

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 to present the President's Budget request for FAS programs in fiscal year (FY) 2015.

INTRODUCTION

In an Osaka, Japan supermarket, a bounty of U.S. agricultural products lines the shelves: strawberries, table grapes, citrus, prunes, celery, pomegranates, peanuts, almonds, pork, and beef.

At an Indonesian port, U.S. soybeans enter a \$1 billion dollar market unencumbered by proposed regulations, recently canceled.

Along the Serengeti border in northern Tanzania, the daughter of a nomadic herder sits down to a school lunch of rice and beans supplemented with locally grown vegetables from the garden at a McGovern-Dole International Food for Education Program site.

These snapshots illustrate the results of the work conducted by the Foreign Agricultural Service, in conjunction with the resourceful U.S. agricultural community, our food aid and capacity building partners, and the resources provided by the U.S. Congress.

In calendar year 2013, exports of U.S. food and agricultural products reached a record \$144.1 billion and supported nearly one million American jobs. FAS' global network of agricultural economists, marketing experts, negotiators, and trade specialists in Washington, D.C. and 96 international offices that cover 160 countries are proud that their efforts helped facilitate this achievement. We are on track for another exceptional export year in FY 2014, with

shipments of farm and food products forecasted to reach \$142.6 billion. For FY 2015, we are asking for \$183 million for salaries and expenses to continue our efforts to expand export opportunities, reduce barriers to trade, and promote global food security. We also are seeking \$185 million in funding for the McGovern-Dole International Food for Education and Child Nutrition (McGovern-Dole) program for FY 2015. In 2013, USDA completed its 11th year of McGovern-Dole programming, which has provided benefits to about 28 million children in 37 countries throughout the world.

THE ROLE OF THE FOREIGN AGRICULTURAL SERVICE

FAS is USDA's lead agency for developing international markets, providing export financing, negotiating trade agreements, and conducting food aid and technical capacity building efforts that enhance U.S. agricultural exports. 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, bringing buyers and sellers together, averting problems before they impede exports, and building the capacity of potential trading partners. FAS' targeted trade missions and support for trade shows match U.S. agricultural exporters with buyers around the world.

FAS plays a critical role in USDA's efforts to collect, analyze, and evaluate global market intelligence and data for U.S. agriculture. The FAS database on global agricultural production and use is the most comprehensive and highly regarded in the world. Policymakers' ability to make sound decisions is dependent on the quality of the analysis conducted by FAS agricultural economists. U.S. exporters rely on this information to develop domestic and international programs and make key business decisions.

At FAS, our success is a direct result of our people forging relationships across political and cultural boundaries, negotiating in challenging and complex situations, assessing market opportunities, and promoting pro-trade institutions and policies.

OPENING MARKETS THROUGH TRADE AGREEMENTS

Today, FAS trade negotiators hold seats at the table for 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 underpins the negotiating strategy on agriculture. The TPP and T-TIP are opportunities to address not only market access commitments, but also non-tariff, sanitary and phytosanitary (SPS) and technical barriers to trade (TBT) that impede our agricultural exports. Once these agreements are in place, the United States will enjoy unfettered 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 in 2014. Growth in purchasing power in the large and growing markets of the Asia-Pacific region is fueling demand for high-quality U.S. agricultural exports. A TPP agreement would reduce existing tariff and non-tariff obstacles. Today, Japan's average agricultural tariff is 40 percent, while U.S. agricultural tariffs average only 12 percent. TPP SPS commitments will provide improved access for U.S. commodities including, meat, fresh fruit and vegetables, and processed foods, that currently face trade-restrictive SPS barriers in Australia, Japan, Vietnam, and other TPP countries.

This year, we expect to make significant progress in the T-TIP negotiations with the European Union. We are seeking to eliminate tariffs on exports of U.S. agricultural products. Examples of the EU's current high tariffs on U.S. agriculture include: dairy products including cheese and milk powders (60 percent), beef (100 percent), wine (23 percent), dried cranberries (17.6 percent), strawberries (17.6 percent), and high-value, processed foods (25 percent average). T-TIP also offers an historic opportunity to modernize trade rules and to bridge divergences in our respective regulatory and standards systems. Through the T-TIP we are seeking meaningful market access that includes commitments from the EU to base SPS measures on international standards and scientific risk assessments.

To facilitate the conclusion and approval of these market-opening agreements, we are working with Congress to support broad bipartisan passage of Trade Promotion Authority

(TPA). TPA is an important part of the Administration's larger strategy of increasing U.S. exports and global economic competitiveness and it sends a signal to our trading partners that Congress and the Administration stand together on the high standards our negotiators are seeking at trade talks.

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 staff facilitated implementation by each country of new tariff schedules, tariff-rate quotas (TRQs), and SPS commitments. Agricultural exports to those countries in FY 2013 reached \$7.3 billion, supporting almost 50,000 American jobs.

U.S. agricultural exports to Korea exceeded \$5.2 billion in FY 2013, making it our sixth-largest market. Under KORUS, many U.S. agricultural exports experienced large gains last year, including soybeans and soybean meal, tree nuts, and fresh fruit.

