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## The World Food and Agricultural Situation – A U.S. Perspective

**By Ambassador Clayton Yeutter<sup>1</sup>**

It is a pleasure to be here in Minnesota at this year's Global Food and Agriculture Summit. And it is a special pleasure to share the podium today with lots of long-time friends, many of whom have forever been associated with American agriculture. I would like to focus today on what kind of future might be ahead of us all as we contemplate the excitement of entering a new century. As we look back, we can only conclude that the 20<sup>th</sup> century was mighty exciting too, and assuredly challenging from an agricultural policy standpoint.

### Global Food Demand

Let's look first at the demand side of what has clearly become a global marketplace. The first relevant observation is that there obviously will be a lot more people to feed in this world 20 or 30 years from now than there are today. Our global population is now six billion, and some projections would place it as high as ten billion by the year 2050. How credible are such prognostications? I suspect that some of the extrapolations, based on past trends, will be proven wrong. I doubt we will have ten billion people on the earth in 2050, but that too is only supposition. We can, however, be confident that the number will be well over six billion, and the probabilities are high that it will be in the seven to eight billion range 20 years from now.

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<sup>1</sup> Former U.S. Trade Representative and former U.S. Secretary of Agriculture. Presentation given at the 1999 Global Summit on People, Food and Agriculture sponsored by the College of Agricultural, Food and Environmental Studies at the University of Minnesota, St. Paul, Minnesota, July, 8, 1999.

From a demand standpoint, the crucial question is whether these teeming billions will have the purchasing power to buy food products from the world's agricultural exporters, including American farmers. Today that is not the case for at least 800 million residents of this planet, and that is a troubling situation indeed. The humanitarian considerations are awesome, and all of us must search our souls in determining how best to respond to this huge starvation challenge. As exporters we have our self-interest at stake too, though it must be obviously secondary to the human concerns. Giving food away to 800 million or more hungry people is not a viable long-term situation, for them or for us. Those individuals and their families want to be productive members of society, wherever they may live, and they want to pay their own way. We want that too, for then they become ever better customers of ours as their personal incomes rise.

The demand side answer to this purchasing power challenge is, of course, economic growth. That means that countries throughout the world – and particularly developing countries where many of those 800 million hungry people reside – must follow macroeconomic policies which generate much higher levels of growth than in the past. There will always be questions with respect to how the economic pie should be sliced, i.e., whether national income in a given country is being fairly and properly distributed, but that public policy question is of minimal relevance until and unless the economic pie is growing larger.

The good news is that dozens of nations have implemented market-oriented economic policies in recent years; the bad news is that there is still a long way to go,

particularly in obtaining the purchasing power payoff from those policy changes. The results of improved policies are neither automatic nor instantaneous, a fact that is now only too obvious in countries such as Russia.

### Global Food Supply

But let's turn now to the supply side. Can American farmers and their counterparts throughout the world produce the quantity and quality of food that will be necessary to feed the world two or three decades from now? I have no doubts about that, for we still have the potential to produce food much more efficiently in the future than we have in the past. Technology is the key here, and we have only just begun to reap the benefits of highly sophisticated information technology in food production throughout the world. When one adds to that the tremendous potential of biotechnology it becomes apparent that both farming and food processing are in for gigantic change – for the better – in the years to come.

The caveat, of course, is that this enormous potential could be arrested, or even precluded, by irrational regulatory actions. We are exposed today to lots of fear mongering, particularly in Europe. But this is a phenomenon that could readily spread elsewhere, for people are understandably emotional about the food they consume. Those of us who are engaged in the food industry have an obligation to assuage those concerns in an objective, systematic, and credible way. But we should never kowtow to fear mongering by food safety or biotechnology radicals (whose actions will in the long run be harmful to the very people they allegedly seek to protect).

So let's now summarize the big picture supply/demand situation for food going into the 21<sup>st</sup> century. On the demand side, there will be at least another billion or two billion people to be fed a quarter century from now, and one can at least be cautiously optimistic that global purchasing power will be substantially higher than it is today. The need for humanitarian food aid may also increase, but that segment of ineffective demand will be more than offset by the enhanced effective demand emanating from global economic growth. Putting it another way, the demand for food will look better to ag exporters than it does now, but it could look far better still if governments were to get their houses in order in economic policy terms. On the supply side, we will be able to grow lots of food in America and elsewhere, and in variety, quality, and appearance it will be better than ever. We will be able to take justifiable pride in the products that the American food industry offers to consumers everywhere.

### Profitability

That now leads to the crucial question of whether anyone in American food industry will make healthy profits 20 or 30 years from now and, if so, who. As farmers, or food processors, as purveyors to food service establishments, or as retailers – can we make a buck? In this fast changing world, there are no such guarantees for any of us. And in my view, we are not doing as well as we should in generating income within the American food industry. So let's further examine that issue.

