Statement by J.B. Penn
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United States Department of Agriculture
Before the House Subcommittee on Agriculture,
Rural Development, Food and Drug Administration,
and Related Agencies

Mr. Chairman and Members of the Committee, I am pleased to appear before you today to present the 2004 budget and program proposals for the Farm and Foreign Agricultural Services (FFAS) mission area of the Department of Agriculture (USDA). Accompanying me this morning are the Administrators of the three agencies within our mission area: James Little, Administrator of the Farm Service Agency; Ross Davidson, Jr., Administrator of the Risk Management Agency; and Ellen Terpstra, Administrator of the Foreign Agricultural Service. We also have with us Kirk Miller, the Department's General Sales Manager, and Stephen Dewhurst, the Department's budget officer.

Statements by each of the Administrators providing details on the agencies' budget and program proposals for 2004 have already been submitted to the Committee. My statement will summarize those proposals, after which we will be pleased to respond to any questions you may have.

Mr. Chairman, Secretary Veneman has just released a new strategic plan that provides the framework for achieving the Department's policy and program objectives. One of the five primary goals established in the plan is to "enhance economic opportunities for American agricultural producers". The programs and services of the FFAS mission area are at the heart of the Department's efforts to respond to the challenges of the 21st century and enhance economic opportunities. Through the wide range of services provided by our agencies – price and income supports, farm credit assistance, risk management tools, conservation assistance, and trade expansion and export promotion programs – we provide the foundation for ensuring the future economic health and vitality of American agriculture.

This past year, the FFAS agencies and programs were challenged by a number of significant developments to which they responded effectively. In May, the Farm Security and Rural Investment Act of 2002 (2002 Farm Bill) was enacted, and we undertook the massive task of ensuring timely and efficient implementation of this far-reaching and complex legislation. Sections of the United States experienced drought this past summer, and our risk management resources were taxed to meet the most pressing needs of drought-stressed producers. Now, we are undertaking the task of implementing the supplemental emergency disaster assistance provisions of the 2003 omnibus appropriations act. At the same time, the workload associated with our trade negotiation and enforcement responsibilities has continued to grow, and 2003 will be a critical year for negotiations aimed at further reducing trade barriers and opening new markets overseas.

The 2004 budget proposals we are discussing today fully support continuation of these activities and ensure our continued efforts on behalf of America's agricultural producers. In particular, the budget supports the implementation of the domestic commodity and income support, conservation, trade, and related programs provided by the new Farm Bill. It fully funds our risk management and crop insurance activities. It supports the Administration's export expansion goals by providing a program level of $6 billion for the Department's international activities and programs. Also, it provides for the continued delivery of a large and complex set of farm and related assistance programs, while improving management and the delivery of those programs.

Farm Service Agency

The Farm Service Agency (FSA) is our frontline agency for delivering farm assistance and is the agency the majority of farmers and ranchers interact with most frequently. Producers come to FSA to participate in farm programs, including programs involving direct and countercyclical payments, commodity marketing assistance loans, loan deficiency payments, farm ownership and operating loans, disaster assistance, and conservation programs such as the Conservation Reserve Program (CRP). Because FSA plays a lead role in implementing provisions of the new Farm Bill, the budget places a priority on enhancing the ability of FSA to provide better service to our producers more efficiently.

Farm Program Delivery

The new Farm Bill signed in May 2002 required immediate action by FSA to formulate and put into effect a new set of programs for the 2002 crops. With about 2.1 million farms eligible for the complex, new Direct and Counter-cyclical Payments Program, FSA is confronting a major implementation challenge. So far, progress has been encouraging, and we are monitoring the process closely. Approximately $2.2 billion in direct and counter-cyclical payments had been paid out as of February 18th, and payments were rising rapidly as signup continues. In addition, over $1 billion in Milk Income Loss Contract payments have been made to date to dairy producers, and about $1.2 billion in Peanut Quota Buyout payments have been made along with Apple Market Loss Assistance and other payments issued so far this fiscal year.

FSA is also gearing up to implement the newly passed disaster assistance programs. The magnitude and complexity of the programs being implemented will continue to reinforce the need to improve customer service efficiency in FSA and the other county-based conservation and rural development agencies. FSA will continue to face a substantial workload through 2004, as new Farm Bill programs are implemented. As the initial work associated with commodity programs signup in 2003 moderates, the workload associated with supporting the expansion of the Farm Bill mandated conservation programs will rise in 2004 and beyond.

