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United States Department of Agriculture
Before the House Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies

Mr. Chairman and Members of the Committee, I am pleased to appear before you this morning to present the 2007 budget and program proposals for the Farm and Foreign Agriculture 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: A. Ellen Terpstra, Administrator of the Foreign Agricultural Service; Teresa C. Lasseter, Administrator of the Farm Service Agency; and Eldon Gould, Administrator of the Risk Management Agency. We are also accompanied by Dennis Kaplan, Deputy 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 2007 have already been submitted to the Committee. My statement will summarize those proposals, after which we will be pleased to respond to any questions you may have.

Mr. Chairman, the FFAS mission area and the programs it carries out are critical for meeting three of the Department's strategic objectives: enhancing the international competitiveness of American agriculture in order to increase export opportunities; enhancing the competitiveness and sustainability of the rural and farm economies; and protecting and enhancing the Nation's natural resource base and environment. By providing the diverse array of programs offered by our agencies – price and income support, farm credit assistance, conservation and environment incentives, risk management tools, and trade expansion and export promotion programs – we are in the forefront of efforts to accomplish the Department's mission of service to American agriculture.

The 2007 President's budget provides the resources needed to ensure continuation of these diverse activities. Although the budget does include proposals for savings in both discretionary and mandatory programs, as part of government-wide efforts to reduce the deficit, it meets our priorities and ensures our continued efforts on behalf of America's agricultural producers.

Farm Service Agency

The Farm Service Agency (FSA) is the lead agency for delivering farm assistance. It is the agency that the majority of farmers and ranchers interact with most frequently. Producers rely on FSA to access farm programs such as direct and countercyclical payments, commodity marketing assistance loans, loan deficiency payments, farm ownership and operating loans, disaster assistance, and certain conservation programs, such as the Conservation Reserve Program (CRP). Because FSA is the prime delivery agency for most of the major farm assistance programs, the budget places a priority on maintaining and enhancing FSA's ability to provide efficient, responsive services to our producers.

Farm Program Delivery

FSA has faced a series of program implementation challenges that have required the full commitment of agency resources. Last year, FSA implemented the Emergency Hurricane Supplemental Appropriations Act of 2005, which included more than a dozen programs and $2.9 billion for farmers and ranchers who were affected by drought and other weather-related problems in 2003 and 2004. FSA also implemented an emergency relief program, supported with $600 million of section 32 funds, for Florida's citrus, nursery, and vegetable growers who were affected by three hurricanes in 2004.

In addition, FSA was required to implement the tobacco buy-out program during 2005, with very little lead time to prepare. Under the program, transition payments of about $950 million per year are being made to tobacco quota holders and producers, ending all elements of the Federal tobacco price support program effective with the 2005 crop.

Although the emergency supplemental provided some funds to cover administrative costs of delivering disaster assistance, they were not sufficient to meet those costs fully. As a result, FSA had to cut expenses aggressively in all but the most essential areas and was forced to divert IT resources away from planned modernization to provide the resources needed to implement these new programs. In 2006, FSA is again meeting the challenge of delivering disaster assistance to producers affected by hurricanes in the Gulf Coast states.

In the fall of 2005, FSA reduced permanent staffing through the use of buy-out authority to adjust staffing due to workload changes resulting from elimination of the tobacco program and other changes. Although the demands on FSA's resources have tightened and workload and staffing needs have shifted, the FSA office structure has remained stable for several years. FSA now has hundreds of county offices with three or fewer employees that are increasingly expensive to maintain and are hard pressed to provide effective customer service. As you know, the agency terminated its "FSA Tomorrow" plan to close and consolidate county offices, but the need to streamline operations and office structure continues. FSA has asked its State Executive Directors to conduct independent, local-level reviews of the offices and operations in their states. This ongoing effort will follow the guidelines established in the 2006 Agriculture Appropriations Act with respect to public meetings, Congressional notification, and communications with affected producers. This will ensure the most appropriate adjustments are made, consistent with local needs and within the constraints of available resources.

The 2007 budget is designed to ensure the agency's diverse efforts can move forward. It provides a total program level for FSA salaries and expenses of nearly $1.4 billion, a net increase of $86 million above 2006. The requested level will support a ceiling of about 5,250 Federal staff years and 9,425 non-Federal staff years. Staff levels have been reallocated among FSA's program activities to reflect the decreased workload associated with the tobacco program and other areas. Permanent Federal staff years will be reduced by 65 and permanent full time non-Federal county staff years will be reduced by 24, while temporary staff years will remain at 2006 levels.

