

NATIONAL PRESS CLUB LUNCHEON WITH AGRICULTURE SECRETARY MIKE JOHANNIS

SUBJECT: THE FARM BILL

MODERATOR: JERRY ZREMSKI, PRESIDENT, NATIONAL PRESS CLUB

LOCATION: NATIONAL PRESS CLUB BALLROOM, WASHINGTON, D.C.

TIME: 1:00 P.M. EDT

DATE: FRIDAY, JULY 27, 2007

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MR. ZREMSKI: Good afternoon, and welcome to the National Press Club.

My name is Jerry Zremski, and I'm president of the National Press Club and Washington bureau chief for the Buffalo News.

I'd to welcome our club members and their guests who are here today along with those of you who are watching on C-SPAN. We are looking forward to today's speech, and afterwards, I'll ask as many questions as time permits.

Please hold your applause during the speech so that we have as much time for questions as possible.

For our broadcast audience, I'd like to explain that if you hear a pause during a speech, it may be from the guests and members of the general public who attend our luncheons, and not necessarily from the working press. (Laughter).

I'd now like to introduce our head table guests and ask them to stand briefly when their names are called. From your right, Robert Lewis (ph), a farm writer who joined the National Press Club more than 50 years ago; Ed Meizner (ph), editor of the Kiplinger Agricultural

Letter; Bogdan Kipling, a columnist for Halifax Chronicle Herald whose work also appears in other North American newspapers; Sally Sharp, Washington editor for the weekly newspaper, Feedstuffs; Chuck Connor, deputy secretary of agriculture and a guest of the speaker; Mike Duncan, editor of WashingtonWire.com.

Skipping the podium, Angela Greiling Keane of Bloomberg News, the chair of the National Press Club speakers committee. Skipping over our guests for a second, Ms. Stephanie Johanns, wife of the speaker and a guest of the speaker; Ken de Lucky, a freelance reporter and editor, and the speaker's committee member who organized today's event; Keith Collins, chief economist for the Department of Agriculture, and a guest of the speaker; Mark Heller, Washington correspondent for the Watertown Daily Times; and Joe Morton, Washington correspondent for the Omaha World Herald. (Applause.)

The timing of our luncheon today couldn't be any better. As we speak, the House is considering a \$286 billion farm bill. And in a few minutes United States Secretary of Agriculture Mike Johanns will tell us what he thinks about it.

His comments are likely to illuminate an ideological divide on U.S. farm policy that doesn't fall neatly along party lines. On one side we find many Democrats and farm-state Republicans who like strong federal support for agriculture.

On the other side we find the Bush administration and reformers from both parties who see many farm subsidies as nothing but corporate welfare for agribusiness.

President Bush, who has threatened to veto the farm legislation being considered by the House, picked someone with deep roots in agriculture to lead the administration's fight in this debate. Mike Johanns grew up his family's dairy farm in Iowa where he surely did his share of the chores.

Now as the nation's 28th Agriculture secretary, Johanns has been a strong advocate of expanding agriculture trade. He has participated in World Trade Organization negotiations which have stalled as a result of disagreements on farm issues between and among developed and developing countries.

A major stumbling block in the negotiations has been the generous farm subsidies that rich countries such as the United States provide to their farmers.

Of course the farm bill is not the only thing on Secretary Johanns' plate. The public is worried about tainted food products. And Secretary Johanns is part of a Cabinet-level interagency working group which is going to be making recommendations in September on new ways to minimize the dangers from food and other products shipped in the U.S. from 150 countries.

While Johanns is working on such weighty issues, political pundits in Nebraska where he served as the state's 38th governor are pondering his political future. There is some speculation that he may run for the Senate in 2008 if Senator Chuck Hagel decides not to run

for reelection.

Today however Secretary Johanns is here to talk about a very pressing matter: the future of U.S. farm policy.

Secretary Johanns, welcome to the National Press Club.
(Applause.)

SEC. JOHANNNS: Well, thank you very much for that very nice introduction and the kind welcome.

You know, you are right that there are pundits back home who are spending a fair amount of their time trying to figure out what I'm going to do with my future. Now I do have to ask today that you not write about that, and there is a very personal reason for that. My wife, Stephanie, is a former state senator, and you see, every time you write about it she reminds me that I will forever be the junior senator in the Johanns household. So.

Well, it is -- it is a pleasure to be here. It's an honor to appear in a forum with really so many distinguished guests, and to be in a forum where so many famous people have shared their thoughts over the years.

I will begin by sharing with you that I set aside the remarks that we had prepared just 24 hours ago. I simply could not ignore what has transpired in these last hours, and the significance, the huge significance of the developments that have occurred as we contemplate farm policy for the future.

A powerful powerful lesson can be learned from what has transpired over the last hours in the House of Representatives here in Washington. Surprise provisions, the remarkable admissions, the passionate positions I think present us with an opportunity.

It is time to stand firmly, in my judgment, on the high road, and to do the right thing for our farmers and our ranchers.