The proposed 2004 program level for FSA salaries and expenses of $1.3 billion will support a ceiling of about 5,900 Federal staff years and 10,800 non-Federal county staff years. The proposed level for 2004 will maintain permanent non-Federal county staffing at prior year levels, while reducing the number of temporary non-Federal staff, which had been increased in 2003 and earlier years to support supplemental assistance programs and to begin Farm Bill implementation in 2002 and 2003. The agricultural assistance title of the 2003 omnibus appropriations act provides $70 million for the administrative costs of implementing that title, as well as title I of the 2002 Farm Bill. Federal staff years for 2004 are near prior year levels except for an increase of 56 staff years to support the Geographical Information System (GIS) initiatives to improve services to producers and enhance efficiency.

The Administration places high priority on management initiatives and investments in technology to deliver improved, more efficient services to rural customers by continuing to streamline and modernize the field offices and Service Centers. Although we have established a high number of consolidated Service Centers and have made major strides in replacing separate-agency, aging information technology systems with the Common Computing Environment and re-engineered business processes, additional steps are needed to realize the full benefits.

A key component in these efforts is the continued initiative to put the GIS in place to replace normal hard-copy paper maps and data files with an integrated digital system. The GIS will enable producers and the Service Center agencies to electronically share and process vital information on farm records, soils, and aerial photography in ways that can dramatically improve efficiency. The President's budget proposes $42 million in appropriated funds under the Office of the Chief Information Officer for FSA's component of the Common Computing Environment to support GIS and related FSA investments.

FSA also will work on modernizing its farm credit program servicing activities, and we will review Service Center office processes and structure to explore additional ways to provide services at lower cost.

Commodity Credit Corporation

Disaster and commodity price and income support programs administered by FSA are financed through the Commodity Credit Corporation (CCC). CCC also is the source of funding for a number of conservation programs administered by USDA, and it funds many of the export programs administered by the Foreign Agricultural Service. CCC borrows funds directly from the Treasury to finance those programs.

Changes over the last decade in commodity, disaster, and conservation programs have dramatically changed the level, mission, and variability of CCC outlays. CCC net outlays have declined from a record of $32 billion in 2000 to $22.1 billion in 2001 and $15.7 billion in 2002.

CCC net outlays for 2004 are currently estimated at $15.1 billion, down approximately $900 million from the 2003 estimated level of $16.0 billion. These estimates reflect the new Farm Bill but do not include the supplemental emergency disaster assistance provided in the recently passed omnibus appropriations bill for 2003.

Annual agriculture appropriations acts authorize CCC to replenish its borrowing authority as needed from the Treasury, up to the amount of realized losses at the end of the preceding fiscal year. This authority provides CCC with the flexibility to request funds as needed from the Treasury, up to the actual losses recorded for the most recent year. For 2002 losses, CCC was reimbursed $17.7 billion.

Conservation Programs

Conservation program outlays will account for over 10 percent of CCC expenditures in 2003. The Farm Bill authorized direct CCC funding for the CRP administered by FSA and dramatically increased funding for several conservation programs administered by NRCS. Funds for several conservation programs are transferred to NRCS and presented in the budget estimates for that agency.

The Farm Bill reauthorized CRP through 2007 and set enrollment in the program at 39.2 million acres. Enrollment in CRP is expected to increase gradually to 39.2 million acres by fiscal year 2006 through both general signups and continuous signups, as well as through the Conservation Reserve Enhancement Program (CREP) and Farmable Wetlands Program (FWP) provisions.

The President's budget does not request additional appropriated funding for the Emergency Conservation Program for 2004 because it is impossible to predict natural disasters in advance and, therefore, difficult to forecast an appropriate level of funding.

Farm Loan Programs

FSA plays a critical role for our Nation=s agricultural producers by providing a variety of direct loans and loan guarantees to farm families who would otherwise be unable to obtain the credit they need to continue their farming operations. By law, a substantial portion of the direct loan funds are reserved each year for assistance to beginning, limited resource, and socially disadvantaged farmers and ranchers. For 2004, 70 percent of direct farm ownership loans are reserved for beginning farmers and about 35 percent are made at a reduced interest rate to limited resource borrowers, who may also be beginning farmers.

