FOREIGN AGRICULTURAL SERVICE

Statement of A. Ellen Terpstra, Administrator
Before the Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies

Mr. Chairman, Members of the Subcommittee, I appreciate the opportunity to review the work of the Foreign Agricultural Service (FAS) and to present the President's budget request for FAS programs for fiscal year (FY) 2007.

Introduction

FAS is a small agency with a big mission: working to expand and maintain international export opportunities for U.S. agricultural, fish and forestry products; supporting international economic development through trade capacity building and sustainable development practices; and supporting the adoption and application of science-based Sanitary and Phytosanitary (SPS) regulations to facilitate agricultural trade. In addition to our Washington-based staff, the Agency maintains a network of overseas offices that provide critical market and policy intelligence to support our strategic goals, respond quickly in cases of market disruption, and represent U.S. agriculture in consultations with foreign governments.

To meet new international challenges, FAS has refined the three functions essential to our mission – market access, intelligence, and analysis; trade development; and agricultural development for national security. While the first two functions represent the historic activities of the Agency, the third reflects new tasks that we have identified as essential to support U.S. agriculture and broader U.S. government policy goals.

In addition, we have developed a new strategic focus for the Agency. We are placing a greater priority on inherently governmental functions such as trade negotiations, enforcement of trade agreements, and strategic management of country relationships. We have increased our emphasis on SPS issues by stepping up our monitoring and enforcement activities and increasing efforts to work through international standard-setting bodies to support the development of science-based regulatory systems. We are placing greater emphasis on trade capacity building activities that are in line with the President's trade agenda, and we are shifting from implementing individual development activities to coordinating USDA international activities.

Market Access, Intelligence, and Analysis

Our core objective continues to be the expansion and maintenance of overseas market opportunities for U.S. agriculture. If we are to help U.S. food and agricultural exporters build on three consecutive years of record export sales, expanding market opportunities will be vital for America's food and agricultural sector. We all recognize the United States is a mature market, while around the world we see emerging markets with rapidly growing middle classes.

Our primary tool to expand access is the negotiation of new bilateral, regional, and multilateral trade agreements that lower tariffs and reduce trade impediments. FAS provides the critical analysis and policy advice to ensure U.S. agriculture achieves substantial benefits in these negotiations.

Over the past several years, maintaining existing market access has grown in importance. We monitor foreign compliance with trade agreements, analyze trade issues, and coordinate with other trade and regulatory agencies to develop effective strategies to avoid or reverse trade-disruptive actions. We also use the extensive expertise within USDA to pursue solutions to difficult technical issues that restrict trade, such as those related to bovine spongiform encephalopathy (BSE) and biotechnology or those that create barriers to trade, such as sanitary and phytosanitary or food safety regulations. We have increased our efforts to ensure that more trading partners use science-based regulatory systems and follow international guidelines in order to reduce the number of technical problems and non-science based policies that hinder trade. We also work with the Office of the U.S. Trade Representative to ensure trade agreements are enforced through formal dispute mechanisms, when necessary.

Trade Development

Our trade development function includes price/credit risk mitigation and market development programs that support U.S. firms and industries in their efforts to build and maintain overseas markets for U.S. agricultural products. The price/credit risk mitigation programs include the GSM-102 Export Credit Guarantee Program, the Supplier Credit Guarantee Program and the Facility Guarantee Program.

FAS administers two major market development programs – the Foreign Market Development (Cooperator) and Market Access Programs. These are carried out chiefly in cooperation with non-profit agricultural trade associations and private firms. Several smaller programs – Technical Assistance for Specialty Crops (TASC) and the Quality Samples Program (QSP) – also provide financial and technical support to U.S. exporters.

Agricultural Development for National Security

President Bush's National Security Strategy recognizes international economic development, along with defense and diplomacy, as one of the three pillars of U.S. foreign and national security policy. The Strategy recognizes that the 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. For most developing countries, a productive and sustainable agricultural sector and open markets are the key elements for economic growth.