U.S. agricultural exports to Colombia topped \$1.4 billion in FY 2013, and were almost 70 percent higher than FY 2012. U.S. rice shipments to Colombia reached more than \$95 million in FY 2013; and soybean and soybean meal exports rose from less than \$93 million to more than \$260 million in FY 2013. FAS trained Colombian government officials on TRQ administration and we monitor TRQ fill rates to ensure U.S. exporters enjoy all the benefits of the agreement.

For Panama, U.S. agricultural exports increased to over \$585 million in FY 2013, up nine percent from FY 2012. Nearly half of current U.S. agricultural exports received immediate duty-free treatment and another third received lower tariffs in 2013.

RESOLVING SPS and TBT BARRIERS

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

A major success in reducing SPS barriers is the expanded market access gained for U.S. beef in Mexico, Japan, and Hong Kong. U.S. beef exports to these markets grew to nearly \$2.8 billion in FY 2013 following substantial market openings. Total exports of beef and beef products in FY 2013 reached an all-time high of \$5.9 billion. USDA efforts were instrumental in obtaining a decision last May from the World Organization for Animal Health (OIE) to grant the United States negligible risk status for BSE. We are diligently pressing all our trading partners to align their import requirements with OIE.

Technical barriers to trade (TBT), such as testing, certification, labeling, and packaging requirements, frequently impede U.S. agricultural exports. FAS experts work tirelessly to address these barriers. For example, FAS assistance opened and expanded market access for U.S. potatoes in several Asian countries in FY 2013. The Philippines approved the entry of U.S. fresh table-stock potatoes, Taiwan approved the import of fresh potatoes from Colorado, and Korea lifted a suspension on Idaho, Oregon, and Washington chipping potatoes. The Korea success resulted from close collaboration between FAS, USDA's Animal and Plant Health Inspection Service, and the U.S. industry to develop mitigation measures. In FY 2013, potato exports to these Asian countries reached nearly \$21 million, up 13 percent from FY 2012.

IMPORTANCE OF FAS LOCAL PRESENCE IN OVERSEAS MARKETS

Part of the story behind FY 2013's 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 2013 alone, FAS negotiated the release of hundreds of detained shipments in dozens of countries, valued at well over \$34 million; ranging from California almonds in Poland, to Nebraska beef in Chile, to Maine lobsters in Taiwan, to Georgia poultry in the United Arab Emirates.

Recently, FAS Istanbul worked with the Georgia Pecan Growers Association to produce a marketing program to introduce Georgia pecans to the Turkish consumers. The importers believe that an initial shipment will spur future sales, making Georgia pecans part of Turkish product lines, including traditional Turkish desserts like baklava.

BUDGET REQUEST: Salaries and Operating Costs, and Programs with Examples

The 2015 Budget provides a funding level of \$182.6 million for salaries and expenses to maintain the FAS' overseas presence near current levels and to continue our core activities: trade promotion, trade policy, capacity building, and food security. The Budget reflects our continuing focus in identifying efficiencies in operations.

FAS has implemented significant measures to increase organizational discipline, efficiency, and accountability. This focus has realized cost savings in organization-wide services such as contracting, IT support, and human resources. For example, we finalized a multi-year restructuring of FAS' IT division that reduces staffing needs by 42 percent as FAS moved to a "services instead of assets" IT model enabling a streamlining of the organization from five first line supervisors to two. We have revolutionized agency financial management with scores of improved operating procedures, clarified our domestic and overseas financial operations, and provided management with more timely, accurate statements of FAS' overall financial condition. One improvement to our financial management operation was the development of a grant system, called Grantor. Grantor ties grants management to financial management in a systematized, integrated way. With improved operations, FAS can be more responsive to its workforce, build improved relationships with key agency stakeholders, and direct resources to better capitalize on opportunities for improved access to international markets for U.S. agriculture.

Market Development Programs

For 2015, the CCC baseline budget reflects a \$200 million program level for the Market Access Program (MAP). The CCC baseline assumes funding for FAS' other CCC-funded market development programs as follows: \$34 million for Foreign Market Development (FMD), \$9 million for Technical Assistance for Specialty Crops (TASC), and \$10 million for the Emerging Market Program (EMP). These programs were reauthorized in the 2014 Farm Bill.

Working with our agricultural cooperator partners, our MAP and FMD programs have been shown to be highly effective, increasing exports by \$35 for every dollar of funds invested.

Last year, using MAP funding, the Organic Trade Association (OTA) sponsored a reverse trade mission for international buyers to attend the Natural Products Expo in Baltimore. Participants recruited for the Expo by OTA and FAS also included thirteen small and medium sized businesses from eight states, including Alabama and California. The international participants sponsored for the Expo by OTA and FAS included buyers from Hong Kong, Kuwait, Sweden, Thailand, the United Kingdom, and Vietnam. The buyers made an estimated \$3.6 million in purchases at the Expo.