FSA is taking other actions designed to improve their services on behalf of America's producers. Among the most important of these are information technology (IT) improvements, including the adoption of web-based applications that allow farmers to sign up for programs, as well as receive payments, on line. This reduces the paperwork burden significantly and provides for more timely receipt of payments.

Critical to the success of this endeavor is the need to replace farm program delivery software now running on FSA's remaining legacy computer system which is obsolete and incapable of meeting future needs. In order to complete the transition to the modern web-based technology system, the budget proposes $14 million for a multi-year investment in streamlining farm program delivery processes and software to allow retirement of the legacy system.

Commodity Credit Corporation

Domestic farm commodity price and income support programs are financed through the Commodity Credit Corporation (CCC), a Government corporation for which FSA provides operating personnel. CCC also provides funding for conservation programs, including the CRP and certain programs administered by the Natural Resources Conservation Service. In addition, CCC funds most of the export programs administered by the Foreign Agricultural Service.

In 2005, CCC outlays were relatively high at $20.2 billion due to recent large crops that have contributed to growing supplies and weakened prices. CCC outlays are now projected to reach $21.3 billion in 2006 and $20.2 billion in 2007 under current law, which reflects the recent enactment of the Agricultural Reconciliation Act of 2005.

In light of the continuing high levels of CCC outlays and the continuing budget deficit, the President's budget again includes a number of proposals to reduce the level of farm spending consistent with the government-wide goal of reducing the Federal deficit. These proposals are designed to work within the existing structure of the 2002 Farm Bill and achieve savings over the next 10 years. The proposals, which are spread across the entire agricultural sector, include reducing commodity payments across the board by 5 percent; tightening payment limits; lowering dairy program costs; and reinstituting a 1.2 percent marketing assessment on sugar processors as well as a 3 cent per hundredweight assessment on milk marketings.

These proposals are expected to save $1.1 billion in 2007 and $7.7 billion over 10 years. The majority of the savings is achieved through the across-the-board reduction in program payments.

Conservation Programs

The 2002 Farm Bill provided for significant growth in the Department's conservation programs. The CRP, which is funded by CCC and administered by FSA, is the Department's largest conservation/environmental program. The Farm Bill extended CRP enrollment authority through 2007 and increased the enrollment cap by 2.8 million acres to a total of 39.2 million acres.

As of January, CRP enrollment totaled 35.9 million acres. The 2007 budget assumes general signups will be held this year and next to enroll about 2.5 million and 4.9 million acres, respectively. In addition, a major effort is underway beginning this year to re-enroll or extend a large number of CRP contracts that will begin expiring over the 2007-2010 period.

Our current baseline assumptions are that CRP acreage will increase gradually to 39.2 million acres by 2008 and remain at that level through 2016.

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 loan funds are reserved each year for assistance to beginning, limited resource, and socially disadvantaged farmers and ranchers. For 2007, 70 percent of direct farm ownership loans are reserved for beginning farmers and 20 percent are reserved for socially disadvantaged borrowers, who may also be beginning farmers.

The 2007 budget includes funding for about $930 million in direct loans and $2.5 billion in guarantees. This level of funding is consistent with actual program use in 2005, and we believe these proposed loan levels will be sufficient to meet demand in 2007.

The 2007 budget provides funding of $4 million for the Indian Land Acquisition program, double the amount provided in 2006. For the Boll Weevil Eradication loan program, the budget requests $59 million, a reduction of $41 million from 2006. This reduction is due to the successful completion of eradication efforts in several areas. The amount requested is expected to fully fund those eradication programs operating in 2007.

For emergency disaster loans, no additional funding is requested. As of January, about $175 million is available for use in 2006, and sufficient funding is expected to carry forward into 2007 to assist producers whose farming operations have been damaged by natural disasters.

Risk Management Agency

The Federal crop insurance program represents one of the strongest safety net programs available to our Nation=s agricultural producers. It provides risk management tools that are compatible with international trade commitments, creates products and services that are market driven, harnesses the strengths of both the public and private sectors, and reflects the diversity of the agricultural sector.

