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10 **Agribusiness Committee Retreat**

11 February 11, 2004

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13 Washington Building
14 Richmond, Virginia
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16 **APPEARANCES:**

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18 Clarence D. Bryant, III , Committee Vice Chairman
19 The Honorable J. Carlton Courter, III, Commissioner of Agriculture
20 Jordon M. Jenkins, Jr.
21 Buddy Mayhew
22 Thomas E. West
23 The Honorable Matt Erskine, Deputy Secretary of Commerce and Trade
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26 COMMISSION STAFF:

27 Carthan F. Currin, III, Executive Director
28 Mary Cabell Sherrod, Manager of Communications and Committee
29 Operations
30 Timothy J. Pfohl, Grants Program Administration Manager
31 Britt Nelson, Grants Coordinator - Southside Virginia
32 Jerry Fouse, Grants Coordinator - Southwest Virginia
33 Ned Stephenson, Managing Director of Strategic Investments
34
35 Martha Moore, Virginia Farm Bureau
36 Linda Wallace, Halifax County
37 Randy Arno, University of Virginia's Welding Cooper Center
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41 VICE CHAIRMAN BRYANT: I'll call this meeting to order. I'd
42 like to welcome everyone here this afternoon, this is a joint meeting between the
43 Agribusiness Committee Workshop and VDACS, so at this point I'd like to ask Carthan if

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1 he would please call the roll.
2 MR. CURRIN: Mr. Vice Chairman?
3 VICE CHAIRMAN BRYANT: Here.
4 MR. CURRIN: Commissioner Courter?
5 COMMISSIONER COURTER: Here.
6 MR. CURRIN: Mr. Fields?
7 MR. FIELDS: (No response.)
8 MR. CURRIN: Mr. Jenkins?
9 MR. JENKINS: Here.
10 MR. CURRIN: Mr. Mayhew?
11 MR. MAYHEW: Here.
12 MR. CURRIN: Mr. Owen?
13 MR. OWEN: (No response.)
14 MR. CURRIN: Mr. Stallard?
15 MR. STALLARD: (No response.)
16 MR. CURRIN: Mr. West?
17 MR. WEST: Here.
18 MR. CURRIN: Chairman Johnson?
19 CHAIRMAN JOHNSON: (No response.)

20 Mr. Chairman, and members of the Committee, I'd like to go over the agenda
21 for this afternoon and tomorrow morning and this evening. On behalf of the Chairman of
22 the Commission I'd like to express a warm welcome to Matt Erskine, the Deputy
23 Secretary, who is here representing the Secretary's Office and the Governor's Office at
24 today's retreat workshop. I'd also like to express my appreciation to the Commissioner of
25 Agriculture and his staff for all their assistance and leadership in preparing for this
26 meeting. I'd also like to express my appreciation to the Virginia Farm Bureau and the
27 Virginia Tech Foundation for hosting a reception and dinner later this evening. We'd like
28 to welcome some of our out-of-town guests, John-Mark Hack and Joel Benson from the
29 Commonwealth of Kentucky, he will be making a presentation tomorrow morning and
30 helping to facilitate tomorrow afternoon's meeting.

31 The agenda before you that's on the screen we will follow. Beforehand, Mr.
32 Chairman, I'd like to have the Commissioner and the Deputy Secretary to make some
33 opening comments. Bill, do you want to go to the next slide showing what tomorrow is
34 like? Tomorrow morning we meet here at eight-thirty. The issues before you will be
35 discussed in tomorrow's session. Let me also say that Delegate Johnson extends his
36 regrets; he's a member of the Virginia House and they're in session, and he'll try to be
37 here, but if he can't get here we hope to have him at the reception and dinner later this
38 evening. I understand Dr. Steiger, President of Virginia Tech, will join us for the
39 reception tonight, if not dinner as well. With those issues covered, Mr. Chairman, I will
40 ask you for purpose of introduction to make two.

41 VICE CHAIRMAN BRYANT: The Honorable Matt Erskine, who is
42 the Deputy Secretary of Commerce and Trade, will now make comments to the
43 Committee.

1 MR. ERSKINE: Thank you, Mr. Chairman, very much, and
2 members of the Committee, good afternoon, and thank you for the opportunity to be here.
3 I appreciate that opportunity that you, Commissioner Courter, and the Virginia
4 Department of Agriculture for hosting us.

5 I wanted to take a few moments to talk about several of the initiatives that we
6 have underway in Agribusiness. Profitability, growth and development in agribusiness in
7 Virginia is important to Governor Warner and his administration, Secretary Schewel and
8 all of the Commerce and Trade agencies have been active and have several initiatives
9 underway and have an interest in making sure that everyone is on the same page and
10 aware of what's going on and underway so that we can have the most effective
11 coordination and collaboration. I thought I would share with you some of the highlights.

12 We are available to serve as a resource for this Committee, and we look forward to
13 working closely with Carthan and his team in coordination and collaboration on these
14 issues. I would like to say that the Virginia Department of Agriculture has been a key
15 player in many of these initiatives. We've already been in some discussions on
16 collaboration with Carthan and his team.

17 With that being said, let me run through the highlights of some of the
18 initiatives that we have underway, and many of those have actually made reports to the
19 Governor with recommendations, and I'll provide some of the highlights there. First, the
20 Governor's Commission is doubling agricultural net receipts task force about a year ago,
21 or a little over a year ago, to specifically look at how do we increase profitability in
22 Virginia agriculture and forestry with a targeted goal of doubling net receipts and
23 profitability of Virginia agriculture in the next ten years. Looking at advances in
24 marketing and promotion, business practices, research and development, application of
25 agricultural science, advances going on in agricultural science and research and
26 development. How to improve profitability and growth and look to really boost that.
27 Last year the group worked very hard and the task force was comprised of farmers,
28 representatives of the agricultural forestry and agribusiness industries, representatives
29 from Virginia Tech and Virginia State. It was an inclusive process, and we surveyed
30 groups in the agriculture and forestry communities, and we had three hundred contacted
31 and a hundred and fifty responded to our surveys for input and feedback in terms of
32 issues, challenges, opportunities and ideas for moving the industry forward.

33 They worked through last year and presented a report to the Governor in
34 October with recommendations, and they were in four general areas. Marketing,
35 promotion, economic development, which included international trade and exports,
36 research and development with the advances going on at our universities and colleges
37 and private institutions with advances in agricultural science, life sciences and how to
38 apply those to what is going on in the real world. Regulations, taxes, and business
39 climate and what sort of environment do we have for the farmers for the agribusinesses
40 for those in these industries. Then the fourth being farm transition and farmland use and
41 preservation, clearly an important issue.

42 To date several of these recommendations are actually being acted upon. In
43 the Governor's budget introduced for this session is money for new research and

1 development programs at Virginia Tech and Virginia State specifically related to
2 applications to advance agriculture and forestry in the state to boost profitability and to
3 grow agriculture and forestry. There is money in the Governor's budget for land
4 preservation and natural resources. I'm not sure of the exact wording but there is a
5 specific piece in there that deals with funds to help with land use and land preservation.

6 The Governor announced at the agribusiness dinner two initiatives that came
7 out of this report. An agricultural action team at the highest levels of state government to
8 make sure that everyone is coordinated and collaborative, an action team that will
9 discuss, develop and advise the Governor on high level agricultural and forestry issues.
10 Then an export strategy task force for Virginia agriculture to make sure that we are doing
11 enough so Virginia is competitive on the domestic and world stage in terms of
12 agricultural and forestry exports.

13 We're doing some very exciting things, and we're still continuing to work on
14 what are the other recommendations that we can implement. Clearly the budget situation
15 has an impact on some of that. When that situation becomes clear I think we will have
16 more traction on what we can do.

17 Another exciting initiative underway is the Governor of Virginia's Wine Study
18 Work Group. It was formed about the same time and actually worked through 2002 and
19 2003. We had a very successful legislative session last session in terms of pushing
20 through some legislation related to opening Virginia's wine industry, the farm wineries,
21 the vineyards. Virginia has a strong foundation in this area and historically and
22 agriculturally we have more than eighty Virginia wineries, and the quality is improving,
23 and we're getting national and international recognition. It's also very interesting, and I
24 think especially relevant, because it represents the entrepreneurial side of agriculture and
25 represents the true application of ag research and development, especially in and
26 viticulture and also value-added products and getting away from commodity and going
27 into niche and value-added. The majority are small businesses, so you have small
28 business issues and clear tourism. Again, there is exciting work that continues. We're
29 putting the final stretches on a strategic plan for Virginia's wine industry. We're the fifth
30 largest state in the country and a leading state on the East Coast, and many think we can
31 be the next Napa on the East Coast, or at least become a competitive player, not only
32 nationally but internationally. I don't want to leave out certainly alternative land uses,
33 using land for vineyards and wineries.

34 We also have a food processing and recruiting initiative building on Virginia's
35 strengths in this area, like Smithfield, with the Port of Virginia and with the
36 transportation infrastructure and success in recruiting now for Martinsville. There are a
37 number of successes and foundations for strengths that we can focus on creating clusters
38 for food processing. Related to that is our meat and poultry inspection program and
39 using that as a tool for economic development and business recruitment. While Virginia
40 is home to one of the largest if not the largest pork processors, Smithfield, and several
41 large poultry processors, we have very few beef processors. The trend in all the meat
42 processing sectors has been towards consolidation to fewer larger companies with large
43 centralized processing plants. Virginia's location provides a great geographic setting for

1 smaller businesses in this area. Our meat and poultry inspection program is recognized
2 as being very consultative and appreciated by businesses. So we're looking to use that as
3 a marketing tool in economic development to recruit those kinds of businesses to
4 Virginia. We are soliciting the help of those who have had success recruiting and have
5 had success helping them expand in doing well to help us recruit additional companies.

