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House Committee on
Appropriations

Farm and Foreign Agricultural Services

**Statement of Michael T. Scuse, Under Secretary
Before the House Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies**

Mr. Chairman and members of the Subcommittee, I am pleased to appear before you today in order to present the FY 2016 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: Brandon Willis, Administrator of the Risk Management Agency; Phil Karsting, Administrator of the Foreign Agricultural Service; and Val Dolcini, Administrator of the Farm Service Agency. We also are accompanied by Michael Young, 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 FY 2016 have been submitted to the Committee. My statement will summarize the FFAS agency proposals, after which we will be pleased to respond to your questions.

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. Income support, farm credit assistance, disaster programs, 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 recent drought years. Beginning in FY 2014 and continuing through FY 2015, FFAS continues to implement important provisions in the Agricultural Act of 2014 (2014 Farm Bill) to further strengthen the farm safety net.

Today, American agriculture remains strong. 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. USDA has made substantial gains in extending credit opportunities for farmers. The FY 2016 Budget supports an estimated 42,600 farmers and ranchers by financing operating cost expenses and providing opportunities to acquire a farm, or keep an existing one. Approximately 85 percent of this funding will target new and beginning farmers and ranchers, including our nation's veterans. The Budget also requests additional funding to support increased outreach activities for beginning farmers and ranchers. Crop insurance continues to be the critical tool used to protect producers from natural disasters, as well as the risk of price fluctuations. FFAS has expanded crop insurance to more than 540 crop types and has provided risk management opportunities to specialty crops and organic crops.

For FY 2016, we will improve our capacity to help the producers and rural communities that we serve. We will continue efforts to modernize the farm program delivery system through a model service center concept to ensure offices are strategically located and have adequate staffing and equipment to strengthen services to producers.

Farm Service Agency

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

We have made significant progress with implementation of the 2014 Farm Bill since it was signed on February 7, 2014. The new disaster assistance programs were rolled out in under 10 weeks following the Bill's passage. Regulations for key new safety net programs already published under the 2014 Farm Bill include Agricultural Risk Coverage, Price Loss Coverage, and the Margin Protection Program for Dairy. Most programs are authorized and funded through 2018. We are continuing to take important steps to modernize our operations to operate within the current budget to increase efficiencies.

Salaries and Expenses

The FY 2016 Budget requests approximately $1.5 billion from appropriated sources for Salaries and Expenses, including credit reform transfers. FSA Federal and non-Federal staff year usage totaled 11,414 at the end of FY 2014 and over 80 percent of these are in State and County Offices. This represents a 2 percent reduction in FSA's staff levels from FY 2013. Over the last several years, FSA has reduced their workforce by more than 20 percent.

FSA is striving to be a gateway for farmers and ranchers to access a broad range of agricultural resources as we continue to deliver programs that strengthen the farm financial safety net. In support of this, FSA has developed a program service delivery model incorporating strategic partnerships across USDA, State and local organizations, and commodity groups on core customer business processes. The business plan focuses on improving customer application processes; streamlining program delivery; providing customer technical assistance, sharing data needed for eligibility determination, and providing new customer self-service options. Improvements to information technology systems facilitate USDA's vision to have a common framework for producer commodity reporting.

Commodity Credit Corporation

CCC is a Government corporation which provides funding for commodity programs administered by FSA. CCC also provides funding for conservation programs, including the Conservation Reserve Program (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.

CCC FY 2016 baseline expenditures are projected to be $$10.4 billion, an increase from approximately $7.6 billion forecast for FY 2015. In FY 2014, $11.1 billion was expended.

Commodity Programs

These programs provide an important part of the farm safety net including protection from adverse market fluctuations. The 2014 Farm Bill repealed previous direct and counter-cyclical payment programs, but authorized two new commodity programs, Price Loss Coverage (PLC) and Agricultural Risk Coverage (ARC), which are in the process of being implemented beginning with the 2014 crop year. Under these programs, all operators on a farm must make a one-time selection of either PLC/County ARC or individual ARC. Payments under PLC occur if the U.S. average market price for the crop is less than the reference price set in statute; payments under County ARC occur when actual crop revenue is below the ARC revenue guarantee for a crop year; payment under individual ARC are issued when the actual individual crop revenues (summed across all covered commodities on the farm) are less than ARC individual guarantees (again, summed across covered commodities on the farm). FSA has also implemented the new Margin Protection Program for Dairy, and over half of all U.S. dairy operations have enrolled for 2015 coverage.

