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Subcommittee Specialty Crops, Rural Development and Foreign Agriculture
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Mr. Chairman, members of the Subcommittee, I am pleased to appear before you today. I welcome the opportunity to discuss the trade and food aid programs administered by the U.S. Department of Agriculture (USDA).

INTRODUCTION

Since the last Farm Bill was enacted in 2002, the trade programs administered by the Foreign Agricultural Service (FAS) have served to open new markets and maintain and expand existing markets for U.S. agricultural products. These programs complement our efforts to open and maintain markets through trade negotiations, diplomacy, and enforcement of trade agreements. To ensure that agricultural interests are well represented at the negotiating table, FAS works closely with the Office of the U.S. Trade Representative (USTR) and coordinates the involvement of USDA regulatory agencies.

During the past year and a half, the United States successfully concluded trade agreements with Colombia, Panama, and Peru that provide greater market access for all U.S. agricultural products. Last month, we concluded negotiations with South Korea on the most commercially significant free trade agreement in 15 years. Korea is projected to already import over \$3 billion of U.S. agricultural products during fiscal year 2007 and almost two-thirds of current U.S. farm exports to Korea will become duty-free on the first day of implementation of the new FTA.

Together, our trade programs and negotiations have contributed to a strong farm economy and increasing foreign demand for U.S. food and agricultural products. Trade continues to be critically important to the long-term economic health and prosperity of the American food and agricultural sector. Roughly 20-25 percent of U.S. production is exported and, with productivity increasing faster than domestic demand, export markets are important, particularly markets with a burgeoning middle class such as China, India, Indonesia and Brazil.

The latest USDA export forecast of \$78 billion for fiscal year 2007 proves this point. This means the agricultural community is on track to increase exports by an estimated \$9.3 billion over last year. That would be the second largest increase on record and the fourth consecutive year of record exports. USDA estimates that U.S. world market share is over 19 percent – almost one-fifth -- of world agricultural trade. This is particularly impressive when you consider that the size of the world agricultural trade pie has doubled since 1990.

However, if we are to continue these impressive gains, we cannot rest on our accomplishments. We must continue to expand access to overseas markets, where 95 percent of the world's consumers live. We must continue to refine and improve our longstanding programs to ensure that they operate efficiently and effectively.

The Administration's Farm Bill proposals were crafted to strengthen U.S. agriculture's competitive position, while meeting our international obligations. The Farm Bill proposals are not only good farm policy, but good trade policy. They are predictable, equitable, and designed to withstand challenges from other countries. We appreciate Congress' serious consideration of the proposals as Congress writes the 2007 Farm Bill.

TRADE PROGRAMS

Market Access Program

The Department's largest market development program is the Market Access Program (MAP), for which funding expires at the end of 2007. This program uses funds from the Commodity Credit Corporation (CCC) to create, maintain, and expand long-term export markets for U.S. agricultural products.

USDA's Farm Bill proposals recommend increasing MAP funding from \$200 million to \$225 million annually. USDA will apportion the additional funding to help address the imbalance between program crops and non-program commodities. MAP forms a partnership between USDA and non-profit U.S. agricultural trade associations, U.S. agricultural cooperatives, non-profit state-regional trade groups, and small U.S. businesses to share the costs of overseas marketing and promotional activities such as consumer promotions, market research, trade shows, and trade servicing.

I would like to share an example of a MAP success story from my home state of Minnesota. Sunrich, a producer and exporter of soy food ingredients, has used the MAP program to sharply expand its international sales. The company has gone from having a single overseas market to selling in Japan, Korea, Spain, France, Germany, Indonesia, Australia, New Zealand, and Israel. Exports now generate several million dollars in sales for Sunrich. The Market Access Program has helped them do market research, produce targeted promotional materials, ship samples, and provide technical support to potential buyers overseas.

Technical Assistance for Specialty Crops

As our exports have grown, some of our trade partners have increasingly turned to sanitary, phytosanitary, and technical barriers to protect their domestic industries and deny market access to U.S. agricultural products rather than basing these policies on science. USDA has successfully helped U.S. exporters regain market access for millions of dollars of products from almonds to spinach. To continue to enhance efforts, the Administration's 2007 Farm Bill proposals would expand mandatory funding for the Technical Assistance for Specialty Crops (TASC) grant program, which is currently funded at \$2 million per year, by an additional \$2 million annually up to \$10 million for fiscal year 2011 and beyond.