FAS deploys USDA's unique resources and expertise in agricultural development activities to promote market- and science-based policies and institutions, and sustainable agricultural systems. One way that USDA helps developing countries increase trade and integrate their agricultural sectors in the global economy is to improve regulatory frameworks. Promoting productivity-enhancing technologies that will help increase food security is also a priority. In addition, we support agricultural reconstruction in post-conflict or post-disaster countries or regions such as in Afghanistan.

Major Activities and Goals

In 2005, FAS was a key contributor to the bold U.S. agriculture proposal that has been credited with providing new impetus to the Doha Development Agenda of the World Trade Organization (WTO) negotiations. While much work needs to be done to bring the negotiations to a successful conclusion, we believe that the Hong Kong Ministerial Declaration laid a solid foundation for the final phase of the negotiations. Later this week, Secretary Johanns will participate in a Ministerial meeting in London. Ministers will be working to narrow differences in order to meet the April target for defining modalities.

In preparation for and follow-up to the Hong Kong Ministerial, FAS actively worked to convince developing countries, particularly cotton-producing African countries, of the benefits of trade to their economic growth. In addition, FAS conducted several technical assistance programs to help improve those countries' ability to trade. These efforts played a key role in helping move the Doha trade talks forward.

Last year saw Congressional ratification of the Central America-Dominican Republic-United States Free Trade Agreement. FAS worked in tandem with the Office of the United

States Trade Representative (USTR) on the development, analysis and negotiation needed to bring the agreement to completion. When implemented, it will provide U.S. exporters improved access to 40 million consumers with growing incomes.

In 2005, we worked to recover trade lost as a result of the finding of BSE in the United States when 51 markets closed their borders to our products. I am pleased to report that we have regained at least partial access to 26 (not including Japan) of these markets for beef and beef products, representing 45 percent of our 2003 export value. Momentum in reopening export markets for U.S. beef gained considerably since Japan announced on December 12, 2005, that it was resuming imports of U.S. beef. Hong Kong, Korea, Taiwan, and Singapore all agreed to open to boneless beef. In addition, Mexico announced the lifting of its import ban on U.S. bone-in beef. These openings represented market access gains of 82 percent of our 2003 export value for beef and beef products (includes Japan). Unfortunately, as you know, Japan ($1.4 billion market) has since closed its market due to the finding of vertebral column in a few boxes of a U.S. veal shipment, reducing our regained market access to $2.5 billion. We continue to work on regaining Japanese confidence in U.S. beef and our ability to meet Japan's import requirements.

We successfully defended U.S. export market access in a number of countries. In the European Union (EU), our intervention delayed the implementation of debarking requirements for wood packaging materials. This ensured continued smooth trade in U.S. exports packed in or on wood packaging materials. That trade is valued at nearly $80 billion annually. With the help of our industry partners, we were able to preserve $300 million in corn gluten feed exports to the EU.

Through our monitoring and enforcement of the WTO Sanitary and Phytosanitary Agreement, we reviewed over 600 foreign SPS regulations and took direct action against 40 that were inconsistent with U.S. regulations or did not comply with the WTO Agreement. Our successes with India and China are particularly noteworthy. As a result of our efforts, India relaxed import requirements that could have blocked U.S. shipments of almonds, pulses, and horticultural products. Almond shipments, the top U.S. agricultural export to India, increased from $95 million to $118 million, and U.S. sales of pulses grew from $500,000 to over $3 million in one year. Our actions caused China to change its import regulations on meat, wine, spirits and fresh fruit. U.S. exports of these products grew from $142 million to $252 million.

FAS has worked aggressively to recover, maintain and expand markets for U.S. farm products that have been produced with agricultural biotechnology. A high priority is assisting other countries in their efforts to develop, safely regulate, and begin using this important tool to reduce hunger and alleviate poverty. For example, for the past two years, the United States has aggressively pursued a WTO case against the EU's moratorium on agricultural biotechnology, which has cost U.S. producers of corn and related products, hundreds of millions of dollars each year. In addition, FAS leads U.S. efforts to work with like-minded countries to assure that international rules and regulations for agricultural biotechnology are science-based and implemented in transparent and predictable ways.

