ECONOMIC RESEARCH SERVICE

Statement of Susan E. Offutt, Administrator
Before the Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies

Mr. Chairman and members of the Committee, I am pleased to have the opportunity to present the proposed fiscal year (FY) 2007 budget for the Economic Research Service (ERS).

Mission

The Economic Research Service informs and enhances public and private decision making on economic and policy issues related to agriculture, food, the environment, and rural development.

Budget

The agency's request for 2007 is $82.5 million, which includes increases for two initiatives and pay costs. The agency is requesting an increase of $5 million to develop an agricultural and rural development information system that will monitor the changing economic health and well-being of farm and non-farm households in rural areas; and an increase of $1.6 million to continue the development of an integrated and comprehensive data and analysis framework of the food system beyond the farm-gate that will provide a basis for understanding, monitoring, tracking, and identifying changes in the food supply and in consumption patterns.

Agricultural and Rural Development Information System

In FY 2007, ERS is requesting an increase of $5.0 million to fund the **Agricultural and Rural Development Information System,** to implement a comprehensive data collection and research program that will monitor the changing economic well-being of farm and non-farm households in rural areas. This initiative supports collection of survey data from farm and non-farm households over time to analyze the effects of policy adjustments in rural areas facing

specific development issues, such as persistent poverty or substantial out migration. Data and analysis from this Agricultural and Rural Development Information System will be critical to identifying the most successful economic development strategies for different types of rural areas, the adjustments that farm households and rural communities make in response to agricultural policy changes, and the importance of the linkages between farm and non-farm economies in assessing farm and rural policy effects. The initiative also supplies the better and more useful information on the status of farm, market, and rural economics that USDA partners and customers seek.

The $5.0 million total amount requested would be allocated to four specific sets of activities. The first, collecting longitudinal data from rural households, will involve developing and supporting an integrated set of surveys, which include core components to track critical indicators over time as well as modules on specific topics related to emerging policy issues. The second, collecting longitudinal data from farm households, will build on USDA's Agricultural Resource Management Survey (ARMS). The third will be to expand public internet access to ERS agricultural and rural data. A portion of the initiative funds would be devoted to providing State and local governments, trade and commodity associations, other interest groups, and the public, easy, interactive access to a new Agricultural and Rural Development System. The fourth is to assure research capacity to analyze, interpret and apply new agricultural and rural development information.

Data are not currently available to allow analysts to distinguish the effects of rural development, farm, and agricultural resource programs from one another, and from the myriad of other forces affecting the economic well-being of farm and rural households. The Census Bureau's Census of the Population provides information on rural households within the context of

their local area, but it does not include a longitudinal component that allows assessment of individual household response to changing policies and programs over time. The American Community Survey will, in time, provide social and economic data at the census tract level, but it does not use a longitudinal framework to understand individual household change. Other data sources, such as the Survey of Income and Program Participation, have a longitudinal component but do not have sufficient detail or statistical reliability to allow analyses of local rural area household response for specific areas facing specific development challenges.

Consumer Data and Information System

In FY 2007, ERS is requesting an increase of $1.6 million to augment the Consumer Data and Information System that was provided funds in FY 2006. New funding will be used to obtain data on consumption of food away from home to improve the understanding of how individuals make food choices. A major change in U.S. food consumption patterns in the last several decades has been the increasing popularity of foods consumed away from home. The importance of data on food-away-home consumption for understanding food choices and nutritional outcomes is growing, as Americans now spend about 50 percent of their total food budget on food-away-from-home in 2004, up from 27 percent in 1962.

. The additional funding requested this year supports ERS long-term goals and objectives for research on food choices, including:

- Identifying differences in consumption of food away from home by region and customer/household demographics (such as income, education level, age, and presence of children in the household);

- Measuring the effect of prices of food away from home on food choices, by region and customer/household demographics;
- Assessing how low-income households differ in the away-from-home food choices they make and the prices that they pay;
- Assessing how households' away-from-home food choices change through consumers' life cycle. For example, households with young children tend to favor fast food restaurants over sit-down restaurants. Older Americans are known to eat out less frequently than young adults; and
- Examining the extent by which convenience of eating away from home is impact American's food choices.

