Statement by Mark E. Keenum
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United States Department of Agriculture
Before the House Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies

Madam Chairwoman and Members of the Committee, I am pleased to appear before you today to present the 2008 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 that comprise our mission area: Teresa A. Lasseter, Administrator of the Farm Service Agency; Eldon Gould, Administrator of the Risk Management Agency; and Michael W. Yost, Administrator of the Foreign Agricultural Service. We are also accompanied by Scott Steele, Director of the Office of Budget and Program Analysis.

Statements by each of the Administrators providing details on the agencies' budget and program proposals for 2008 have already been submitted to the Committee. My statement will summarize those proposals, after which we will be pleased to respond to your questions.

Madam Chairwoman, the FFAS mission area and the programs it carries out are critical for meeting three of the Department's strategic objectives: enhancing the international competitiveness of American agriculture in order to increase export opportunities; enhancing the competitiveness and sustainability of the rural and farm economies; and protecting and enhancing the Nation's natural resource base and environment. By providing the diverse array of programs offered by our agencies – price and income support, farm credit assistance, conservation and environment incentives, risk management tools, and trade expansion and export promotion programs – we are in the forefront of efforts to accomplish the Department's mission of service to American agriculture.

The 2008 President's budget provides the resources needed to ensure continuation of these diverse activities. Although the budget includes proposals for savings in a number of programs as part of government-wide efforts to reduce the deficit, it meets our priorities and ensures our continued efforts on behalf of America's agricultural producers.

Farm Service Agency

The Farm Service Agency (FSA) is the lead agency for delivering farm assistance. It is the agency that the majority of farmers and ranchers interact with most frequently. FSA provides producers with access to farm programs such as direct and countercyclical payments, commodity marketing assistance loans, farm ownership and operating loans, disaster assistance, and certain conservation programs, such as the Conservation Reserve Program (CRP).

Farm Program Delivery

The 2008 budget request provides a fiscally responsible approach to fund essential program delivery expenses, including critical information technology (IT) operational expenses. However, the budget does not include estimates for implementing a new 2007 Farm Bill. Once the parameters and details of the new bill are known, we will need to evaluate the necessary administrative resource requirements to implement the legislative programs and policies.

FSA has been attempting to improve its operational efficiency and quality of clientele service in recent years with some successes, although additional improvements are needed and many challenges remain. Since enactment of the 2002 Farm Bill, FSA has achieved success in the rapid implementation of newly authorized farm programs, timely implementation of a number of significant disaster assistance programs, and the tobacco buyout program. Many of these activities were effectively carried out with very limited additional resources. Throughout this same period, FSA has reduced its staffing levels, cut other priority expenses, and made limited improvements in IT support for some of its programs.

Currently, FSA is working to address challenges with sustaining program delivery effectiveness through an outmoded field office structure and sustaining its aging and increasingly costly IT systems. Currently, FSA has over 530 county offices with 2 or fewer permanent employees in each. It is extremely difficult to provide the full range of services to customers on a full-time basis in these offices. FSA State Executive Directors and committees are working with local reviewers and with other agencies under the auspices of the State Food and Agriculture Councils to develop plans for an effective and efficient network of local offices in each State. This process is being conducted in accordance with the guidance provided by Congress in the Agriculture Appropriations Act for 2006. After States have submitted plans for review and once headquarters concurs, local public meetings will be held. We will notify Congress 120 days in advance of the Agency's intent to close any offices. As of March 14, 2007, 28 States had submitted plans and we expect the remainder will do so by the end of the year. In time, this process should yield improvements in service.

FSA has deployed some web-based system components under the Common Computing Environment. However, the pace of modernization has been slow, and major portions of FSA's program delivery are dependent on aging and obsolete IT systems that have limited capability to meet future needs. In addition, rising operational costs and inherent capacity constraints in the Department's more modern web-based systems are presenting additional challenges to FSA's operational performance. This budget does not request funding for modernization or implementation of the 2007 Farm Bill.