The 2004 budget includes funding for about $850 million in direct loans and $2.7 billion in guarantees. During 2001 and 2002, the Department shifted funding from guaranteed operating loans to meet excess demand in the direct loan programs. The levels requested for 2004 reflect those shifts and are expected to reflect actual program demand more accurately. The overall reduction is due primarily to higher subsidy rates for the direct loan programs, which make those programs more expensive to operate than guarantees. However, we believe the proposed loan levels will be sufficient to meet the demand in 2004.

The 2004 budget maintains funding of $2 million for the Indian Land Acquisition program. For the Boll Weevil Eradication program, the budget requests $60 million, a reduction of $40 million from 2003. This reduction is due to the successful completion of eradication efforts in several areas. The amount requested is expected to fund fully those eradication programs operating in 2004. For emergency disaster loans, carryover funding from 2003 is expected to provide sufficient credit in 2004 to producers whose farming operations have been damaged by natural disasters.

Risk Management Agency

The Federal crop insurance program represents one of the strongest safety net programs available to our Nation=s agricultural producers. It reflects the principles of this Administration contained in the *Food and Agricultural Policy* report by providing risk management tools that are compatible with international trade commitments, creates products and services that are market driven, harnesses the strengths of both the public and private sectors, and reflects the diversity of the agricultural sector.

In 2002, the crop insurance program provided about $37 billion in protection on over 215 million acres, which is about 4 million acres more than were insured in 2001. Our current projection is that indemnity payments to producers on their 2002 crops will exceed $4 billion, which is about $1 billion more than was incurred on 2001 crops.

The crop insurance program has seen a significant shift in business over the past several years -- producers have chosen to buy-up to higher levels of coverage as a result of increased premium subsidies provided in the Agricultural Risk Protection Act of 2000 (ARPA). The number of policies, acres, liability, and premium all increased more than 40 percent for coverage levels 70 percent and higher.

Our current projection for 2004 shows a modest decrease in participation. This projection is based on USDA=s latest estimates of planted acreage and expected market prices for the major agricultural crops, and assumes that producer participation remains essentially the same as it was in 2002.

The 2004 budget includes a legislative proposal to reduce the percentage of administrative expense reimbursements from 24.5 percent to 20 percent of premium. This proposal is estimated to save taxpayers about $68 million in 2004. A 1997 study of the crop insurance program by the General Accounting Office (GAO) indicated that higher premiums had resulted in substantially higher reimbursements to the companies for delivering essentially the same number of policies. In 1998, Congress responded to that report by imposing the current cap of 24.5 percent on reimbursements. Since that time, Congress has enacted a number of reforms to crop insurance designed to encourage participation at higher levels of coverage. Although the number of policies sold has remained virtually unchanged, total premiums in 2002 are more than 50 percent higher than in 1998, and reimbursements have increased by about $229 million over that time.

Savings in reimbursements to the companies are achievable. About 95 percent of the policies sold annually are renewals, which require less work to maintain and service than do policies sold for the first time. Further, in 2000, Congress passed the Freedom to e-File Act, which mandated that Federal Agencies provide access to all forms and other program information via the internet and provide for the electronic filing of all required program paperwork. Today, the vision Congress expressed through that mandate is a reality for agricultural producers participating in the Federal crop insurance program who are doing most of the paperwork on their own.

The 2004 budget requests an appropriation of "such sums as necessary" as mandatory spending for all costs associated with the program, except for Federal salaries and expenses. This level of funding will provide the necessary resources to meet program expenses at whatever level of coverage producers choose to purchase. For salaries and expenses of the Risk Management Agency (RMA), $78.5 million in discretionary spending is proposed, an increase of about $8 million above 2003. This net increase includes additional funding mainly for information technology, maintenance costs, increased monitoring of the insurance companies, and pay costs.

At this time I would like to return to the budget request for the common computing environment (CCE). This budget includes about $8.7 million for information technology needs of RMA under the CCE. This amount is in addition to any funding requested within the salaries and expenses of RMA. Historically, funding under the CCE has been reserved for the Service Center agencies. However, in the ARPA legislation passed in 2000, Congress mandated a new role for FSA to assist RMA with program compliance and integrity in the crop insurance program. That mandate has required a greater level of coordination and data sharing between these two agencies. The best way to ensure the level of coordination required is to provide funding under the controls of the CCE.