6 The Governor also has an outdoor resources tourism advisory work group, and
7 this ties in because of the agri-tourism because of small business. In our rural areas we
8 have tremendous natural resources including our agricultural farmland and our forests.
9 That's looking at how we can better promote the sustainable and sensible tourism angle of
10 our outdoor resources.

11 Finally, one that I think touches all of the small business initiatives and looking
12 at ways that the Commonwealth can be more effective supporting small businesses and
13 entrepreneurs in the state. We had a specific agribusiness focus group as part of the small
14 business process. So we're looking at those small business issues and entrepreneurial
15 issues in the ag business sector.

16 How is that all relevant to your work here? There are common themes across
17 all these initiatives that came out of the report and the recommendations that we see
18 consistently. First, significant involvement engaged by the private sector and partnership
19 with the business sector having skin in the game and having their engagement and their
20 involvement. Secondly, focus on building upon Virginia's existing strengths and valuable
21 assets and making sure that we identify where we have strengths and where we have that
22 foundation and successfully building upon that.

23 Third, the importance of innovative entrepreneurial initiative, especially as we
24 face tight budget times and especially as we face bad economic times. The requirement
25 to really think fresh and to think entrepreneurial and innovative is more important, with
26 additionally leveraging resources, federal, state, local and private.

27 Focus on value-added and specialty niche products and services. I know that
28 Bill Dickinson and Tom Sleight will be talking more about that, moving towards the
29 value-added, the integration of agricultural policy, business assistance, support promotion
30 especially small business and entrepreneurial and the link of tourism, which is a very
31 powerful link.

32 Finally, and this comes through loud and clear, effective partnerships,
33 coordination and collaboration on several levels, the private sector, among state agencies,
34 between the state and localities and regions and with Virginia colleges and universities,
35 again, the whole concept of regionalism. Businesses that we look to recruit, businesses
36 that we help expand, political boundaries don't mean anything to them, they're concerned
37 about the workforce, the business climate, they are concerned about partnerships that
38 exist on all levels and how that helps them. Think regionally and think partnerships, and
39 we stand a better chance of being successful.

40 Again, we stand ready to be of assistance to this Committee and to make sure
41 that we share with you everything that is going on and are committed to work with you.
42 So, again, thank you for this opportunity to be here.

43 VICE CHAIRMAN BRYANT: Thank you, Deputy Secretary, we

1 appreciate your comments, the work that's being done by your department and task force
2 that the Governor and you all have put together to look into all of these issues that are
3 very dear to us in agriculture.

4 At this time I'll call on Mr. Carlton Courter, Commissioner of Agriculture.

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6 COMMISSIONER COURTER: Thank you, Mr. Chairman, and
7 welcome everyone to the Agency boardroom. Our restrooms are out by the elevator as
8 we take a break at sometime. We're glad to have you here today. Carthan and I discussed
9 this, and we thought it would be quite valuable for this Committee to focus a little bit on
10 part of what this Agency does here. We don't necessarily see any duplication of effort as
11 much as an opportunity to complement each other with what the Agency has done and
12 continues to do statewide, particularly as we focus on helping agriculture in Southside
13 and Southwest in the tobacco belt. The Agency here is smaller than it used to be, but it is
14 very diverse. We enforce something like fifty regulations and seventy laws, or vice
15 versa. We go from the regulatory and component side to the promotion and marketing of
16 agricultural products. We are very diverse, and we have lots to do, and we are one of the
17 older state agencies. Instead of focusing on the entire agency here, we have three
18 divisions, and some of the more mundane things we do in our division is consumer
19 protection, animal and plant food industry. We thought we'd focus in two areas on our
20 agricultural business development unit, which is in our administration unit overall, our
21 division of marketing, and showing you the talent that is there so that if projects come
22 along to the Commission and we're dedicated to these regions you might be able to
23 access resources through our agency and save you money and not necessarily duplicate
24 effort.

25 Without stealing too much thunder, I'll give you one example of how we can
26 help Virginia agriculture. The second largest commodity sector on average about three
27 hundred million dollars of farm income a year, decidedly small compared to Texas and
28 Oklahoma. The average cattle farm is nineteen or twenty or twenty-one brood cows, and
29 that's the cow that has the calf. We don't finish cattle and sort them. We raise them to
30 about one year of age, and then they go out west, and they are fattened on midwest grain
31 and then come back as boxed beef in the local supermarkets. If you take that cattle sector
32 and in every locality across the Commonwealth averaging twenty cows, a small farmer
33 kind of concept, you realize you'd really be busy trying to get all those cattle up and
34 collect them, sorted out to size and color and all those kind of things. But in our
35 marketing unit we actually get those cattle gathered up in special sales and get them
36 together in large tractor-trailer load lots and get them to the midwestern feed lots. They
37 don't like to run around to ten different farms and collect them in small lots of cattle.
38 They like to get them up in larger lots. Of three hundred million dollars that the farmers
39 receive for beef cattle, if we only affect one-third of that, which is one hundred million
40 dollars and add five percent value, if we only add five percent to that one-third slice, then
41 that's still five million dollars that goes into the pockets of cattlemen. It's not something
42 that's apparent unless you're a cattle person and getting one of those checks. If we look at
43 that Southside Virginia cattle project, an indication of things we've traditionally done and

1 currently do and that's to focus on helping our Virginia agriculture. I want take anymore
2 of Bill or Tom's presentation, but we do thank you for taking the time and hope that this
3 Committee of the larger Commission can utilize the expertise within the Agency here to
4 help with certain projects. Thank you.

5 VICE CHAIRMAN BRYANT: Thank you, Mr. Commissioner. I
6 appreciate the opportunity for the Committee to be working with your department in this
7 workshop venture here. Carthan Currin, our Executive Director of the Tobacco
8 Commission, I'll ask you to make some comments.

9 MR. CURRIN: Thank you, Mr. Chairman. First, I'd like
10 to introduce my Staff with us today, and pleased to have a new member of the team, Ned
11 Stephenson, who is the Director of Strategic Investments for the Commission, Tim Pfohl,
12 who is our Grants Manager, Britt Nelson and Jerry Fouse, our Grant Administrators. Ms.
13 Nelson has the office in South Boston where our Southside office is, and Jerry Fouse is in
14 Abingdon where the Commission has its Southwest office. Mary Cabell Sherrod is the
15 Manager of Committee Operations. She tries to keep me on an even keel. With that, Mr.
16 Chairman, also in your packet, and I want to bring this to your attention, there's current
17 guidelines and instructions in your packet for Agribusiness applications. Also in the
18 packet is a grant scoring sheet that the Staff uses when looking at a particular proposal.
19 In your packet there should also be a list of what we have funded to date on Agribusiness
20 related topics.

21 I'd like to remind the Committee that the Commission, of course, when looking
22 at any application should keep in mind our Long-Range Strategic Plan that the
23 Commission adopted last year and try to stick to those tenets of the Long-Range Plan.

24 A little bit of history for the newer members of the Committee. Senator
25 Hawkins, as our Chairman, felt last year that the Agribusiness related issues deserved
26 some special attention, and thus this Committee was created. I, for one, am very excited
27 about the opportunity that this Committee has dealing with agribusiness issues in
28 Southwest and Southside Virginia. Today's presentation and an overview of where we
29 are on issues, and tomorrow's, should be very revealing in helping to attempt to put our
30 hands around what focused areas we really want to concentrate on. The Tobacco
31 Commission by some folks is looked upon as having an unlimited amount of money, but I
32 am wanting to make sure that is not the case, and even the Tobacco Commission has
33 finite dollars. When we create our budget, and that process will be starting in the next
34 thirty days at the Staff level for the Commission to approve at its May meeting in
35 Danville, it will be very helpful to us to have input from this Committee as to what
36 additional issues we may want to look into as we start that budget process. With that
37 said, Mr. Chairman, I appreciate this opportunity, and I'd also like to express my
38 appreciation to the Commissioner and his staff for hosting us today and tomorrow.

39 VICE CHAIRMAN BRYANT: Thank you, Mr. Currin. At this time
40 we'll hear the Agribusiness development overview by Bill Dickinson, Assistant
41 Commissioner at the VDACS Office. Welcome.

42 MR. DICKINSON: Thank you, sir, and I appreciate it. I'd like to
43 make this a little bit less formal, since this is our working group for this Commission, and

1 I'm going to take my coat off, and I invite all of you or anyone that wants to do that
2 because it's going to kind of get warm in here. I can't take names, I used to teach school,
3 and I can't take names of people that fall asleep, but I'll know if you're asleep. I'm going
4 to do the best I can to try to see that doesn't happen. I always considered two o'clock a
5 very hazardous time of the day to meet because following the example in my fourth grade
6 class the teacher used to make us put our heads down and she'd read us Heidi because she
7 thought if we took fifteen minutes we'd be more productive the rest of the afternoon.
8 This is not Heidi time, but I want to hear from you all and get your questions. I know
9 most of you, and I just met Mr. Mayhew today, and glad to meet you, Buddy, as well.
10 Matt, we appreciate your efforts to come over and spend some time, and I don't know if
11 you can stay the whole time, but appreciate it.