That means standing firm on our commitments for fiscal responsibility and policies that will truly protect the safety net for American farmers and their ability to export their products in the foreign marketplace.

We heard echoed on the House floor last night that it was a sad day for American agriculture. The ranking member of the House ag committee last night spoke of betrayal, and described a well that had been poisoned.

Thankfully many House members refused to drink from that poisoned well. They stood on their principles.

They said no to a provision crafted under a cloak of secrecy and then presented in the 11th hour. These members rejected the effort to paint another bullseye on the back of the American farmer in the form of a \$7 billion tax hike.

Now why do I describe it this way? Because never in the history

of farm programs have farmers supported higher taxes on another industry to fund their own farm programs -- never. The Chamber of Commerce and others have wasted no time in speaking out against any attempt to balance the farm bill budget on the backs of businesses and American jobs, and I believe very rightfully so.

I can think of no quicker way to threaten the safety net than by asking someone else to pay extra for it. Courageous House members recognize that threat, and they have fought against it.

The reality is that farm bills succeed, and always have, when they have broad support. That's the way we build farm policy in this nation. Yesterday's action by the majority leadership narrowed support for the farm bill, and it lessened its chances for success, and it divided one great industry against another.

These actions pitted a very proud industry, agriculture, where I grew up, against another industry. No farm bill should ever do that. No House member should ever be asked to vote for that.

Members can now move forward with eyes wide open to the folly of trusting that money will fall from some other tree to fund the priorities of agriculture in rural America. The events of the past 24 hours, highlighted with a razor sharp edge a core message that we began with when we unveiled the administration's proposals.

You see the message for me is very simple, maybe especially simple having served as a governor. Funding our priorities is always a matter of math, not magic. Farmers and ranchers do not have to abandon their fundamental beliefs in fiscal responsibility to protect the safety net that is there for them.

But let's be very candid about one thing -- in fact, let's be very honest about one thing. The idea of raising taxes on another industry did not come from our farmers or our ranchers. In fact I don't recall a single instance during my 66 hours of intently

listening to the very, very diverse opinion of producers, not a single instance, ladies and gentlemen, when a farmer suggested to me at one of our farm bill forums that raising taxes on another industry jeopardizing jobs is the answer to funding the farm bill.

They advocated for new programs. They advocated for new policies. But they never advocated for new taxes.

The fact is, there is no need to raise taxes to deliver a good farm bill. The administration has proven with our proposals that we can provide a strong safety net for farmers, and that we can fund important priorities like conservation, nutrition, renewable energy, rural development in our specialty crops.

I've said many times over the past few months I am enormously greater for that prairie wisdom conveyed to us by farmers and ranchers during our farm bill forums. The administration listened very carefully and submitted a farm bill proposal based upon that prairie wisdom.

We called it America's farm bill, and that wasn't accidental. After all, it was farmers who pointed out to us that the current safety net fails them when they need it the most. They even told us, we sent them checks when they need it the least.

It would be difficult in my opinion to find a more honest group of people than our nation's farmers and ranchers. And we listened, and we researched, and we proposed a revenue based countercyclical program that addresses these shortcomings and deals with the safety net.

It was farmers who openly acknowledged that there are times when they received payments that are well within the letter of the law, but go beyond the spirit. The LDP and loan repayment rate should be determined when a crop is sold. It's really as straightforward as that.

Because the two are not currently linked, USDA paid out an estimated \$3 billion for the 2005 crop season to producers who acknowledged to me over and over again that they did not suffer a loss.

But the House bill fails to address this oversight despite the fact that farmers openly talked about to us about it during our forums.

I would also add, it was farmers who asked us to remove the first bullseye from their backs by better protecting the safety net that they depend on from international challenge. For those who suggest that we defy the rules of international trade do not rely on it for their income as many farmers do.

To dismiss the World Trade Organization and the rules by which the world lives by, we must be willing to dismiss \$78 billion in agricultural exports.

Now I will tell you, this administration doesn't intend to pull the rug out from underneath farmers who depend on that export market. We know how important it is. So we prepared policy that is responsive to the marketplace.

By dealing with loan rates and increasing direct payments that do not distort trade, we increase the likelihood that planting decisions will truly be based on market conditions.

We also lowered the risk of future challenges from our trading partners.

The House bill raises loan rates for 14 crops including sugar, which paints a bullseye on the backs of those farmers. It was farmers who suggested that we press harder to implement effective payment limits.

Now ladies and gentlemen, by no means am I suggesting that we heard a unified message on capping subsidies. But one need only review the transcripts posted on our website to see there was strong support expressed in many states by farmers to limit payments.

Why should farmers ask us to set limits? For one thing they know that many of the people affected by these limits, well, they don't work the land. They don't do that for a living, and they don't face the risk that is inherent with farming.

In fact as you know a very famous website shows us all many of the very successful individuals who would be impacted by payment limits don't live near Osage, where I grew up. They live in New York City, San Francisco and Washington, D.C.

