

FOREIGN AGRICULTURAL SERVICE

Statement of Phil Karsting, Administrator Before the Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to report on the accomplishments of the Foreign Agricultural Service (FAS) and present the President's Budget request for FAS programs in fiscal year (FY) 2016.

Introduction

Recent visits with agricultural producers around the country have bolstered my commitment and my enthusiasm for assisting U.S. exporters and expanding market access abroad. In America's Midwest, I met with highly efficient soybean producers who know that nearly half of the U.S. crop is exported and what that means to their bottom line and the rural economy. On the West Coast, I sampled superior quality almonds and met with producers of world class wine. West Coast producers of these and the spectrum of agricultural crops and products understand the impact on farm income from agricultural exports that reached an estimated \$26.3 billion from the California, Oregon, and Washington in 2013. Southern poultry and rice industry representatives have impressed me with their sophisticated targeting and marketing of exports. Conversations with them remind me how critically important it is for the FAS to address foreign practices that impede and bring uncertainty to those exports. I am working on plans to visit Northeast producers to discuss export priorities. The priority of gaining full access for all U.S. grown apples to the Chinese market was achieved this January and the potential of increasing exports that are already at \$1 billion annually by 10 percent is good news for Northeast apple growers.

Frankly, it is invigorating to meet with producers of agricultural commodities, from poultry to potatoes, from corn to cranberries, from beef to barley, because we share a mission to grow U.S. agricultural exports.

I have seen first-hand the determination of U.S. agricultural exporters to reach the 95 percent of the world's consumers that live outside our borders. FAS is committed to partnering with our stakeholders to promote U.S. agriculture.

In FY 2014, exports of U.S. agricultural products reached a record \$152.5 billion, supporting nearly one million American jobs. FAS' global network of agricultural economists, marketing experts, negotiators, and trade specialists in Washington, D.C. and 95 international offices covering 167 countries are proud of their role in this achievement. We are on track for another exceptional year in FY 2015, with exports forecasted to reach \$141.5 billion, the second highest on record.

Credit for record exports belongs to America's hardworking farm and ranch families. Export expansion activities of FAS are an integral part of the story, which is why I am here today to talk about the Budget request. For FY 2016, we are asking for \$192 million for salaries and expenses, a \$10 million increase over the FY 2015 level, to continue our efforts to expand export opportunities, reduce trade barriers, and promote global food security. We also are seeking \$192 million for the McGovern-Dole International Food for Education and Child Nutrition (McGovern-Dole) program, the same level as FY 2015. The Budget proposes \$20 million for the new Local and Regional Purchase program established by Congress in the 2014 Farm Bill.

The Role of the Foreign Agricultural Service

FAS is USDA's lead international agency, providing export financing for business that would otherwise not be able to take risks, negotiating trade agreements to open doors for new markets, and implementing food aid assistance and technical capacity building programs that enhance food security and advance U.S. agricultural interests. FAS attachés and counselors at U.S. Embassies and Agricultural Trade Offices are American agriculture's global envoys, providing real-time information on emerging trade and marketing issues, resolving issues that interrupt trade, matching buyers and sellers, averting problems before they impede exports, and building the capacity of potential trading partners.

FAS plays a critical role in USDA's efforts to collect data and analyze global markets. Policymakers are able to make sound decisions due to the quality of the analysis conducted by FAS agricultural economists. U.S. exporters rely on FAS data and analysis to develop domestic and international programs and make key business decisions.

At FAS, our success is a result of forging relationships across political and cultural boundaries, negotiating in complex situations, assessing market opportunities, and strengthening institutions and policies that promote trade. In 2014, the diligence of FAS personnel secured the

release of U.S. export shipment detainments, and overcame SPS restrictions and technical barriers to trade (TBT), directly assisting at least \$6.4 billion of U.S. agricultural goods.