In 2005, the crop insurance program provided about $45 billion in protection on over 246 million acres. Our current projection is that indemnity payments to producers on their 2005 crops will be about $3.3 billion, which is about the same level as in 2004. Our current projection for 2007 shows a moderate increase in the value of protection to more than $49 billion. This projection is based on the Department=s latest estimates of planted acreage and expected changes in market prices for the major agricultural crops, and assumes that producer participation remains essentially the same as it was in 2005.

The 2007 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.

The Risk Management Agency (RMA) is making significant progress in preempting fraud, waste, and abuse through the expanded use of data mining. RMA has preempted million of dollars' worth of improper payments and continues to identify ways to reduce program abuse. RMA continues to use data mining to identify anomalous producer, adjuster, and agent program results and, with the assistance of FSA offices, conducts growing season spot checks to ensure that new claims for losses are legitimate. These spot checks based on data mining have resulted in a significant reduction in anomalous claims for certain situations.

Despite the successes of the crop insurance program, more can be done to improve its effectiveness. One of the overarching goals of the crop insurance program has been the reduction or elimination of *ad hoc* disaster assistance. However, in recent years Congress has passed four disaster bills covering six crop years and costing the government about $10 billion. Therefore, the budget includes a proposal to link the purchase of crop insurance to participation in farm programs, such as the direct and counter-cyclical payment programs. This proposal would require farm program participants to purchase crop insurance protection for 50 percent, or higher, of their expected market value or lose their farm program benefits. This level of coverage is nearly double the amount of protection currently provided at the catastrophic level.

Additionally, participants in the Federal crop insurance program would contribute to the President's deficit reduction program. The budget includes several proposals that would reduce subsidies paid to producers and approved insurance providers. In total, these changes are expected to save about $140 million annually beginning in 2008.

Salaries and Expenses

For salaries and expenses of RMA, $81 million in discretionary spending is proposed, an increase of $4.5 million from the 2006 level of about $77 million. This net increase includes additional funding for IT, increased staff years to improve monitoring of the insurance companies, and pay costs.

The budget also includes a proposal to implement a participation fee to fund IT modernization and maintenance costs. The fee, of about one-half cent per dollar of premium, would be assessed on the insurance companies that participate in the program and benefit from the subsidies paid by the Federal government. The fee will be collected beginning in 2008 and will initially supplement the annual appropriation to provide for modernization of the IT system. After modernization is completed, the fee would be shifted to maintenance and would at that point reduce the discretionary appropriation required by RMA.

RMA has an aging IT system; the last major overhaul occurred about 12 years ago. At that time, the crop insurance program offered seven plans of insurance covering roughly 50 crops and providing about $14 billion in protection. In 2005, protection was offered through more than 20 plans of insurance covering 370 crops, plus livestock and aquaculture, and providing over $44 billion in protection.

Several major changes also have occurred over the years in the way producers protect their operations from losses. In 1994, there were no plans of insurance that offered protection against changes in market prices. Today, over 50 percent of the covered acreage has revenue protection and nearly 62 percent of the premium collected is for revenue based protection. In addition, the Agricultural Risk Protection Act (ARPA) of 2000 authorized the development of insurance products to protect livestock. RMA has implemented several new livestock price protection products. Because livestock production occurs year-round, these products must be priced and sold in a different manner than traditional crop insurance. The advent of new types of insurance, not contemplated when the IT system was designed, has placed tremendous strain on an aging system.

ARPA also instituted new data reconciliation, data mining, and other anti-fraud, waste, and abuse activities that require the data to be used in a variety of new ways. The current IT system was not designed to handle these types of data operations. Consequently, the data must be stored in multiple databases which increases data storage costs and processing times, and increases the risk of data errors.

Finally, I would note that the budget for RMA includes a request for 15 additional staff years. This increase will provide RMA with the additional resources necessary to improve oversight and internal controls of the insurance providers. In 2002, American Growers', the Nation's largest crop insurance company, failed. RMA, in concert with the Nebraska Department of Insurance, did a tremendous job of ensuring that both the producers' and the Government's interests were protected, indemnities paid, and policies transferred to other insurance providers. The additional staffing will help to ensure that a similar failure does not occur in the future.

Foreign Agricultural Service

I would now like to turn to the international programs and activities of the FFAS mission area. One of the goals that Secretary Johanns has established for the Department is to enhance the international competitiveness of American agriculture in order to provide increased export opportunities for our farmers and ranchers. The FFAS mission area is a primary contributor to that goal through activities that expand and maintain opportunities for U.S. agricultural exports; enhance the global sanitary and phytosanitary system to facilitate agricultural trade; and support international economic development and trade capacity building.