USDA officials require timely information on food prices, product movements, and potential consumer reactions to events to effectively make commodity support decisions, provide nutrition education, and ensure the safety of food. The components of the Consumer Data and Information System already implemented with prior years' funding will provide USDA with current food prices, sales volumes, food purchases, a database on consumer characteristics and purchasing behavior, and the ability to quickly survey consumer reactions, knowledge, attitudes, and awareness on a host of issues. For example, we will be able to determine how consumers respond to USDA's nutrition information efforts, such as the Food Guide Pyramid and recommendations to increase consumption of whole grains.

The Consumer Data and Information System has three major components providing intelligence across and within the food and agricultural complex. The Food Market Surveillance Report will provide policy officials with the most up-to-date information on food prices,

purchases, and sales data publicly or privately available. This information will improve USDA decision-making and provide data for understanding consumer purchasing behaviors.

The Rapid Consumer Response Module will provide real-time information on consumer reactions to unforeseen events and disruptions, current market events, and government policies. The module question will be asked of members of several proprietary consumer data panels currently maintained by private vendors. The Rapid Consumer Response Survey is awaiting OMB approval.

Using FY 2005 and FY 2006 funding, ERS has continued development of the third major component of the Consumer Data and Information System, the Flexible Consumer Behavior Survey (FCBS). This survey will complement data from the National Health and Nutrition Examination Survey (NHANES) by providing information needed to assess linkages among individuals' knowledge and attitudes about food safety and dietary guidance, their economic circumstances, their food-choice decisions, and their nutrient intakes. Combining the NHANES with this new survey allows analysis of how individual behavior, information, and economic factors affect food choices, dietary status, and health outcomes. The FCBS is scheduled to appear on the 2007-2008 NHANES with research data available in 2009.

ERS Contributions to Mission Area Goals

ERS supports the six USDA strategic goals to: 1) enhance international competitiveness of American agriculture; 2) enhance the competitiveness and sustainability of rural and farm economies; 3) support increased economic opportunities and improved quality of life in rural America; 4) enhance protection and safety of the Nation's agriculture and food supply; 5) improve the Nation's nutrition and health; and 6) protect and enhance the Nation's natural resource base and environment.

Goal 1: Enhanced International Competitiveness of American Agriculture.

ERS helps the U.S. food and agriculture sector adapt to changing market structures in rapidly globalizing, consumer-driven markets by analyzing the linkages between domestic and global food and commodity markets, as well as the implications of alternative domestic and international policies on competitiveness. ERS economists analyze factors that drive change in the structure and performance of domestic and global food and agriculture markets; provide economic assessment of structural change and competition in the agricultural sector; analyze the price impacts of evolving structural changes in food retailing; analyze how international trade agreements and foreign trade restrictions affect U.S. agricultural production, exports, imports, and income; and provide economic analyses that determine how fundamental commodity market relationships are adjusting to changing trade, domestic policy, and structural conditions. ERS will continue to work closely with the World Agricultural Outlook Board (WAOB) and USDA agencies to provide short- and long-term projections of U.S. and world agricultural production, consumption, and trade.

In 2006, several initiatives are increasing the timeliness and availability of data and information, while simultaneously saving staff time. We are increasing the transparency of our commodity projections processes, and automating calculations where possible, and embedding them within databases. Our goals are to: 1) make the work transparent, inviting critique from both internal and external users; 2) transition to fewer outlook analysts as retirements near, and 3) increase timeliness in the release of data. Our redesigned feedgrains database provides a wider range of data with automatic updates from our ongoing commodity analysis reports. A

new database on base acres allows users to download and map county-level farm program and planted acreage data for nine major program crops.

Large developing countries such as China, India and Brazil are becoming more important to U.S. agriculture. China is one of the top 10 markets for U.S. agricultural exports and is the world's largest producer and consumer of a range of commodities. ERS research continues to examine key factors that will shape the size and pattern of China's agricultural trade: water scarcity, implementation of WTO commitments, changes in Chinese consumers' demand for food, and new directions in agricultural policy and investment in agriculture and rural areas. ERS' China briefing room on our website provides access to a new queriable Agricultural and Economic database containing information on agricultural production, food consumption, price indices, macroeconomic information and industrial output. India's strong economic growth and rising middle class are creating new markets for agricultural products. ERS research examines the policy environment and prospects for growth in key commodity markets, such as cotton, oilseeds, poultry and apples.