TASC projects assist U.S. food and agricultural organizations to address phytosanitary and technical barriers that prohibit or threaten the export of U.S. specialty crops. The program has proven to be very effective in providing support for specialty crop exports. In recent years, TASC funding has been used to gain market access for California nectarines in Japan, harmonize organic standards with Canada and the EU, and create a database of pesticide tolerance levels and standards for more than 300 specialty crops in more than 70 countries. In 2006, USDA funded 26 TASC projects.

Grant Program to Address SPS Issues

To complement the successes and popularity of the TASC program, the Administration's 2007 Farm Bill proposals include a new grant program focused on sanitary and phytosanitary issues for other non-specialty crop commodities. This new program would provide \$2 million in annual assistance through mandatory funding. Like the TASC program, this assistance could provide U.S. exporters with information on

compounds restricted by other countries and improve other countries' understanding of U.S. safety standards and testing methodologies. It also would enable us to tap targeted technical expertise on an ad-hoc basis for non-specialty crop commodities.

Technical Assistance to Resolve Trade Disputes

For small agricultural producers and industries, defending their products against inappropriate trade restricting measures such as counterfeit labeling, copyright infringement, unfair administration of tariff-rate quotas (TRQs) and other barriers to trade is a complex, lengthy, and time-consuming process. While U.S. industries can pursue unfair trade practices through U.S. trade laws or initiate a case in the World Trade Organization (WTO), industries must pay high legal and analytical costs for extended periods of time—sometimes years. This is particularly challenging for limited resource agriculture industries. Conversely, some U.S. agricultural sectors have themselves been challenged either in the WTO or under other countries' domestic trade laws. USDA, working closely with USTR, helps industries that have been challenged. The Administration is requesting that the Secretary of Agriculture be granted broad discretionary authority to provide limited resource groups with enhanced monitoring, analytical support, and technical assistance if he or she deems it would be beneficial to U.S. agricultural exports.

International Trade Standard Setting Activities

USDA works closely with international standard-setting bodies, such as the Codex Alimentarius, the International Plant Protection Convention, and the World Animal Health Organization, to establish and harmonize multilateral food, plant, and animal health and safety standards. By assigning U.S. staff to work with these

organizations, we have a say in their decision-making process and ensure that they design and implement standards for trade in agricultural products that are science-based and recognize U.S. health and safety standards.

The United Nations Food and Agriculture Organization (FAO) works with member governments to place their nationals in FAO staff positions. However, the United States lacks sufficient funding to place adequate numbers of Americans in these positions. For example, out of approximately 100 positions in the FAO's associate professional officer program, European countries fund about 83 positions for their nationals, while the United States currently only funds one American.

As a result, the EU is in a better position to influence international organizations' policies and programs than we are. USDA needs dedicated funding to strengthen U.S. representation in these organizations. In addition, we are having difficulty hiring seasoned, director-level staff to represent the United States in these organizations because we do not have the funds or the authority to pay salaries and allowances commensurate with those received by international organization employees. For these reasons, the Administration's 2007 Farm Bill proposals request long-term mandatory funding of \$15 million over 10 years to enhance our ability to assign USDA staff support for international trade standard-setting bodies.

TRADE CAPACITY BUILDING

Before developing countries can become reliable customers for U.S. agricultural products, they must first become politically, economically, and socially stable. President Bush's National Security Strategy recognizes that a lack of economic development, particularly in fragile and strategic countries and regions, results in economic and

political instability which can pose a national security threat to the United States. A productive and sustainable agricultural sector is a critical factor in creating stability. Only then can these countries and regions integrate into the global economy and reduce hunger and poverty.

USDA works to develop the capacity of local governments in politically stable, but fragile economies to support market-based agriculture. We have provided technical assistance and trade capacity building in markets such as Georgia, Armenia, Kenya, Uganda, and Pakistan so they can harness the power of trade and create open and predictable policies and procedures to boost economic growth and reduce poverty.

In recent years, USDA has worked with the Department of State, the Department of Defense, the U.S. Agency for International Development, and the National Security Council to assist in the reconstruction and stabilization of Afghanistan and Iraq. Revitalization of these two countries' agricultural sectors is essential to their development and stability. USDA is conducting trade capacity building and technical assistance activities in Iraq, including a \$7.8 million agricultural extension project in conjunction with the U.S. Department of State, and marketing education efforts in partnership with U.S. commodity groups.

The Administration's 2007 Farm Bill proposals provide \$2 million annually in mandatory funding for agriculture trade capacity building for fragile countries and regions by improving food safety, supporting agricultural extension projects, agricultural knowledge initiatives, and building bilateral partnerships.

