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HOUSE COMMITTEE ON
APPROPRIATIONS

Statement by J.B. Penn
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United States Department of Agriculture
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Food and Drug Administration, and Related Agencies
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Mr. Chairman and Members of the Committee, I am pleased to appear before you this morning to present the 2005 budget and program proposals for the Farm and Foreign Agricultural Services (FFAS) mission area of the Department of Agriculture (USDA). I am accompanied by 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 are joined also by Steve Dewhurst, the Department's budget officer.

Statements by each of the Administrators providing details on the agencies' budget and program proposals for 2005 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, one of the five primary goals in the Department's strategic 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 achieve that goal. 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. They continued to implement the far reaching and complex Farm Security and Rural Investment Act of 2002 (2002 Farm Bill), and they implemented 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 2004 will be a critical year for negotiations aimed at further reducing trade barriers and opening new markets overseas, as well as reestablishing export markets following the recent incidents of bovine spongiform encephalopathy (BSE) and avian influenza.

The 2005 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 operations of the domestic commodity and income support, conservation, trade, and related programs provided by the 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 over $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 key agency for delivering farm assistance. It is the agency that the majority of farmers and ranchers interact with most frequently. Producers rely on FSA to access farm programs such as direct and countercyclical payments, commodity marketing assistance loans, loan deficiency payments, farm ownership and operating loans, disaster assistance, and certain conservation programs such as the Conservation Reserve Program (CRP). Because FSA is the primary delivery agency for most of the major farm assistance programs, the budget places a priority on maintaining and enhancing FSA's ability to provide efficient, responsive services to our producers.

Farm Program Delivery

The 2002 Farm Bill required the FSA to undertake a massive task of implementing a complex set of new farm programs within a short time period. FSA has successfully put these programs in place in less than 2 years since the Bill was enacted. Nearly two million producers were signed up quickly under the new direct and countercyclical payments program. Several billion dollars of direct and countercyclical payments have been paid out; a new Milk Income Loss Contract program was implemented and over $1.8 billion has been paid so far to eligible producers; and the peanut program has been radically transformed and $1.2 billion of peanut quota buyout payments have been made. At the same time as these and other new programs were being implemented, FSA successfully programmed over $3 billion in disaster assistance required by the Agricultural Assistance Act of 2003. These programs and improving markets combined to provide the Nation's farmers with a record level of net cash income in 2003.

The massive workload associated with implementing these programs over the past 2 years is now moderating. As a consequence, FSA has begun to reduce the number of temporary, non-Federal county office staff years from the roughly 3,000 staff years in 2003, to about 1,000 staff years provided for in the 2005 budget. The proposed 2005 level for FSA salaries and expenses of $1.3 billion will support about 6,000 Federal staff years and nearly 10,300 county non-Federal staff years, including the 1,000 temporary staff years. Permanent non-Federal staffing will remain near the levels of 2003 and 2004 to accommodate the essential ongoing workload of the agency. The budget also will provide an additional 100 Federal staff years to improve service to farm credit borrowers in our Service Centers.

High priority is being placed on enhancing services to FSA's clientele by improving agency operations and expanding diversity of the customer base and the staff. Improvements in operations based on new automation tools and Geospatial Information Systems (GIS) are coming on line and promise increasingly better services in the future. The budget for the Office of the Chief Information Office includes an $18 million increase for Service Center Modernization that will provide for essential investments in the capability for FSA and the other Service Center agencies to improve services to producers.

FSA has already utilized new modernized systems for a recent sign-up for the CRP to reduce costs and improve timeliness. Work is underway to continue modernization improvements in other program areas, including farm loan servicing.

Conservation

The 2002 Farm Bill provided for significant growth in the Department's conservation programs. The CRP, which is funded by the Commodity Credit Corporation (CCC) and administered by FSA, was among the programs that expanded. A general sign-up in 2003 added nearly 2 million acres to the CRP. Also, 430,000 acres were added under continuous and Farmable Wetlands Program (FWP) sign-ups.

The 2005 budget assumes a general sign-up in 2004 of about 800,000 acres, and none in 2005. In addition, about 450,000 acres are projected to be enrolled under continuous sign-up and the Conservation Reserve Enhancement Program (CREP) in each of 2004 and 2005. The FWP is estimated to be expanded by about 50,000 acres in each of 2004 and 2005. In total, CRP is projected to increase gradually from 34.1 million acres at the end of 2003 to 39.2 million acres by 2008.