Southern yellow pine (wood) is gaining popularity in Europe and the Middle East due to MAP-funded promotional efforts by FAS staff in Germany and Southern Forest Products Association. At a 2013 trade fair in Germany, a manufacturer scored immediate success when matched with a wood broker who placed an initial order of \$100,000. The wood was sourced from a small Alabama mill. Additionally, a German wholesale and retail chain contracted for orders that were sourced from small and medium-sized businesses, two mills and two lumber distributors, helping to protect about 200 rural Southern jobs.

Export Credit Guarantee Programs

The 2015 Budget reflects the statutory program level of \$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 2013 GSM-102 program facilitated sales of a wide variety of agricultural commodities, including wheat, soybeans, corn, rice, poultry, and nuts. Guarantees were issued for orange and avocado sales to Korea, where these horticultural products are benefiting under the recent 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 2013 program that supported \$3.1 billion in exports.

Food Assistance and Capacity Building

FAS food aid and trade capacity building programs pave new avenues for trade and economic growth by establishing and strengthening market-oriented policies and structures in developing countries. FAS collaborates with other U.S. government agencies, land grant universities, and the private sector, to provide technical assistance and training in strategically-targeted countries. These programs build the foundation for future markets and create long-term international relationships that actively promote U.S. agriculture in developing countries.

The 2015 Budget proposes \$185 million for the McGovern-Dole Program. The program is expected to assist four million women and children worldwide in 2015. The program provides U.S.-sourced agricultural commodities and technical assistance for school feeding and maternal and child nutrition projects in low-income, food-deficit countries that are committed to universal education. McGovern-Dole Programs are designed to "graduate" from reliance on USDA assistance and become self-sustaining with active involvement and support from the host government or local communities. In Kenya, USDA provided \$20 million in FY 2013 for hot lunches for 650,000 primary and pre-school children each year for the next three years. The funds are also providing an early-morning, nutritious porridge, prepared from corn-soy blend, and a hot lunch to 52,500 pre-school children with high malnutrition rates. USDA is working with the Government of Kenya on capacity building activities that will enable Kenya to successfully take over the school meals program that is becoming one of the largest nationally-owned programs in East Africa. Approximately 50,000 students a year are now being transitioned from the USDA-supported project to the government school feeding program.

The 2015 Budget assumes \$240 million in CCC funding for the Food for Progress (FFPr) program, which is expected to support approximately 180,000 metric tons of commodity assistance. 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, in FY 2013, FFPr is assisting Pakistan's first and only woman-owned cold storage facility, Safina Cold Store (SCS), with an in-kind grant of modern equipment and renovations, making it the first modern cold storage facility in the province. The Pakistan Agriculture and Cold Chain Development Project is a three-year FAS-supported project that is linking horticultural

production in southwest Pakistan -- an area widely known as the fruit basket of Pakistan -- to modern markets throughout the country. A significant percentage of the province's produce never reaches prime markets because necessary cold chain equipment and proper post-harvest handling practices are not in place. As a direct result of FAS assistance under this project, the remodeled storage facility will ensure that SCS and local subsistence farmers expand market opportunities by offering higher-quality fruits and vegetables that generate greater profits.

Training offered to researchers and policymakers from developing and middle-income countries under the Norman E. Borlaug International Agricultural Science and Technology Fellowship Program transfers knowledge that strengthens agriculture. For example, a Fellow from Indonesia and her mentors from Louisiana State University continued to collaborate following her 2011 fellowship on sweet potato cultivars resistant to environmental stress during postharvest handling and storage. Their research findings were published in the May 2013 Journal of the American Society for Horticultural Science. The research has important implications for reducing post-harvest losses and increasing productivity for sweet potato growers in both the United States and other parts of the world. A government official from Egypt participated in a Borlaug Fellowship Program hosted by Texas A&M University that increased understanding of the measures that USDA and the U.S. cotton industry have undertaken to eradicate Boll Weevil and prevent its spread within the United States. As a result, this Fellow was critical to Egypt's decision to lift its import ban on U.S. cotton, increasing U.S. cotton exports to that country from \$11.6 million in 2010 to \$34.4 million in 2013.

The Cochran Fellowship Program provided short-term training in the United States for 612 international participants from 65 countries in FY 2013. Fellows meet with U.S. agribusinesses, attend policy and food safety seminars, and receive training in market development, trade capacity building, and biotechnology. In 2013, four representatives from Thai grocery chains participated in a program focused on fresh produce procurement and marketing. As part of their fellowship they visited California, Washington, and Oregon where they met major produce exporters and growers. Following their participation in this program, they have reported purchasing fresh U.S. produce, specifically apples, grapes, cherries, and lettuce, valued at \$42 million.

Public Law 480

The budget proposes \$1.4 billion in funding in FY 2015 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. Together, these resources support development food assistance programs' efforts to address chronic food insecurity in areas of recurrent crises, to 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 timely and cost effective, improving program efficiencies and performance and increasing the number of people assisted in emergency crises by about two million annually with the same level of resources.

CONCLUSION

With USDA's Foreign Agricultural Service FY 2015 Budget request, I pledge that the agency's employees will faithfully execute our mission, maximize opportunities for U.S. agricultural exporters, and deliver food aid and build agricultural capacity in developing countries. The funding you provide increases opportunity and prosperity in America and around the world.

Thank you.