Their connection to farming is very remote at best. And yet payments to these very successful investors have become symbolic of our farm payments in the minds of many Americans. When they think of our farm payments, that's what they think of.

And we must not allow the value of a farm safety net to be lost in headlines about subsidies to the most successful in our nation. I firmly believe that federal investment in agriculture is a wise policy. I will believe that until the day I die, and I will advocate for it.

Farmers do face unpredictable hardship, and they do deserve America's support. They also see the danger in distributing \$1.5 billion in the name of farm programs to people who are among the wealthiest 2 percent of all Americans. Farmers know that that is not a safety net, and they also know it is not wise public policy.

The administration proposed ending these subsidies to the very successful. You see we celebrate that success in this administration. When someone receives an adjusted gross income of \$200,000 annually, we congratulate them. And we also say it's graduation day. Time to graduate from the cash subsidies.

It simply is the right thing to do. But the House bill falls well short of those proposals.

I'll wrap up my comments where I began them today, talking about the opportunities that lies ahead of us, and maybe offering a thought about the lessons that we have learned.

We have seen the polarizing impact of developing funding for farm policy under the cloak of secrecy. I urge the Senate to chart a different course, and to do it under the bright light of transparency.

I urge the Senate to craft a farm bill that abides by the principles of those who benefit from it. The principle of fiscal responsibility served as our guidepost as we prepared the administration's 2007 farm bill proposal.

I continue to believe that the administration's proposal represents the best approach to any that we have seen. We provide a very strong safety net while funding very important priorities. It fits within a balanced budget plan. It does not raise taxes.

But I've also said repeatedly that we encourage reform minded thinking. And we recognize that our approach is not the only pathway

to a farm bill that embraces our future. I welcome the opportunity to continue a dialogue that has already begun with the Senate Agriculture Committee in a very bipartisan way.

I look forward to carrying on these conversations in the great tradition of farm bill debates. I stand before you today confident that many of the Senate share this commitment to bipartisanship. I expect to engage in spirited discussions with my friend and ranking member of the Senate ag committee, Saxby Chambliss, just as I expect to continue our working efforts with Chairman Tom Harkin. There is much about what both say that I like.

In fact, I've said before and I'm pleased to repeat that I am encouraged by the ideas that have been brought forward by the chairman, and I look forward to the chairman's mark. He has signaled his intention to ensure the farm bill reported out by the committee is properly funded.

He has expressed a commitment to some of the same priorities defined by the administration: conservation, beginning farmers, renewable energy, nutrition, and others.

I read just yesterday that Chairman Harkin said he believes that "those who want stricter payment limits" -- and I'm quoting -- "will have the better part of the argument on this," end quote. I look forward to a discussion with him on that point.

I also look forward to delivering a farm bill to the president's desk that we can all be proud to support and be privileged that the president would sign. President Bush has made it absolutely crystal clear that he'd like to be given the opportunity to sign a farm bill before the year is out, and I intend to do everything I can to make that happen.

Thank you very much. (Applause.) Thank you.

MR. ZREMSKI: Thank you very much. We have a lot of questions on the farm bill, food safety -- all sorts of issues.

First off, given what has happened so far in the House, do you think the farm bill can be reauthorized this year, or will there have to be another one-year extension?

SEC. JOHANNIS: I believe it can be reauthorized. Here's an interesting concept: If you watched the debate over the last 24 hours on the farm bill, in a very bipartisan way, Republicans and Democrats said "We worked together on building this farm bill," and then went on to say -- until the bomb was dropped on the tax increase literally hours before the debate was to begin, it looked like this was going to be a bipartisan approach on the House floor.

I happened to walk into the House ag committee at a point in time that didn't plan, but at a point in time when Marilyn Musgrave of Colorado put a sense of the House resolution before the chairman that said, "The sense of the House will be we won't raise taxes for the farm bill."

And the chairman said, "Well, that's not under consideration, so it's not germane." And that literally was days.

Last night Chairman Rangel came to the floor and he said, "You know what? It was always under consideration. I'm the chairman of the House Ways and Means Committee. We deal with taxes." And so in his working relationship with the majority party, that's what he was saying.

So I believe it can be done. I believe we can get a bill. We do not favor an extension of the '02 bill. But I really do believe that we have to put all the cards on the table. We have to know what we're dealing with. That's what's going to bring a farm bill forward. Every farm bill that I've ever paid attention to over many, many years was a bipartisan effort.

It's unfortunate that the majority party looked at this and said in the last hours, "Let's drop a tax increase in there." I mean, it shook the foundation of this bipartisan effort, but it can come back and we can get a farm bill. I just have no doubt about it.

MR. ZREMSKI: Democrats are describing the tax provision that you mentioned here as being directed against firms that have moved their headquarters overseas to avoid corporate taxes. If you could comment on that, and tell us what you think about whether or not that should be done generally -- if not in this bill, in another.