Food price determination is increasingly important for understanding domestic and international markets and opportunities to promote U.S. agriculture. ERS food markets research focuses on enhancing knowledge and understanding of food prices, both their objective measurement and how they are set by firms at different stages of the food system. ERS has begun to use micro-level household and store scanner data to measure the impact of changing store formats on food prices in order to focus on the changing economic environment and how these changes could affect customers' retail food purchasing habits.

ERS will continue to work closely with the Foreign Agricultural Service (FAS) and the Office of the U.S. Trade Representative to ensure that ongoing negotiations on the Doha

Development Agenda under the auspices of the World Trade Organization (WTO) and regional trade agreements are successful and advantageous for U.S. agriculture. The demands of developing countries for sharp cuts in domestic agricultural policies, along with exemptions that would limit the opening of their markets, serve as stumbling blocks to reaching an agreement in current WTO negotiations. ERS has developed new analytic tools, including its PEATSIM (Partial Equlibrium Trade Simulation) modeling framework, to provide more detailed analysis of the global benefits of trade liberalization. It has also completed studies of important issues affecting developing countries, including preferential trade agreements and forces shaping global cotton markets after the end of the Multifiber arrangement.

Goal 2: Enhanced Competitiveness and Sustainability of Rural and Farm Economies

ERS provides assessment of the effects of farm policy on commodity markets and the food and agricultural sector. For example, the 2005 USDA report, *The 20th Century Transformation of U.S. Agriculture and Farm Policy* provides perspective on the long-term forces that have helped shape agricultural and rural life and considers the extent to which farm policy design has or has not kept pace with the continuing transformation of American agriculture. ERS is also preparing a series of nine commodity background studies to augment information available to policy decision makers.

Changes in U.S. farm structure can have wide-ranging impacts on agricultural productivity, opportunities for farm operators, and the distribution of benefits from government programs. ERS research focuses on two elements of change: the widespread shift of production to larger farms, and the growing use of formal contracts between farmers and buyers, used to guide farm production and marketing decisions. An updated Family Farm report will be released

in 2006, as well as an Economic Brief detailing the impact of structural change on the distribution of Federal commodity payments.

ERS recently released a report, using 2003 data, on the growing use of agricultural contracts (*Agricultural Contracting Update: Contracts in 2003*). For producers, contracting can reduce income risks of price and production variability, ensure market access, and provide higher returns for differentiated farm products. For processors and other buyers, vertical coordination through contracting is a way to ensure the flow of products, obtain differentiated products, ensure traceability for health concerns, and guarantee certain methods of production. But widespread contract use can also limit the efficiency of cash markets, and under certain circumstances contracts can allow buyers to extend market power. A September, 2005 ERS report (*Did the Mandatory Requirement Aid the Market? Impact of the Livestock Mandatory Reporting Act*) examined the effects of expanded price reporting requirements on contract and cash markets for cattle.

Current research is examining the effects of contract use in hog, dairy, and poultry sectors. For example, ERS research has found that marketing contracts between packers and producers can facilitate industry efforts to address pork quality needs by reducing measuring costs, controlling quality attributes that are difficult to measure, facilitating adaptations to changing quality standards, and reducing transaction costs associated with relationship-specific investments in branding programs.

Organic farming continues to be one of the fastest growing segments of U.S. agriculture and can potentially enhance environmental protection, as well as economic opportunities for producers. Appropriations received in FY 2005 and FY 2006 will enable ERS to continue to explore in greater depth the market for organic products and the performance of organic farm

sectors. In 2005, ERS hosted an interagency USDA workshop on organic agriculture which assessed producer options and obstacles in adopting organic farming systems, and evaluated new developments in organic marketing and technology. Also in 2005, ERS began adding a targeted sample of organic producers to the USDA Agricultural Resources Management Survey (ARMS). The first of these enhanced ARMS surveys, targeting organic dairy producers, will be administered in 2006, and will be followed by an over sample of organic soybean producers in the subsequent ARMS survey. Survey data for both organic and conventional operations will enable, for the first time, a side-by-side comparison of the profitability, productivity, energy efficiency, and other economic characteristics of these farms.