As in the case of the EU's biotechnology moratorium, when we are unable to resolve problems bilaterally, we have used the WTO dispute settlement mechanism to advance our trade objectives. In 2005, we were successful in cases with Japan on fire blight in apples and with Mexico on rice and high-fructose corn syrup.

Just as we look to the WTO to enforce our complaints against trading partners, we must also live up to WTO decisions that raise questions about U.S. programs. After the WTO decision in the Brazil cotton case, we were able to revise our export credit guarantee programs to comply with the deadline imposed by the WTO. Officials of several developing countries have complimented the United States on our efforts to bring our export credit guarantee programs in line with the WTO decision. Of course, we also recognize the important role that the Congress has played in working with the Administration to address these critical issues. We appreciate that Congress recently approved legislation including repeal of the Continued Dumping and Subsidy Offset Act – the Byrd Amendment – and the Step 2 cotton program. Both programs were ruled inconsistent with our WTO obligations. This action demonstrates that the United States intends to live up to our WTO commitments.

In the area of trade development, we launched several e-gov initiatives to improve electronic access to key programs to meet requirements of the President's Management Agenda. We launched a new electronic registration system for the export credit guarantee programs that allows U.S. exporters to quickly register sales via the Internet. We are implementing a streamlined, integrated process to manage grant applications.

Our projects to promote agricultural development took us to many countries. We participated in post-conflict reconstruction efforts in Afghanistan by sending 26 USDA advisors to nine provinces to assist with livestock management, irrigation methods, and rudimentary food safety procedures. We expanded trade capacity building and technical assistance efforts in Armenia, Algeria, Malawi and Yemen. We worked with African countries to help them develop the institutional capacity to expand their exports and to regulate imports according to principles of sound science. We placed pest risk assessment advisors in the trade hubs sponsored by the

U.S. Agency for International Development, and we are training 200 people from 35 countries on a wide variety of sanitary and phytosanitary issues. We hosted an Avian Influenza Conference last summer for the Asian Pacific Economic Cooperation (APEC) forum that was attended by more than 100 officials from the 21 APEC economies.

Under the Cochran Fellowship Program, we provided short-term training for nearly 500 participants from 81 countries. Cochran participants meet with U.S. agribusiness, attend policy and food safety seminars, and receive technical training related to market development and trade capacity building. Under the Borlaug Fellows program, launched in 2004, 120 researchers, policymakers and university staff received short-term scientific training and research opportunities at U.S. colleges and universities.

Our food aid programs have helped millions of hungry people around the world. For example, under the McGovern-Dole International Food for Education and Child Nutrition Program, a record 3.4 million children and mothers benefited from our 2005 programming efforts.

In 2006, our goals include bringing the multilateral trade talks to a successful conclusion, working to complete the outstanding bilateral free trade agreements with the United Arab Emirates, Peru, Panama and Thailand, launching new negotiations with Korea, and monitoring existing agreements. We also will continue our efforts to ensure that more trade partners use science-based regulatory systems and follow international guidelines, particularly regarding BSE and products from agricultural biotechnology. Our trade capacity activities will be used to support all these efforts. We will continue the process to realign our overseas staff to meet the changing world trading environment, focusing on Asia.

Budget Request

Mr. Chairman, our FY 2007 budget proposes a funding level of $162.5 million for FAS and 974 staff years, an increase of $11.0 million above the FY 2006 level. The budget has been developed to ensure the agency's continued ability to conduct its full array of activities and provide services to U.S. agriculture.

