTOCK AND DAIRYING MARKETINGS; 31% CAME FROM CROP MARKETINGS. BY 1982, THE PROPORTION HAD CHANGED DRAMATICALLY--53% OF FARM RECEIPTS WERE FROM LIVESTOCK/DAIRY; 47% FROM SALE OF CROPS.
- IN 1950, CORN AVERAGED 42 BUSHELS PER ACRE; IN 1982, IT AVERAGED 113. WHEAT AVERAGED 17 1/2 IN 1950 COMPARED TO 40 BUSHELS PER ACRE IN 1982. SOYBEANS AVERAGED 15.5 IN 1950; 36 BUSHELS AN ACRE IN 1982.
- IN 1950, OUR FARMERS WERE GROWING ABOUT 1.3 MILLION ACRES OF WHEAT ANNUALLY; IN 1982, THEY GREW 3.2 MILLION ACRES.
- IN 1950, OUR FARMERS GREW ABOUT 1 MILLION ACRES OF SOYBEANS; TODAY, THEY GROW 4.9 MILLION ACRES.
- IN 1950, 5.1 MILLION ACRES OF CORN WERE GROWN; IN 1982, MINNESOTA FARMERS GREW 7.3 MILLION ACRES.
- IN 1950, THE AVERAGE MILK COW PRODUCED 5,975 POUNDS PER YEAR; TODAY, THE ANNUAL PRODUCTION IS 12,139 POUNDS.

AND I COULD GO ON, CITING STATISTICS TO POINT OUT THE DRAMATIC CHANGES THAT HAVE OCCURRED. BUT TWO FORCES MUST BE RECOGNIZED IF MODERN MINNESOTA AGRICULTURE IS TO BE COMPREHENDED...AND THE CURRENT FINANCIAL CRISIS UNDERSTOOD. THESE TWO FORCES ARE THE INTERNATIONALIZATION AND CAPITALIZATION OF AGRICULTURE. THESE FORCES ARE HIGHLIGHTED BY THE FOLLOWING:

- IN 1950, THE U.S. EXPORTED \$2.9 BILLION IN AGRICULTURAL PRODUCTS; APPROXIMATELY 10% OF U.S. FARM INCOME WAS DERIVED FROM EXPORTS.
- IN 1983, \$35 BILLION OF AGRICULTURAL PRODUCTS WERE SOLD TO FOREIGN BUYERS--MORE THAN 10 1/2 TIMES THE AMOUNT IN 1950! SOMEWHERE BETWEEN 20 to 30% OF TOTAL U.S. FARM INCOME NOW DEPENDS UPON EXPORTS.
- DURING THE 1950'S--IN 8 OUT OF 10 YEARS--THE U.S. WAS A NET IMPORTER OF AGRICULTURAL PRODUCTS.
- ONE OUT OF EVERY 3 ACRES GROWN NATIONALLY NOW GOES INTO THE EXPORT MARKET.
- DURING THE 1960'S, THE U.S.'S NET AGRICULTURAL SURPLUS DID NOT EXCEED 2 1/2 BILLION IN ANY SINGLE YEAR. IN 1983, THE AGRICULTURAL SURPLUS WAS \$18.4 BILLION. (IN JANUARY, 1983, THE AG TRADE SURPLUS HAD BEEN \$23.6 BILLION.)
- THE USE OF CREDIT-BORROWED CAPITAL BY U.S. FARMERS INCREASED FROM \$12 BILLION IN 1950 TO \$120 BILLION IN 1978.

IN MINNESOTA, THESE TRENDS TOWARD RELIANCE ON EXPORTS WERE EVEN GREATER.

- OUR MAJOR PRODUCTS--CORN, SOYBEANS, WHEAT, AND LIVESTOCK PRODUCTS--ALL DEPEND LARGELY UPON FOREIGN OR NATIONAL MARKETS. CORN, SOYBEANS, AND WHEAT ACCOUNT FOR MORE THAN THREE OUT OF EVERY FOUR ACRES HARVESTED IN MINNESOTA.

- ALMOST ONE OUT OF EVERY TWO ACRES OF GRAIN GROWN GOES INTO THE EXPORT MARKET.
- EIGHTY TO 90% OF OUR DAIRY PRODUCTS GO INTO INTERSTATE MARKETS.