Opening Markets Through Trade Agreements

FAS leads USDA efforts to help producers secure and expand market access for American agricultural products. It is critically important that we have Trade Promotion Authority (TPA) as we seek approval of trade agreements that support and create U.S. jobs while helping American agriculture to compete even more successfully. TPA will help ensure that America's farmers, ranchers, and food processors receive the greatest benefit from these negotiations, and builds on efforts that have helped achieve record agricultural exports over the past six years.

FAS trade negotiators are advocating on behalf of U.S. agriculture in two major negotiations, the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (T-TIP). FAS experts are an integral part of the negotiating team led by the Office of the U.S. Trade Representative (USTR) and USDA's economic analysis supports the negotiating strategy on agriculture. The TPP and T-TIP are opportunities to address not only market access commitments, but non-tariff, SPS and TBT issues that impede our agricultural exports. Once these agreements are in place, the United States will enjoy improved access to markets representing two-thirds of the global economy.

In pursuit of job-supporting trade opportunities, the Administration is working to conclude negotiation of the TPP. Growth in purchasing power in the growing markets of the Asia-Pacific region is fueling demand for high-quality U.S. agricultural exports. TPP will support U.S. jobs by further opening up Asia-Pacific markets to exports of U.S. agricultural products stamped "Made in America." The rules of the road are up for grabs in the Asia-Pacific region. If we do not take the lead, we will see other countries implement agreements in this region giving their products preferential access over U.S. agricultural products. We risk ceding leadership to other countries, like China, which do not share our interests and are pushing their own regional initiatives with weaker standards.

As two of the most developed economies in the world, the United States and the EU share a commitment to high standards of consumer protection. T-TIP aims to bolster that already strong relationship. President Obama and EU leaders have reaffirmed their pledge to negotiate an ambitious, comprehensive, and high-standard T-TIP agreement. Our negotiators seek the

elimination of all agricultural tariffs and remain resolute in pushing back on the EU's requests for Geographical Indications that do not comport with the U.S. intellectual property system.

Ensuring Full and Fair Implementation of Trade Agreements

The Korea-U.S. Free Trade Agreement (KORUS), and the U.S.-Colombia and U.S.-Panama Trade Promotion Agreements entered into force in 2012. FAS facilitated the implementation of new tariff schedules, tariff-rate quotas (TRQs), and SPS commitments, which has helped to expand U.S. agricultural exports to these countries.

U.S. agricultural exports to South Korea reached a record \$6.9 billion in FY 2014, up 32 percent from the previous year. South Korea is the United States' sixth-largest market, with top exports including corn, beef, and dairy. Under KORUS, a host of U.S. agricultural exports experienced gains last year, including cheese, fresh fruit, poultry meat, soybeans, tree nuts, and a variety of processed foods.

In fiscal year 2014, U.S. food and agricultural exports to Colombia totaled a record \$2.3 billion — up 60 percent from 2013 and up 169 percent from 2012, the year the U.S.-Colombia Trade Promotion Agreement entered into force. Colombia ranks 10th among U.S. customers, with top exports including corn, wheat, soybean meal, pork, and prepared foods.

For Panama, U.S. agricultural exports increased to over \$706 million in FY 2014, up over 18 percent from FY 2013. In FY 2014, U.S. soybean meal exports to Panama increased by more than 40 percent to \$97 million and U.S. corn exports grew 130 percent to reach \$81 million.

Resolving SPS Barriers

In the past year, FAS personnel have been instrumental in resolving numerous SPS barriers to trade.

A major success for FAS in reducing SPS barriers is the newly expanded market access gained for U.S. beef. In June, Secretary Vilsack announced that the United States and Hong Kong agreed on new terms that pave the way for exports of the full range of U.S. beef and beef products. In 2014, Mexico, Uruguay, Ecuador, and Sri Lanka also lifted longstanding restrictions to provide full access for U.S. beef. We are diligently pressing all our trading partners to align import requirements with negligible risk status granted the United States by the World Organization for Animal Health (OIE). U.S. beef and beef product exports reached a record \$6.8 billion in FY 2014.