SEC. JOHANNIS: I'm not the tax policy guy, and I don't think you want the secretary of Agriculture to start telling you what taxes to pass or not pass.

But having said that, I can tell you as a governor and as a mayor and now as a secretary, I believe in fiscal responsibility. You have so much to spend, you live within those means.

We knew when we started this farm bill this was going to be a very tough baseline. We knew it from the administration side. It was known on the House side, and of course it's known on the Senate side. With reform you can do some rather remarkable things here. You know, our proposal does save a billion and a half on -- just on payment limits reform, not even addressing the other important areas of reform that can really put together just a first-class, quality farm bill for our farmers and our ranchers and still remain within their principles of fiscal responsibility.

Now, let me, if I might, talk about this tax issue from the vantage point that I see it. We did some research at the USDA -- I always tell people, if you want information, I've got it because we have data on everything at the USDA. I asked the question, "Have we ever done a farm bill with a tax increase rolled into it?" One time -- 1933 -- Farm Adjustment Act of 1933. Only time. Ruled unconstitutional by the Supreme Court. We don't -- we don't pass farm bills that way.

But the most remarkable thing about this -- the most remarkable thing about this is we put farmers and ranchers in this position:

supporting a tax increase on another industry to finance their program. Remarkable! And now we have pitted America's farmers and ranchers against the National Association of Manufacturers, the Organization of International Investment, the U.S. Chamber of Commerce, the United States Council for International Business -- and I could go on and on. We haven't broadened the support for farm policy; we have narrowed it.

Couple last thoughts: If there was ever a time when our farm programs need friends, it is now. Have you read the editorials across the United States about these programs? If there is ever a time when we need friends for our farm programs, it is now. It is no time to be making enemies.

Final point on the tax policy itself: These are companies that have come to the United States, they have build manufacturing plants oftentimes that employ rural residents and provide jobs.

Now, maybe there is somebody out there that says, "You know, Mike, I still think we should tax these folks." Okay. How do we go about doing that in our system? We put a bill in. We go to the Ways and Means Committee. We have a hearing. People come in from a group like this and they say, "We don't think you should do it because here's the ramifications: You're going to abrogate 58 treaties that are out there.

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And other groups come in and say, "No, I think we should tax them." And we air it in the bright light of day. And then the Ways and Means Committee takes a vote, and then it's sent to the House floor where it's debated, and everybody gets a fair shot.

Now, let me compare this process, which I think is a very honorable process, to what happened. This got brought over, rolled into a rule, no public hearing before the Ways and Means Committee, and it was acted upon. Acted upon under what circumstances? The passage of a farm bill. What? The passage of a farm bill. That's how this came -- this very important issue involving international relations and treaties and tax policy and U.S. jobs was acted upon in a rule for the farm bill -- no airing, no public hearing before Ways and Means.

It's just not the way we should be doing business. It is just not the way to fund a farm bill, and it's never been done before. It's remarkable. It's historic -- and I might add, not in a positive way.

MR. ZREMSKI: Are you suggesting that without the tax loophole provision that the president would have signed the House bill?

SEC. JOHANNNS: We have problems with that House bill. But if you watched my statements over the past week, I went up to the House -- actually, my deputy, Chuck Connor, was there for the entire mark-up. But I went up there for a purpose. I wanted to say thank you for the work you are doing. We appreciated the many things in our proposals that ended up in the House version.

Now, there were still some very fundamental problems. We did not like the budget gimmicks -- \$4.7 billion to make this look better in what truly was budget gimmicks. We did not like the idea that payment limits were set at a million dollars. Do you know how many people in the United States that will affect -- those payment limits? Less than 7,000 people. It's virtually nothing. We thought it needed to be lowered to \$200,000, and even then the effect was only on 38,000 people out of over 900,000 people that receive the payments or operations.

So we did not feel that the reform was progressive enough. And there's other areas that I can talk about. But having said that, we were making progress. Many of the things we were proposing in our proposals found their way to the House version. And I said, "You know, this is just the start of the process. We're going to work the best we can to get the most we can from the House. Then we go to the Senate. We'll work with them and we'll roll up our sleeves in a bipartisan way, and then we go to conference." And when it's all said and done, we were confident that we could get a good farm bill -- the kind of farm bill that I think farmers in America want.

Unfortunately, we ended up with this last-minute tactic that just polarized -- as you can see from the groups who are in opposition to what's happening -- polarized the entire debate.

MR. ZREMSKI: Senator Harkin has said that he's looking to the Senate's tax-writing committee for funding. If his bill has a tax package, what will be the administration's reaction?

SEC. JOHANNIS: I always hesitate to answer hypothetical questions, but I can tell you this farm bill does not need higher taxes. This farm bill needs reform, it needs a strong safety net, it needs investment and priorities -- it needs the very things we've been talking about as we've been doing the farm bill forums across the country. This farm bill needs to listen to American farmers, as we tried to do.