THE PROBLEMS ARE SERIOUS AND THE SOLUTIONS ARE NOT SIMPLE. THE FIRST AND MOST OBVIOUS SOLUTION IS FOR FARMERS TO RECEIVE A BETTER PRICE FOR THEIR FARM PRODUCTS. TO ADDRESS THIS PROBLEM, A MINIMUM PRICE BILL WAS INTRODUCED IN THE LAST SESSION OF THE LEGISLATURE, AND THE BILL PASSED THE SENATE AND IS STILL PENDING IN THE HOUSE. HOWEVER, IN MINNESOTA, WHERE ALMOST HALF OF ALL THE GRAIN PRODUCED MUST BE SOLD TO A FOREIGN BUYER AND AT LEAST 80% OF OUR MILK IS SOLD OUT OF THE STATE, ANY LEGISLATION THAT RAISES A TRADE BARRIER WILL CAUSE PROBLEMS THAT MUST BE OVERCOME BEFORE A MINIMUM PRICE BILL CAN BE PASSED IN THIS SESSION OF THE LEGISLATURE. THOSE LEGISLATORS WHO ARE WORKING TO RAISE FARM PRICES HAVE CERTAINLY RECOGNIZED THE NEED TO SOLVE THIS PROBLEM AND HAVE ALSO RECOGNIZED THAT THE ONLY TRUE SOLUTION IS BETTER FARM PRICES. AS THE LEGISLATION RECOMMENDS, IT IS CRUCIAL THAT WE WORK WITH OUR NEIGHBORING STATES. BUT THE MINIMUM PRICE BILL SHOULD NOT BE PASSED IN ITS PRESENT FORM.

FEDERAL FARM POLICY HAS BEEN AND CONTINUES TO BE A MAJOR ISSUE OF MY OWN CONCERN AND GOVERNOR PERPICH'S CONCERN.

THIS PAST YEAR, I COMMUNICATED ALMOST DAILY BY TELEPHONE AND BY LETTER WITH MEMBERS OF THE UNITED STATES CONGRESS AND WITH AGRICULTURE SECRETARY JOHN BLOCK AND MEMBERS OF HIS STAFF ON CONTROVERSIAL FEDERAL FARM POLICY AND ADMINISTRATIVE ACTIONS OR PENDING LEGISLATION. I SENT MORE THAN 1,500 LETTERS TO MEMBERS OF CONGRESS IN 1983.

FEDERAL FARM POLICY IS VITAL TO THE ECONOMIC HEALTH OF MINNESOTA PRODUCERS AND THE COMMUNITIES OF RURAL MINNESOTA. THE 1985 FARM BILL WILL HAVE A FAR GREATER IMPACT THAN ANYTHING YOU OR I CAN DO TO SHAPE THE STABILITY AND WELL-BEING OF MINNESOTA AGRICULTURE AND RURAL MINNESOTA. THERE ARE THREE FEDERAL POLICIES SEVERELY IMPACTING MINNESOTA PRODUCERS AT THIS VERY MOMENT.

THE COMPROMISE DAIRY STABILIZATION ACT OF 1983, EFFECTIVE SINCE DECEMBER 1, RESHUFFLED THE ASSESSMENT, BUT THE IMPACT NOT ONLY REMAINED THE SAME BUT ACTUALLY INCREASED. THE ASSESSMENT THE COMMODITY CREDIT CORPORATION WILL KEEP REMAINS AT 50 CENTS. THE MILK PRICE SUPPORT LEVEL WAS CUT BY 50 CENTS. AND CONGRESS TACKED ON A 15 CENT NATIONAL DAIRY PROMOTION ASSESSMENT.

SO THE NET IMPACT UPON THE AVERAGE DAIRY FARMER IS \$1.15 PER HUNDREDWEIGHT TAKEN OFF THE TOP OF THE UNIT PRICE THAT HE RECEIVED FOR RAW MILK SOLD PRIOR TO DECEMBER 1ST. THAT MEANS DAIRY FARMERS WILL RECEIVE \$129 MILLION LESS FOR THE 10.9 BILLION POUNDS OF MILK THEY PRODUCE AND \$180 MILLION LESS WHEN FURTHER PRICE CUTS TAKE EFFECT IN 1985, AN AVERAGE PRICE CUT OF \$7,000 PER DAIRY FARM. WORST OF ALL, THE NEW DAIRY LAW HAS DONE NOTHING TO SOLVE THE SURPLUS MILK PROBLEM.