The budget proposes an increase of $7.4 million to meet higher operating costs at FAS overseas offices. The FAS network of 77 overseas offices covering over 130 countries is vulnerable to macro-economic events and developments that are beyond the agency's control but which must be met if FAS' overseas presence is to be maintained. Specifically, these increases include:

- $3.4 million for wage and price increases to meet higher operating costs at overseas offices. Declines in the value of the U.S. dollar, coupled with overseas inflation and rising wage rates, have led to sharply higher operating costs that must be accommodated in order to maintain our current overseas presence.
- $1.1 million for increased payments to Department of State (DOS) for International Cooperative Administrative Support Services (ICASS). The DOS provides overseas administrative support for foreign affairs agencies through the ICASS system. FAS has no administrative staff overseas, and thus relies entirely on DOS/ICASS for this support.
- $2.9 million for the Capital Security Cost Share program assessment. In FY 2005, DOS implemented a program through which all agencies with an overseas presence in U.S. diplomatic facilities pay a proportionate share for accelerated construction of new secure, safe, and functional diplomatic facilities. These costs are allocated annually based on the number of authorized personnel positions. This plan is designed to generate a total of

$17.5 billion to fund 150 new facilities over a 14-year period. The FAS assessment will increase annually in roughly $3 million increments until FY 2009 to total annual assessed level of $12 million. This level is assumed to remain constant at that point for the ensuing 9 years.

The budget also requests $1.5 million in support of the President's trade policy agenda for Trade Capacity Building. One of the challenges we face is obtaining the dedicated funding that can be used throughout the Department in support of this initiative. Through technical assistance, training, and related activities, this initiative will support U.S. trade policy objectives on a proactive basis by assisting developing countries to adopt scientifically sound health and safety standards that will enable U.S. exporters to take advantage of negotiated market access. It will also strengthen their ability to participate in, and benefit from, the global trading arena and, thereby, enhance opportunities for U.S. agricultural exports. Successful Free Trade Agreement (FTA) implementation requires that market access issues based on SPS problems be resolved, otherwise the benefits of the FTA are not realized by either side. In this regard, FAS works closely with USDA agencies, such as APHIS and FSIS, and the Food and Drug Administration. Obtaining a dedicated source of funding will lay the foundation for more effective resolution of ongoing and emergent SPS market access issues without recourse to time-consuming and costly dispute resolution procedures.

Finally, the budget includes an increase of $2.1 million to cover higher personnel compensation costs associated with the anticipated FY 2007 pay raise. Without sufficient funding, absorption of these costs in FY 2007 would primarily come from reductions in agency personnel levels that will significantly affect FAS efforts to address market access for U.S. food and agricultural exports.

Export Programs

Mr. Chairman, the FY 2007 budget proposes approximately $4 billion for programs administered by FAS designed to promote U.S. agricultural exports, develop long-term markets overseas, and foster economic growth in developing countries.

Export Credit Guarantee Programs

The budget includes a projected overall program level of $3.2 billion for export credit guarantees in FY 2007. Under these programs, the Commodity Credit Corporation (CCC) provides payment guarantees for the commercial financing of U.S. agricultural exports. Last year, we announced changes to these programs to comply with the WTO cotton decision in a dispute with Brazil. We implemented a risk-based fee structure for the GSM-102 and Supplier Credit Guarantee Programs. Fee rates are now based on the country risk that CCC is undertaking, as well as the repayment term and repayment frequency under the guarantee. We also suspended operation of the GSM-103 program, effective July 1, 2005, in response to a WTO dispute panel decision. In addition, USDA proposed legislative changes to the cotton and export credit programs. Congress passed legislation to repeal the Step 2 Program and the repeal will take effect on August 1, 2006.

As in previous years, the budget estimates reflect actual levels of sales expected to be registered under the programs and include:

- $2.5 billion for the GSM-102 program;
- $602 million for Supplier Credit guarantees; and
- $30 million for Facility Financing guarantees.