The 2008 budget does provide vitally needed funding to address the rising costs of current IT operations. The FSA request includes funds for the FSA-specific elements of the Common Computing Environment, which in previous years had been requested in the budget under the Office of the Chief Information Officer.

The 2008 budget, which assumes the current level of program workload, provides support for 5,235 Federal staff-years and 9,425 non-Federal staff years which are the same as the 2007 levels. Temporary non-Federal staff-years are maintained at 650.

Commodity Credit Corporation

The farm commodity price and income support programs are financed through the Commodity Credit Corporation (CCC), a Government corporation for which FSA provides operating personnel. CCC also provides funding for conservation programs, including the CRP and certain programs administered by the Natural Resources Conservation Service. CCC also funds some export promotion and foreign food aid activities administered by the Foreign Agricultural Service.

Under current law CCC outlays are estimated to decline from $20.2 billion in 2006 to $13.4 billion in 2007 and approximately $11.7 billion in 2008. This is primarily due to reduced commodity program payments for most major commodities, the result of current and projected high market prices. The rising demand for corn for the rapid expansion of ethanol production is a major factor driving prices higher.

The budget includes a proposal to save costs by eliminating the payment of upland cotton storage credits in the marketing assistance loan program. Other cost-savings changes are presented in the Administration’s 2007 Farm Bill proposals, which were developed separately on a parallel track to the budget.

2007 Farm Bill Proposals

The Administration’s 2007 Farm Bill proposals will affect numerous titles of the Farm Bill in addition to those administered by the Farm and Foreign Agricultural Services agencies. While these proposals will add about $5 billion to the 10-year current law baseline for mandatory spending in the Department, they are fully consistent with the President’s plan to reduce the deficit and will cost significantly less than the 2002 Farm

Bill and related programs over the previous 5 years. In order to accommodate the total cost of these proposals, the 2008 budget includes an increase of $500 million in CCC as a placeholder for the average annual cost of the proposals, which will be spread over the various titles of the Farm Bill.

Conservation Programs

The 2002 Farm Bill expanded the Department's conservation programs significantly. The CRP is the largest conservation program in the Department with about 36.8 million acres currently enrolled; that is about 94 percent of the maximum 39.2 million acres authorized under the Farm Bill. The 2008 budget assumes no new general signups will be held in 2007 and 2008, although continuous signup for certain high priority land will continue. Current estimates in the budget are that acreage in CRP will decline to about 33.6 million acres in 2008 and 32.2 million acres in 2009 before gradually rising again.

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 2008, 25 percent of direct farm ownership loans are reserved for socially disadvantaged (SDA) borrowers and of the funds remaining after the SDA reserve, 70 percent are reserved for beginning farmers.

The 2008 budget includes funding for over $900 million in direct loans and nearly $2.5 billion in guarantees. This level of funding is consistent with actual program use in 2006, and we believe these proposed loan levels will be sufficient to meet demand in 2008.

The 2008 budget maintains funding of $4 million for the Indian Land Acquisition program. For the Boll Weevil Eradication loan program, the budget maintains a request of $59 million. The amount requested is expected to fully fund those eradication programs operating in 2008.

For emergency disaster loans, no additional funding is requested. As of January, about $118 million was available for use in 2007, and sufficient funding is expected to carry forward into 2008 to assist 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 provides 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 2006, the crop insurance program provided about $50 billion in protection on over 242 million acres. Our current projection is that indemnity payments to producers on their 2006 crops will be about $3.6 billion on a premium volume of about $4.6 billion. Our current projection for 2008 shows a substantial increase in the value of protection to nearly $68 billion. This projection is based on the Department=s latest estimates of planted acreage and expected changes in market prices for the major agricultural crops.

The 2008 budget requests an appropriation of “such sums as are 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.