THIS LEGISLATION WILL PROFOUNDLY AFFECT RURAL MINNESOTA.

- FIRST, BECAUSE DAIRY FARMING IS THE SINGLE LEADING SOURCE OF GROSS FARM INCOME IN MINNESOTA, ANNUALLY GENERATING ABOUT ONE-FIFTH OF OUR STATE'S \$7 BILLION IN FARM CASH RECEIPTS.

- SECOND, BECAUSE MINNESOTA IS THE NATION'S SECOND LEADING STATE IN TOTAL MANUFACTURED DAIRY PRODUCTS. THAT INDUSTRY ANNUALLY GENERATES MORE THAN \$600 MILLION OF GROSS INCOME FOR OUR MINNESOTA DAIRY FARMERS. THE MANUFACTURING, PACKAGING, AND DISTRIBUTION OF THESE MANUFACTURED DAIRY PRODUCTS SUPPORTS THOUSANDS OF OFF-FARM JOBS AND RETURNS MORE THAN \$2 BILLION TO OUR STATE ECONOMY EACH YEAR.
- THIRD, FAMILY DAIRY FARMS IN MINNESOTA WILL BE REPLACED BY CORPORATE DAIRY FARMS IN THE SOUTH, BECAUSE SOUTHERN STATES ARE LARGELY EXEMPT FROM PRICE CUTS.

FOR MOST OF THE PAST FOUR YEARS, DAIRY FARMING HAS BEEN THE ONLY CONSISTENTLY PROFITABLE SEGMENT OF MINNESOTA LIVESTOCK AGRICULTURE, BUT THIS WILL CHANGE NOW.

THE FEDERAL LENDING POLICIES OF FMHA ALSO AFFECT A SIZABLE PROPORTION OF MINNESOTA FARMERS. THE USDA DECISION NOT TO USE THE \$600 MILLION IN ECONOMIC EMERGENCY LOAN FUNDS HURT MINNESOTA FARMERS BY DENYING THEM ACCESS TO CREDIT AT AFFORDABLE INTEREST RATES.

GOVERNOR RUDY PERPICH AND I JOINED OUR COUNTERPARTS FROM OTHER STATES AND THE FARM LEADERS AND MEMBERS OF CONGRESS TRYING TO FREE THE \$600 MILLION ECONOMIC EMERGENCY FARM LOAN PROGRAM.

FINALLY, LAST FALL, A FEDERAL COURT ORDERED AGRICULTURE SECRETARY JOHN BLOCK TO IMMEDIATELY IMPLEMENT THE ECONOMIC EMERGENCY LOAN PROGRAM.

HOWEVER, SECRETARY BLOCK'S LATEST DECISION--TO USE THE MONEY UNDER THE GUARANTEE PROGRAM--WILL CAUSE MOST OF THE MONEY TO LIKELY GO UNUSED. FARMERS WILL ALSO BE FORCED TO PAY MUCH HIGHER INTEREST RATES AT A TIME WHEN THEY ARE IN DESPERATE NEED. HISTORICALLY, THE LENDERS HAVE NOT UTILIZED THE FMHA GUARANTEE PROGRAM, AND NO CHANGE CAN BE EXPECTED IN THESE TOUGH TIMES. IN THE INSTANCES WHERE THE PROGRAM WILL BE USED, FARMERS WILL HAVE TO PAY INTEREST RATES SEVERAL POINTS HIGHER THAN ALLOWED UNDER THE LOAN PROGRAM.

AGRICULTURAL DISASTERS HAVE FORCED MANY FARMERS INTO DIRE STRAITS. TO DATE, NINE COUNTIES IN THE STATE OF MINNESOTA HAVE BEEN DECLARED DISASTER COUNTIES BY SECRETARY BLOCK, AND THAT DECLARATION MAKES FARMERS IN THOSE COUNTIES ELIGIBLE FOR DISASTER LOANS AT 5% INTEREST RATES. IT IS CRITICAL THAT THE STATE WORK WITH FMHA TO GET THESE LOANS PROCESSED WITHIN THE NEXT SIX WEEKS. HOWEVER, RECENT LEGISLATIVE AND REGULATION CHANGES HAVE RESTRICTED ELIGIBILITY REQUIRMENTS, DENYING MANY FARMERS THE SOURCE OF LOW INTEREST CREDIT NEEDED TO RECOVER FROM SEVERAL CONSECUTIVE YEARS OF CROP LOSSES.