FOOD AID PROGRAMS

In addition to this trade capacity building assistance, USDA administers three food aid programs that support economic development in countries needing assistance to get on their feet or needing help in a crisis or emergency—the Food for Progress Program, the McGovern-Dole International Food for Education and Child Nutrition Program, and the Public Law 480, Title I (P.L. 480, Title I) Program. These programs support international assistance and development activities that alleviate hunger and improve nutrition, education, and agriculture in some of the world’s poorest countries. Through the provision of agricultural commodities, we are able to feed millions.

Food for Progress Program

During the past two decades, the Food for Progress Program has supplied over 12 million metric tons of commodities to developing countries and emerging democracies committed to introducing and expanding free enterprise in the agricultural sector. Commodity purchases totaling nearly \$3 billion over this period for Food for Progress programming have been handled through the Commodity Credit Corporation (CCC).

Under this program, during fiscal year 2006, the United States provided more than 215,000 metric tons of CCC-funded commodities valued at about \$77 million. This effort supported 19 developing countries that were making commitments to introduce or expand free enterprise elements in their agricultural sectors. Again this year, more than 215,000 metric tons of commodities will be provided. More than 2 million people in 11 countries, including Afghanistan and countries throughout Africa and Central America will be fed by this program this fiscal year. In fiscal year 2008, the President’s budget includes an estimated program level of \$163 million for Food for Progress grant agreements carried out with CCC funds.

McGovern - Dole Program

Another highly successful program is the McGovern-Dole International Food for Education and Child Nutrition Program, which helps support education, child development, and food security in low-income, food-deficit countries that are committed to universal education.

This year, we will feed nearly 2.5 million women and children in 15 developing countries, including Cambodia, Guatemala, and Malawi, with the \$99 million appropriated funding level. We appreciate the strong support this program has received from members of Congress. In fiscal year 2008, we are requesting \$100 million for the McGovern-Dole program. This amount will be supplemented by an estimated \$8 million to be received from the Maritime Administration for cargo preference reimbursements.

In the last five years, the McGovern-Dole program has helped feed more than 10 million children in more than 40 countries. Last year, USDA awarded Counterpart International (CPI) a grant to provide more than 9,000 tons of commodities for use in Senegal. This McGovern-Dole project is using vegetable oil, textured soy-protein, and barley to feed nearly 18,000 primary school children and 1,800 pre-school children over a three-year period. The proceeds from the sale of soybean oil are being used to improve school sanitation, repair schools, and improve the skills of teachers. The project includes a maternal and child health component, which provides take-home rations to needy mothers with young children. It also provides a growth monitoring and promotion program, along with a health education and assistance campaign. The leader of one of the villages in which the school feeding project is being conducted told the visiting U.S. Ambassador to Senegal that, “We have already seen immediate results from this program

as students are able to stay in school longer and learn more each day.” This McGovern-Dole school feeding program provides hot daily meals to students, permitting them to remain in the classroom and learn for longer periods.

The multi-year dimension of this program is essential to addressing comprehensively the issue of chronic hunger. Moreover, providing meals both at school and through take-home rations provides a powerful incentive for children to remain in school. Government-to-government partnerships coupled with the important resources provided by the private voluntary organizations (PVOs) are vital to sustaining these programs and ensuring success.

P.L. 480, Title I Program

Historically, the P.L. 480, Title I program has been geared primarily toward countries with a shortage of foreign exchange and difficulty in meeting their food needs through commercial channels. Assistance has been provided on a government-to-government basis by selling U.S. agricultural commodities on credit terms. In recent years, the demand for food assistance using credit financing has fallen, mostly because worldwide commercial interest rates have been relatively low. For example, in 2006 we signed only three government-to-government credit agreements compared to seven in 2002. As recently as 1993, 22 Title I agreements were signed, but the number has steadily declined over the past 14 years. We are not requesting any additional funding for P.L. 480, Title I for 2008. The budget recommends that all P.L. 480 assistance be provided through Title II donations.

Bill Emerson Humanitarian Trust

USDA also manages the Bill Emerson Humanitarian Trust, which serves as a backstop commodity reserve for the P.L. 480 program. This reserve is available to provide emergency humanitarian food assistance to developing countries, allowing the United States to respond to unanticipated food crises with U.S. commodities. We currently have 915,000 metric tons of wheat in the Trust and \$107 million in cash. Cash in the Trust provides the flexibility we need to purchase appropriate U.S. commodities based on availability and the specific need. With commodities in the Trust, we must pay storage costs. Holding the 915,000 metric tons of wheat in the Trust is costing more than \$9 million each year or about \$10 per ton. Cash in the Trust also allows us to respond much more quickly to a food crisis because we can easily purchase U.S. commodities, whereas substituting what we have in the Trust for what we need to provide consumes precious time.