Conservation Reserve Program (CRP)

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 280 million tons in 2012 alone. Approximately 200,000 stream miles are protected with CRP riparian and grass buffers.

CRP continues through 2018 with an incremental decreasing annual enrolled acreage cap—from 32 million acres under the 2008 Farm Bill to 24 million acres beginning in 2017. Currently, 24.3 million acres are under CRP contracts, including 18.2 million acres under general signup and 6.1 million under continuous signup. The eligibility criteria were expanded to allow enrollment of grasslands that had been eligible under the Grassland Reserve Program, which was repealed by the 2014 Farm Bill (grass enrollment is capped at 2 million acres). The 2014 Farm Bill also provided up to $33 million for Transition Incentive Payments which are designed to encourage the sale or lease of expiring CRP lands to beginning, socially-disadvantaged, or veteran farmers and ranchers.

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. A substantial portion of the direct and guaranteed loan funds are reserved each year to assist beginning farmers and socially disadvantaged farmers and ranchers. In FY 2014, almost 80 percent of direct and guaranteed loan funds went to beginning farmers. To further assist small and socially disadvantaged farmers, FSA increased the microloan loan limit from $35,000 to $50,000 as mandated by the 2014 Farm Bill.

The FY 2016 Budget proposes a total program level of about $6.4 billion. Of this total, nearly $2.9 billion is requested for direct loans and about $3.5 billion for guaranteed loans offered in cooperation with private lenders. We will be able to provide this level of assistance with just $69 million in budget authority – $9 million less than in FY 2015.

With this funding, we will be able to serve about 42,600 farmers and ranchers. FSA implemented additional changes which included providing more favorable interest rates for joint financing arrangements, providing a larger percent guarantee on conservation loans, increasing the loan limits for the down payment loan program, making youth loans available in urban areas, and eliminating the term limits for guaranteed operating loans.

Risk Management Agency

The Federal crop insurance program represents a vital 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 76 year history, the value of the Federal crop insurance program to American agriculture has grown. In FY 2014, the crop insurance program provided coverage on more than 295 million acres of farm and ranch land and protected nearly $110 billion of agricultural production. This represents a 10-fold increase from the $11 billion in crop insurance protection provided just two decades ago. As of February 23, 2015, indemnity payments to producers on their 2014 crops total just over $8 billion on a premium volume of just over $10 billion. Our current projection for the 2015 crop year shows the value of protection will decline slightly, to about $108 billion. The decline is based on the Department's estimates of planted acreage and expected changes in market prices for the major agricultural crops.

The FY 2016 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 Federal crop insurance fund with the necessary resources to meet program expenses at whatever level of coverage producers choose to purchase, and will provide sufficient resources in the unlikely event that 2016 is a high loss ratio year due to drought or other atypical weather. In addition to that, the 2016 Budget includes proposals to reduce premium subsidies to farmers purchasing revenue policies providing protection for upward price movements at harvest (known as “harvest price coverage”), as well as reforms to prevented planting coverage. These proposals will modify the structure of the crop insurance program so that it is less costly to the taxpayer yet still provides a quality safety net for farmers. Collectively, these proposals are expected to save $16 billion over 10 years. For RMA Salaries and Expenses, $77 million in discretionary spending is proposed to support 462 staff years.

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 $1.22 billion in economic activity and supports 7,580 American jobs throughout the economy. The Department 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 $152.5 billion in FY 2014, the highest total on record, and the agricultural trade surplus reached $43.3 billion. The FY 2015 forecast for U.S. agricultural exports was recently revised to $141.5 billion. In 2015, agricultural exports are expected to contribute a positive trade balance of $22.5 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 2010 through 2014 represent the strongest five 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, Colombia, and South Korea. In FY 2014, combined agricultural exports to these countries reached nearly $10 billion, supporting over 74,000 American jobs.