FEDERAL FARM POLICY HAS A PROFOUND EFFECT UPON THE ECONOMIC CONDITION OF AGRICULTURE. BUT YET THE STATE CAN, AND MUST, UNDERTAKE SEVERAL INITIATIVES.

FIRST OF ALL, WE MUST MEET THE CHALLENGE OF FINDING NEW MARKETS FOR MINNESOTA'S FARM PRODUCTS. THE PLANTING INTENTIONS RELEASED LAST MONTH INDICATE ANOTHER RECORD CROP IN 1984. MINNESOTA AGRICULTURE MAKES A SIGNIFICANT CONTRIBUTION TO INTERNATIONAL MARKETS AND IS, TO A LARGE EXTENT, DEPENDENT UPON THEM. INDEED, THE FLUCTUATIONS IN THE OVERSEAS MARKETS HAVE, PROPORTIONALLY, A GREATER IMPACT ON MINNESOTA THAN OTHER PRODUCTION AREAS OF THE COUNTRY. IN 1983, THE U.S. EXPORTED 62% OF ITS WHEAT CROP--MINNESOTA

PRODUCERS EXPORTED 80%; THE U.S. EXPORTED 25% OF ITS CORN CROP--MINNESOTA FARMERS EXPORTED 67%; THE U.S. EXPORTED 43% OF ITS SOYBEAN CROP-- MINNESOTA OPERATORS EXPORTED 50%. THIS MEANS THAT MINNESOTA FARM PRODUCERS ARE ON THE "END-OF-THE-WHIP". WE ARE THE LAST TO REALIZE THE BENEFIT OF EXPANDING MARKETS, BUT THE FIRST TO RECEIVE THE IMPACT OF SAGGING MARKET DEMAND. AND IN THE PAST FIVE YEARS, WE HAVE SEEN BOTH.

WHILE INCREASES IN GRAIN AND SOYBEAN PRODUCTION ARE PARTIALLY RESPONSIBLE FOR THE CURRENT DECLINE IN FARM INCOME, EQUALLY IMPORTANT IS THE SAGGING EXPORT DEMAND ASSOCIATED WITH A WORLD RECESSION AND HIGHER DOLLAR EXCHANGE VALUES.

SINCE ALMOST HALF OF MINNESOTA'S GRAIN CROPS ARE SOLD TO A FOREIGN BUYER, IT IS CRITICAL THAT WE EXPAND OUR FOREIGN TRADE. HOWEVER, WE MUST ALL RECOGNIZE THAT FOREIGN SALES HAVE DROPPED FROM A PEAK OF 44 BILLION IN 1981 TO 35 BILLION IN 1983 AND, WITH THE STRONG DOLLAR CONTINUING, WE MAY SEE EVEN FURTHER DROPS OF FOREIGN SALES IN 1984. MOREOVER, THE OVERALL U.S. MARKET SHARE OF THE EXPORT MARKET IS SUBJECT OF FIERCE AND INCREASING COMPETITION FROM THE EUROPEAN ECONOMIC COMMUNITY, BRAZIL, ARGENTINA, AND OTHER COMPETITORS. IF MINNESOTA AGRICULTURE IS TO REGAIN ITS ECONOMIC HEALTH, WE MUST CONTINUE CURRENT MARKETING EFFORTS AND EXPAND THEM TO OFFSET OUR COMPETITION.

MINNESOTA WAS FORTUNATE TO BE ABLE TO ESCAPE MUCH OF THE LOSS IN FOREIGN TRADE, PARTLY DUE TO OUR AGGRESSIVE EXPORTS OF FARM PRODUCTS AND ALSO BECAUSE WE HAD RECORD STORAGE OF CROPS ON-HAND DURING 1983. IN 1983, WE SET A NEW RECORD FOR EXPORT SHIPMENTS DOWN THE RIVER WITH 450 MILLION BUSHELS OF GRAIN SHIPPED DOWN THE RIVER, TOPPING THE OLD RECORD SET IN 1981 BY OVER 100 MILLION BUSHELS.