The budget also includes a general provision to fund data mining and the Common Information Management System (CIMS) through mandatory funding. The Risk Management Agency (RMA) is making significant progress in preempting fraud, waste, and abuse through the expanded use of data mining. Through data mining, RMA has preempted more than $450 million in improper payments and continues to identify ways to reduce program abuse. RMA continues to use data mining to identify anomalous producer, adjuster, and agent program results and, with the assistance of FSA offices, conducts growing season spot checks to ensure that new claims for losses are legitimate. These spot checks based on data mining have resulted in a significant reduction in anomalous claims for certain situations.

CIMS was mandated by the 2002 Farm Bill. Mandatory funding was provided by the Farm Bill to initiate the CIMS project; however, that funding will be exhausted in 2007. In passing the 2002 Farm Bill, Congress indicated that CIMS should lay the groundwork for further modernization of information technology systems of USDA agencies. CIMS will provide an information system that allows RMA, FSA, other USDA agencies and approved insurance providers to share and report on common information applicable to their respective programs. The project standardizes RMA and FSA participation requirements and common business elements to the extent practical. This standardization will assist the Department in its effort to increase the number of farm programs that can be delivered in a web environment to benefit both customers and agencies. It will also reduce the burden on producers and employees by simplifying access to information and implementing business processes so they are available electronically, reducing costs associated with data collection, identifying data inconsistencies, and reporting errors.

Specifically, the 2008 budget proposes a general provision to include data mining and CIMS as authorized purposes for funding already provided under the Federal Crop Insurance Act. For 2008, funding of $9 million is required for data mining, including $3.6 million for ongoing operations and $5.4 million for the replacement of outdated hardware. For CIMS, $2.2 million is required for ongoing development costs. I would note that this request is consistent with guidance provided by Congress during consideration of the 2006 Agriculture Appropriations Act recommending that USDA seek mandatory funding for data mining.

Salaries and Expenses

For salaries and expenses of RMA, $79 million in discretionary spending is proposed. The request includes additional funding for pay costs and increased telecommunications charges. Staffing for RMA is projected to remain at the same level as 2007.

The budget also includes a proposal to implement a participation fee to fund IT modernization and maintenance costs. The fee, about one-half cent per dollar of premium, would be assessed on the insurance companies that participate in the program and benefit from the subsidies paid by the Federal government. The fee will be collected beginning in 2009 and will initially supplement the annual appropriation to provide for modernization of the IT system. After modernization is completed, the fee would be shifted to maintenance and would at that point reduce the discretionary appropriation required by RMA.

RMA has an aging IT system; the last major overhaul occurred about 12 years ago. At that time, the crop insurance program offered seven plans of insurance covering roughly 50 crops and providing about $14 billion in protection. In 2008, protection will be offered through more than 20 plans of insurance covering more than 370 crops, plus livestock and aquaculture, and providing nearly $68 billion in protection.

Several major changes also have occurred over the years in the way producers protect their operations from losses. In 1994, there were no plans of insurance that 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, the Agricultural Risk Protection Act (ARPA) of 2000 authorized the development of insurance products to protect livestock. RMA has implemented several new livestock price protection products. 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 an aging system.

Additionally, Congress has mandated that the data being collected by RMA be used in new ways. These activities include the reconciliation of RMA data with similar data collected by FSA, the Common Information Management System (CIMS) which requires increased data sharing between RMA, FSA, and the insurance companies, data mining, and other anti-fraud, waste, and abuse activities. The current IT system was not designed to handle these types of data operations. As a result, RMA must store data in multiple databases and employ numerous manual operations to manipulate the data into a format usable by the disparate systems. These factors increase RMA's data storage costs and processing times, and increase the risk of data errors. Modernization of the RMA IT system will facilitate these mandatory activities improving program compliance and reducing ongoing maintenance costs.