Here's what I would tell you. I grew up with these people. They were my heroes and mentors when I was growing up. I don't know of a single farmer -- at any farm I did, anyway -- who showed and said, "You know what? I've got a great idea for our farm bill. Let's raise taxes." They're a conservative bunch of people. Their natural tendency is going to be, "Don't raise taxes. Let's find a way to live within our means." And yet here today -- here today they're caught in a situation of higher taxes that I honestly do not believe they support against an industry that isn't even in agriculture. They have literally been put in a situation where a tax on another industry and jobs has forced them in this position. And I don't think it's fair to U.S. farmers.

I don't think that is their position. I am confident in telling you that -- that they don't stand behind a farm bill that requires higher taxes. And the final thing I will say just to underscore the point -- you do not need higher taxes to get a great 2007 farm bill. You can do the things you need to do and invest in the priorities of this nation, and I would argue in some cases than what we have seen as

a result of the House activity. But be that as it may, the point is you don't need higher taxes for a great farm bill.

MR. ZREMSKI: Why didn't the administration endorse and push the Kind and Lugar farm bill alternatives? What parts of their approach don't you like?

SEC. JOHANNNS: Because we had our own approach -- because we spent two years listening to farmers across America.

Let me describe for you how we did these forums. We didn't know what to expect when we went out across America to do them. We were in 48 out of the 50 states. The only two states we didn't get to were Louisiana and Mississippi because of hurricanes. Fifty-two forums, and here's how they worked. We worked with our farm broadcasters to advertise we were going to be at the -- for example -- Iowa State Fair at this time on a given day and we just invited farmers to come in. No prearranged testimony. We didn't call ahead to the local Farm Bureau president or Farmer's Union president. We just said, "You know what? The secretary of Agriculture's going to be there -- the deputy secretary or an undersecretary -- and they're going to sit and listen to you for three hours. And people drove hours to get to those forums to talk to us and they stood in line at the microphone.

We started every farm bill forum that I did in a way that meant a lot to me -- with an FFA member and a 4-H member. Why? Because I was in both organizations growing up. And we heard this honesty and wisdom from our farmers, and we took those ideas and we posted them on our website and we did analysis papers. We posted those on our website, and then on January 30th we released our proposals. And you know what? We believed in what farmers told us. Now was there absolute consensus? Of course not. This is a very, very diverse group of people. But we picked from their testimony what we thought were great ideas for the future of American agriculture. Now as I said in -- over the last months, there were things about the Kind proposal we did like. In fact, there were certain things about the Kind proposal that came pretty close to where we were. Mr. Kind did adopt the adjusted gross income approach -- as did the committee, incidentally. He set it at \$250,000. We were at \$200,000. But where were things about that proposal that did like. When I had an opportunity, I said that just like I said there were things about the House version I liked.

But there were also things that we didn't like. We strongly feel that we heard from farmers that they wanted the structure of the '02 Bill. We believed that we needed to listen to them, as so we proposed the structure of the '02 Bill. And so we felt very strongly that we had the right administration policy, and that's why I've been so insistent on keeping faith with farmers and ranchers because they were there at our forums to help us build this policy. And that's why we have stuck with the administration approach. Plus, it's a great approach. That wisdom was unbelievable.

MR. ZREMSKI: Why should that policy be written according to what farmers want rather than what taxpayers want?

SEC. JOHANNNS: Well, taxpayers were welcome to the forum, too.

We had everybody there. We absolutely believe that we should have the most open forum process possible. And yes, taxpayers have to pay for these programs. And here's what I've said as I've talked about our

proposals -- as I've traveled across the country. You know, I believe I should be able to justify these programs whether I am in town or in the country. I believe that I should be able to justify these programs to the nurse that works at the nursing home in my hometown or the policemen or the firemen who pay the taxes to fund these programs. And you know what? I'll bet if I went out and asked those taxpayers today, "Do you want to pay for a program that pays cash subsidies to investors who have virtually no contact with agriculture other than they live -- or other than they own a farm -- who lives in Manhattan?" I think they would say, "Absolutely not."

We wish them well and we wish them success, but literally our payment limit proposals have, I believe amongst taxpayers, universal support.

But I also believe taxpayers do support a safety net. I do believe they support additional funding for nutrition and research for fruit and vegetable producers. I do believe we can take this farm bill into town and we can convince and show people that it makes a lot of sense for the future of agriculture. I believe we can make that case. So we do listen to taxpayers.

MR. ZREMSKI: Do you think that the work for the Environmental Working Group is done to link subsidy amounts to specific recipients or hurt or helped the public discourse on agriculture policy?

SEC. JOHANNIS: I've been in public life now, dating back to 1982, when I first ran for county commissioner. Fundamentally, I believe in policies that work with the bright light of day upon you. And you know, sometimes it happens that the bright light of day is painful and I don't always have good news for people. You know, I tell my staff some days are good news days, some days are bad news days. That's just the way it is. We're in tough jobs, but I do believe in the bright light being upon us. And you know what? I fundamentally believe and strongly believe that if you receive cash from taxpayers in the form of subsidies, you should be willing to have that as public information. And you should be willing to justify why that is an appropriate contribution from the taxpayers to what you do.