WE RECOGNIZED EARLY IN 1983, UNDER GOVERNOR PERPICH'S LEADERSHIP AND INTERNATIONAL EXPERIENCE, THAT MINNESOTA IS NOT AN ISLAND SELF SUFFICIENT UNTO ITSELF. WE HAVE TO KNOCK ON EVERY DOOR AVAILABLE TO US IN THE GLOBAL, POLITICAL, AND BUSINESS COMMUNITY TO MAKE THEM AWARE THAT MINNESOTA HAS THE PRODUCTION AND MARKETING SYSTEM TO MEET JUST ABOUT EVERY HUMAN NEED FROM ESSENTIAL FOOD AND FIBER TO THE HIGH TECHNOLOGY REQUIRED IN A DEVELOPING WORLD SOCIETY SEEKING THE COMMON GOAL OF AN EVER HIGHER QUALITY OF LIFE.

FOREMOST AMONG THE NEW INITIATIVES IN THE MINNESOTA DEPARTMENT OF AGRICULTURE DURING THE FIRST YEAR OF THE PERPICH ADMINISTRATION WAS THE ESTABLISHMENT, FUNDING, AND STAFFING OF THE MINNESOTA TRADE OFFICE. IT HAS TWO PRIMARY GOALS: TO INCREASE THE EXPORT SALES OF MINNESOTA PRODUCTS BY MINNESOTA FIRMS, AND SECONDLY, TO INCREASE FOREIGN CAPITAL INVESTMENT IN MINNESOTA. BOTH GOALS ARE AIMED AT CREATING NEW JOBS AND ACCELERATING ECONOMIC RECOVERY.

THE TRADE OFFICE IS STRUCTURED WITH INTERNATIONAL AND AGRICULTURAL TRADE DIVISIONS INVOLVED IN A WIDE RANGE OF DOMESTIC AND OVERSEAS PROMOTIONS, PLUS AN EXPORT FINANCE AUTHORITY ADMINISTERING A SMALL BUSINESS PRE-EXPORT LOAN PROGRAM TO ASSIST NEW FIRMS ENTERING THE WORLD MARKET COMPETITION, AND AN EXPORT INFORMATION OFFICE TO KEEP MINNESOTA FIRMS AND PRODUCERS INFORMED ABOUT DEVELOPING EXPORT OPPORTUNITIES.

THE DEPARTMENT ALSO INITIATED A NEW \$1 MILLION PROGRAM PROVIDING AGRICULTURAL DEVELOPMENT GRANTS TO COMMODITY PROMOTION ORGANIZATIONS, AGRIBUSINESS, AND OTHERS FOR A VARIETY OF RESEARCH AND MARKET DEVELOPMENT ACTIVITIES DESIGNED TO IMPROVE THE STATE ECONOMY AND PROVIDE NEW JOBS.

DEPARTMENT MARKET PROMOTION ACTIVITIES IN 1983 INCLUDED THE "MINNESOTA GROWN---2,000 MILES FRESHER CAMPAIGN" TO INCREASE DOMESTIC CONSUMER AWARENESS OF THE WIDE VARIETY OF HIGH QUALITY MINNESOTA GROWN FARM FOOD PRODUCTS--FROM STRAWBERRIES TO MEATS, POULTRY, VEGETABLES, HONEY, AND CHEESE.

FOREIGN TRADE NEGOTIATIONS ARE IN PROCESS WITH FRANCE FOR MINNESOTA PRODUCTION OF LARGE QUANTITIES OF A NEW SPECIALTY CROP, LUPINES, A VARIETY OF DRY EDIBLE BEAN. IF WE CAN MEET THE SPECIFICATIONS OF THE INTERESTED EUROPEAN MARKET, THIS HAS TREMENDOUS POTENTIAL AS A NEW SOURCE OF EXPORT SALES INCOME.