The Agricultural Resource Management Survey (ARMS) helps support important estimates, analyses, and research produced by ERS. Two key uses of ARMS are to underpin estimates of income and value-added that are provided to the Department of Commerce for use in preparing the U.S. national accounts, and to produce estimates of income for different types of commercial-size farm businesses, such as those that produce program crop commodities, that were required by the Congress in the 2002 Farm Bill. Data from ARMS are used in a collaborative effort between ERS and the National Agricultural Statistics Service to measure annual production expenses in U.S. agriculture.

A special emphasis of ARMS in 2006 is to measure use of purchase practices and strategies by farm managers in acquiring production inputs, including energy-based inputs such as fertilizers, chemicals, and fuels. These data will be used to help provide a broader understanding of how changes in inputs costs affect different types of farms and areas of the country. Additional funding provided for ARMS in FY 2003 was used to increase the number of farm businesses included in the ARMS sample and to more effectively disseminate annual

survey results to data users. In the 2005 calendar year survey, now in the field to be enumerated, about 34,000 farmers will be interviewed nationwide. The larger sample for ARMS gives us greater confidence in income and financial measures produced for the U.S. and geographic areas, and for types and sizes of farms engaged in U.S. agriculture. ERS continues to focus on improving the dissemination of ARMS data so that annual survey results are more readily available and easily accessible to data users, while assuring that sensitive data are not disclosed. The web-based, secure ARMS data retrieval and summarization tool, implement in late 2004, has now been through a successful update with release of the latest annual data in November, 2005. About 700 unique data users access ARMS results through this web-based outlet each month.

Goal 3: Support Increased Economic Opportunities and Improved Quality of Life in Rural America

ERS assesses rural needs by examining the changing demographic, employment, education, income, and housing patterns of rural areas. Data from the 2000 Census and other Federal information sources provide the most up-to-date information on the current conditions and trends affecting rural areas, and provide the factual base for rural development program initiatives. In 2006, the agency is continuing its series of publications that report current indicators of social and economic conditions in rural areas for use in developing policies and programs to assist rural people and their communities. *Rural America at a Glance: 2006 and Rural Employment at a Glance*, designed for a policy audience, will summarize the most current information on these topics.

ERS research focuses on the determinants and consequences of critical themes in contemporary rural America, including changing population composition and industrial

restructuring. One emerging rural population trend is baby boomer migration as they retire. The oldest members of the baby boom cohort are now 60 years old, just entering the stage in their lives when they tend to migrate for retirement. The growth of baby boomer populations in rural and small town America depends on demographic, natural amenity, housing market, urban proximity, and economic factors affecting their migration flows. ERS will publish a report in 2006 analyzing the impact of these factors during the 1990s, which will help policymakers and planners better anticipate the likely increase in migration of baby boomers into rural areas over the next 20 years.

ERS is examining the effects of industrial change on the geography of low-skill employment. Today many rural labor market areas find themselves in the midst of industrial transformation as regional, national, and global forces reshape the geography of economic activity. ERS research is addressing how the transformation of rural America from an economy based on manufacturing and extraction to one based on services and amenities has changed the prospects for workers with limited skills and education. A recent ERS study analyzed trends in rural low-skill employment in the 1990s and identified the industrial and occupational components of this change. The findings suggest that investment in education and training, rather than industrial targeting, is a more effective approach to raising skill levels in the rural economy. In 2006, ERS will publish a second report looking at the regional variation in the rural shift toward a service economy, and in the effects of this shift on low-skill labor demand. The expected result is a better understanding of how global economic forces, including broader trade liberalization and rapid technological change, can affect rural communities and how Federal and local responses can assist in the resulting restructuring.