I do every day. Again, I'll make the case to the day I die that investment in agriculture is a wise investment. Not everybody in this town shares that view, to say the least, but I believe in it. But I also have to believe -- or I do believe we have to do it right, and you don't do it right by being secretive. So I think they've added to the debate. They've not made everybody happy. I appreciate that. But they have added to the debate by that information being in the public realm, and it should be. It really should be. If you're receiving cash from the U.S. government financed by taxpayers, you should not be reluctant to have that available for people to look at.

MR. ZREMSKI: One way to eliminate the headlines about rich, famous people getting farm subsidies is to pay the subsidies to farmer, not farmland owners. What's wrong with that idea?

SEC. JOHANNNS: Here's something I'd ask you to consider, and this is where the challenges are, and this is one of the reasons why we adopted the methodology that was AGI-related -- adjusted gross income related.

Let's say you have a situation where you have a husband and wife and they've farmed all their life. And they are now retired, maybe even the husband is deceased or the wife is deceased, and that farm income is what supports them in the later years of their life because that's what they've invested their whole lifetime in. And let's say that that farm operator who farmed that farm all of his life is in a situation where they are offering substantial input to the farming operation. Maybe it's a young person they're helping get started. Whatever it is, there would be great justification for that landowner receiving that piece of the farm support that would be available to them.

Where we have gone away from that concept, I would suggest, is that literally our subsidies go to landowners who don't have any connection to agriculture. They're living in cities. They could make the case under the current rules that they're a part of the farming operation and should get the subsidies, but I don't think anyone -- anyone can make the case that that's a true safety net for them. I just don't think it fits anymore. But it's hard to get to. It's hard to draw those lines and regulations or laws.

So we took a little different approach. We looked at the AGI and said, "Look, there's just a point at which you should graduate from cash subsidies." And the AGI approach we picked was \$200,000 adjusted gross income over three years. It's understandable. It's straightforward. It just basically sets the rules out in black and white as to when the subsidies will end and you will graduate.

MR. ZREMSKI: While the farm bill trims crop subsidies, the government continues to sell irrigation water to Western farms at greatly subsidized rates. Is that fair, and why isn't anyone talking about reforming these subsidies?

MR. JOHANNNS: Okay. I was reading something, so please help me with that question again. (Laughter.)

MR. ZREMSKI: While the farm bill trims crop subsidies, the government continues to sell irrigation water to Western farms at greatly subsidized rates. Is that fair, and why isn't anyone talking about reforming these subsidies?

MR. JOHANNNS: The issue of irrigation -- I know you're referring to probably California, but we had a lot of irrigation in the state I came from -- the state of Nebraska. Here's the best I can offer today, is that there's a lot of discussion about irrigation. There's a lot of discussion about water use and agriculture.

We made a concerted effort in our state to move to policies that provided for the wise use of agriculture. The subsidies that I think people are talking about is that there is a value and a price to water and that we should be charging for that I think -- or somebody should

be -- maybe the state of California or whoever. That's a policy I've never agreed with, I've never adopted personally. We felt wise management was the better policy approach.

Now, I want to offer something because this is what I was reading when that question was asked. As many of you know, we have had a cotton case pending before the WTO where we lost based upon the subsidies we pay. Brazil is talking today about a ruling, and they say this: Brazil claims once again to have largely defeated the United States in a ruling by the WTO. They have been emboldened by a declaration that they have the right to retaliate against the United States.

In essence, despite our very vigorous attempts -- and they will continue to be vigorous -- Brazil is at least claiming that they've got a win here. And so this will unfold in the weeks and months ahead, but for us this is something that we've been working very, very hard to try to protect our cotton producers under the current system. One of the things we asked for in that system was reform, but now Brazil is claiming at least that they have -- they have a reason to celebrate, a claim to victory by them.

MR. ZREMSKI: One questioner writes, "The Freedom to Farm Act was a disaster, and we have returned to farm price supports. Is there any way to move agriculture into a free market? Why should farmers get loan guarantees and price supports when other businesses sink or swim on their own? Why do we have Soviet-style five-year plans for agriculture?" (Laughter.)

MR. JOHANNIS: Well, I might debate that. (Laughter.)

MR. ZREMSKI: (Laughs.) Go right ahead.

MR. JOHANNIS: Yeah, go right ahead.

Here's a couple of thoughts I would offer -- and it always kind of shocks farmers when I say this: Do you realize that parts of Freedom to Farm are very much a part of the '02 bill and will very much be a part of the '07 bill? And I think if you asked many in agriculture, they'd say what this person said -- that it was a disaster. Well, wait a minute. Planting flexibility came out of Freedom to Farm. It was a significant step in the direction that farmers wanted. They were tired of that centrally-controlled agricultural system that said, "You can plant this now but you can't plant it then." And literally Freedom to Farm changed that.

