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Appropriations

FARM AND FOREIGN AGRICULTURAL SERVICES

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Before the Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies

Mr. Chairman and distinguished members of the Subcommittee, I appreciate the opportunity to appear before you today to present the 2014 budget and program proposals for the Farm and Foreign Agricultural Services (FFAS) mission area of the Department of Agriculture (USDA).

My statement will summarize FFAS agencies' budget and program proposals, after which I will be pleased to respond to your questions.

Mr. Chairman, the FFAS mission area carries out a diverse array of programs and services that support a competitive agricultural system and provide the foundation for prosperity throughout rural America. Price and income support, farm credit assistance, conservation and environmental incentives, risk management tools, and trade expansion and export promotion provide a critical safety net for our producers and have spurred record exports. The importance of this safety net has been apparent particularly during the 2012 drought, the worst since the 1930s.

The 2014 budget reflects a number of legislative proposals that would reduce the deficit by $38 billion over ten years compared to current baseline spending. Several of these proposals affect the programs of this mission area, and lower the deficit while maintaining a strong safety net for American agriculture. The savings would result, in part, from eliminating direct farm payments, decreasing payments to crop insurance companies and premium subsidies to producers, and capping the Conservation Reserve Program (CRP) at 25 million acres. The budget also proposes to extend some disaster assistance programs for the 2014 through 2018 crops and provides additional assistance to dairy farmers through expansion of the dairy gross margin insurance program.

Also reflected in the budget is the Department's *Blueprint for Stronger Service*. Since 2009, USDA has undertaken historic measures to save more than $700 million in taxpayer funds through the streamlining and modernization of management and operations. These improvements have allowed the Department to strengthen its mission of building a stronger middle class and economy in rural America and to continue the success of American agriculture. The *Blueprint for Stronger Service* takes a realistic view of the needs of American agriculture in a challenging budget climate, and outlines USDA's plans to renew and accelerate the delivery of services and enhance the customer experience through the use of up-to-date technologies and business solutions. Ultimately, these improvements will help producers and rural businesses drive America's economy and respond to 21st century challenges.

Today, American agriculture is strong, with record income and exports over the past four years. During that period, our mission area has worked hard to do more with less, to manage current and future budget challenges, and to ensure that critical investments in rural America continue. Specifically, FFAS has taken a variety of steps to cut costs and improve services, including:

- Saved $4 billion over 10 years with the negotiation by Risk Management Agency (RMA) of a new standard reinsurance agreement for the Federal Crop Insurance Program;
- Cut travel, printing and supplies budgets;
- Cut burdensome paperwork for farmers and administrative costs for RMA and FSA condensing 70 common dates down to 15 for reporting acreage and crop data;
- Consolidated 125 Service Centers in compliance with the 2008 Farm Bill while improving high quality service from the remaining 2,100 plus offices;
- Closed two overseas locations while strengthening trade policy, trade promotion, and capacity building efforts in 96 international locations; and

- Implemented employee buy-out and early-out authorities. All three agencies are operating with fewer staff. Staffing levels in Farm Service Agency (FSA) have declined 32 percent since 2003; and, during the past decade RMA staff years declined by nearly eight percent, while the value of insurance protection has more than tripled.

Farm Service Agency

FSA provides producers with a broad range of helpful services, such as farm ownership and operating loans, disaster assistance, income support payments, commodity marketing assistance loans, and certain conservation programs, such as the CRP. FSA administers discretionary programs as well as mandatory programs that are funded through the Commodity Credit Corporation (CCC).

Salaries and Expenses

The 2014 budget requests $1.49 billion for salaries and expenses from appropriated sources, including credit reform transfers. This level is adequate to maintain a staffing level of 4,436 Federal staff years and 7,980 non-Federal staff years.

We are grateful for the Committee’s support for FSA’s efforts to upgrade its aging information technology. FSA continues to implement paperless, web-based services and more streamlined business applications for more timely, more accurate, and more reliable service to farmers and ranchers. This year, FSA expects to reach its target of 76 percent of FSA programs with web-enabled applications and plans to boost this to 88 percent in 2014.

The 2014 budget also recommends $65.5 million in funding for the continued development and operation of MIDAS (Modernize and Innovate the Delivery of Agricultural Systems). In 2012, FSA developed the first version of MIDAS and began testing the system to prepare for implementation. The first version of the MIDAS system was released in April 2013 and provides farm records, customer data, and acreage reporting with GIS mapping capability. For the first time, FSA staff now has access to this data through a single operating system, eliminating the need for staff to re-enter data because the systems were not interlinked. This change alone will speed the application process, reduce input errors, and improve program compliance and integrity.

Commodity Credit Corporation

The farm commodity price and income support programs are financed through the CCC, a Government corporation for which FSA provides operating personnel. CCC also provides funding for conservation programs, including CRP and certain programs administered by the Natural Resources Conservation Service. CCC also funds some export promotion and foreign food aid activities administered by FAS. The commodity programs were mandated by provisions of the 2008 Farm Bill. The American Taxpayer Relief Act of 2012 (ATRA) extended the authority to operate some Farm Bill programs through 2013.