Commodity Credit Corporation

Domestic farm commodity price and income support programs are financed through the CCC, a Government corporation for which FSA provides operating personnel. The CCC also provides funding for conservation programs including the CRP and certain programs administered by the Natural Resources Conservation Service. In addition, CCC funds many of the export programs administered by the Foreign Agricultural Service.

CCC net expenditures were $17.4 billion in 2003. This level is expected to decline to an estimated $14.8 billion in 2004, and then increase slightly to $15.0 billion in 2005. However, these estimates are sensitive to changing supply and demand conditions for the supported farm commodities and may change as we move forward.

Annual 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 this preceding year.

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 2005, 70 percent of direct farm ownership loans are reserved for beginning farmers, and 20 percent are reserved for socially disadvantaged borrowers, who may also be beginning farmers.

The 2005 budget includes funding for about $937 million in direct loans and $2.9 billion in guarantees. In recent years, the Department has used its authority to shift funding from guaranteed operating loans to meet excess demand in the direct loan programs. The levels requested for 2005 reflect those shifts and are expected to reflect actual program demand more accurately. The overall increase in loan levels is reflective of generally stable to lower subsidy rates for the farm loan programs, which make those programs less expensive to operate. We believe the proposed loan levels will be sufficient to meet the demand in 2005.

The 2005 budget maintains funding of $2 million for the Indian Land Acquisition program. For the Boll Weevil Eradication loan program, the budget requests $60 million, a reduction of $40 million from 2004. This reduction is due to the successful completion of eradication efforts in several areas. The amount requested is expected to provide full funding for those eradication programs operating in 2005. For emergency disaster loans, the budget requests $25 million. No additional funding was requested for emergency loans in 2004 due to carryover funding from 2003. About $191 million is currently available for use in 2004, and a portion of that is likely to carry over into 2005. The combined request and anticipated carryover are expected to provide sufficient credit in 2005 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 contained in the Department's Food and Agricultural Policy report of 2001 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 2003, the crop insurance program provided about $41 billion in protection on over 218 million acres, which is about one million acres more than were insured in 2002. Our current projection is that indemnity payments to producers on their 2003 crops will be about $3.3 billion which is about $800 million less than in 2002.

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 2005 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 2003.

The 2005 budget requests an appropriation of "such sums as may be 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), $92 million in discretionary spending is proposed, an increase of $21 million above the 2004 level of $71 million. This net increase includes additional funding for information technology (IT), increased staff years to improve monitoring of the insurance companies, and pay costs.

Nearly every RMA function or activity is in some part dependent on IT. All of their databases, internal controls, payments to producers and companies are tied to IT. All of RMA's rates, prices, products, training and financial activity also depend on this technology.

Because RMA core IT systems are 15 years old, they no longer meet the minimum requirements mandated by the Department for security, architecture, and e-Government initiatives. In addition, ARPA funds that were earmarked for data mining and other compliance activities will be depleted at the end of this fiscal year, and there are no alternative funding sources available.

ARPA mandated and funded a substantial increase in the number and reach of risk management tools for America's producers and the RMA is meeting the challenge. Approximately 80 new risk management tools are in various stages of development and deployment. However, RMA's ability to maintain the integrity and effectiveness of the critical systems that support the growing portfolio of risk management tools that serve America's agricultural producers is being threatened due to an aging IT system. Unless the situation is corrected, RMA will be required to make some difficult resource choices that will unavoidably and negatively affect its ability to support safe and effective development, deployment and regulation of these important risk management tools.

Several major changes have also occurred over that time in the way producers protect their operations from losses. In 1994, there were no plans of insurance which offered protection against changes in market prices. Today, over 50 percent of the covered acreage has revenue protection, and nearly 62 percent of the premium collected is for revenue based protection. In addition, ARPA authorized the development of insurance products to protect livestock. Because livestock production occurs year-round, these products must be priced and sold in a different manner than traditional crop insurance. The advent of new types of insurance, not contemplated when the IT system was designed, has placed tremendous strain on the aging system.

ARPA also instituted new data reconciliation, data mining and other anti-fraud, waste and abuse activities that require the data to be used in a variety of new ways. The current IT system was not designed to handle these types of data operations. Consequently, the data must be stored in multiple databases which increases data storage costs and processing times and increases the risk of data errors.

The development of the new IT system will result in some additional up-front costs to the Government. Until the new system is fully operational, we will be required to finance both the developmental costs as well as the increasingly expensive maintenance costs of the legacy system. However, once the new system is operational, the legacy system will be eliminated and a substantial reduction in maintenance costs is projected.