We made noteworthy progress in our export expansion activities during the past year. During fiscal year 2005, the value of U.S. agricultural exports was once again at a record level, and we are presently on course to set another record – $64.5 billion – during fiscal year 2006.

One of our highest priorities this past year was working to achieve an agreement on reform of agricultural trading practices in the Doha Round of multilateral trade negotiations. Last fall, the United States tabled an ambitious proposal to advance the negotiations that we believe provides the basis for their successful conclusion. Although the ambition of our proposal has not been matched by others, Members of the World Trade Organization (WTO) have agreed to reach agreement on the modalities (i.e., reduction formulas and methodologies) for a final agreement by the end of April, and we are working diligently to achieve that goal. We have a tremendous opportunity to achieve significant reforms in this Round, and we are committed to achieving a successful outcome that will provide new and meaningful opportunities for export growth in future years.

Regional and bilateral trade agreements are another, very important avenue for opening new markets. Just last month, the President announced that South Korea and the United States intend to negotiate a bilateral free trade agreement that will offer significant opportunities for increased sales of U.S. food and agricultural products in what is already our sixth largest overseas market. In addition, we have recently completed free trade negotiations with Peru, Colombia, and Oman and are continuing negotiations with an array of other countries that are expected to provide new opportunities for U.S. agricultural sales.

One of our other very important priorities during the past year has been our efforts to recover access to overseas markets for U.S. beef that were closed following the discovery of bovine spongiform encephalopathy (BSE) in the United States in 2003. Despite our recent setback with Japan in this regard, we have made significant progress. To date, we have regained at least partial access to 28 markets (not including Japan). Restarting shipments to Japan is now of paramount importance. We are confident the steps Secretary Johanns has directed be implemented in response to recent developments in Japan lay the groundwork for resumption of sales there. The Department has provided a full report on this matter to Japan, and we will continue to engage our Japanese counterparts to achieve our objective of resuming sales in near future.

Salaries and Expenses

The Foreign Agricultural Service (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. Through its network of 77 overseas offices and its headquarters staff here in Washington, FAS carries out a wide variety of activities that contribute to the objective of providing increased export opportunities for our agricultural products.

During the past year, FAS has continued to review its activities and operations in order to ensure that it is structured appropriately to address priority issues that will characterize global agriculture in the 21st century. As a result of the agency's review, FAS has increased its focus on inherently governmental functions such as trade negotiations, enforcement of trade agreements, and strategic management of country relationships. In response to the increased importance of sanitary and phytosanitary issues for trade, FAS has stepped up its monitoring and enforcement activities and increased its efforts through international standard-setting bodies to support the development of science-based regulatory systems. It also has increased its emphasis on trade capacity building activities that facilitate achievement of the U.S. trade agenda.

With trade of such critical importance to the future health and vitality of American agriculture, it is imperative that FAS have the resources needed to continue to represent and advocate for American agriculture on a global basis and to open new markets overseas. The budget provides a program level of $162 million for FAS in 2007, an increase of $11 million above 2006. This includes funding to meet higher overseas operating costs at the agency's overseas posts, including increased payments to the Department of State for administrative services provided at overseas posts.

Funding is also included for FAS' contribution to the Capital Security Cost Sharing Program. Under that program, agencies with an overseas presence in U.S. diplomatic facilities are contributing a proportionate share of the construction of new, safe U.S. diplomatic facilities over a 14-year period.

The budget also includes funding to support a new Trade Capacity Building initiative that supports U.S. trade policy objectives. By assisting developing countries to adopt policies that meet WTO standards and regulatory systems that are transparent and science-based, we will improve access for U.S. products to their markets. At the same time, by enhancing their ability to benefit from trade, we encourage them to become more forthcoming and supportive in market access negotiations. As their ability to participate in and benefit from global trade is improved, they will become better markets for U.S. agricultural exports.

International Food Assistance

The United States continues to provide leadership in global efforts to provide humanitarian relief and promote economic development through foreign food assistance.