First of all, we need to persuade American families to place food higher in their pecking order of budget priorities. For years we agriculturalists have prided ourselves on being able to feed the American people for a lower and lower percent of disposable

family income. That number is now only about 9%; it was nearly double that when I took my first position at the U.S. Department of Agriculture 30 years ago. The average for the world's developed countries is about 16% of disposable family income, or about \$2,000 per person on an annual basis. With that number at 9%, rather than 16, American consumers are advantaged in the sense that they can deploy those additional financial resources elsewhere – adding another television set, taking a longer vacation trip, buying a nicer automobile, or whatever the preference may be.

But why should American farmers, or anyone else in the U.S. food industry for that matter, be willing to settle for 9%? Why not 16%? Why should we not seek to persuade American families to consume higher quality food products than they do today – instead of buying that extra TV set, or a fancier automobile? And, as exporters, why should we not make that case just as persuasively elsewhere in the world too? Were we able to do so, there would be much more revenue to distribute throughout the U.S. food chain, all the way from producer to consumer.

### Product Differentiation

We also need to do a better job in the food industry of differentiating our products, particularly as we seek to penetrate and develop export markets. We keep talking about selling more “value added” products, and we are in fact making progress in that respect. But we still market too many agricultural “commodities” around the world where the only differentiation is price. That is not where the attractive gross margins are, and we need to be in higher gross margin businesses.

That is true also in the domestic marketplace, and it is an area in which biotechnology could be of immense benefit. Enhanced output traits (lower saturated fats, higher protein levels, or whatever the preference may be) responding to the expressed desires of consumers, are the road to higher margins.

### Cost Control

Even if we do a better job of marketing differentiated products, rather than commodities, we must still keep our costs down for the food industry has potential competitors everywhere. As American farmers, we have long prided ourselves on how efficient and productive we are, and legitimately so. But we cannot afford to rest on our laurels, and neither can food processors or anyone else operating in anyone's food chain today. This is a brutally competitive business, and all facets of the U.S. food industry will need to be a lot more efficient 20 years from now than they are today. Our competitors elsewhere in the world will not stand still, so neither can we. Our challenge is to be a little faster, a little quicker, a bit more flexible, a bit more innovative, and assuredly more entrepreneurial than they are. If we do that, we will continue to win in this competitive environment; if we do not, we have only ourselves to blame.

### Synergies/Alliances

Finally, we need to look for synergies in the food chain, all the way from producer to consumer. There are a lot of things we can do better as food moves along that chain from farmers to the ultimate consumer – whether that consumer is the supermarket, a teenager enjoying a hamburger or pizza at a fast food outlet, or a Japanese businessman enjoying filet mignon at a Tokyo restaurant. Today every major industry

is undergoing a self-evaluation process. We are in the midst of a maze of mergers, consolidations, alliances of every nature, joint ventures, and the outright elimination of superfluous functions, obsolescent facilities, etc. The food industry cannot afford to be left behind in this process, and it will not be. One needs only to observe the tremendous consolidation of supermarkets to confirm that trend.

There may be antitrust implications to all this, of course, and one must be sensitive and responsive to those. But such concerns should by no means discourage or delay us from achieving every synergy, every efficiency, that we can possibly identify. That is how we can improve net incomes in the food sector, increasing the size of that revenue pie. As I mentioned earlier, it is only when the pie gets larger that one can begin to focus on how those increased earnings can and should be distributed among the participants in the industry. American farmers have every right to be out front in this endeavor, seeking to identify the segments of the food chain where synergies can be achieved and profit potential enhanced, and then moving into those segments through investments and/or taking over operational control. We farmers need not be relegated only to the producer side of the food industry. There is nothing that precludes us from participation in other segments of the food chain – except that we need to approach those challenges, and those opportunities, in an intelligent way. In other words, if we are to spread our wings, economically speaking, we had better make sure we know how to fly!



## International Competitiveness

Finally, if we make the moves I have just suggested, the American food industry ought to be a whole lot more productive 20 years from now than it is today. But will we be internationally competitive? That is another question entirely. The answer depends on how the food industry of other nations evolves over the next two decades. Only time will provide that answer, but again I am reasonably optimistic about how American farmers, food processors, and exporters will fare as the new century unfolds.

One reason for that lies with comments that have been made recently by Dr. Ed Schuh, one of Minnesota's finest contributions to the agricultural policy scene. With Americans having so much concern about potential competition from developing countries, Dr. Schuh has come to the comforting conclusion that the comparative advantage of developing countries may no longer lie in agriculture, even though they are still agrarian societies. In his view, their comparative advantage is more likely to be in production areas such as textiles and other labor intensive manufacturing endeavors, as well as in some of the more labor intensive service industries. Dr. Schuh's point is that agriculture has become a high technology industry, and that is where the United States has both an absolute and comparative advantage today. If we are able to sustain that advantage, and there is no reason why we cannot do so, we should be internationally competitive in the food industry for many years to come.

Advances in biotechnology, information technology, and traditional agricultural research should serve us well. When combined with the management skills we have already demonstrated, coupled with the financial resources that are available to us, the

marketing skills we are still working on, and the entrepreneurial environment that is uniquely American, we should be mighty formidable in international competition.

Our game plan is a good one; our challenge now is execution!