RMA's information technology system is aging; the last major overhaul occurred about 10 years ago. Since that time, the crop insurance program has expanded tremendously. Catastrophic coverage and revenue insurance products have been initiated and coverage for new commodities has been added, including many specialty crops and more recently livestock. In short, RMA's information technology system has not kept pace with the changes in the program. The funding requested under the CCE will provide for improvements to RMA's existing information technology system to improve coordination and data sharing with the insurance companies and with FSA. The funding will also provide for the development of a new information technology architecture to support the way RMA will need to do business in the future with strong consideration to shared resources under the CCE.

Foreign Agricultural Service

The importance of international markets for America's farmers and ranchers cannot be overstated and, thus, improving market access and expanding trade are among our highest priorities for American agriculture. Expanding international market opportunities is one of the key objectives set forth in the Department's new strategic plan.

We continue to pursue our trade expansion efforts on many fronts. At the center of these efforts is the negotiation of trade agreements that will reduce barriers and improve access to overseas markets. We expect 2003 will be a crucial year for these efforts. At the World Trade Organization (WTO) multilateral negotiations, where United States has tabled an ambitious proposal for reform of agricultural trade, we are entering a critical phase. March 31st is the deadline for reaching agreement on the modalities -- or formula -- for reducing protection and trade-distorting subsidies. As the deadline approaches, we have stepped up our efforts in the negotiations to press for real and effective trade reform.

We also are engaged in a number of regional and bilateral negotiations to establish free trade agreements. Negotiations to establish a Free Trade Area of the Americas (FTAA) are entering an important phase. Last month, countries tabled specific offers to reduce trade barriers in key areas, including agriculture. The United States will host the next FTAA Ministerial in November, and we will be working diligently to move the negotiations along. Our goal is to provide greater trade opportunities in this market of 800 million consumers with an annual Gross Domestic Product of $13 trillion. At the same time, we will be engaged in negotiations this year with Central American countries, the Southern African Customs Union, Australia, and Morocco to reach free trade agreements that will improve trade opportunities for American farmers and ranchers.

Our trade policy activities are not limited to negotiating new agreements however. As new agreements have been implemented, we have stepped up our efforts to monitor compliance and ensure that U.S. trade rights are protected. These efforts are essential as evidenced this past year during which the Department worked diligently to resolve a number of trade problems, such as China's restrictions on soybean imports and its implementation of its WTO accession commitments including tariff-rate quota administration and export subsidy obligations; Russia's ban on U.S. poultry imports; and Mexico's continuing implementation of provisions of the North American Free Trade Agreement.

As traditional trade barriers fall, we find a rise in technical barriers to trade including resistance to adoption of new technologies, such as biotechnology, and increased use of sanitary and phytosanitary measures. It is fundamental to our maintaining market access to encourage the adoption by our trading partners of science-based regulatory systems. In this regard, it has become increasingly important to improve these countries' capacity to trade so that they can take part in negotiations, implement agreements, and connect trade liberalization to a program for economic reform and growth. This work is important because it helps to engage developing countries in the development and implementation of trading rules and guidelines and, thereby, helps to ensure the success of the trade negotiating process and the fair implementation of its results.

One other area that will be of major focus this year will be implementation of the new Trade Adjustment Assistance for Farmers program that was authorized in the Trade Act of 2002. Under the new $90 million program USDA is authorized to make payments to eligible producers when the current year's price of an agricultural commodity is less that

80 percent of the national average price during a preceding 5-year period and the Secretary determines that imports have contributed importantly to the price decline. The Department is currently working to establish the new program, which will be implemented once the rule-making process has been completed.

FAS Salaries and Expenses

The Foreign Agricultural Service (FAS) serves as the lead agency in the Department's international activities and plays a critical role in our efforts to expand and preserve overseas markets. This month marks the 50th anniversary of FAS, an important milestone for the agency and for the Department.

Much has changed during the past 50 years, not the least of which is the importance of international markets for U.S. farmers and ranchers and the FAS programs that support our agricultural community to take advantage of those opportunities. U.S. agricultural exports were $2.8 billion during 1953, while imports were higher at $4.3 billion. By fiscal year 2002, exports had grown to just over $53 billion and imports to $41 billion.