Upcoming Issues

This year, several food assistance issues will come to the forefront in the domestic and international arenas. USDA chairs the Food Assistance Policy Council, which includes senior representatives from USAID, the Department of State, and the Office of Management and Budget. Over the years, this group has made significant progress in ensuring policy coordination of food assistance programs under the Agricultural Trade Development and Assistance Act and the Food for Progress Act. The Council recently identified key issues to receive attention this year: food aid quality, the Administration's 2007 Farm Bill proposals, and the challenges facing food aid policy in the WTO.

For more than 40 years, USDA and USAID have provided micronutrient fortified food commodities to vulnerable, food-insecure populations. We are proud of our record in feeding at-risk recipients of U.S. food aid around the world. However, in recognition that both the science of nutrition and the nature of recipient populations have changed over time, we are examining whether current food aid formulations and product manufacturing practices address the needs of at-risk recipients and reflect the best available science.

Toward that end, our initiative includes an in-depth review of the types and quality of food products used in the administration of U.S. food aid programs. We seek recommendations of what changes, if any, should be made to the composition and mix of our commodities. The project also continues our efforts to review existing contract specifications used to obtain food aid commodities, and to improve our post-production commodity sampling and testing regime based upon sound scientific standards. All three parts of the project were announced formally in April at the International Food Aid Conference.

USDA and USAID agree on a division of labor for the project. We have identified funding. Our respective Requests for Information have been published to identify available, independent expertise. Our goal is to consult with many stakeholders in food aid, including nutritionists, scientists, commodity associations, the World Food Program, and the private voluntary organization (PVO) community, to make sure all viewpoints are heard. We want to ensure that the food aid we provide in the next 40 years is of the highest caliber to meet the nutritional requirements necessary to address chronic hunger.

The Administration's Farm Bill proposals include a recommendation that will provide flexibility in providing food aid when rapid response is critical to saving lives. The proposal would authorize use of up to 25 percent of P.L. 480, Title II, annual funds for the local or regional purchase of food to assist people threatened by a food security crisis.

This authority would enable U.S. assistance to be more effective and more efficient. The authority would be used in those instances where the rapid use of cash for local or regional procurement is critical to saving lives in response to an emergency. The intention is not to change the way the United States meets most food aid needs, but rather to enhance the variety of tools at our disposal to address food emergencies. This authority will provide the ability to purchase food near the scene of a crisis instead of taking the additional time that it can take to load and ship the aid from the United States. As Secretary Johanns has said, we do not anticipate opting for local purchases often – only when we believe that it is essential to deliver aid in the timeframe that it is needed. As I mentioned, our proposal would allow us to use no more than 25 percent of total Title II annual funding. U.S.-grown food will continue to play the primary role and will be the first choice in meeting global needs. We simply ask for every available tool to save lives.

As you are aware, food aid is a subject of discussion in the WTO negotiations. In the negotiations, the United States continues to strongly defend our ability to use in-kind food aid in emergency and non-emergency situations. Emergency food aid should not be disciplined because flexibility must be maintained to respond to people in crisis. Non-emergency food aid should only be disciplined to ensure that it does not displace

commercial sales. Cash and in-kind food aid should be treated equally in operational disciplines and transparency provisions.

A variety of programming options must remain available to ensure that food aid programs can be tailored to local needs and that sales do not disrupt local markets or displace commercial imports. The monetization of food aid to generate funds for supporting projects that result in increased economic activity and thereby directly confront poverty should continue. As the United States has repeatedly stated in these negotiations, we seek to help lift poor families out of poverty by helping governments design projects that are self-sustaining.

CONCLUSION

As Administrator of USDA's Foreign Agricultural Service, I am proud of our efforts to improve foreign market access for U.S. products, build new markets, improve the competitive position of U.S. agriculture in the global marketplace, and provide food aid and technical assistance to foreign countries.

I believe the 2007 Farm Bill Trade Title proposals will make U.S. farm policy more equitable, predictable, and better able to withstand challenge, while ensuring fairness and providing greater export opportunities to farmers, ranchers, and other stakeholders.

This concludes my statement. I look forward to answering any questions you may have. Thank you.

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