Importance of FAS Local Presence in Overseas Markets

Part of the story behind record U.S. agricultural exports is the assistance that FAS offices around the world provide to U.S. exporters to help them navigate local requirements, identify new opportunities, and resolve in-transit hiccups. In 2014 alone, FAS negotiated the release of hundreds of detained shipments in dozens of countries, ranging from Iowa beef in Egypt, to Maine lobsters in Italy, to Georgia poultry to Colombia, to California walnuts to Spain. In 2014, FAS personnel identified nearly 2,000 regulatory measures proposed by foreign governments that had the potential to significantly affect U.S. exports. FAS attachés attacked hundreds of these measures through relationships built with their in-country foreign counterparts, formal WTO procedures, and other formal international fora to minimize the negative impact on trade.

For example, following China's immediate ban on U.S. poultry products due to the detection of HPAI in several western states, the FAS office in Hong Kong successfully facilitated the rerouting of 80 containers of poultry that were en route to China. In coordination with the U.S. industry, the FAS attaché in Hong Kong persuaded authorities to accept these shipments. Quick action by FAS saved U.S. exporters an economic loss of more than \$3 million on these shipments.

Budget Request: Salaries and Operating Costs, and Programs with Examples

The Budget provides a level of \$191.6 million for salaries and expenses to maintain FAS' overseas presence and to continue our core activities: trade promotion, trade policy, capacity building, and food security. The FY 2016 funding reflects increased funding for Capital Security Cost Sharing, International Cooperative Administrative Support Services, and pay costs.

FAS continues to implement strategic management initiatives to improve customer service and enhance leadership, performance, and diversity. The agency completed process improvements that included upgrades to its internal information sharing capabilities and website that improve collaboration within the agency and with external customers. Accomplishments included the deployment of compliance and reporting tools that will reduce paperwork, increase efficiency, and reduce costs in operations and maintenance.

FAS revised its strategic plan early in calendar year 2015 to strengthen performance indicators and link decision making on resources and human capital with strategic results. An agency-wide effort to improve country strategies and link them with the strategic plan will be completed by the end of FY 2015. Finally, FAS continued to strengthen its financial

management and grants management systems through improved policies and information technology systems.

Market Development Programs

For FY 2016, the 2014 Farm Bill provides \$200 million for the Market Access Program (MAP); \$35 million for Foreign Market Development (FMD); \$9 million for Technical Assistance for Specialty Crops (TASC), and \$10 million for the Emerging Market Program (EMP).

Working with our agricultural cooperator partners, our MAP and FMD programs have been shown to be highly effective. An independent study released in 2010 found that trade promotion programs like MAP and FMD provide \$35 in economic benefits for every dollar spent by government and industry on market development.

Exports of southern yellow pine are expanding rapidly in countries targeted by the Southern Forest Products Association (SFPA) using MAP and FMD funded promotions. On a cost share basis, in 2014, FAS and SFPA undertook market development activities in South Africa, China, the Caribbean, North Africa, and the Middle East. SFPA reports that softwood lumber exports have nearly doubled in the last five years to \$1.1 billion. For example, producers from several states including, Alabama, Georgia, and Florida, were able to participate in the WoodEx Expo in South Africa in June 2014. The attendees reported more than \$900,000 in new softwood lumber sales thanks to contacts made at the event.