Finally, I would note that this budget for the RMA includes a request for 30 additional staff years. The additional staff will provide needed support in employing advanced technology-based methods to detect and prosecute fraud, waste and abuse; following up on referrals from FSA, OIG and the public; making recommendations for formal fraud investigations to OIG; and supporting OIG and U.S. Attorneys' offices on fraud cases. They also will address outstanding OIG and GAO recommendations to improve oversight and internal controls over insurance providers; monitor and manage contractual agreements and partnerships with the public and private business sectors; and support the review and evaluation by the FCIC Board of Directors of the increasing number of new private product submissions received each year. All of these activities result in savings to the program far in excess of their cost through enhanced program oversight and avoidance, detection and remediation of program fraud, waste and abuse.

Foreign Agricultural Service

Trade is critically important for American agriculture, and the Department's work to expand overseas markets and promote trade is one the primary means we have to enhance economic opportunities for our farmers and ranchers. With gains in productive capacity continuing to outpace growth in demand here at home, the economic growth and future prosperity of America's farmers and ranchers will depend heavily upon our continued success in reducing trade barriers and expanding exports.

The Department's efforts to expand trade are carried out on multiple fronts. At the center of these activities is the negotiation of trade agreements that will reduce barriers and improve access to overseas markets. We continue our efforts to reach a new agreement through the World Trade Organization (WTO) that will provide for further, significant liberalization of global agricultural trade. Although the Cancun Ministerial was a missed opportunity, the benefits of a successful negotiation for all trading partners remain clear and, on that basis, we continue our efforts to advance the negotiating process. Negotiations on agriculture are scheduled to resume next week, and we are hopeful that a Ministerial meeting to set the stage for a conclusion to the negotiations can be held by the end of this year. Our objectives for the negotiations remain the elimination of export subsidies, improvement in market access through substantial reductions in tariffs, and reduction in trade-distorting domestic support.

Regional and bilateral trade agreements also provide an important avenue for opening new markets, and the Department is an important participant in the ambitious agenda that has been established for negotiating such agreements. Recently, the United States concluded successful negotiations for a Central American Free Trade Area that will create new opportunities in this nearby and growing market of over 35 million consumers. Negotiations also have been concluded recently with Australia and Morocco. Other negotiations currently underway will establish the Free Trade Area of the Americas and an agreement with the Southern African Customs Union. Negotiations expected to begin later this year will involve the Andean countries, as well as bilateral agreements with Bahrain, Panama, and Thailand.

While these important efforts to negotiate market-opening agreements move forward, we also are increasing our activities to monitor compliance with existing agreements and ensure that U.S. trade rights are protected. During the past year, we have worked to solve a significant number of trade problems, including China's implementation of its WTO accession commitments on tariff-rate quota administration and export subsidy obligations, and Mexico's implementation of the provisions of the North American Free Trade Agreement.

At the same time, we are addressing other technical barriers to trade that arise because the adoption of non-science based standards and resistance to the adoption of new technologies, such as biotechnology. In this regard, we were encouraged by China's announcement in February that it had completed its regulatory review and issued permanent safety certificates for Roundup Ready soybeans, as well as for two corn and two cotton products. This is extremely positive news as China is now the leading foreign customer for U.S. soybeans and cotton.

At present, we are confronted with the challenge of reopening foreign markets that have been closed due to the discovery of the one case of BSE and the recent outbreaks of avian influenza in the United States. We understand the critical importance of reopening these markets as soon as possible, and we have committed, and will continue to commit, the resources and energy necessary to resolve these situations and resume normal trade. With that as our goal, we were very pleased with the recent announcement by Mexico of the reopening of their border to U.S. beef products.

FAS Salaries and Expenses

The Foreign Agricultural Service (FAS) is the lead agency for the Department's international activities and is at the forefront of our efforts to expand and preserve overseas markets. Through its network of 80 overseas offices and its headquarters staff here in Washington, FAS carries out a wide variety of activities that contribute to the goal of expanding overseas market opportunities.

Our budget proposals provide a program level of $148 million for FAS activities in 2005. This is an increase above the 2004 level of nearly $12 million and is designed to ensure the agency's continued ability to conduct its activities effectively and provide important services to U.S. agriculture.