Goal 4: Enhance Protection and Safety of the Nation's Agriculture and Food Supply

In response to increased risks to the Nation's agriculture and food supply due to bio-terrorism, ERS embarked on an ambitious project known as Geo-Spatial Economic Analysis (GSEA). The GSEA system merges an extensive Geographic Information System with the analytical expertise of ERS's economists. The Security Analysis System for U.S. Agriculture (SAS-USA), which is being updated and enhanced in 2006 under a cooperative agreement with the Massachusetts Institute of Technology, systematically ties all food supply processes from farm production, food manufacturing, distribution of food products, to food consumption in every region of the country and other non-agricultural sectors, such as energy and services. The GSEA system is designed to serve as a platform for collaborative analysis across agencies in USDA and with appropriate groups in FDA and the Department of Homeland Security (DHS). These capabilities mean that emergencies can be managed efficiently and expeditiously by assessing vulnerabilities and predicting outcomes. The first simulation system prototype will completed this year as part of a joint project with the Army Corps of Engineers, the Tennessee Valley Authority, and Oak Ridge National Lab to improve our ability to measure the economic consequences in the food and agricultural industries caused by transportation disruptions. In support of broad USDA initiatives such as the National Plant Disease Recovery System, the GSEA system will serve as a tool to improve economic assessments of crop and animal disease outbreaks using alternative control strategies.

As part of several national homeland security activities, ERS continues to develop and expand the capacity to assess the impact of accidental and intentional disruptions to our food and agricultural system. This year ERS will provide access to the GIS platform for selected staff in USDA and other government agencies. The GIS platform allows analysts to quickly manage the

county-level crop, livestock, demographic and economic data needed to provide scope and context in the event of an emergency. ERS staff are prepared to conduct the complex economic analysis needed to assess the cost of securing our food supply, which includes protecting production, processing, distribution, and consumption of food and agricultural products. ERS is working with the Homeland Security Office (HSO), Office of Risk Assessment and Cost Benefit Analysis (ORACBA), Animal and Plant Health Inspection Service (APHIS), and the Food and Drug Adminis tration (FDA) to improve tools for the analysis of disruption and disease mitigation strategies that require both sound biological and economic analysis.

ERS has become well-known for its pioneering estimates of the societal costs associated with foodborne illnesses due to *E. coli* and other known pathogens. ERS and researchers from Harvard and the University of Wyoming are collaborating to develop new methodologies for more accurately eliciting and measuring the value of reductions in health risk associated with foodborne pathogens. This project applies state-of-the-art valuation methodologies to measure the benefits of improving food safety. A survey conducted in 2004 presented respondents with information on duration and severity of foodborne illness and asked respondents how much they would be willing to pay for a food with lower risk of foodborne illness. Another survey conducted in 2005 provided respondents with information about the likelihood of foodborne illnesses and asked them about their food consumption and food safety practices. Analysts will explore the linkage between food choices and food safety information using the information obtained by this survey.

In the event that unsafe food enters the marketplace, public health officials and food safety regulators ultimately rely on records maintained by private industry and retailers to track the manufacture and distribution of that food. Privately maintained traceability bookkeeping

records provide investigators with information on the extent and distribution of a contaminated product–and on how to remove such a product from distribution channels efficiently. The strength of private traceability systems and the readiness of the food industry to track and recall a contaminated product is important for safeguarding the Nation's food supply. In 2006, ERS will continue work with agricultural economists from the University of Arkansas to investigate how various food companies in different industries handle product recalls, the operation of designated recall teams, and the frequency and results of mock recalls. The research will examine the type and scope of information collected from auditing and certification activities, characteristics of firms with recall practices, and the proportion of firms in given sectors participating in auditing and certification activities.

Goal 5: Improve the Nation's Nutrition and Health.

ERS research has a major focus on the economic dimensions of obesity, including understanding the societal costs of obesity, explaining obesity trends among different demographic and income groups, and assessing the benefits and costs of alternative options for influencing Americans' food choices and dietary behaviors, including roles for nutrition education and Federal food and nutrition assistance programs. ERS investigated consumers' likely response to a tax on snack foods a public health issues generated by rising U.S. obesity rates. Findings suggest that the impacts on dietary quality from the tax are small and negligible at the lower tax rates. If taxes were earmarked for funding information programs, as several proponents suggest, taxes would generate a revenue stream the public health community could use for nutrition education.

In 2006, ERS is investigating the factors that influence consumers' food choices when eating away from home using the NHANES data. This research will focus on discovering

consumer preferences, such as convenience and entertainment that compete with healthy eating. Information about these factors help social marketers design effective campaigns to influence consumers' away from home eating behavior. Whether the poor pay more for food than other income groups matters to their nutrition and health; therefore, the operating costs of the stores at which they shop matter. An ERS study found overall operating costs of stores with high food stamp redemption rates are not significantly different from those of stores with moderate redemption rates. If the poor do pay more, factors other than operating costs are likely to be the reason.