Today, FAS trade negotiators are involved in two major negotiations: the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (T-TIP). The TPP is an opportunity to shape a high-standard trade agreement in a region that represents 37 percent of world Gross Domestic Product, 11 percent of the world's population, and 23 percent of world exports of goods and services. Key objectives in the T-TIP negotiations are to eliminate duties on agricultural goods and eliminate or reduce trade distorting non-tariff barriers between the United States and the European Union, 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.

To help bring about the conclusion and approval of TPP and T-TIP, FAS is working with Congress to support passage of Trade Promotion Authority (TPA). Through TPA, Congress outlines high standard objectives and priorities for U.S. negotiators, which helps build consensus on U.S. trade policy. Updating TPA will show our Asian and European trading partners that U.S. negotiators have the support of Congress when they call for greater ambition and stronger, high standard agreements that will knock down trade barriers to markets representing two-thirds of the global economy.

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 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 2014. U.S. beef and beef products exports reached a record $6.8 billion and expanded beef and live cattle market access facilitated by USDA in several major markets, and is expected to result in hundreds of millions of dollars in additional exports in the coming years. USDA secured China's agreement to lift its suspension of red and golden delicious apple imports from Washington State, a market that was valued at $6.5 million in calendar year 2011. In early FY 2015, USDA reached agreement with Chinese officials to allow all U.S. grown apples access to the Chinese market. In FY 2014, the U.S. maintained a critical international market for America's citrus growers and processors valued at more than $160 million annually because USDA provided technical support to Korea that prevented them from raising trade barriers against orange juice of U.S. origin.

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 at 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 95 overseas offices and its headquarters staff here in Washington. FAS overseas staff represents American agricultural interests world-wide.

The FY 2016 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 $192 million – a $10 million increase over FY 2015. This level of funding will maintain the agency's overseas presence near current levels, while implementing measures to increase efficiency.

The FY 2016 Budget provides an increase 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 and to support safe and secure U.S. diplomatic facilities, as well as pay costs for locally employed staff.

International Food Assistance

For the McGovern-Dole International Food for Education and Child Nutrition Program, the 2016 Budget provides funding of $192 million – equal to the FY 2015 level. The requested level is expected to assist three million women and children during 2016. About 34 million children throughout the world have now received benefits from the McGovern-Dole program.

The FY 2016 Budget proposes $1.4 billion for P.L. 480 Title II international food assistance. The request includes new authority to use up to 25 percent ($350 million) of the P.L. 480 Title II appropriation in emergencies for interventions such as local or regional procurement of agricultural commodities near crises, food vouchers, or cash transfers. This flexibility will allow food aid to reach those in dire need more quickly and efficiently. About two million more people annually will be assisted with the same level of resources due to cost savings.

Food assistance will also be provided through the Food for Progress program that FAS administers. The 2016 Budget includes an estimated program level of $135 million for this CCC-funded program, which supports the adoption of free enterprise reforms in the agricultural economies of developing countries.

The FY 2016 budget also includes $20 million to support the Local and Regional Food Aid Procurement (LRP) program, authorized in the 2014 Farm Bill. LRP provides for local and regional procurement of food aid commodities for distribution overseas to complement existing food aid programs – especially McGovern-Dole – and fill nutritional gaps for targeted populations or food availability gaps generated by unexpected emergencies.

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 FY 2016, the budget includes a program level of $5.5 billion for the CCC export credit guarantee programs.

For the foreign market development programs, the CCC budget includes a program level of $200 million for the Market Access Program, $35 million for the Foreign Market Development Program, $10 million for the Emerging Markets Program, and $9 million for the Technical Assistance for Specialty Crops Program. These programs, in partnership with private sector cooperator organizations, support the development, maintenance, and expansion of commercial export markets for U.S. agricultural commodities and products.

Conclusion

Mr. Chairman, this concludes my statement. Thank you for the opportunity to present our 2016 Budget and program proposals. The Administrators and I would be pleased to answer any questions you and other members of the Committee may have.

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