12 This is the initiative that Carthan and the Tobacco Commission are interested
13 in. Here's our objective for this afternoon, what we want to do is see if we can set the
14 context for you for agriculture. Those of you in agriculture day-to-day will say to me
15 how do you know what the context is. You work here in your office in Richmond in an
16 urban scene and you don't know, but we do the best we can. I grew up on a tobacco farm
17 and still have tobacco poundage, and I still get the checks, thank God. This is not a
18 conflict of interest, because our farm is in North Carolina. If we can do no more this
19 afternoon than help you with the context, and what do I mean by that, I mean you're
20 going to see a lot of proposals, and you're going to see proposals ranging from the types
21 of things that Linda has already proposed to you in terms of cattle, you're going to see
22 wine, you're going to see food processing and all these other things. I hope that as a
23 result of this little session today you ask yourself how does this really fit in to not only
24 Southside and Southwest but how does it fit into what is happening in agriculture.

25 This business of setting the context for the kind of judgments you're going to
26 make requires that we look at Virginia agriculture in 2004. Basically what we're going to
27 see is the same type of things that are happening in the nation, and Matt has already
28 talked about this. You can look around and you're going to see an increased scale of
29 production of commodities. Is everybody with me on commodities? I'll have a little
30 demonstration in my bag over here in just a minute, kind of old, but it will work.
31 Commodities, we're talking about corn, grain, cattle, anything that's not a value-added
32 commodity. Let me ask the first question of the afternoon, is Coca-Cola a commodity? It
33 is a commodity, isn't it, but what has happened is that it started out as a value-added
34 product. What happened to Coke over time? Competition, everybody drinks it, so what?
35 It's just like oil now. Coca-Cola is going to succeed only by, not changing the formula
36 and making more Coke, but only by changing the containers and adding value to that
37 commodity. Coke is nothing more than a commodity. We can think of many examples.
38 We all go to the service station, and when we fill up that's a commodity. Just like an
39 agricultural product from one day to the next you don't know how much it is going to be.
40 In order to compete now, Virginia farmers are finding themselves having to increase their
41 scale of production. I tell everybody, and I live in Hanover Courthouse, and my neighbor
42 is a grain farmer and he owns three acres, and he tends ten thousand acres all the way
43 from Charlottesville to Charles City County, and the only way he can compete is by

1 having this big scale of operation.

2 We're seeing a growth in new age cooperatives, some new business
3 organizations in agriculture is increasing, an increase in the number of small specialized
4 farming operations. Let me give you an example. If Matt Erskine was not married we
5 could set him up in Northern Virginia, and there's a farm up in Northern Virginia where
6 you can go and on that farm you can pick the flowers and they will arrange them and you
7 can be married right there. You'll also see tourism in the Southside, and a lot of farms are
8 going more and more to agri-tourism. They don't have to be big farms, but they have
9 some specialized characteristic.

10 MR. MAYHEW: How about hunting rights?

11 MR. DICKINSON: Hunting rights is a good example. We're seeing
12 the development and production of more value-added products, and that's what I'd like to
13 spend a few minutes with you this afternoon on. We're seeing the development of some
14 new crops and new products. You gentlemen that are real farmers, are we okay, do you
15 agree with this? Think about these when these projects come to you, and I've got a copy
16 of all this for everybody. Having grown up on a farm there's a lot of talk, especially
17 during the wintertime, my dad was a farmer and a pretty good farmer, but I've never
18 known many farmers to make a profit, or at least to talk about it. I've known them to
19 make profits, but you don't hear much about it.

20 We're going to talk about some of the challenges to Virginia agriculture. One
21 of the main challenges is how to achieve and maintain profitability, and we're going to
22 have to cope with the loss of capital, human capital and physical capital and financial
23 capital.

24 The first thing I'd like to talk to you about is the profitability challenge. How
25 are farmers responding to this profitability challenge?

26 C. D., my dad, was a farmer and a good one, but I never knew him to admit to making a
27 profit, and I think it maybe unique to your profession. Some farmers are coping with this
28 profitability challenge by developing mixed products and marketing, and Tom is going to
29 talk a little bit about the marketing challenge shortly. I'm going to talk to you about
30 value-added products.

31 We talked about commodities a little bit ago, but what is value-added
32 agriculture? Here's the definition we use, customized production and processing to meet
33 specific customer needs or wants. It's where a farmer or group of farmers produces or
34 processes items to meet specific customer needs and wants. As Carthan knows, I used to
35 teach each year, and Bill Scruggs has taken my place now down at the Economic
36 Development Institute in Blacksburg. Every year they wait for me to bring some new
37 example of value-added products. These products are made to meet specific customer
38 needs or wants. Now, why am I holding this bag? There's nothing in it, but what was in
39 it is discarded broccoli. This isn't actually the best example, this was lettuce. What do
40 you do with a head of lettuce?

41 MR. MAYHEW: It's washed and cut, and then you have the core.

42 MR. DICKINSON: Right, I usually ask a lot of people if many of
43 you still buy a head of lettuce, do any of you still do that?

1 VICE CHAIRMAN BRYANT: We have people that do it.

2 MR. DICKINSON: The people that have plenty of money do it
3 because they don't spend it on further processing the products, but this is an example of a
4 value-added product. They took lettuce which is nothing more, ask the California lettuce
5 growers, nothing more than a commodity, and they add value to it by shredding it and
6 packaging it. Then I as the ultimate consumer, I only have to open the bag. When you
7 think about these projects that people bring to you are they talking about just producing
8 another commodity here, because if they are they're going to need to be big scale, or are
9 we looking at a value-added product that would bring a higher price? This one here is
10 kind of old, and Carthan saw it when he was in the Economic Development Institute, and
11 travel money has been kind of scarce lately, and we haven't gotten a lot of new examples.

12 Years ago there was a firm in Smithfield who processed hams for Christmas,
13 and they had to take the bones out. They took the bones out and would throw them in a
14 big vat, and somebody would get them and reduce them to animal feed. You got point
15 zero, zero, zero one percent per pound. Somebody happened to think when they were
16 throwing these bones over there in the bin there's bound to be a better way to make some
17 money on these things, and they came up with an idea. This is a relatively primitive one
18 here because it doesn't have our required labeling on it, but it is labeled. The only label it
19 has on it says it may stain the carpet. Somebody got the idea to take these bones and
20 even if it would only bring a few pennies per pound, packaging them as dog bones. It
21 says, no refrigeration required and reward pets with a cured ham bone. Do you know
22 how much value is added to that? One tenth of one cent per pound. These things now
23 sell in Ukrop's for three ninety-nine each. Hopefully, this is the kind of analysis you will
24 do when people bring these projects to you. Does this add value, and you can make some
25 money. So, is everybody with me on value-added? Somebody responded to the need of
26 pet owners by processing that product and vacuum packing it and then offering it for sale.
27 That's an example of value-added.

28 I'm going to run through these now very quickly, but what kind of strategies do
29 farmers and business people, and we use the term agribusiness people rather than
30 farmers, how do our farm business people add value, specialized production. Let me give
31 you an example. We have a group of farmers in the state right now that we've been
32 working with producing French wheat for a particular milling operation. They bought
33 the patent or the license for French wheat here and comes in and it's supplied because of
34 its particular qualities to one miller who really wants that wheat. Some of you may have
35 heard a few years ago we had a little experiment going on in Petersburg with a
36 meadowfoam. Meadowfoam is a little plant. The seed is what is used in the commodity.
37 The seed from the meadowfoam was used in cosmetics. Farmers add value by doing
38 further processing. What is wine making if it's not adding value through further
39 processing? What is it when a farmer takes soybeans, they add value by crushing it into
40 oil. On some days soybean oil is not too bad, but the general commodity soybean
41 sometimes you add value. Tom is going to talk to you about what our marketing people
42 do here, but they add value by specialized marketing services. Has anybody tried this
43 new Coke in a can this size? That's nothing but an attempt to add value through

1 packaging. They know a lot of us are getting older. What I'm driving at is that that was
2 an effort for people can't drink that much volume, so they make the can smaller. I tried it,
3 and it's too little for me, but that's a great example of specialized packaging to add value.
4 Coke doesn't have any choice, because it's a commodity, and they'll try everything. In
5 terms of adding value you're also seeing special business organizations, and we're seeing
6 some value-added cooperatives and different organizations, and we're also seeing some
7 new business incubators. One of these days I'm going to talk to you about a concept
8 called food processing, which is designed to bring small food processors together in an
9 area and offer to cover the overhead costs so they won't have all the costs of the giant
10 mixers and so forth, but I'll talk to the Staff about that later if given an opportunity.

11 How are these farmers growing the business? They're growing businesses
12 through public sector financing, and there's a lot of research money out there, and they're
13 doing it through private sector financing and some public sector guarantees, and USDA
14 and Rural Development does a lot of this work. We're developing some partnerships with
15 input suppliers. The example of the grain farmers growing the wheat, that's a great
16 example of being in partnership with the miller.

17 Hopefully, having given you this little bit of context, I'm going to talk to you
18 about our unit a little bit, and it's a huge unit. We have three people heading that, and
19 we're part of the Commissioner's Office. Robin Buck is one of our project managers, and
20 you all know Joe Sleight is another project manager, and all three of us are long-term
21 employees of the state, and we've been through a national economic development
22 program at the University of Oklahoma. We have the same training that our colleagues
23 have had in the Virginia Economic Development Partnership. Our job is to help
24 businesses grow and to encourage development of value-added agricultural products and
25 businesses.