MINNESOTA HAS COMPLETED THE BASIC RESEARCH AND DEVELOPMENT OF PRODUCTION OF THE AZUKI BEAN OF THE HIGH QUALITY DEMANDED BY THE CONSUMER MARKET IN JAPAN. THE QUALITY OF THE MINNESOTA GROWN AZUKI BEAN COMPARES FAVORABLY WITH THE BEAN JAPAN CONSIDERS THE BEST IN THE WORLD, GROWN IN ITS OWN PROVINCE OF HOKEIDO.

THE ONLY REMAINING DETERRENT TO INCREASE MINNESOTA PRODUCTION AND EXPORT OF AZUKI BEANS TO JAPAN IS THE FEDERAL DEFICIT SPENDING POLICY THAT HAS DISRUPTED INTERNATIONAL MONETARY EXCHANGE AND PLACED POTENTIAL JAPANESE AZUKI BEAN BUYERS AT AN ECONOMIC DISADVANTAGE.

MINNESOTA ALSO HAS A MAJOR OPPORTUNITY TO EXPAND EXPORT SALES OF A SPECIAL QUALITY OF SOYBEANS TO JAPAN AS SOON AS THE MONETARY EXCHANGE RATES BECOME MORE FAVORABLE. RESEARCH AND DEVELOPMENT HAS BEEN COMPLETED ON PRODUCING THE HIGH QUALITY SOYBEAN THAT JAPAN AND THE ORIENT MARKET DEMAND FOR PROCESSING INTO TOFU AND SOYA MILK PRODUCTS. THIS WILL BE PARTICULARLY IMPORTANT FOR SOYBEAN GROWERS IN SOUTHERN MINNESOTA WHO PRODUCE AND MAINTAIN THE SEPARATION

AND INTEGRITY OF CLEAR HILUM VARIETIES OF SOYBEANS. THIS IS THE TYPE OF SOYBEAN THAT THE JAPANESE HAVE BEEN LOOKING FOR IN THE UNITED STATES FOR NEARLY A QUARTER CENTURY TO MEET THEIR UNSATISFIED CONSUMER DEMAND FOR PROCESSED SOYBEAN FOOD PRODUCTS.

MEXICO IS BEING CULTIVATED AS A MAJOR NEW MARKET FOR MINNESOTA SUNFLOWER OILSEEDS. WE ARE INVOLVED IN HIGH LEVEL NEGOTIATIONS BETWEEN BUYERS IN MEXICO AND PRODUCERS AND THEIR MARKETING AGENTS IN MINNESOTA, ATTEMPTING TO PUT TOGETHER A LONG TERM TRADE AGREEMENT THAT WILL INSURE MUTUAL BENEFITS FOR BUYERS AND SELLERS.

FOREIGN BUYERS THAT COME TO THIS STATE ARE ALMOST ALWAYS LOOKING FOR ONE PRODUCT--PROTEIN. ONE OF THE QUESTIONS THAT THEY ASK MOST OFTEN IS WHAT IS THE PROTEIN CONTENT OF THE GRAINS WE HAVE TO SELL. TODAY'S MARKET, WITH MANY OF THE NATIONS OF THE WORLD HAVING A SURPLUS EXCEPT FOR THE THIRD WORLD COUNTRIES WHERE PEOPLE ARE STARVING, IT IS DIFFICULT TO SELL GRAINS THAT ARE NOT HIGH IN PROTEIN.

A BUSHEL OF CORN AT 8% PROTEIN OR WHEAT AT 12% PROTEIN ARE NOT PRODUCTS THAT ARE READILY SALEABLE. IN ORDER TO MEET THE MARKET DEMAND, WE MUST FIND NEW WAYS TO MARKET OUR GRAINS SO THAT WE SELL OUR FOREIGN BUYERS THE CONCENTRATED, PELLETIZED PROTEIN THAT THEY DESIRE. THERE IS A VAST SHORTAGE OF PROTEIN IN MOST OF THE NATIONS OF THE WORLD, ESPECIALLY THE DEVELOPING NATIONS. EVEN EUROPE, WHILE IT IS ABLE TO SUPPLY ALL OF ITS NEEDS OF ROUGH FEEDS, WILL NEVER BE ABLE TO SUPPLY THE PROTEIN NEEDS THAT ITS DAIRY CATTLE, BEEF CATTLE, AND HOGS REQUIRE. IN THE THIRD WORLD PEOPLE ARE DYING, NOT BECAUSE THEY HAD NOTHING TO EAT THAT DAY, BUT DUE TO A PROTEIN DEFICIENCY. IN TOMORROW'S MARKETS WE MUST LOOK TO SELLING PROTEIN AS AN ANIMAL FEED TO OUR