ERS is currently conducting a study of the economic factors affecting the cost of infant formula and rebates issued to the Special Supplemental Nutrition Program for Women, Infants, and Children Program (WIC). Over half of all infant formula sold in the United States is purchased through USDA's Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). In fiscal year 2004, WIC State agencies obtained $1.6 billion in rebates from infant formula manufacturers for formula purchased through WIC. In recent years, some States awarding new infant formula contracts have seen a marked decrease in the size of the rebate. As a result, concern has been raised that the cost to the States of providing infant formula to WIC participants is increasing, a result that if sustained, could have far-reaching negative implications for the WIC program A final report will be released in 2006.

ERS continues to monitor U.S. households' food security—their access to enough food for active, healthy living—and the extent and severity of food insecurity. ERS funds a national food security survey, conducted by the Census Bureau, and reports annually on the food security of the Nation's households. The Committee on National Statistics (CNSTAT) of the National Academy of Sciences will complete its review, funded by ERS and USDA's Food and Nutrition

Service, of the methods and procedures that underlie the current measures of food security. ERS will lead USDA's work to enhance and strengthen these methods for monitoring, evaluation, and related research purposes pursuant to CNSTAT findings and recommendations.

As part of our effort to improve the timeliness and quality of the Department's food consumption data, in 2003 ERS launched an interagency effort to develop a proposal for an external review of USDA's food consumption data needs and gaps. Enhancements to the food consumption data infrastructure are critical to understanding and addressing many market and policy issues in the Department. The interagency effort led to the funding of a review by the National Research Council's Committee on National Statistics. The Committee issued its final report in 2005, which included several recommendations. An interagency working group has been established to take responsibility for the systematic development and use of diet and food consumption data to address policy and research questions of the federal government, as recommended by the Committee. ERS is participating in this working group, which will consider priorities and methods for obtaining additional food and nutrition-related data in the National Health and Nutrition Examination Survey. As recommended by the committee, ERS is also evaluating the use of data on food purchases, prices, and consumption from proprietary retail scanner systems, household scanner panels, and household consumption surveys. This evaluation will examine the quality of the data, consider ways to reduce the cost of access to the data, and determine the highest priority applications for the information.

Goal 6: Protect and Enhance the Nation's Natural Resource Base and Environment.

ERS continues to provide comprehensive information to public and private users on programs in the Conservation Title of the *Farm Security and Rural Investment Act of 2002*. The

ERS report, *Flexible Conservation Measures on Working Land: What Challenges Lie Ahead?* released in 2005, deals with the complexities associated with the design of working-land payment programs. Program design and implementation will largely determine the extent to which environmental goals are achieved, and whether they are achieved cost-effectively. Empirical analysis also shows how the environment, commodity prices, and farm incomes could be affected by alternative designs.

In the course of the production of food and fiber, agriculture also produces many by-products (positive externalities) such as open space, recreational amenities, scenic views, groundwater recharge, and wildlife habitat. Historically, the standard policy practice has been to address each externality through a separate policy instrument. However, when the transaction costs of administering policies (e.g., information gathering, contract formulation, enforcement) are positive, using one instrument to address each externality or objective may not be optimal. Using an empirical analysis focusing on the CRP, the ERS report *The Multiple Objectives of Agri-Environmental Policy*, to be released in 2006, explores the extent to which environmental attributes may be jointly produced, e.g., efforts to reduce soil erosion may also reduce nutrient runoff and increase soil carbon, with implications for simultaneously targeting multiple environmental and cost objectives.

Furthermore, applying environmental policies in an uncoordinated fashion fails to account for interactions among environmental mediums (i.e., air, land, water). This can result in conflicting policies, in that addressing one environmental problem can make another worse. The ERS report, *Manure Management for Multimedia Environmental Improvement: A Comparison of Single Media versus Multi-Media Policy Optimization*, released in 2005, provides a concrete example of the tradeoffs of alternately and simultaneously meeting air and water quality

objectives, in terms of farmers' costs, production decisions, and environmental indicators, by focusing on livestock and poultry production. Among the results in the report is that, if enacted, restrictions on ammonia emissions from concentrated animal feeding operations could increase the cost of meeting Clean Water Act regulations for spreading manure.