26 Before we go any further, although we've had the definition of value-added and
27 commodities, let's look at these definitions. The types of businesses we deal with in
28 agribusiness are several types. Traditional agricultural production, yes, we get involved
29 with some traditional farming activities and development. We deal with food and
30 tobacco processing, cotton, textiles, wineries and we deal with the transportation side,
31 and we deal a little bit with agri-tourism, and we could deal more if we had more time to
32 do it. Tom's primary purpose is to move Virginia products. Our purpose is to help create
33 jobs and investment in agriculture and in agribusiness sectors. Is everybody clear in what
34 the differences are? We do the economic development work, and we work with
35 companies, and Tom works with companies, and he'll go into that in more detail as far as
36 what he does.

37 The question is, how do we impact jobs and investment in agriculture? The
38 major way we work is helping existing industry expand. I think Matt will tell you we
39 still get most of our growth or job growth in the state by working with existing businesses
40 and not by recruiting. We also help companies with job retention, and we also do some
41 recruitment. We can help with site selection, and we use our small business development
42 center, there's probably a couple of those centers out in Southside and Southwest who do
43 business plans. We help them with the financing and help them with regulatory

1 assistance. This financing area is an area where you might hear from us down the road
2 because there may be some projects which we will recommend to you or that they go to
3 you. We will make this commitment to you just as we do to the banks, if the project is
4 not bankable we're not going to send it to you. We will try not to send you a project that's
5 not bankable. As Matt said earlier, if the owners don't have some skin in it, if they don't
6 have some assets, the chances of failure is great, so we're not going to sent you those kind
7 of projects. We can help some of these start-up companies with regulatory problems and
8 getting over some regulatory hurdles.

9 What types of companies are we recruiting currently, and this is a list: food
10 processing companies, agricultural production and processing, bio-tech companies,
11 nurseries, greenhouses, I mean wholesale and not retail, then also wineries. And that's
12 some of them. If you have a company that's totally outside one of these groups we'll still
13 work with you. It's just that we see Virginia having a competitive advantage in these
14 areas.

15 Questions or comments? I've done a lot of talking.

16 MR. CURRIN: Bill, how does our strategy compare to some of our
17 neighbors, North Carolina, Tennessee, Kentucky?

18 MR. DICKINSON: We have the only separate freestanding
19 agribusiness development services unit among the states. North Carolina, in marketing,
20 they do have a section that deals with companies. But Virginia has been a little bit ahead
21 of the game the way we're structured, we think. How do we compare, most everybody
22 else is after the same things. What I hope you gentlemen will be looking for is new ideas
23 that really work. Carthan, Tim, Ned and I were meeting last week, and Bill Scruggs. I
24 don't know that anybody has any new ideas, do you all find that to be the case?
25 Everybody is trying to copy what someone else is doing. The problem is that in
26 agriculture as in any business, if you're copying what somebody else is doing, you're
27 probably too late. There's another thing that I would hope that you all would look at it
28 when you look at your projects. Is this something that's too late, or are they too late on
29 the curve? I don't know that we're too late, and let me give you a great example. I don't
30 know if we have the right commodity base here in the state to do it. We have a lot of
31 groups now that are interested in ethanol and bio-diesel. I know that Virginia is a grain
32 importer, and I know that in Iowa they can grow grain with no effort, compared to what
33 we do. And, that's just an example and I don't mean to beat on ethanol.

34 MR. CURRIN: Did North Carolina not put some of her tobacco
35 money in bio-diesel?

36 MR. HACK: It was one of their more, it actually was a twenty
37 million dollar commitment that did not, or it was given to a group that was headed up by
38 the chair of the Golden Leaf Fund. The brother of the chair of the Golden Leaf
39 Foundation did it without a business plan or any sort of --

40 MR. CURRIN: We don't want to go down that road.

41 MR. DICKINSON: Thank you, that's another example of what we
42 will not do, either. We can help a firm get to the point where they are ready to go to the
43 small business development center and develop a business plan, but we can't work with

1 them unless they've got a business plan, because otherwise it is just all day-to-day
2 activity. We had a call a couple of years ago from a food processor in Williamsburg, we
3 want to expand and we want to make this and that and the other thing. And we said,
4 great, we'll help you get a business plan, and they said, we don't have time to do it. I
5 said, I'm sorry, there's no way we can take you to a bank without one. The bank is going
6 to say, Mr. Jenkins, what do you propose to do with this money we're lending you?

7 MR. ERSKINE: Bill, Tom may talk to this as well, but the
8 importance of the tremendous assets we have with the ports of Virginia and how that
9 relates to everyone.

10 MR. DICKINSON: He's a trade man, and Carlton's had a lot of
11 experience with this recently, so hopefully they will cover that.

12 MR. ERSKINE: That's something North Carolina doesn't have.

13 MR. DICKINSON; Yes, in terms of advantages.

14 MR. ERSKINE: That's a competitive advantage for Virginia but
15 also how that can play into our strategy.

16 MR. DICKINSON: When we go to a trade show we market
17 Virginia because of its location, its road and rail network, its ports, its business plan. We
18 market Virginia the same way our colleagues do. The tax advantages which goes in the
19 business plan. Are there any other questions or comments? Agricultural processing, and
20 I'm enough of a believer in tobacco that I don't think the world is over. It's changing, but
21 I don't think the world has ended for tobacco. Tobacco processing is something we
22 would welcome.

23 MR. CURRIN: Not to put a blanket on that topic, but the
24 Commission has to refrain from any direct support of any tobacco-related business.

25 MR. DICKINSON: I didn't know that.

26 MR. CURRIN: We are to lessen the dependency on tobacco. The
27 Attorney General's Office cautioned me to be mindful of that.

28 MR. DICKINSON: I didn't know that, but nothing keeps us from
29 doing it, and we would welcome that. If you all know people that have ideas that are
30 innovative and you think they're out in front, send them to us. Nobody as far as we're
31 concerned, we try not to diagnose them as a bad idea to start with. Thank you, Carthan, I
32 did not know that.

33 I'm going to give you a couple of examples and then turn it over to Tom. Food
34 processors, we have clients in the confection area, meats, snacks, sausages, beverages,
35 replacement meals. I always tell everybody we didn't think it was possible to make more
36 and more kinds of barbecue sauce, but every three or four months we see one more
37 barbecue sauce emerge. I think Carthan knows the rest of the story. A number of grand
38 openings that we've done, business openings and celebrations that we've done, we believe
39 we know what happens to all this barbecue sauce. It's not the fact that people are
40 consuming it, but a lot of it is spilled on ties and shirts. As far as we're concerned if we
41 can create jobs and make a profit we don't care what happens to the barbecue sauce.
42 That's entirely up the consumer. This is the world's best cheesecake which brings us to
43 the Hanover Business Park.

1 We have a number of greenhouse operations, and we'd like to do more
2 recruiting in this area, but we haven't been able to get to the Southern Nurserymen's
3 Association for lack of funding recently, but here's Strange's in Mechanicsville. We see a
4 lot of people interested in greenhouse vegetable production. We've done some things in
5 genetic and biotechnology. This consortium down in eastern Virginia is a genetic project.
6 As Matt has said, for the past three or four years we've been involved in the Virginia
7 wine industry. But here is a caution, we don't know what kind of variety you have to do
8 that in Southside and Southwest. I have been invited almost every year by the
9 Pittsylvania-Danville Chamber of Commerce to talk about wine and grape production.
10 Wine grapes may offer your region an opportunity, but it's not the cure-all, and it's not a
11 tobacco replacement. We don't know yet which varieties will work here. It is one
12 strategy but not the total as we see it. There'll be a lot of strategies pooled together to
13 contribute to future agriculture. Putting all your dollars into wine grapes would probably
14 get us a glut on the wine market. That's a subject for a different day if you all want to
15 discuss wine or grapes and what we've done and the cautions we give wineries. The
16 number one thing we tell them, put yourself in league with a winery if you're a new grape
17 grower. Don't plant the grapes and then expect them to take them, because that's number
18 one. The second thing is that if you want to go into this business we would encourage
19 you to take the course up in Winchester. They can discourage almost anybody from wine
20 and grape production. So if you come out of that course and you still are determined to
21 do it, then there's a little bit of a chance that you will succeed at it. How to make a small
22 fortune in wine, start with a large one. That's broader, and that really applies to all of
23 agriculture. You can make a small fortune in agriculture, but generally start with a large
24 one.