Emergency needs for food assistance remain at high levels, particularly in sub-Saharan Africa. To help meet those needs, the supplemental appropriations package submitted by the President on February 16th includes a request for $350 million to support additional P.L. 480 Title II food donations. This funding will be used to respond to humanitarian food aid needs in the Darfur region of Sudan, including for refugees in neighboring Chad; other regions of Sudan; and other areas facing critical food situations, including those in East and Central Africa.

For 2007, the budget continues our support for these efforts by providing an overall program level of nearly $1.6 billion for U.S. foreign food assistance activities.

For the P.L. 480 program, the budget includes a projected program level of $1.3 billion. This includes $1.2 billion of appropriated funding requested in the budget, plus projected reimbursements from the Maritime Administration for prior year cargo preference related expenses. The budget proposes that all funding for P.L. 480 will be provided through Title II donations in 2007 and, therefore, includes no new funding for additional Title I concessional credit or grant programs.

This proposal reflects the experience of recent years in which an increasing share of U.S. foreign food assistance has been directed to emergency situations in which food aid is critical to preventing famine and saving lives. At the same time, demand for food assistance provided through concessional credit has declined significantly. This year, only two government-to-government agreements are expected to be signed.

The budget also proposes that the Administrator of the Agency for International Development have the authority in emergency situations to use up to 25 percent of Title II funding to purchase commodities in locations closer to where they are needed. This authority is intended to expedite the response to emergencies overseas by allowing food aid commodities to be purchased more quickly and closer to their final destination, while increasing the total amount of commodities that can be procured to meet those emergencies. It is important to emphasize that U.S. commodities will continue to play the primary role in U.S. foreign food aid purchases and will be the first choice for meeting global needs. Furthermore, with this authority commodities would be purchased from developing countries that are eligible for official development assistance and not from developed countries, such as the European Union.

For the McGovern-Dole International Food for Education and Child Nutrition Program, the budget continues funding at the 2006 level. With the conclusion of 2005 programming, this program and its predecessor, the Global Food for Education Initiative, will have provided assistance to more than 10 million children, mothers, and infants throughout the world. Particularly noteworthy, this assistance has helped establish sustainable programs in four countries – Kyrgystan, Lebanon, Moldova, and Vietnam – where parents and local governments have assumed responsibility for continuing the feeding programs, allowing U.S. support to be ended.

The budget also includes an estimated program level of $161 million for the CCC-funded Food for Progress program, which supports the adoption of free enterprise reforms in the agricultural economies of developing countries.

Export Promotion and Market Development Programs

FAS administers the Department’s export promotion and market development programs that play an important role in our efforts to enhance the international competitiveness of American agriculture.

The CCC export credit guarantee programs provide payment guarantees for the commercial financing of U.S. agricultural exports. The guarantees facilitate exports to buyers in countries where credit is necessary to maintain or increase U.S. sales. For 2007, the budget projects a program level of nearly $3.2 billion for CCC export credit guarantees.

For the Department's market development programs, including the Market Access Program and Foreign Market Development Program, the budget includes funding of $148 million. This level reflects a proposal to limit the Market Access Program to $100 million in 2007, which is intended to achieve savings in mandatory spending and contribute to government-wide deficit reduction efforts.

The budget also includes $35 million for the Dairy Export Incentive Program and $28 million for the Export Enhancement Program.

Trade Adjustment Assistance

For the Trade Adjustment Assistance (TAA) for Farmers Program, the budget includes $90 million, as authorized by the Trade Act of 2002. The program provides assistance to producers of raw agricultural commodities, who have suffered lower prices due to import competition, and to fishermen who compete with imported aquaculture products. In order to qualify for assistance, the price received by producers of a specified commodity during the most recent marketing year must be less than 80 percent of the national average price during the previous 5 marketing years. In addition, a determination must be made that increases in imports of like or competitive products "contributed importantly" to the decline in prices.

During 2005, 14 petitions for TAA were approved, including 9 that were recertified for a second year of assistance. Commodities that were approved for assistance included Pacific salmon, shrimp, lychees, California black olives, Idaho potatoes, and Concord juice grapes. Total program costs for 2005 were approximately $21 million.

The deadline for submission of petitions for 2006 TAA closed on January 31st. To date, TAA petitions have been certified for producers of Florida avocados and Indiana snapdragons. Additional petitions are under review, and decisions on their eligibility should be announced in the near future.

That concludes my statement, Mr. Chairman. I would be pleased to answer any questions that you and other Members of the Committee may have. Thank you.