Now, you know what? If I went out to farmers today as secretary of Agriculture and said, you know, "I want to take your planting flexibility away," it would be a war. That would probably be my last statement as secretary of Agriculture because they'd be storming the White House. That came from Freedom to Farm. That came from Freedom to Farm.

The other thing I will tell you, though, about agricultural policy is this: We heard the message all across America from farmers -- "I do not want to farm for subsidies. I want to farm for the

market." I will tell you, as long as I can remember, a little guy growing up on that dairy farm in northern Iowa, my dad's friends said, "We don't want government interference. We want to farm for the market. We don't want to farm for subsidies.

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Here's the point of our proposal: We looked at that issue and we said the one thing that will move that debate forward is to make sure that the loan rates and target prices truly reflect market price as a true safety net. So here's what we did: We looked at the average market price during the life of the '02 bill. We took out the high year and low year to avoid distortion, and we took what we call the "Olympic average." And then we multiplied it by 85 percent to get to the concept of a true safety net -- not a loan rate or a target price that literally created an incentive for the farmer to plant, but truly a rate that said to the farmer, "You will have the ability to farm in the marketplace, but we will be there with a floor at 85 percent that will protect you if the bottom falls out."

Now, that's a very important policy choice. Some might argue against it. I think this question implies that whoever is arguing against that. I would argue for it. I think our food supply is hugely important to this country. I can give you a dozen reasons why I think that was the right step in the right direction.

That policy was not adopted. That policy would help us tremendously in some of our international discussions, but we didn't write the farm bill for international discussions. It just makes more sense to do it this way because you truly are basing your foreign policy on what the market told you. And that's how we put our proposal together. Unfortunately, the House action raises target prices and loan rates for many, many commodities.

MR. ZREMSKI: On food safety of products from China, what is the Bush administration doing to protect the American consumer?

MR. JOHANNNS: I am a part of the group working on food safety relative to China. I can tell you this: We don't -- our jurisdiction at Agriculture would be meat and poultry and eggs, and we don't bring any meat or poultry or eggs in from China. So actually we've been in a situation where the major food safety issues primarily have been in the FDA area. It's involved us somewhat, especially in the melamine area because some of that product found its way to animals, and we did testing to see if that was a problem in terms of human consumption, and we found that it wasn't.

But here's what I would tell you in terms of food safety -- and I tell young people this all the time: You know, when I grew up, my competition was in St. Ansgar or Stacyville. I'm seeing a lot of blank stares. (Laughter.) You don't know where St. Ansgar or Stacyville is. But now your competition for young people who are here interested in production agriculture -- and we have a couple of young folks that are, in the room -- their competition is in Brazil, China. You know, these are world-class competitors. We are now importing a fair amount of food into this country. Why? Because people like diversity of food throughout the year, and we have the disposable

income to buy it.

When I was growing up, if you wanted watermelon, you ate it in August or September. You didn't eat in December because it wasn't available. You know what? People want that kind of variety throughout the year, and so we are bringing in more food. And it's amazing to me how much it is appreciated by consumers in the United States because they buy it -- specialty cheeses and meats and wines and beers and -- the list is a very, very long list.

The group that the president has formed -- and I think it is absolutely the right idea -- is to take a look at what we are doing and to make sure that we're doing all we can and to make sure that our coordination is good and to make sure that we're forward-leaning in terms of the world that is changing in front of us.

And I would also offer this: There's oftentimes this discussion about creating this bigger, better, maybe Cabinet-level one entity and everything gets collapsed into that and of we go and the world would be better. I've been around bigger and better in government a lot. I have to tell you, I'm not convinced. I think we do a pretty good job with meat and poultry and eggs. In fact I would argue we do a very good job. Now, are there areas where we are working every day -- working with our advocates, working with groups? Absolutely. That's what we should be doing to do everything we can to be better.

I will also tell you, when we work with the FDA -- if you walked into a meeting with FDA people there and USDA people there, you couldn't tell the difference. You wouldn't know which area they come from. You know why? Because they are working on food safety. They are not trying to protect their title or turf. They are working on food safety issues.

And we work together well as a team. So I think you have to be very very careful here about what you wish for. I do think the president's approach is the right approach.

MR. ZREMSKI: Corn-based ethanol may help the nation reduce its dependence on foreign oil. But critics say that ethanol costs almost as much as the energy it produces.

Isn't corn-based ethanol a wasteful way to produce energy? And won't it increase the cost of food?

SEC. JOHANNIS: No, and it isn't. (Laughter.)

We studied that a lot at the USDA. And years ago, when the plants were not as efficient, when ethanol was barely used in our country, there were a lot of articles about the inefficiency of producing ethanol and all the energy, et cetera.

We have debunked that in our studies. We've put that issue to rest. Independent studies have looked at the same issue. You very definitely have efficiency here.

And the other thing I will tell you, in the United States we are going to grow corn. We just simply are. We do it very well. We do

it better than any country in the world, and our farmers are going to grow corn.