25 I'm going to conclude here. We've talked about the challenge of profitability,
26 and we're talking about the one strategy that we're trying to work with businesses on, and
27 that's developing value-added products. This is the second challenge in agriculture, and
28 that's loss of capital. Carthan, don't take this to heart because I said many people are
29 aging, and don't get offended. We do have an aging farm population. I believe the latest
30 census shows fifty-six point seven, and the average age of farmers now is about fifty-six
31 point seven years. How do you all hold your assets, what is your main asset, land,
32 equipment, buildings, am I right? Some of you are going to retire, and later on if we have
33 time if you want to talk about what's happened in terms of farmers retiring, we did a
34 whole survey, and it sort of conforms to a national survey on farmers. What we found out
35 is that almost seventy-five percent of Virginia farmers have no plans to retire or a plan to
36 semi-retire. Does that strike home or what? That means on the last day these people are
37 living they're on their tractor. Hopefully, some of you all have different plans. Maybe
38 you plan to retire there, or you may be going to Florida or retirement areas. What that
39 means is that since all of these assets are fixed, that means that you're going to have to
40 liquidate assets across the Commonwealth in order to have a retirement income for these
41 retiring farmers. Because of this aging problem we would estimate that seventy percent
42 of all farmers in Virginia or all farmland in Virginia is going to transition in the next
43 fifteen years, seventy percent. As Matt said, unless we can help these farm businesses

1 transition from one generation to the next, what's going to happen to that land around
2 Halifax? It's going to grow houses and develop, and the less farmland we have and the
3 less farmers we have the smaller sector we have. That's pretty depressing. It's up to
4 Virginia to hold the Virginia agriculture sector, and I hope Virginia state government
5 eventually will try to help with this transition. You can see we've lost forty-five thousand
6 acres a year over the last ten years in terms of average farmland loss. The implications
7 for farm businesses are that these businesses are really threatened because of
8 development and because of the age of the principal entrepreneur. You may have some
9 people come to you with projects with matters that affect farm transition. I would
10 encourage you to support it if you want to continue farming in Southside and Southwest.

11 The General Assembly recognized that and set up the Virginia Agricultural
12 Program with the Virginia Farm Bureau Federation a couple of years ago. That program,
13 which the three of us tried to administer along with the Economic Development people,
14 has two Virginia farm links. That farm link tried to help beginning farmers and retired
15 farmers, and the Farm Bureau is helping them out with this one right now, developing a
16 database. We have a farmland preservation program. Recently, because of the money
17 situation, we've had some budget restrictions, and we had to scale back our plans in most
18 areas. The Virginia Farm Bureau Federation is developing or helping us develop the
19 database. We have some farmers calling in, and we're putting them in, the retired farmers
20 and the beginning farmers. Which do you think we have more of? Which one do we
21 have in the database, the beginning farmers. Nobody wants to go into farming, but
22 there's a lot of people out there that want to farm. A friend of mine in Iowa says the
23 children of farmers sometimes don't want to farm because they hear the stories every day,
24 some of it can be pretty disheartening. The ratio is fifty to two at this point in time. We
25 have about fifty farmers who want to enter and young farmers that want to enter and
26 grow and two that are in the database. Admittedly, it's harder to deal with older farmers.
27 The trouble with the older farmers is getting them to go on line, but we can develop some
28 strategies and get extension services to work with them and some of our people to work
29 with them as well. This agriculture vitality program deals with the loss of human capital
30 and physical capital. In this last slide the other kind of agriculture vitality is farmland
31 preservation. It's going to take a huge amount of money on a statewide basis, as well as
32 local, to preserve the farmland. One strategy is a PDR program, Purchase Development
33 Rights. We have six localities in the state, including Virginia Beach, James City,
34 Albemarle County, Fauquier, Clarke and Loudon Counties until just a few days ago. The
35 PDR program buys the development rights, and the land remains as farm land.

36 MR. MAYHEW: Is that in perpetuity?

37 MR. DICKINSON: Yes, sir. If it's in perpetuity and the programs
38 not in perpetuity tend to be, the public won't support them because that's the way of
39 sheltering farmers until the land prices go higher. I don't know if we have any in the
40 Southside emerging, Robin works with me on farmland preservation, and we have two
41 emerging counties now, the Isle of Wight and Northampton are interested in that. We will
42 be working to put together a model PDR program for, and the Secretary has it at this
43 hour, and he is discussing to me what he would like to have go out with this PDR

1 program. We're going to look down the road for some general guidelines from the
2 counties as to how to set up the PDR program. Eventually the counties will look for
3 money from the state. Virginia Beach funds their PDR program through a couple of
4 different taxes. If any of you have been down below the green line in Virginia Beach,
5 there's a lot of farming going on down there. It used to be that most of the pork produced
6 in the state, the highest concentration was in southern Virginia Beach, and I don't know if
7 that's still the case or not. They preserve farmland down there through a telephone tax
8 which is pretty lucrative.

9 You see what we're trying to do, and we don't have any magic answer, and we
10 just have a desire to help. We're working on the profitability problems through the value-
11 added processes and companies. We're trying to work on the loss of capital through the
12 ag vitality program.

13 Gentlemen, thank you for your time. I would like to say we're here as a
14 resource to help you and try to analyze or act as resources, and in addition we may be
15 referring some clients to you from time to time, and we'll come to you.

16 MR. CURRIN: Mr. Chairman, if I may also echo, this has been a
17 cooperative effort the last several years with the Tobacco Commission. The Department
18 of Agriculture has jointly participated in the biotech conference, and that's been an
19 opportunity for us to be exposed to potential clients and businesses, and we've gotten
20 some leads out of that, and I appreciate that, and I appreciate Bill and Carlton's invitation
21 to help.

22 MR. DICKINSON: Well, thank you all, and we'll be here to answer
23 any questions that we can or be of any help that we can. Thank you.

24
25 NOTE: A recess is had, whereupon the workshop
26 continues, viz:

27
28 VICE CHAIRMAN BRYANT: I'll call us back to order. Mr. Tom
29 Sleight is the Director of Marketing Division for VDACS, and we look forward to your
30 presentation.

31 MR. SLEIGHT: Thank you very much for the chance to come here
32 today, and we appreciate the opportunity for you to come down here and visit us to find
33 out a little bit about what we're doing here. I don't know if it's good news or bad news,
34 but I never taught school and I never read Heidi, so I don't know if that's going to work
35 with this presentation or not. You're going to hear some familiar themes that were
36 mentioned by both Matt and Bill, because the challenges are pretty similar when you
37 look at agriculture in Virginia and across the United States. I'm going to focus a little bit
38 more on the challenges of selling products. I look at my job very simply. My job is that
39 anything that is harvested in the State of Virginia, whether it be oysters, hay or poultry,
40 we have the responsibility to try to market that somewhere around the world or around
41 the nation. That's a very simple way of putting it. Even more simply it is talking to your
42 customer. You can recognize Secretary Schewel, he was with a big buyer down in the
43 Caribbean Basin, and his name escapes me right now. You have to go out and find out

1 what's going on and talk to the customer and find out what they want. This is actually the
2 Minister of Agriculture from Cuba with a big dairy operation they had there, and we had
3 to find out what they wanted. They had big problems as far as nutrition for their dairy
4 herds. You have to find out what they want, and then you have to take on the
5 competition. I don't know if you recognize this fellow here, but that's Jesse Ventura, the
6 former Governor of Minnesota. Secretary Schewel looks like he's a little shorter than he
7 is, but he got one of three falls on him. That's basically what our job is, and that is to find
8 out what they want and meet the competition and get after it.

9 These are some familiar terms here in terms of challenges and opportunities,
10 and it sets the stage well for what we're doing. When I look at your job and my job and
11 everybody's job that works with agriculture in the State of Virginia it's dealing with the
12 diversity of production. We're not really big in one particular commodity, but we have a
13 wide variety of products to market to the world. It's a challenge, it's a blessing, it's a
14 curse, and it's something to deal with all the time in marketing products.

15 The consolidation of buyers, I don't think anyone in the world isn't aware of
16 this fact. Maybe you've heard the big news today about Comcast buying out Disney.
17 Everybody is getting bigger, bigger and bigger. For agriculture it's a real problem,
18 particularly for the producer. Producers who do not share that same ability to consolidate
19 supply to meet consolidated demand, that's what it's all about in terms of marketing right
20 now, and it is something that we have to be very aware of as we go about our jobs.

21 Development of pressures, new neighbors, environmental pressures, you're
22 very familiar with these as well as national and global pressures, and they've never been
23 higher. The competition between us and our competitors used to be like this, and
24 competition is about like this right now in terms of global basis of what we're dealing
25 with when you're looking at marketing products.

26 Food safety and traceability is a huge issue these days, and certainly the
27 headlines reinforces this on a daily basis, like influenza, mad cow, it's all over the place.
28 The ability to protect the food for a safe and good quality food product, and if it's
29 traceable, that will be a successful supplier of food in the future.

30 All of us in the United States certainly face prices that are determined globally
31 but production costs are determined locally. This is a tremendous problem for you all
32 when you look at everyday operations and when you sell in the world market. This is
33 something that we always have to think about when we look at the fact that are we
34 competitive and how we influence this formula or deal with this formula. Particularly
35 when you look at the cost of labor and land here, that's very important.

36 Threats, global competition has never been higher, and it's not going to go
37 backwards either. We're no longer the dominant supplier in the world, and that's not
38 going to change. The changes from the 2002 Farm Bill, and you know what's happened
39 between peanuts and tobacco. What do the transitions from the federal government
40 policy mean for marketing products, and what's going to be our advantages and
41 disadvantages in marketing those products?

42 Sanitary restrictions are a real threat to marketing products today in terms of
43 the new trade barrier. Selling poultry to Russia, for example, a lot of sanitary barriers

1 stop us in our tracks. Selling tobacco to China, and sanitary barriers stop us in our tracks,
2 despite global trade agreements and global trade barriers and market access.

3 New trade barriers, we run into these everyday and almost every hour, and it's
4 something that's a real threat. One thing I've been concerned about over the past few
5 years is maintaining the quality of the products. As the competition of prices have drifted
6 lower the quality of Virginia production has slipped just a little bit in some sectors, and
7 we have to be very careful of that and try to reinforce that, because that's what the market
8 is demanding these days, and that's what we need to supply.