Over 25,000 U.S. farmers, ranchers and other businesses benefit from use of the USDA Organic Seal, which has become a leading global standard. Following the 2012, U.S.-EU Organics equivalence agreement, opportunities for U.S. exports in the \$28 billion EU organic market have grown. U.S. organic export products to the EU include apples, blueberries, carrots, cauliflower, grapes, peppers, strawberries, and tomato sauce. Last year, MAP funding helped the Organic Trade Association (OTA) capitalize on this growing market by supporting a booth at the BioFach organic trade show in Germany. Participants recruited by OTA and FAS included fourteen small and medium sized businesses from ten states, including Alabama, Florida, and California. Ten of the companies were first-time attendees. The participants recorded more than \$180,000 in on-site sales and expect sales of more than \$3.4 million over the next twelve months. Also last year, the Natural Products Expo West buyers mission to California was a success. OTA jointly participated with Food-Export Midwest using a small investment of MAP-

funds to bring international buyers from 15 countries to the expo. U.S. organic companies, representing ten states, including California, Florida, and Maryland, estimated more than \$42.8 million in sales resulting from the expo over the following year.

Export Credit Guarantee Programs

The Budget reflects the statutory program level making available \$5.5 billion for CCC's export credit guarantees, of which \$5.4 billion will be made available for the GSM-102 program and \$100 million for the Facility Guarantee Program. The 2014 GSM-102 program facilitated sales of a wide variety of agricultural commodities, including corn, fruit, nuts, paper products, rice, soybeans, wheat, and wood. Guarantees were issued for sales of cherries, grapes, oranges, pomegranates, and walnuts to Korea, where these horticultural products are benefiting under the trade agreement. By skillfully targeting developing markets with the greatest potential for increased U.S. sales, managing risk, and aggressively recovering losses, FAS employees operated a 2014 program that issued \$2.0 billion in credit guarantees to U.S. exporters.

Building Trade Capacity and Food Security

A recent report released at an Organization on international trade and agriculture makes the claim that, "more than ever before, trade and open, sustainable markets hold the potential to unlock economic opportunity, spur development, and increase food security." We agree and our capacity development and food assistance programs are designed to support that proposition. Trade capacity building facilitates understanding and acceptance of U.S. and international trade and regulatory standards and policies, and food assistance such as the McGovern Dole Program and the Food for Progress program bolster food security and reduce hunger and malnutrition. FAS also leads in coordinating the deployment of USDA experts for international development activities, ensuring alignment with U.S. trade and foreign policies, as well as the National Security Strategy. The FAS Cochran and Borlaug exchanges and development work through food assistance programs work to strengthen institutional capacity focusing on institutions like customs, national standards authorities, and food safety systems. Last year, FAS worked with national authorities and local farmers in Central America to improve food safety practices to ready these fruit and vegetable growers for the implementation of the Food Safety Modernization Act. Our work protects U.S. consumers of fresh fruits and vegetables by helping to ensure compliance and the small farmers can continue to benefit from sales to the United States. We are working to create trading partners, not competitors, and we're succeeding. Since FY 2010, our

exports to the CAFTA-DR countries have increased by more than a billion dollars to reach \$4.3 billion in FY 2014.

The Budget proposes \$192 million for the McGovern-Dole Program, which provides food and technical assistance for school feeding and maternal and child nutrition projects in low-income, food-deficit countries committed to universal education. The program is projected to assist three million women and children worldwide in 2016. The Budget proposes amending the definition of an eligible agricultural commodity so that it may be “locally produced or procured” and “meets nutritional quality and labeling requirements of the country that receive the commodity.” Through procuring local food such as fruits and vegetables, FAS will be able to offer more nutritionally rich foods and boost local farmer incomes, which will build community support for school feeding programs. The community support will enhance the probability that local governments will take over the school feeding programs.

In Bangladesh, FAS is witnessing success in obtaining local support. The Government of Bangladesh has pledged that from 2015 onward it will spend \$49 million annually for school feeding programs in poor areas. By 2017, the Government of Bangladesh will manage school feeding in 50 percent of the schools currently receiving food under McGovern-Dole.