And I think it's important that we do everything we can to create a marketplace.

Let me offer a thought. We're talking about maybe an address that really gets down to this issue of food versus fuel. Every year we have some inflation relative to food, 2 percent, 3 percent, somewhere in that vicinity. Some years a little bit, a little bit yes -- a little bit less.

This year with all this debate raging, we anticipate that food prices across the board will be impacted 2 to 4 percent -- about average, maybe a little bit higher.

Then when you look at that, every -- not every, but many articles I read see that, and then they go right to the conclusion: it's because of ethanol. It's because the price of corn got high. That's the reason.

And they leave out a whole big piece of the analysis. What's the big piece of the analysis? The farmer doesn't get all of that. I'm sure they wish they did, but they get about 20 cents of the retail dollar.

Actually the increase in the price of energy to ship that food can have as much or more of a profound impact on the price of that food than the corn you feed to the animal. I'm just telling you, this is a very very complicated supply chain.

And if you have reached the conclusion that because food is up 3 percent this year, or 4 or 2 or whatever it is, that that's because of ethanol, and you've missed all of that, you're not telling the full story. And you're not telling an accurate story, in all due respect.

We have an accurate story at the USDA. We study this all the time. We buy or provide money for nutrition programs, so of course we want to know what the price of food is doing. And anybody who wants

to write an in depth article on that or do a series on that, we'd love to provide you the information on just how complex the food chain is, and how impacts in that food chain relative to fuel, to transport, or to promotion costs, whatever it is, can actually have a more important impact on the cost of that food than the price of a bushel of corn.

MR. ZREMSKI: Okay, we're almost out of time. But before I ask the last question, I've just got a couple of important matters to take care of.

First let me mention that I mispronounced the name of Mike Duncan's website. It's WashingtonView.com.

Next, let me announced our future speakers: on August 1st, Senator Joe Biden; on August 7th, former House Speaker Newt Gingrich; and on August 14th, General George Casey, the chief of staff of the U.S. Army.

Now we have some traditions here at the National Press Club, one of which is that each speaker gets a plaque. And for use during your farm-fresh breakfast every day --

SEC. JOHANNNS: Outstanding.

MR. ZREMSKI: --the National Press Club mug.

SEC. JOHANNNS: The cup. Great. Thank you very much.

MR. ZREMSKI: And the last question several people wrote, so I feel compelled to ask it. And that is, what does the future of the family farm look like, and what will it look like in 12 years?

SEC. JOHANNNS: Great question. You know, I grew up on the family farm of all family farms. We had 160 acres, and I guess in years where dad felt pretty aggressive he'd rent another 80, and when he really felt aggressive he'd rent another 160.

He was kind of a debt-averse guy, because he grew up in those Depression years, or right around those years, so he never wanted to mortgage that farm to buy more land. So actually the only other land he bought was 80 acres after he retired.

Mom had 500 chickens. We had 30 cows. We bought bottle calves. We would train them to drink out of a bucket, then feed them. I mean it was the family farm of all family farms. I love to think about that. What a beautiful memory that is.

I have to also tell you that farming has really changed. And milking 30 cows today from the standpoint of the ability to feed your family is just so much different.

And the other thing I will tell you, I've gotten to work with young people in agriculture. And they have so much hope and vision about the future.

But here's what they're facing: the tractor they will buy if they buy it new if they can buy it new, or the one they will use from their dad costs 125,000 (dollars); the combine, about 200,000 (dollars). About every year for many many years when they're farming, they will push all the chips to the middle of the table and bet everything on that crop. And if it doesn't come in, then they better have a good crop insurance plan, or some kind of safety net, or they will collapse.

It happened in my generation during the 1980s. The bottom fell out, and it took out many of my classmates. It was very sad to see.

Well, we don't want that to happen. I believe there will always be families farming. I also believe that the farming operation they will farm will be different than the farming operation I grew up on, because times are different.

And I don't think we should limit a young person's ability to be successful by a concept that maybe doesn't work for them at all;

probably doesn't work for them in today's world.

So I have a tremendous amount of hopes for families farming. We have all I think seen a renewed interest in young people staying on the farm and ranch, but believe me it will be different. They are farming bigger. They are farming more efficiently.

And the other thing, though, that is encouraging, we are seeing a lot of organic farming, that kind of farming that literally is providing opportunities that we are very excited about, that maybe brings a different flavor to farming than what I grew up with, or what we see in the high plains states, and that to us is very exciting.

The final thing I'll say, we in agriculture, we just support agriculture because we love it. We support it whether you are big or small; that's not the issue for us. We just want young people and farmers who want to be in the farming production agriculture to have a successful future.

Thank you. (Applause.)

MR. ZREMSKI: Thank you very much.

Thank you, Secretary Johanns. I'd like to thank you all for coming today. I'd also like to thank National Press Club staff members Pat Nelson, Joanne Booze and Howard Rothman for organizing today's lunch, and thanks to the NPC library for its research.

Thank you. We're adjourned.

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