9 Now, let's look at some of the good news, and this is what Matt mentioned
10 earlier. Our core competitive advantages for Virginia agriculture, and we have to put it
11 into our heads and take advantage of this on a daily basis when we're looking at what
12 we're trying to do. The East Coast consumer market and the highly disposable consumer
13 market, sixty percent of the population within twenty-four hours is the statistic on that,
14 but just the tremendous buying power in Northern Virginia for consumer-oriented
15 agricultural products, a tremendous competitive edge for Virginia producers. They have
16 to take advantage of this, because everybody else in the rest of the country wants to do
17 the same thing.

18 Port access, we have one of the best ports in the country, second largest
19 container port on the East Coast in Norfolk and Chesapeake. Are we taking full
20 advantage of that, and we can we continue to expand that access in a global market
21 place? How many states that you can think of have the same sort of thing with a strong
22 agricultural base, a stronger urban population with highly disposable income and access
23 to the export market? That's not a bad place to start from when you look at agricultural
24 production and expanding agricultural products and take advantage of these things.

25 Segregated fields, it's kind of an arcane one, and it's something we have in
26 Virginia. You can see one right there, that's a tree, and they don't have those in the
27 midwest with trees between fields. I say this with tongue in cheek, but when you look at
28 what Bill is talking about in terms of biotechnology and specialized production for
29 specialized use, you have to be able to segregate your products and segregate your
30 production and have something that blocks pollen drift that enables you to create and
31 grow these types of products that the market is starting to demand, Nutroseudicals,
32 biotech products. This is an advantage that Virginia has. I used to work a lot with friends
33 in the midwest, and they don't have these things, and they have to face this every day, so
34 that's a competitive advantage for agriculture.

35 Now, what's hot and what's doing well in Virginia in agriculture right now?
36 Organics to a certain extent, and it's a small market but growth, and it's growing every
37 year. We work with the Appalachian Sustainable Development people in Abingdon, and
38 they're a very creative bunch. There's some traditional tobacco farmers in that bunch. It's
39 a niche market, but it's growing fast, and unabated growth right now.

40 Horticultural products, landscape products, nursery products, they're doing
41 very well. Access to that big consumer market up in Northern Virginia. This is where
42 people in those enterprises are doing quite well. So well, in fact, we can't interest them in
43 new business.

1 Some others include wine, the horse business, agri-tourism that Bill
2 mentioned, wood products and soybeans are in a good market right now, although I don't
3 think it's going to last forever. But right now soybeans are doing quite well, and I put it
4 in the category of what we're talking about right here. Everything else has their
5 struggles, let's face it.

6 Some more opportunities in terms of looking at the modern world we're selling
7 to. Consumers today are more concerned about the process by which something is
8 produced rather than having the product themselves. The plentiful abundance of having
9 year-round produce, it's out there and you can get it any time you want to at your local
10 supermarket. Consumers are less concerned about it being there and more concerned
11 about how that product was produced. It's the age of consumerism that we're in, and
12 people are going for that market, and we should keep that in mind.

13 The post 9/11 "locally grown" emphasis, and we continue to see this pan out
14 even as we get farther out from 9/11, there's that emphasis among grocery store chains,
15 buy local and fresh, and there's still a marketing advantage that we want to take
16 advantage of.

17 We've also mentioned agri-tourism several times. It's one of those things that
18 everybody else is doing something, and it's the similarity that other states are doing it,
19 and we do quite a good job of it here. There's always a question of is there a saturation
20 point in agri-tourism, but everybody keeps telling me, not in your lifetime will you see
21 that, and that's good news. I've said this for a long time, and I've said this, that we should
22 think global and market local, and people get tired of hearing this, but in agriculture we
23 can't think any other way, or as Al Davis would say, with the Oakland Raiders, run, baby,
24 run. If competition is nipping at your heels, and if you're not out there in front of it,
25 you'll get run over.

26 To give you a little bit about the marketing division, just to let you know how
27 we operate. We have three different offices within our division of marketing. We have a
28 director of commodity services, which deals with our grading and inspecting programs
29 for various commodities. Domestic sales and market development and international
30 marketing, and for all intents and purposes those are becoming one as we look at how we
31 promote our marketing challenges. The line between those is pretty fuzzy right now, and
32 I'll talk about that a little bit later. When you look at what they're up to right now, Kent
33 Lewis is our Director of Domestic Sales and Market Development. We have a very
34 unique sales force in Virginia. I hope you are aware that Virginia is very different from
35 other states. We have people out in the field helping with marketing problems. You
36 probably know Danny Neal and Stan "Superman" Duffer, and those are the people that
37 are out there everyday solving marketing problems and hearing what the producers are
38 trying to produce and then trying to find and connect our sales force with national and
39 international buyers. They are out there helping the folks every single day. It's kind of a
40 neat approach and I think it's a tremendous asset for us here in Virginia.

41 We do have four shipping point markets that collect mainly produce, and
42 there's one in Hillsville, and we have one in Courtland as well. We also have a liaison
43 with eighteen different commodity boards throughout the state. That's one of our real

1 strengths, keeping strong connections with what the commodity boards are doing and
2 what we're trying to do and what other groups are trying to do, and that is a tremendous
3 asset for us.

4 We have the Eastern Shore, Courtland in Southside, Hillsville in Southwest,
5 and we have the Northern Neck. There are different sales people. As you can see from
6 the slide, Number Three and Four and Number Six, and I'm sure you know those folks.

7 We have two national sales reps, and I've got to get rid of this picture. The
8 national sales reps are the ones that deal with the large-scale grocery store chains, large
9 brokers and wholesalers and any kind of buying and selling food throughout the nation
10 and Canada right now. We split the nation in two and tell these people to go at it and
11 make sales calls. They'll arrange sales calls with local and national buyers. They go up
12 with the Virginia Agribusiness person with what we can supply. They turn over a lot of
13 rocks for you.

14 This is a picture of the wholesale shipping market, and they do quite well.

15 The key issues that we're facing in domestic marketing that kind of roll over in
16 some of the things you do, consolidation, farmers' markets, the growth in direct
17 marketing is a strong thrust in U. S. agriculture, and we spend a lot of time on that in our
18 domestic marketing shop. A lot of farmers say and a lot of experts say that the real key
19 for farmers in the future is their ability to direct markets. I buy into that up to a point, but
20 there has to be a strong function of what we do in terms of creating opportunity for
21 growers. Service to small niche and transitional growers, these are the folks that you're
22 dealing with. A lot of people like Philip Morris don't really need our help all that much to
23 sell tobacco on a worldwide basis. The big poultry companies, when they get into trouble
24 they come knocking on our door, but when they sell chickens they don't need us that
25 much. We're more of assistance to the small and medium size growers that don't have
26 those types throughout the rest of the world, and we can help them get those legs up and
27 be able to compete in the markets they want to compete in.

28 The key issue for now and in the future is integrating and promoting resources
29 and whoever has any creativity money or commodity boards there's a lot of things or
30 check off programs, and those are key issues for the future. They have to continue to do
31 that, to have joint promotions and work together, and if we're divided, we're dead, really.

32 International marketing, Virginia does have an office in Hong Kong that
33 services all of Asia. One person is dedicated strictly to agricultural products, and that
34 comes in handy when you're dealing with such a wide variety of products that we're
35 dealing with here, and it's a nice asset to protect. We had a second office, but we had to
36 close that one when we downsized due to the budget reduction.

37 We also have a strong forest products program, and I know there's a lot of tree
38 or wood operations in your areas. This is a real growth area for us, particularly with
39 countries like China that's really growing in terms of building and building materials, and
40 there's lots of opportunity there.

41 We have an excellent visibility for process food exports into our international
42 market, and we believe this is an area that we will continue to grow. I think in Virginia
43 our biggest problem is not our finding markets, because we can find them, but it's getting

1 people that are willing to access and exploit those markets and have skills, creativity and
2 ingenuity and drive to get into the export market and take advantage of the opportunities
3 we find. That's our limiting constraint right now in Virginia, and that's what I'd liked to
4 do and put our efforts into changing that.

5 Let's talk about the global market. We're right in the middle, and mostly
6 companies right now are looking at, we have a three point five billion person consumer
7 market. We have a lot of people that have income that they can spend on new products,
8 and they are willing to spend on better products. We're in the midst of a boom era in
9 global consumerism. Agricultural experts are trying to say that it would take, or for
10 people to live like they do in the United States and to have the standard of living we have
11 here, it would take the equivalent production of two more earths to satisfy that demand.
12 It means we eat too much in the United States, or we've got to grow a lot more. The
13 debate is not whether we have to increase production but how much we have to increase
14 production by, two hundred and fifty percent higher or three hundred percent higher
15 production to meet this demand. There's really a big explosion in pet foods consumption
16 driving a lot of agricultural products and commodities around the world.

17 The key issues for the international marketing side, leveraging our global
18 resources, and I know that I sound like a broken record on certain things. We've spent the
19 better part of our time in the past two or three years going out and finding new sources of
20 money, federal money and grant money wherever we could find it. Whoever was willing
21 to partner with us, or if it's another state group and they can't partner with us, we have to
22 leverage our resources. No other way around it.

23 Export readiness training, you've heard me talk about that. The Governor is
24 going to go to China in the spring, a tremendous customer for Virginia products and a
25 tremendous competitor for Virginia products. It is something we really have to be
26 cognizant of as we address China on an international marketing basis. It creates a lot of
27 problems for us, but it also is a lot of pluses.