Foreign Agricultural Service

I would now like to turn to the international programs and activities of the FFAS mission area. One of the goals established in the Department's strategic plan is to enhance the international competitiveness of American agriculture in order to provide increased export opportunities for our farmers and ranchers. The FFAS mission area is a primary contributor to that goal through activities that expand and maintain opportunities for U.S. agricultural exports; enhance the global sanitary and phytosanitary (SPS) system to facilitate agricultural trade; and support international economic development and trade capacity building.

With exports now equal to about one-quarter of farmers' cash receipts, overseas markets have never been more important for America's farmers and ranchers. It is encouraging, therefore, when we note that U.S. agricultural exports have reached record levels the last 3 years and are forecast to set another record – $78 billion – in 2007. The 2007 level represents an increase of more than 50 percent since 2000.

We are building on these achievements with continued efforts to open new markets for U.S. agricultural exports. One of the Department's highest priorities this past year has been our work to achieve reform of agricultural trading practices through the Doha Round of multilateral trade negotiations. Although no major breakthroughs have been achieved since the negotiations were suspended last July, we have actively participated in discussions with our trading partners on technical aspects of each of the three pillars in the agricultural area – market access, domestic support, and export competition. Achieving fundamental reform of global agricultural trade continues to be our objective as it will create new jobs and promote economic development. We continue to believe a successful outcome is achievable.

Regional and bilateral trade agreements that lower tariffs and reduce trade barriers are another important avenue for expanding market opportunities overseas. During the past year, Trade Promotion Agreements were signed with Colombia and Peru, and negotiations were completed with Panama. The Central American – Dominican Republic Free Trade Agreement was implemented with five of the Central American countries, including most recently with the Dominican Republic on March 1st. The past year has also seen the start of free trade agreement negotiations with Malaysia and South Korea, already our 6th largest agricultural export market.

Maintaining access to existing markets is an increasingly important component of our work. This includes monitoring foreign compliance with trade agreements and working to avoid or reverse trade-disruptive actions. Efforts to reopen overseas markets for U.S. beef and beef products are an example of work that is done to remove technical issues that restrict trade. Markets have now been reopened or maintained in more than 40 countries that closed their borders after the first detection of bovine spongiform encephalopathy (BSE) in 2003. In this regard, noteworthy progress has recently been made in such countries as Russia, Colombia, Peru, and Panama.

Salaries and Expenses

The Foreign Agricultural Service (FAS) is the lead agency for the Department's international activities and is in the forefront of our efforts to expand and preserve overseas markets. Through its network of 77 overseas offices and its headquarters staff here in Washington, FAS carries out a wide variety of activities that contribute to the objective of providing increased export opportunities for our agricultural products.

During the past year, FAS adopted a new organizational structure that places a greater priority on inherently governmental functions such as trade negotiations, enforcement of trade agreements, and strategic management of country relationships. In response to the increased importance of SPS issues for trade, FAS has stepped up its monitoring and enforcement activities and increased its efforts through international standard-setting bodies to support the development of science-based regulatory systems. It also has increased its emphasis on trade capacity building activities that support U.S. trade objectives by assisting developing countries to participate in the global trading system through the adoption of appropriate policies and regulatory frameworks.

With trade of such critical importance to the long-term prosperity of American agriculture, it is imperative that FAS have the resources needed to continue to represent and advocate for American agriculture on a global basis and to open new markets overseas. The budget provides a program level of $173 million for FAS in 2008. This includes increased funding to meet higher overseas operating costs at the agency's overseas posts, including increased payments to the Department of State for administrative services provided at overseas posts.

The budget also includes additional funding for FAS' contribution to the Capital Security Cost Sharing Program. Under that program, agencies with an overseas presence in U.S. diplomatic facilities are contributing a proportionate share of the construction of new, safe U.S. diplomatic facilities over a 14-year period.

Increases are also provided to the Cochran Fellowship Program and to support FAS-led trade capacity building activities.

International Food Assistance

The United States continues to provide leadership in global efforts to provide humanitarian relief and promote economic development through foreign food assistance. For the P.L. 480 program, the budget includes a projected program level of $1.3 billion for 2008. This includes $1.2 billion of appropriated funding requested in the budget, plus projected reimbursements from the Maritime Administration for prior year cargo preference related expenses.