Under provisions of current law, CCC outlays are projected to be $10.1 billion in 2013 and $9.1 billion in 2014, down from the record high of $32.3 billion in 2000. The reductions since 2000 are due primarily to reduced commodity program outlays, reflecting higher prices for most commodities. Commodity prices are expected to remain relatively robust into 2014 resulting from strong exports and demand for production of bio-based products and bio-energy. The increase in CCC outlays from 2012 to 2013 reflects 2008 Farm Bill changes which eliminated the option for producers to receive advance direct payments. This shifted some direct payments that would have been paid in 2012 into 2013.

Conservation Reserve Program

CRP is a voluntary program that provides annual rental payments and cost-share assistance to agricultural producers in return for establishing long-term plant cover on highly erodible and other environmentally sensitive farmland. CRP assists farm owners and operators to conserve and improve soil, water, air, and wildlife resources. Since CRP began in 1985, over eight billion tons of soil has been prevented from eroding, with an estimated 308 million tons in 2012 alone. Approximately 200,000 stream miles are protected with CRP riparian and grass buffers.

Twenty seven million acres were enrolled in CRP as of March 2013. In 2012, FSA held a general sign-up, accepting 3.9 million acres while contracts expired on 6.5 million acres. The American Taxpayer Relief Act of 2012, provided USDA the authority to enroll new acres in CRP through 2013. Contracts on 3.3 million acres will expire at the end of 2013; however, USDA will hold a general sign-up from May 20 to June 14, 2013. FSA also offers "continuous" signup, which now makes up about 20 percent of total CRP acreage. The budget baseline projects CRP enrollment will end at about 27.6 million acres for 2014.

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 and guaranteed loan funds are reserved each year to assist beginning, limited resource, and socially disadvantaged farmers and ranchers. In 2012, 66 percent of direct loan funds went to beginning farmers. To further assist small and socially disadvantaged farmers, FSA recently implemented a streamlined microloan program, under the authorities of the direct operating loan program.

The 2014 budget proposes a total program level of about $5.6 billion. Of this total, over $1.9 billion is requested for direct loans and about $3.7 billion for guaranteed loans offered in cooperation with private lenders. These levels reflect credit usage forecasts at the time the budget was developed. Due to the excellent performance of the farm loans portfolio, we will be able to provide this level of assistance with just $92 million in budget authority. With this funding, we will be able to serve about 34,000 farmers and ranchers.

Risk Management Agency

The Federal crop insurance program represents the primary risk-mitigation tool available to our Nation's agricultural producers. It provides risk management tools that are market driven and reflect the diversity of the agricultural sector; including specialty crops, organic agriculture, forage and rangeland, as well as traditional row crops.

Over its 75 year history, the value of the Federal crop insurance program to American agriculture has grown. In 2012, the crop insurance program provided coverage on more than 282 million acres of farm and ranch land and protected nearly $117 billion of agricultural production. This represents a 10-fold increase from the $11 billion in crop insurance protection provided just two decades ago. We currently project that indemnity payments to producers on their 2012 crops will be about $17 billion on a premium volume of about $11 billion. Our current projection for the 2013 crop year shows the value of protection will decline, to about $82 billion. The decline is based on the Department's November 2012 estimates of planted acreage and expected changes in market prices for the major agricultural crops.

The 2014 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. For salaries and expenses of the RMA, $71 million in discretionary spending is proposed to support 455 employees. Compared to 2010’s $80 million appropriation that supported 528 employees, it is a reduction of nearly 11 percent and about 14 percent, respectively.

Foreign Agricultural Service

Agricultural trade significantly contributes to the prosperity of local and regional economies across rural America through increased sales and higher commodity prices. USDA estimates that every $1 billion of agricultural exports generates $1.3 billion in economic activity and supports 6,800 American jobs throughout the economy. The Department, with the FFAS mission area in the lead, plays an important role to remove agricultural trade barriers, develop new markets, and enhance the competitive position of U.S. agriculture in the world marketplace.

U.S. farm exports reached $135.8 billion in fiscal year 2012, the second highest total on record, and the agricultural trade surplus reached $32.4 billion. The fiscal year 2013 forecast for U.S. agricultural exports was recently revised to $142 billion – the highest total on record. In 2013, agricultural exports are expected to contribute a positive trade balance of $29.5 billion to the Nation's economy. For U.S. agriculture to continue to thrive, we must continue to open, expand, and maintain access to foreign markets, where 95 percent of the world's consumers live.

Fiscal years 2009 through 2012 represent the strongest four years in history for agricultural trade. To achieve this, USDA worked with the Office of the U.S. Trade Representative, the Department of Commerce, the White House, Congress and industry stakeholders to gain approval for new trade agreements with Panama, Columbia, and South Korea. These agreements will result in an estimated $2.3 billion in additional agricultural trade each year and support nearly 20,000 domestic jobs. Since 2009, the United States has also entered into free trade agreements with Jordan, Oman and Peru; and an organic equivalency agreement with the European Union. This progress will be continued under President Obama's National Export Initiative, which has set a goal to double U.S. exports by the end of 2014.