28 Cuba and the Caribbean Basin. Yes, we've been to Cuba a few times, and we
29 sold some agricultural products, about six million dollars worth of products during
30 December to the Cubans. I think that's going to continue unless the trade embargo starts
31 to lock down again. It's a good market for us the way it is right now because they have to
32 pay cash, and right now we are not in a position to turn away cash customers. For
33 agriculture we have to be a little bit selfish about that. The Caribbean Basin beyond
34 Cuba, can we explode our competitive edge to the proximity of those markets for Virginia
35 products, and I think we can.

36 Canada is a very perplexing market for us. Right now we have about seventy
37 trade disputes with Canada ongoing about agriculture right now. When we fight with
38 them about agricultural products sometimes we win and sometimes we lose, and it seems
39 like we've lost more than we've won lately. Virginia is in a strange position because a lot
40 of times our interests are counter to what the rest of the nation's interest are. Potatoes is a
41 very good example on that one.

42 Mexico, the Commissioner and Governor went there a few months ago and
43 found some new markets, wood products, apples and other consumer type foods that they

1 are looking for.

2 A new country coming on the horizon is Iraq. A lot of our tax dollars are going
3 to Iraq to stabilize the country, and what's the most important thing to stabilize the
4 population, and that is to make sure they are fed. I think you're going to see a shift away
5 from building materials into agricultural products, plus the fact that Iraq is pumping out
6 oil right now and creating hard currency to pay for products, and we're going to take a
7 harder look at that. I'm pretty optimistic about that.

8 The key issue I see for us international marketing is redefining our competitive
9 advantage, looking at our transportation and our logistics and specialized production for
10 specialized uses. You heard Bill talk about it, and it's very true in the international
11 market.

12 This picture you're looking at right now is a project that came that close to
13 working about two years ago. This is a picture of a flour mill in Brazil. Right now
14 there's a three-to-one differential in empty containers going back to Brazil versus filled
15 containers going back to Brazil from Norfolk, three to one. In China it's eight to one, but
16 Brazil is three to one. Brazil likes the wheat we grow here in Virginia, and it's a soft red
17 wheat. The idea was to put the wheat in containers, which we have many empty
18 containers, and let's put the wheat in those containers. Right next to the flour mill is a
19 container port, right next to each other. That truck takes the containers from the port over
20 to the flour mill. The question is can we make it work, and we came that close to making
21 it work financially, but the problem is getting a freight company willing to be cheap
22 enough on the back-haul freight, willing to take a lower price hauling that wheat back to
23 Brazil rather than taking that container back empty to Brazil, and that didn't work out.
24 But we haven't given up on it. That's the type of thing that's starting to happen in the
25 world market. China has been buying soybeans for the past couple of years, and one
26 reason why the price is so high is the fact that a couple of companies got short on it
27 because the world trade market has gone through the roof, mainly because of China, and
28 they were desperate to deliver on contracts. On the West Coast they're stuffing soybeans
29 in containers going to China, and we can do the same thing here in Virginia. Remember,
30 in worldwide trade distance does not matter. In your own business it would cost you a
31 million dollars to fly from here to New York and twenty-four dollars to fly from here to
32 Los Angeles. Distance doesn't matter, because it's supply and demand that drives the
33 market, and we're looking at that as well. We need to redefine our competitive advantage
34 and see what's going on in the ports and world markets and making a match and getting
35 excited about it.

36 The Office of Commodity Services, and we went over an example of livestock
37 breeding, and this is again maintaining our competitive edge on quality. This is very,
38 very critical in this niche in terms of livestock, poultry and eggs, grain, peanuts, fruits
39 and vegetables. A good example of this is that the ASD people over here in Abingdon
40 were packing potatoes to sell in the Washington, D.C. market. We went through there
41 trying to meet with them and find out what they were up to, and they showed us their
42 packing line. They took potatoes as they came off the packing line and said, that one's
43 close enough, put that one in there, or good enough. And when they were putting them in

1 the box our graders were sitting there taking them out of the box, saying, no, you can't do
2 that, you'll kill your reputation. If you send one bad box of potatoes, you're done, and
3 they'll get them from California next time. They were getting mad at us because we were
4 pulling them out as fast as they put them in. At the end of the day they came back, and
5 the chain was happy that they met the contract specification and met grade, and so that
6 business is ongoing today. That's an example of how this thing can come together and
7 make a difference for producers. Market news, keeping track of the type of prices and
8 monitoring and so forth. It's very important to keep competitive.

9 Commodity Services, we have some money coming out of the Risk
10 Management Grant, and that's an agency of USDA. We're working on an AGR-Lite
11 policy, more comprehensive insurance policy, and that enables people to be diversified
12 with their crops and livestock and get better coverage under crop insurance, and in order
13 to do that we have to create a specific insurance product for Virginia. That's a long
14 process that we're underway with right now.

15 Keeping our grading and inspection fees, that's always a problem, because we
16 want to make sure our producers are competitive, and that's a fee- based program, so
17 sometimes they are in conflict.

18 GAP is not a clothing store, but it's Good Agricultural Practices, and that's a
19 big trend in agriculture where you see a lot of supermarkets, particularly on the West
20 Coast, are demanding you as a producer be certified, that you have good agricultural
21 practices on your farm, meaning that you maintain cleanliness and the product integrity is
22 maintained. There's a lot of little checklists that have to be gone through before they give
23 you that GAP certification. It's big on the West Coast, and it's working its way east, and
24 it's started here now. I think within a couple of years every supermarket chain in the
25 country will be demanding producers be GAP certified. It's GAP and HP, which is
26 handling processes. Producers need to be aware that these things are out there and you
27 can't just jump in the market and say, okay, buy them.

28 As far as organics, there is a USDA program that we administer through our
29 Services Office where organic producers can get reimbursed seventy-five percent of the
30 cost to become organic certified under USDA to be a certified organic producer. They
31 can get reimbursed, and we manage that program. We have to keep tabs on that to make
32 sure where we are headed.

33 Let me touch on a couple of our promotion programs that we operate, and we
34 operate on promotions for all of these programs. They're marketing and promotion
35 programs. I am sure you are familiar with some of these logos like Virginia's Finest, it's
36 been around for about twelve years now. It's a very excellent marketing tool for
37 processed foods. There are Virginia tobacco products, we got raked over the coals by the
38 press here about two weeks ago because it's a pure application of the program. Virginia
39 products, a hundred percent Virginia product made by Virginia producers and processed
40 in Virginia, Virginia's Finest. The Virginia Grown program we revitalized and sort of
41 reinvented two years ago. It's kind of a broader program for anybody that has roadside
42 stands, and we've even extended it to the Christmas trees and potted plants and so forth.
43 We have to get that message out there. The Governor did a couple of commercials for us

1 on this program, and we had billboards around the state, and we utilized some grant
2 money from the USDA to expand the Virginia Grown program, getting people out in
3 front of the population and making them aware of what's happening particularly in
4 Northern Virginia where most people have no idea what's happening south of
5 Fredericksburg. One of my pet peeves is, and we want to make sure that people in
6 Northern Virginia are aware of the products that are grown here in the state, and it's
7 starting to work. For the first time this year Giant Food, which is one of the biggest
8 supermarkets in the D. C. area coming down and saying we want a Virginia Grown aisle.
9 It hadn't happened up until last year.

10 The Savor Virginia is more of a specialized program mainly for gourmet type
11 items and wine and gourmet seafood and processed foods. It's a separate promotion that
12 we did in the D. C. area about a year ago. On the Today Show today we're doing a co-
13 promotion, seafood and wine, up in New York City with the world's fastest oyster
14 shucker, and this lady was the fastest oyster shucker, and she was on the Today Show this
15 morning doing some shucking. It's kind of neat when something like that, or people can
16 come together and give Virginia some visibility on a very broad stage.

17 The *shopvafinest.com*, this is kind of a smaller scale online shopping service
18 for processed food companies, and that's done particularly at Christmas time. One of the
19 main sponsors of that pulled out, and we're not sure what's going to happen in the future
20 with that, but it's something that's online buying and facilitating businesses to have online
21 buying and order filling on line. That's a critical problem, again, for new market food
22 processing companies. If they can't fill those orders online they're done.

23 Key issues for promotion right now, that's integration of Virginia's Finest,
24 Virginia Grown products and Savor Virginia campaigns.

25 Penetrating the Northern Virginia market, I just talked about that, and then
26 agritourism is a promotional item. California has sort of an agricultural trail, like a wine
27 trail, they have agri-trails throughout California. And then these multi-commodity
28 promotions, meaning integration and coordination with Virginia commodity boards, that's
29 working together towards a common goal.