The budget proposes that all funding for P.L. 480 be provided through Title II donations during 2008 and, therefore, includes no additional funding for additional Title I concessional credit or grant programs. This proposal reflects the experience of recent years in which an increasing share of U.S. foreign food assistance has been directed to emergency situations in which food aid is critical to preventing famine and saving lives. At the same time, demand for food assistance provided through concessional credit has declined significantly.

The budget again proposes that the Administrator of the Agency for International Development have the authority in emergency situations to use up to 25 percent of Title II funding to purchase commodities in locations closer to where they are needed. This authority is intended to expedite the response to emergencies overseas by allowing food aid commodities to be purchased more quickly and closer to their final destination, while increasing the total amount of commodities that can be procured to meet those emergencies. It is important to emphasize that U.S. commodities will continue to play the primary role in U.S. foreign food aid purchases and will be the first choice for meeting global needs. Furthermore, with this authority commodities would be purchased from developing countries that are eligible for official development assistance and not from developed countries, such as the European Union.

For the McGovern-Dole International Food for Education and Child Nutrition Program, the budget includes appropriated funding of $100 million that will be supplemented by anticipated reimbursements from the Maritime Administration to provide a total program level of $108 million for 2008. That program level is expected to provide assistance to approximately 2.5 million children and mothers throughout the developing world. More than 13 million children and mothers have now received educational and nutritional benefits from the McGovern-Dole program and its predecessor, the Global Food for Education Initiative.

The budget also includes an estimated program level of $163 million for the CCC-funded Food for Progress program, which supports the adoption of free enterprise reforms in the agricultural economies of developing countries.

Agricultural Reconstruction Activities in Afghanistan and Iraq

FAS coordinates and provides administrative support for the Department's efforts to assist in agricultural reconstruction activities in Afghanistan and Iraq. The agricultural sectors of both these countries represent a large and important component of their economies and employ a substantial portion of their population. Reconstruction of the agricultural sectors is therefore essential to achieving long-term stability and economic growth.

The Department is providing technical advisors to governmental ministries and the Provincial Reconstruction Teams (PRTs) that are operating in the rural provinces. The PRT advisors, who serve on temporary assignments, provide valuable technical advice needed to develop and manage projects to rehabilitate the agricultural infrastructure and strengthen the capacity of rural institutions. In order to support continued USDA participation in these activities, the budget requests $12.5 million in the Office of the Secretary to meet the costs of the advisors who serve on these assignments.

Export Promotion and Market Development Programs

FAS also administers the Department's export promotion and market development programs that play an important role in our efforts to enhance the international competitiveness of American agriculture.

The CCC export credit guarantee programs provide payment guarantees for the commercial financing of U.S. agricultural exports. The guarantees facilitate exports to buyers in countries where credit is necessary to maintain or increase U.S. sales. For 2008, the budget projects a program level of over $2.4 billion for CCC export credit guarantees.

For the Department's market development programs, the budget assumes continued funding at current levels, including $200 million for the Market Access Program.

The budget also includes $3 million for the Dairy Export Incentives Program (DEIP). U.S. dairy products have been competitive in overseas markets in recent years due to favorable world market conditions and, as a result, no DEIP bonuses have been awarded. This situation is expected to continue relatively unchanged during 2007 and 2008. However, the actual level of programming may increase or decrease from the level assumed in the budget, depending upon developments in world markets and the relationship between U.S. and world market prices during the course of the programming year.

To conclude, I would like to express our appreciation to the Committee for the support it has provided to our mission area and programs in past years. We look forward to working with you as you review and consider the 2008 budget proposals and will be pleased to provide whatever assistance you may require.

Thank you for the opportunity to present our 2008 budget and program proposals to the Committee. I would be pleased to answer any questions you and other Members of the Committee may have.