TRADITIONAL CUSTOMERS, THE EUROPEAN COMMON MARKET, AND THE JAPANESE, KOREANS, AS WELL AS CHINESE. IN THE THIRD WORLD, WE MUST LOOK TO SELL PROTEIN AS A HUMAN FOOD. TO PRODUCE THIS CONCENTRATED PROTEIN, WE MUST LOOK TO NEW TECHNOLOGY AND NEW PROCESSING CAPABILITIES AND TO THE PRODUCTION OF NEW CROPS THAT ARE HIGH IN RAW PROTEINS. GRAINS SUCH AS CORN AND WHEAT THAT ARE HIGH IN CARBOHYDRATES ARE GOING TO BECOME INCREASINGLY TOUGH TO SELL IN THE WORLD MARKET. AND IT IS NO ACCIDENT THAT HIGH PROTEIN CROPS SUCH AS SOYBEANS ARE TAKING OVER THE MARKET. HOWEVER, THROUGH FERMENTATION WHICH IS THE MOST EFFICIENT PROTEIN CONCENTRATION PROCESS, GRAINS THAT ARE HIGH IN CARBOHYDRATES CAN BE CONVERTED INTO TWO PRODUCTS VERY MUCH IN DEMAND--PROTEIN AND FUEL.

LAST YEAR MINNESOTA IMPORTED 3 BILLION GALLONS OF FUEL AT A COST OF \$3 BILLION. WE MUST TAKE OUR GRAINS WHICH WE HAVE IN VAST ABUNDANCE AND THROUGH FERMENTATION CONVERT THEM TO CONCENTRATED PROTEIN AND FUEL. WE MUST SELL THE PROTEIN TO OUR TRADITIONAL CUSTOMERS THAT WILL ALWAYS BE IN NEED OF PROTEIN. AND, IN SOME CASES, WE MAY HAVE TO CONSIDER GIVING AWAY PROTEIN TO STARVING PEOPLE IN THIRD WORLD COUNTRIES. WE MUST USE THE FUEL THAT IS LEFTOVER ALMOST AS A BY-PRODUCT OF PROTEIN CONCENTRATION AND BURN THAT FUEL IN OUR CARS, TRUCKS, AND TRACTORS. EACH 56 POUND BUSHEL OF CORN YIELDS 2 1/2 GALLONS OF HIGH QUALITY FUEL AND 12 POUNDS HIGH QUALITY PROTEIN CONCENTRATE. TO PUT IT MORE SIMPLY, AN ACRE OF CORN IN SOUTHERN MINNESOTA THAT PRODUCES 150 BUSHEL PER ACRE, YIELDS 375 GALLONS OF FUEL, AND 1,800 POUNDS OF HIGH QUALITY PROTEIN CONCENTRATE PER ACRE. EVEN WITH THE RECORD CROPS THAT WERE PRODUCED IN 1982, MINNESOTA DID NOT PRODUCE ENOUGH CORN TO FILL THE FUEL REQUIREMENTS OF THIS STATE. AND OBVIOUSLY WE DO NOT SUPPLY ENOUGH PROTEIN TO THE STARVING NATIONS OF THE THIRD WORLD.

OTHER DEPARTMENTAL INITIATIVES INCLUDE ENVIRONMENTAL MATTERS.

SOIL AND WATER CONSERVATION EMPHASIS HAS BEEN ELEVATED WITH THE RECENT TRANSFER OF THE MINNESOTA SOIL AND WATER CONSERVATION BOARD TO OUR DEPARTMENT.

MINNESOTA, LIKE OTHER STATES, IS IN PERIL OF LOSING LARGE AMOUNTS OF ONE OF ITS MOST PRECIOUS RESOURCES--ITS AGRICULTURAL LAND. AN ESTIMATED 100 MILLION TONS OF SOIL ARE LOST TO EROSION EACH YEAR IN THIS STATE. ANOTHER 50,000 ACRES OF FARMLAND ARE CONVERTED TO NON-FARM USES EACH YEAR.