30 Let's talk about something that you may hear a lot more of later on. Under the
31 2002 Farm Bill, and this is probably good news, there is a funding for agricultural
32 innovation centers. This is a USDA program, up to a million dollars in funding from
33 USDA to create programs by which producers and farmers can be trained to better
34 compete in today's market. This is a very simple schematic of this. They use the word
35 program instead of center. You have centers that serve as producers. If you want help in
36 how to capitalize things or financial assistance, entrepreneurial development, you go to
37 one program. If you need help in how to research markets, research products and
38 research techniques, you go to another area. Hard core business planning and
39 development and services, it all becomes kind of a program that producers can turn to
40 and use cutting edge tools so they can compete. Imagine the outline of Virginia
41 surrounding those three bubbles, and this is kind of how we look at it. We have a
42 program that's dedicated towards consumer-oriented agriculture focused on Northern
43 Virginia. Wherever you are in Virginia if you want to find out how you can market in

1 that highly disposable income market up in Northern Virginia, there's a program that will
2 teach you how to do that and address that particularly market. It's goes towards the
3 competitive advantages, and those are the types of ideas. You have an export readiness
4 program located down in Norfolk and Chesapeake. If you want to find out how to get
5 into the export market and how to sell and how to handle the paperwork you get involved
6 in that particular program. If you look at transitional agriculture, and this is how the
7 Southwest side of Virginia and Southside, addressing the problems you're addressing
8 right now. How do you create the type of entrepreneurial development and business
9 training programs, how to write a business plan. Under the hard core business type
10 development program, programs that assist farmers in transition. This is a project that
11 we're working on in conjunction with the Farm Bureau, Virginia State and Virginia Tech,
12 Virginia Cooperative Extension and the Virginia Department of Agriculture and
13 Consumer Services. We're all kind of together and working as one to develop a unified
14 proposal to USDA to create an agricultural innovation center here in Virginia. This might
15 affect you somewhere down the line, how this program operates and what your role is, or
16 what it could possibly be if something like this were to happen in Virginia.

17 MR. PFOHL: What is the time frame on the proposals, the
18 innovation center?

19 MR. SLEIGHT: We have to have the application in by this fall for
20 this next federal fiscal year. I think it is a September deadline, but I don't feel that we are
21 going to be able to make it this fiscal year. We may, and I don't mean to be negative on
22 this, but the USDA is going to do ten states a year. They did two last year, and this next
23 year, right now, they are going to do ten, and they have to do ten more for three more
24 successive years, so it'll be forty. All of this could change because of appropriations, but
25 our goal is to try to get a proposal together by the fall, and if that doesn't work, maybe
26 next year. You have to have a good program to present, because you can kill yourself by
27 sending in something shoddy, and Missouri learned that lesson this past year.

28 I'm just going to close with a couple of more things and opinions about how
29 we look at what farmers need to do in order to stay competitive. Certainly you have to
30 develop your agriculture issues in concert with environmental issues, regulations, urban
31 and suburban sprawl, focus on process rather than product, expand strategic alliances and
32 adoption of technology and competitiveness and reassure food safety and traceability.
33 Every time we talk to farmers that's what we start telling them that they have to do.

34 In terms of the community, I like to flip it back and say to the community
35 you've got to do these things, value the diversity of agricultural production, build
36 strategic alliances with farmers to promote environmental stewardship so vital to all. I
37 think there's a real disconnect on this one as I see it. Understand the competitive
38 pressures facing Virginia agriculture. When you look at programs I like to see them
39 address both sides. We keep telling the farmer they've got to do this, but the community
40 has got to do it.

41 In conclusion, I believe we're at the dawn of a new age of agriculture in the
42 world where you have specialized production for specialized uses is the day. Producers
43 that have the acumen to get out there and find out what the market wants are going to be

1 successful. There is demand out there if you tap into it, and you have to be creative.
2 Many challenges, infinite opportunity, I like to be optimistic about that. We always look
3 at why things are going wrong, but there is opportunity out there, particularly for food
4 producers, in the world that we live in. I'll just say again to think global, market local,
5 and run baby, run.

6 Any questions?

7 VICE CHAIRMAN BRYANT: Thank you, Tom, appreciate your
8 comments on the marketing strategy, and I much appreciate your comment on standing
9 up for tobacco when it comes to Virginia. We echo that, also, maybe not the
10 Commission, but us tobacco producers do.

11 Next is Mr. Ned Stephenson, and I'm very much anticipating hearing your
12 comments. Ned is a new addition to the Tobacco Commission. Let me tell you that when
13 it comes four thirty, I'm going to adjourn the meeting.

14 MR. STEPHENSON: Thank you, I realize quite well that I stand
15 between all of you and adjournment today, so my remarks will be quite brief. Carlton,
16 thank you for hosting us today, and I appreciate the shirt-sleeve environment that you
17 created for us today, and it makes it a little easier to work. I also enjoyed the pink bag, I
18 had an item that I want to add to it for our next road show. I was sitting here earlier
19 thinking about value-added, and I looked at this water bottle, and it occurred to me that
20 you pay more for this than we do for gasoline, and this is water, the ultimate commodity.
21 So there are some opportunities, and there are new ideas yet untapped.

22 My role with the Commission, and that of my teammates, Carthan and our
23 Staff, our role is that we have been entrusted with a very precious and historically
24 unprecedented resource to make a difference in our tobacco economy. My role is really
25 to help steer the Commission toward results. It's so easy to do a lot of things and not
26 know whether we are getting where we need to be. Our objective, obviously, is not to
27 squander this unique opportunity that we have to make a difference.

28 A couple of things about what we are not. We are not scientists, and we don't
29 know about grapes and hair sheep and barley and all these things. That's not what we
30 bring to the table, and we rely on Carlton's group for that. What we do bring to the table
31 is what I'd like to refer to as the spark or the catalyst. We've got some funds that you
32 know about, and in this particular round, I believe it's a million eight or something like
33 that in the budget cycle. We view that as kind of a catalyst or a spark. We need this
34 group to help us exactly find out where to put that spark to make something happen, and
35 that's our role, and that's what we bring to the table. That's ever so difficult to do, but if
36 we can put that spark in the right place we can cause things to happen. What I'd like to
37 challenge you with this afternoon as you leave, I, from the Commission, want to ask you
38 to really help shape the Commission's thoughts and where we go with these resources.
39 Collective minds are better than a few minds in the Commission. In asking you to help
40 us focus these resources, I'm going to give you a little homework assignment. Bill, you're
41 a big schoolteacher, and you'd appreciate some homework like this. I spun this out of my
42 computer at the last minute, but I placed a card in the packages on the table here and,
43 Jerry, some of the folks may need one if you'd pass them out. This is very simple, but I

1 would like for you to answer the little poll that's on this card. I'm going to stand at the
2 door tomorrow morning, and if you don't have it you're going to stand in the hallway and
3 fill it out. It is self-explanatory. It is to help the Commission focus where we go with our
4 dollars. There's something not on the card that I want you to add to it. I want you to
5 think tonight in terms of concepts and to write the concepts on the card that you come up
6 with. One of the things that dawned on me today listening to Tom's comments, and I now
7 know that he's right about this, and I hadn't thought about it before. The concept is we
8 don't want for markets, we don't want for demand, we want people to serve those
9 demands, like entrepreneurs. That's a concept that the Tobacco Commission can use to
10 figure out where to put that spark. Think of some concepts and give me an answer on the
11 card, and we'll talk about it in discussion tomorrow, and it might help us narrow our focus
12 a little bit and do a little bit better job with these resources.

13 I'd like to end on a bright spot, there's a lot of challenges in agriculture, and
14 probably almost everybody in this room came up in an agricultural setting. I think you
15 know as I do that the agricultural community is not without resources and not without
16 assets. We have tremendous assets, tremendous resources, and we have the will to do
17 that. I'd like to leave you with that thought and with the idea that these assets and the
18 will to perform we certainly can do. Thank you.

19 VICE CHAIRMAN BRYANT: Thank you, Ned, look forward to
20 working with you.

21 MR. CURRIN: Mr. Vice Chairman, there's several comments, and
22 with the Deputy Secretary's permission I will have his remarks put on our web site along
23 with all the other presentations today and tomorrow. We talked about collaborative
24 efforts, and I wanted to remind the Committee that tomorrow afternoon a couple of
25 Commission members are meeting with the President of Virginia State, and we also have
26 a strong engagement in this field with Virginia Tech since the inception of the
27 Commission. We want to continue to have dialogue with the other land grant
28 universities.

29 I'd also like to thank Randy Arno for being here. He's with the University of
30 Virginia's Welding Cooper Center. Randy helps staff the Rural Prosperity Commission,
31 and he's done a great deal of work in analyzing challenges of rural Virginia. I appreciate
32 his presence here and support.

33 Housekeeping issue, Mr. Chairman, at 6:00 p.m. there'll be a reception hosted
34 by the Virginia Tech Foundation at the Omni Atrium, which is the Omni Hotel. At 7:00
35 p.m. there'll be a dinner hosted by the Virginia Farm Bureau. At 8:30 tomorrow morning
36 we'll be back here, and we'll hear from Mr. Hack, who's President of Global Development
37 Partners, and his presentation will take approximately an hour. At 9:30 we'll discuss due
38 diligence issues, and Mr. Stephenson and Mr. Pfohl will participate along with Mr.
39 Scruggs from this office, and at 10:30 we'll take a break. Then we'll reconvene for an
40 opening discussion that'll be facilitated by Mr. Hack. Thank you.

41 VICE CHAIRMAN BRYANT: Thank you, this meeting stands
42 adjourned.

43 PROCEEDINGS CONCLUDED.

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CERTIFICATE OF THE COURT REPORTER

I, Medford W. Howard, Registered Professional Reporter and Notary Public for the State of Virginia at large, do hereby certify that I was the court reporter who took down and transcribed the proceedings of the **AgriBusiness Committee Workshop when held on February 11, 2004 at the Washington Building, Department of Agriculture and Consumer Services, Richmond, Virginia.**

I further certify this is a true and accurate transcript to the best of my ability to hear and understand the proceedings.

Given under my hand this 23rd day of February 2004.

Medford W. Howard
Registered Professional Reporter
Notary Public for the State of Virginia at Large

My Commission Expires: October 31, 2006.