The FY 2005, the GSM-102 program provided credit guarantees which facilitated sales of approximately $2.2 billion of U.S. agricultural exports to 8 countries and 6 regions. In FY 2005, the Supplier Credit Guarantee Program (SCGP) registered approximately $455 million in credit guarantees which facilitated sales of over $700 million to 9 countries and 8 regions. USDA has also undertaken a top-to-bottom review of the Supplier Credit Guarantee Program. Most recently, USDA announced an Advanced Notice of Proposed Rulemaking on the SCGP and invited suggestions on changes that would improve program operations and efficiency. Several factors are behind the effort to improve program operations. As the SCGP has grown, defaults have also increased. Although CCC has improved its claims recovery process, further changes may be necessary. The comment period closed in late February and USDA is reviewing the comments.

Market Development Programs

Funded by CCC, FAS administers a number of programs to promote the development, maintenance, and expansion of commercial export markets for U.S. agricultural commodities and products. For FY 2007, the CCC estimates include a total of $148 million for the market development programs, $100 million below the FY 2006 level and includes:

- $100 million for the Market Access Program;
- $34.5 million for the Foreign Market Development (Cooperator) Program;
- $10 million for the Emerging Markets Program;
- $2.5 million for the Quality Samples Program; and
- $2 million for the Technical Assistance for Specialty Crops Program.

The lower program level for these activities reflects a proposal to limit funding for the Market Access Program to $100 million in FY 2007, which is intended to achieve savings in mandatory spending and contribute to government-wide deficit reduction efforts.

International Food Assistance

The United States continues to play a leading role in providing international food aid. In this regard, the FY 2007 budget includes an overall program level for U.S. foreign food assistance of $1.6 billion consisting of:

- $1.3 billion for P.L. 480 which is expected to provide approximately 2.2 million metric tons of commodity assistance. The budget proposes that all P.L. 480 food assistance be provided through the Title II donations program in FY 2007, which is administered by the U.S. Agency for International Development. In recent years, there has been significant decline in demand for food assistance provided through concessional credit financing, accordingly, no funding is requested for Title I credit sales and grants. The budget includes an appropriation request of $1.2 billion for P.L. 480 Title II, an increase of $80 million over the 2006 enacted level, and proposes a new provision that will allow up to 25 percent of the funding to be used to purchase commodities locally in emergency situations thereby saving more lives.

- $161 million for the CCC-funded Food for Progress Program. Funding at that level is expected to support 300,000 metric tons of commodity assistance.

- $103 million for the McGovern-Dole International Food for Education and Child Nutrition Program. This comprises $99 million in appropriations and an estimated $4 million in reimbursements from the Maritime Administration. Funding at this program level will assist an estimated 2.5 million women and children through the donation of nearly 80,000 metric tons of commodities.

Export Subsidy Programs

FAS administers two export subsidy programs through which payments are made to exporters of U.S. agricultural commodities to enable them to be price competitive in overseas markets where competitor countries are subsidizing sales. These include:

- $28 million for the Export Enhancement Program (EEP). World supply and demand conditions have limited EEP programming in recent years and therefore, the budget assumes a limited program level for 2007. However, the 2002 Farm Bill does include a maximum annual EEP program level of $478 million which could be utilized should market conditions warrant reactivation of the awarding of bonuses.

- $35 million for the Dairy Export Incentive Program (DEIP), $33 million above the FY 2006 estimate of $2 million. This estimate reflects the level of subsidy expected to be required to facilitate export sales consistent with projected U.S. and world market conditions. The actual level of bonuses awarded may change during the programming year as market conditions warrant.

Trade Adjustment Assistance for Farmers

Authorized by the Trade Act of 2002, the Trade Adjustment Assistance Program for Farmers authorizes USDA to make payments of up to $90 million annually to members of eligible producer groups when the current year's price of an eligible agricultural commodity is less than 80 percent of the national average price for the 5 marketing years preceding the most recent marketing year, and the Secretary determines that imports have contributed importantly to the decline in price.

This concludes my statement, Mr. Chairman. I will be pleased to answer any questions.