In 2006, ERS will release an update of its popular *Agricultural Resources and Environmental Indicators* report, which describes trends in resources used in and affected by agricultural production, as well as the economic conditions and policies that influence agricultural resource use and its environmental impacts. Each chapter provides a concise overview of a specific topic with links to sources of additional information.

In FY 2005, ERS continued the Program of Research on the Economics of Invasive Species Management (PREISM) that was initiated in FY 2003. PREISM supports economic research and the development of decision support tools that have direct implications for USDA policies and programs for protection from, control/management of, regulation concerning, or trade policy relating to invasive species. Program priorities have been selected through extensive consultation with APHIS, the Office of Budget and Program Analysis (OBPA) and other agencies with responsibility for program management. In 2004 and 2005, APHIS used an ERS-supplied pest ranking decision tool to determine which pests would be on its Federal-State Cooperative Agricultural Pest Survey list, making transparent the basis for selecting the pests for which State cooperators could receive targeted pest surveillance and detections funds. The recent and rapid spread of the pathogen, soybean rust (SBR), in South America prompted ERS, in April 2004, to publish a study of the potential economic impacts and policy impacts of its windborne entry into the United States, *Economic and Policy Implications of Wind-Borne Entry of Asian Soybean Rust into the United States*. USDA used this study to refine rapid response

strategies to SBR entry, which was confirmed by APHIS in November 2004. ERS built on this work to examine the value to producers of USDA's coordinated framework to detect and report the presence of Asian soybean rust in different producing areas in *The Value of Plant Disease Early-Warning Information: USDA's Soybean Rust Coordinated Framework*, to be published in 2006.

In addition to ERS-led analyses of invasive species issues, PREISM has allocated about $3.6 million in extramural research cooperative agreements since FY 2003 through a peer-reviewed competitive process. These agreements and their accomplishments through 2005 are documented in a new report, *Program of Research on the Economics of Invasive Species Management: Fiscal 2003 – 2005 Activities*. PREISM-funded projects are developing analytical tools to address Federal and State decision issues such as trade regulation, design and choice of exclusion policies, and the selection of options or strategies to manage plants pests and animal diseases. For example, researchers from Virginia Polytechnic Institute developed a framework and assisted APHIS in analyzing the impacts of a trade regulation to allow imports of avocados from approved orchards and packers in the state of Michoacan, Mexico. The economic model, analysis, and responses to public comments were published along with the new avocado regulation in the Federal Register (Nov. 30, 2004). To share and review progress made by cooperators who received PREISM funding, and to provide a forum for dialogue on economic issues associated with agricultural invasive species, ERS organized workshops in 2004 and 2005, each with about 100 attendees from academia and Federal agencies. Among the projects funded in FY 2005 were studies of the value of animal traceability systems is managing contagious animal diseases, the economic effects of phytosanitary barriers to U.S. seed exports, and the

benefits and costs of policy options to manage risks associated with commercial imports of non-native nursery stock.

Customers, Partners, and Stakeholders

ERS shapes its program and products principally to serve key decision-makers who routinely make or influence public policy and program decisions. This clientele includes White House and USDA policy officials and program administrators/managers; the U.S. Congress; other Federal agencies, and State and local government officials; and domestic and international environmental, consumer, and other public organizations, including farm and industry groups interested in public policy issues.

ERS depends heavily on working relationships with other organizations and individuals to accomplish its mission. Key partners include: NASS for primary data collection; universities for research collaboration; the media as disseminators of ERS analyses; and other government agencies and departments for data information and services. Examples of successful partnerships with other agencies include conservation policy design (NRCS), creating a component to the National Health and Nutrition Examination Survey (FNS, Center for Policy and Promotion, along with the Department of Health and Human Services), and the economics of invasive species management (APHIS). ERS augments its research capacity with 93 cooperative agreements, 14 research grants, and 26 Memorandums of Understanding (MOUs).

Closing Remarks

I appreciate the support that this Committee has given ERS in the past and look forward to continue working with you and your staff to ensure that ERS makes the most effective and appropriate use of public resources. Thank you.