This morning, our more immediate concern is ensuring that FAS has the necessary resources and staffing to continue their important work as we face new trade challenges together with the U.S. agricultural community. The budget provides total appropriated funding for FAS of $145.2 million for 2004, and supports a number of important trade-related initiatives.

First, an additional 20 staff years are provided to FAS to facilitate the agency's active involvement in ongoing multilateral, regional, and bilateral trade negotiations and to bolster its efforts to address rapidly growing market access constraints related to biotechnology, and sanitary and phytosanitary measures. These will be funded from a centralized fund to be established in the Office of the Secretary to support cross-cutting USDA trade-related and biotechnology activities.

Funding also is provided to FAS for a trade capacity building initiative to support a number of critical activities supporting our trade policy agenda. This includes assistance to countries to implement the Cartagena Protocol on Biosafety. If countries misinterpret the Protocol, it can seriously impede international trade, product development, technology transfer, and scientific research. FAS will work with developing countries so that science-based, transparent, and non-discriminatory standards are adopted and, by doing so, will help to avoid potential disruptions to trade or other problems.

Funding is also provided for a USDA contribution to the Montreal Protocol Multilateral Fund. The Fund was established in 1991 to help developing countries switch from ozone depleting substances to safer alternatives. The USDA contribution will supplement contributions by the Department of State and Environmental Protection

Agency to the Fund and will further U.S. agricultural interests in the implementation of the Protocol.

Finally, the 2004 budget requests additional funds for FAS for a number of non-discretionary administrative requirements, including pay cost increases, inflation, and higher payments to the Department of State for administrative services provided at overseas posts.

Export Promotion and Market Development Programs

FAS administers the Department's major export promotion and market development programs that are key components in our efforts to expand exports. The 2002 Farm Bill provided increased funding for a number of these programs in order to bolster our trade expansion efforts on behalf of U.S. agriculture, and the President's 2004 budget proposals fully reflect those increases.

For the market development programs, including the Market Access Program and the Foreign Market Development Cooperator Program, the budget provides $164 million, an increase of $15 million above 2003. Included in this amount is $2 million for the Technical Assistance for Specialty Crops program that was authorized in the Farm Bill. Under the program, grants are provided to assist U.S. organizations in activities designed to overcome phytosanitary and related technical barriers that prohibit the export of U.S. specialty crops. FAS worked very hard in getting that program up and running so that 2002 programming could be implemented by the end of last year. Final regulations for the program are currently under development and are expected to be published later this spring, which will allow 2003 programming to move forward.

For the CCC export credit guarantees, the largest of our export programs, the budget includes a program level of $4.2 billion. We experienced strong growth in the supplier credit guarantee program during 2002, with sales registrations once again doubling the previous year's level.

The budget also includes projected program levels of $57 million for the Dairy Export Incentive Program and $28 million for the Export Enhancement Program (EEP).

International Food Assistance

The United States continues its commitment to alleviating hunger and improving food security in developing countries through the provision of food assistance. The budget includes a total program level for U.S. foreign food assistance of nearly $1.6 billion. This includes $1.3 billion for P.L. 480 Title I credit and Title II donations, which is expected to support the export of 3.1 million metric tons of commodity assistance. The Farm Bill increased the annual minimum tonnage for Title II donations to 2.5 million metric tons and, based on current price projections, the budget provides sufficient funding to meet that requirement.

The budget also provides $50 million of appropriated funding for the McGovern-Dole International Food for Education and Child Nutrition Program. As the Committee will recall, the Farm Bill authorized this new program, which succeeds the Global Food for Education Initiative pilot program that the Department carried our during 2001 and 2002. For 2003, the program will be funded through the CCC but, beginning in 2004, is to be funded through annual appropriations. FAS is currently developing regulations that are needed to implement the program. Once we have completed the regulatory process, FAS will request proposals from private voluntary organizations, the World Food Program, and other groups to begin implementation of the program.

The budget also includes a program level of $151 million for the CCC-funded Food for Progress programs during 2004. The Farm Bill authorized an increase in transportation and other non-commodity costs in order to support the minimum annual program level of 400,000 metric tons for Food for Progress activities established in the Bill. Finally, the budget also assumes that donations of nonfat dry milk will continue under the authority of section 416(b) of the Agricultural Act of 1949. The value of the assistance and associated costs are projected to total $118 million.

This concludes my statement, Mr. Chairman. The agency administrators and I would be pleased to answer any questions you or other Members of the Committee may have.