ENVIRONMENTAL PROTECTION ACTIVITIES HAVE ALSO REQUIRED THE INTENSIFYING OF MONITORING AND REGULATORY CONTROL PROGRAMS FOR PLANT PESTS. INCREASED EFFORTS ARE BEING MADE TO PROTECT AGAINST THE INTRODUCTION OR SPREAD OF DESTRUCTIVE PESTS SUCH AS GYPSY MOTH, SOYBEAN CYST NEMATODE, EUROPEAN CORN BORERS, AS WELL AS THE MAINTENANCE OF COOPERATIVE PROGRAMS TO LIMIT LOSSES OF URBAN SHADE TREES TO DISEASE.

A MAJOR OBJECTIVE OF THIS ADMINISTRATION IS TO PUT MINNESOTANS BACK TO WORK IN MEANINGFUL AND NEW JOBS. THE GOAL IS FULL EMPLOYMENT. AGRICULTURE IS A MAJOR KEY TO JOB EXPANSION.

BECAUSE AGRICULTURE IS MINNESOTA'S LARGEST INDUSTRY, PHYSICALLY, FINANCIALLY, PRODUCTION VOLUME, AND IN THE MORE THAN 460,000 OFF THE FARM JOBS SUPPORTED, THE STATE MUST LOOK FOR WAYS TO STRENGTHEN OUR FARM ECONOMY AND IMPROVE THE VIABILITY OF OUR FAMILY FARMS.

THE JOB POTENTIAL LIES IN OUR AMBITIONS TO INCREASE THE FURTHER PROCESSING OF RAW FOOD AND FIBER PRODUCED ON OUR MINNESOTA FARMS. UNTIL NOW, THE BULK OF OUR MINNESOTA FARM EXPORTS HAVE BEEN RAW COMMODITIES.

WHEN WE EXPORT RAW MATERIALS, WE ARE NOT ONLY RESTRICTING FARM INCOME OPPORTUNITIES BUT AS WELL WE ARE DISSIPATING OTHER ENERGY, FINANCIAL, EMPLOYMENT, AND SOCIAL RESOURCES. RAW MATERIALS HAVE TO BE PROCESSED INTO ULTIMATE CONSUMER PRODUCTS SOMEWHERE, SOMETIME. WHY NOT HERE IN MINNESOTA, THE PRODUCING STATE? FARM INCOME NEEDS IMPROVEMENT. OUR UNEMPLOYED NEED JOBS. OUR COMMUNITIES NEED NEW AND EXPANDED ECONOMIC DEVELOPMENT. WE MUST USE THE GREAT STRENGTH OF OUR LARGEST INDUSTRY--AGRICULTURE--TO BUILD A STRONG ECONOMIC BASE AS WE HEAD INTO THE 21ST CENTURY.

I NOW ASK YOUR COOPERATION IN PURSUING WHAT I BELIEVE TO BE KEY INITIATIVES IN BRINGING ABOUT A STABLE AND PROSPEROUS MINNESOTA AGRICULTURE. THESE ARE:

- THE DEVELOPMENT OF NEW MARKETS FOR MINNESOTA AGRICULTURAL PRODUCTS THROUGH LOCAL, NATIONAL, AND INTERNATIONAL MARKETING EFFORTS.
- THE DIVERSIFICATION OF OUR AGRICULTURAL ECONOMIC BASE THROUGH THE EXPANSION OF AGRI-PROCESSING FACILITIES, AS WELL AS THE SEARCH FOR NEW USES OF MINNESOTA AGRICULTURE PRODUCTS.
- THE SEARCH FOR NEW AGRICULTURAL PRODUCTS TO DIVERSIFY OUR PRODUCTION BASE--THEREBY LESSENING OUR DEPENDENCY ON EXPORTS.
- THE ENHANCEMENT AND CONSERVATION OF OUR NATURAL RESOURCE BASE THROUGH EXPANDED AND IMPROVED SOIL AND WATER CONSERVATION PROGRAMS AND THE DEVELOPMENT OF ENVIRONMENTALLY SENSITIVE PEST MANAGEMENT STRATEGIES.
- THE SEARCH FOR FAIR FARM PRICES AND ADEQUATE CREDIT THROUGH SOUND FEDERAL FARM POLICIES AND PROGRAMS.