The proposed increase includes funding to meet higher overseas operating costs and improve telecommunications systems at FAS' overseas offices. FAS is unique as a

USDA agency because a sizeable component of the agency's operational costs are vulnerable to macroeconomic developments beyond its control. Recent significant declines in the value of the dollar, coupled with overseas inflation and rising wage rates, have led to sharply higher costs that must be accommodated if FAS is to maintain its overseas presence. That presence is critical for FAS to represent the interests of American agriculture on a global basis, for its continued reporting and analysis of agricultural developments around the world, and for effective implementation of USDA's trade promotion and market development programs.

Funding also is included for an FAS Global Computing Environment initiative to modernize the agency's information technology systems and applications. There is an urgent need for additional funding because the current systems are outdated, have proven to be unreliable, and are inhibiting our ability to communicate effectively between Washington, D.C. and foreign posts. They also do not allow participation in e-Government initiatives with other U.S. trade agencies that are designed to provide more efficient services to the public and help bolster U.S. trade expansion efforts. The proposed initiative will allow FAS to modernize and restructure its IT systems, and improve the services it provides to U.S. agricultural producers, exporters, and market development organizations.

Finally, the budget also provides increased funding for FAS to meet the higher pay costs in 2005.

Export Promotion and Market Development Programs

FAS administers the Department's export promotion and market development programs which play a key role in our efforts to assist American producers and exporters to take advantage of new market opportunities, including those created through market-opening trade agreements.

The largest of these programs are the CCC export credit guarantees, which help to ensure that credit is available to finance commercial exports of U.S. agricultural products. As overseas markets for U.S. agricultural products continue to improve, that improvement will be reflected in export sales facilitated under the guarantee programs. For 2005, the budget projects a program level of $4.5 billion for the guarantee programs, an increase of just over $250 million above the current estimate for 2004.

For the Department's market development programs, including the Market Access Program and Foreign Market Development Cooperator Program, the budget provides funding of $173 million, unchanged from this year's level. The budget also includes $53 million for the Dairy Export Incentive Program and $28 million for the Export Enhancement Program.

Trade Adjustment Assistance for Farmers

For the newly implemented Trade Adjustment Assistance (TAA) for Farmers Program, the budget includes a program level of $90 million, as authorized by the Trade Act of 2002. The TAA program provides assistance to producers of raw agricultural commodities who have suffered lower prices due to import competition, and to fisherman who compete with imported aquaculture producers. In order to qualify for assistance, the price received by producers of a specified commodity during the most recent marketing year must be less than 80 percent of the national average price during the previous 5 marketing years. Also, a determination must be made that increases in imports of like or competitive products "contributed importantly" to the decline in prices.

Since the program was implemented last August, eight petitions for assistance have been approved involving four different products -- wild blueberries, salmon, shrimp, and catfish. Another nine petitions are under review, and determinations of eligibility for those commodities are expected to be completed this month. Once a petition is approved, producers have 90 days to apply for benefits. Eligible producers receive technical assistance and cash benefits of up to $10,000 per producer. We expect to begin making the first payments under the program within the next several months once the producer application periods have closed.

International Food Assistance

The efficiency and productivity of our producers allows the United States to be a leader in global food aid efforts, and the United States continues to provide over one-half of the world food assistance. The commitment of the United States to these activities is demonstrated by the fact that the P.L. 480 program, our primary vehicle for providing food assistance overseas, will observe its 50th anniversary in July of this year.

The 2005 budget supports a program level of over $1.5 billion for U.S. foreign food assistance activities. This includes $1.3 billion for the P.L. 480 Title I credit and Title II donation programs, which is expected to support the export of 3.2 million metric tons of commodity assistance.

The newest of our food assistance activities is the McGovern-Dole International Food for Education and Child Nutrition Program, which was authorized in the 2002 Farm Bill. FAS successfully implemented the program in 2003, and projects were approved in 21 countries where nearly 2.3 million women and children will benefit. Beginning in 2004, the Farm Bill requires the McGovern-Dole program to be funded through discretionary appropriations, and the 2004 Omnibus Appropriations Act provides a program level of $50 million for the program. The 2005 budget requests that program funding be increased by 50 percent to $75 million.

In addition, the budget includes an estimated program level of $149 million for the CCC-funded Food for Progress program. This is expected to support 400,000 metric tons of assistance consistent the authorizing statute. The budget also assumes that donations of nonfat dry milk with continue under the authority of section 416(b) of the Agricultural Act of 1949. The total value of the commodity assistance and associated costs is projected to be $147 million.

That concludes my statement, Mr. Chairman. We would be pleased to answer any questions that you and other Members of the Committee may have. Thank you.