McGovern-Dole is making an impact in literacy and improved nutrition. In Nicaragua, USDA is supporting a \$14 million project using nearly 5,000 metric tons (MT) of commodities, including beans, soy protein, vegetable oil, dehydrated potato flakes, rice, and dry milk for school meals. The program is feeding approximately 70,000 children and funding infrastructure improvements. By installing latrines, hand-washing stations, kitchens and stoves, and purchasing school furniture, the project has transformed schools into functioning learning centers. Additional complementary education activities, in hygiene and preventative health care, are taking place in over 670 schools, often alongside parent-teacher organizations. More than 1,100 Nicaraguan teachers have been trained in reading and math. Nicaraguan children, who would normally attend rundown schools without learning materials, are now becoming literate and gaining knowledge in health and nutrition.

The Budget also proposes \$20 million to support the Local and Regional Food Aid Procurement (LRP) program, authorized in the 2014 Farm Bill. The LRP request will be used to provide local and regional procurement of food aid commodities for distribution overseas to

complement existing food aid programs--especially McGovern-Dole--and fill nutritional gaps for targeted populations or food availability gaps generated by unexpected emergencies.

The Budget assumes \$135 million in CCC funding for the Food for Progress (FFPr) program, which is expected to support approximately 190,000 MT of commodity purchases. The FFPr program provides for the donation of U.S. agricultural commodities to developing countries committed to free enterprise in the agricultural sector. For example, following Liberia's civil war, abandoned cocoa plantations were infected with black pod disease. In 2010, USDA began a FFPr grant to help producers in Liberia establish sustainable cocoa trees to expand production and market opportunities. The project established nurseries for farmers to access high-yielding hybrid seedlings and high-quality plants. In 2008, prior to the project, farmers produced 107 MT of cocoa, with sales of \$64,000. By 2013, farmers who participated in the USDA project were producing 725 metric tons of cocoa, valued at \$1.2 million.

The Norman E. Borlaug International Agricultural Science and Technology Fellowship Program promotes food security and economic growth by providing training and collaborative research opportunities to fellows from developing and middle-income countries.

After training at the University of Nebraska, a 2014 Borlaug alumnus from Bangladesh started the Asian Food Safety and Security Association (AFSSA), a non-profit organization facilitating research to address food safety and security issues. AFSSA's research will benefit not only Bangladesh, but the Asia region in facilitating science-based food safety decisions.

In FY 2014, the Cochran Fellowship Program provided short-term training in market- and trade-related topics in the United States for 517 international participants from 69 countries. Among the Cochran alumni is Mozambique's Minister of Science and Technology. He was a Cochran fellow in 2003, at Texas A&M University. He continued his training at the University of Illinois and Kansas State University with the support of FAS' Emerging Markets Program. Under his leadership, Mozambique is enhancing its use of science, technology, and innovation to reduce poverty, increase economic growth, and improve social safety nets.

Public Law 480

The Budget proposes \$1.4 billion in funding in FY 2016 for the P.L. 480 Title II international food assistance program, administered by the U.S. Agency for International Development (USAID). The request includes \$270 million for development programs in combination with an additional \$80 million requested in the Development Assistance account

under USAID's Community Development Fund, bringing the total funding for these types of programs to \$350 million. These resources support development food assistance programs' efforts to address chronic food insecurity, reduce poverty, and build resilience. The balance of the Title II request, \$1.13 billion, will be used to provide emergency food assistance in response to natural disasters and complex emergencies.

The request also includes new authority to use up to 25 percent (\$350 million) of the P.L. 480 Title II appropriation in emergencies for interventions such as local or regional procurement of agricultural commodities near crises, food vouchers, or cash transfers. The additional flexibility makes emergency food aid more cost effective, timely, and increases the number of people that can be assisted in emergency crises, without additional resources, by about two million annually.

Conclusion

Thank you for your support, Mr. Chairman and members of the Subcommittee. The Foreign Agricultural Service is committed to contributing to economic prosperity in rural communities and beyond that benefit from the export of high-quality, U.S. agricultural commodities and products. FAS is proud to deliver U.S. food aid and build agricultural capacity in developing countries, contributing to food security throughout the world. I appreciate your consideration of the agency's FY 2016 Budget request.

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