Today, Foreign Agricultural Service (FAS) trade negotiators are involved in two major negotiations: the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP). The TPP is an opportunity to shape a high-standard trade agreement in a region that represents more than 40 percent of global trade. Key objectives in the TTIP negotiations are to eliminate duties on agricultural goods and eliminate or reduce trade distorting non-tariff barriers between the United States and the EU, currently our fifth largest agricultural export market. Expanding markets abroad creates more jobs and boosts the bottom line for companies all along the supply chain.

As we work to open new and maintain existing markets overseas, we face many challenges and barriers that must be addressed. In the past year, FAS and has been instrumental in resolving numerous sanitary, phytosanitary and technical barriers to trade. USDA efforts to remove trade barriers led to billions of dollars in additional U.S. exports around the world in FY 2012. We've expanded beef market access with Japan, Mexico, and Hong Kong. We've removed barriers in the Korean market to U.S. cherries - U.S. cherry exports to Korea for the 2012 season totaled nearly $74 million, compared to $39 million in the previous year. We have also participated in negotiations with the European Union that resulted in the elimination of its ban on the use of lactic acid as a pathogen reduction treatment on beef and discussions that led authorities in Taiwan to adopt and implement a maximum residue limit for ractopamine in beef. Monthly shipments of U.S. beef to Taiwan more than doubled from $2 million to $5 million per month and remain at record levels.

The FFAS mission area also makes a significant contribution to the Department's strategic goal of enhancing global food security. Through foreign food assistance, technical assistance, training, and capacity building activities, we are working closely with other U.S. departments and agencies to address global food insecurity. USDA is well positioned to encourage the adoption of new technologies and production practices that can help increase the availability of food and improve its marketing and distribution.

Salaries and Expenses

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 and foster global food security. FAS carries out its activities through a network of 96 overseas offices and its headquarters staff here in Washington. FAS overseas staff represents American agricultural interests world-wide.

The 2014 budget is designed to ensure that FAS has the resources needed to continue to represent and advocate on behalf of American agriculture on a global basis and to create new market opportunities overseas. The budget provides a program level of $185 million. This level of funding is expected to be sufficient to maintain the agency's overseas presence at current levels. The budget reflects ongoing cost avoidance in headquarters through the continuation of a hiring freeze and further reductions to travel and training.

In 2012, under the *Blueprint for Stronger Service*, FAS closed two overseas offices. The 2014 budget provides an increase of $1.5 million for higher operating costs at the agency's overseas posts, including increased payments to the State Department for administrative and security services provided at overseas posts. FAS has no administrative staff overseas and, therefore, relies on the State Department for those services.

International Food Assistance

For the McGovern-Dole International Food for Education and Child Nutrition Program, the 2014 budget provides funding of $185 million. The requested level is expected to assist as many as 4.3 million women and children during 2014. About 34 million children throughout the world have now received benefits from the McGovern-Dole program and its predecessor, the Global Food for Education Initiative.

The 2014 budget proposes to replace $1.47 billion in funding for P.L. 480 Title II food assistance with an equivalent amount in U.S. Agency for International Development accounts, including International Disaster Assistance (IDA). The proposed reform replaces Title II funding with robust levels of flexible emergency food aid and related development funding, with the goal of making food aid more timely and cost-effective. The reform will improve program efficiencies and performance by shifting resources to programs that will allow greater ability to use the right tool at the right time for responding to emergencies and chronic food insecurity. The tools include interventions such as local and regional purchase, cash vouchers and transfers, and cash for work programs. As part of the reform proposal, appropriations language is included requiring that at least fifty-five percent of the requested FY 2014 IDA emergency food aid funding be used for the purchase and transport of U.S. agricultural commodities.

Food assistance will also be provided through the Food for Progress program that FAS administers. The 2014 budget includes an estimated program level of $255 million for this CCC-funded program, which supports the adoption of free enterprise reforms in the agricultural economies of developing countries.

Export Promotion and Market Development Activities

The CCC export credit guarantee programs (GSM-102 and Facilities Guarantee) provide payment guarantees for the commercial financing of U.S. agricultural exports. The guarantees facilitate sales to buyers in countries where credit is necessary to maintain or increase U.S. sales. For 2014, the budget includes a program level of $5.5 billion for the CCC export credit guarantee programs.

For the foreign market development programs, the budget includes a program level of $200 million for the Market Access Program. The remaining programs, including the Emerging Markets Program, Foreign Market Development Program, and Technical Assistance for Specialty Crops Program are subject to reauthorization and funding levels are expected to be established in the next Farm Bill.

Mr. Chairman, this concludes my statement. Thank you for the opportunity to present our 2014 budget and program proposals. I would be pleased to answer any questions you and other Members of the Committee may have.