

AGRICULTURAL MARKETING SERVICE

Statement of Anne L. Alonzo, Administrator before the Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies

Mr. Chairman and Members of the Subcommittee, I am very pleased to have this opportunity to present the fiscal year (FY) 2015 budget request on behalf of the Agricultural Marketing Service (AMS). While I have been at AMS for less than a year, I was immediately impressed by how effectively AMS supports marketing for U.S. agriculture in our country and around the world. By increasing agricultural opportunities through new markets and a competitive agricultural system, our programs advance the Department's goal of helping rural communities create prosperity. Directly and indirectly, our programs also facilitate exports and help to ensure that all of America's children have access to safe, nutritious, and balanced meals.

In this budget, we propose to increase our efforts to expand marketing options for farmers and ranchers through local and regional food systems, while continuing our dedicated support of marketing systems for all agricultural commodities. To accomplish this, we are requesting a total of \$84 million in annual appropriations. Before I describe our budget proposals, I would like to briefly mention our mission and programs, and highlight a few of our recent accomplishments.

AMS MISSION AND PROGRAMS

AMS' mission is to facilitate the strategic marketing of agricultural products in domestic and international markets, while ensuring fair trading practices and promoting a competitive and efficient marketplace to the benefit of producers, traders, and consumers of U.S. food and fiber products. We partner with state agricultural agencies, local and Tribal governments, other

Federal agencies, and agricultural producers and other stakeholders along the marketing chain to accomplish our mission effectively and cost-efficiently.

Our employees and partners provide information, technical assistance, and services to help move agricultural products from producers to consumers. For example, our market news program impartially reports current information like price, movement, and supply which is essential for competitive marketing. We also generate data on the cost and availability of various agricultural transportation modes and offer technical assistance on the development and utilization of marketing facilities and systems, both conventional and alternative. We offer voluntary services that certify the accuracy of USDA quality grades and specialized food labels that are important to consumers here and abroad. And we oversee self-help research and promotion programs and marketing order programs that are developed and financed by farmers, ranchers, and others in the agricultural industry.

We support fair marketing by maintaining the integrity of the USDA organic label, inspecting shell egg packing and handling operations, verifying that a variety of products are labeled for country of origin, checking seed for accurate labeling, and resolving financial disputes concerning fresh and frozen fruits and vegetables.

Our commodity purchase program supports both rural economies and government nutrition goals. AMS purchases, which are distributed through USDA's domestic nutrition assistance programs, help food producers reduce surplus supplies. We also purchase healthy and nutritious food specifically for USDA's child nutrition programs. Through other AMS programs, we improve child nutrition by generating data on pesticide residues in foods, particularly children's foods, and by requiring high sanitary conditions for all facilities receiving USDA quality grade certification.

FY 2013 ACCOMPLISHMENTS

In 2013, despite reduced resources, we were able to implement changes in a number of our programs to better support domestic and export trading – both for conventional agriculture and for specialty markets like organic or local and regional. For example, we initiated process improvements in Market News while continuing to generate reports that are crucial to farmers

and ranchers. We continued our work with other USDA agencies in developing alternative market outlets, particularly local and regional markets. Our National Organic Program (NOP) finalized an international agreement with Japan and strengthened enforcement, while also developing a streamlined certification process. And since access to export markets is important for all agricultural products, we provided technical assistance and documents to support agricultural exports.

Market News – To increase market transparency, our Market News program implemented mandatory reporting on wholesale pork in 2013, providing market participants with considerably more information than they had before in order to address producer concerns about the availability of market data. At the same time, Market News continued to report data needed by the expanding organic industry, offering current marketing information on hundreds of organically grown products across the country – most on a daily or weekly basis – at various levels in the marketplace, including retail, wholesale, shipping point, and point of entry for imports. This increased market data about organic agriculture makes it possible for USDA’s Risk Management Agency to strengthen crop insurance offerings for organic producers. Also during 2013, the program began to streamline operations through organizational changes and process improvements that will allow us to begin expanding reporting on local and regional markets.

Transportation and Market Development – Our market development programs continue to be in high demand as a result of sustained public interest in local/regional food issues. Farmers markets have grown and larger-volume enterprises such as food hubs have rapidly emerged and developed across the country. Our team provides technical support for direct and locally-grown food enterprises, helping meet increasing consumer demand. In FY 2013, we recorded over 8,100 farmers markets in the AMS National Farmers Market Directory, a 4 percent increase from FY 2012, and a 54 percent increase since 2009. AMS also helped to develop a food hub database that now includes well over 200 regional food hubs, which open up new market opportunities for producers by aggregating and marketing farm products to buyers such as grocery stores and institutions. In 2013, our program experts responded to hundreds of requests for information and assistance regarding local and regional food marketing issues and participated in regional and national conferences, webinars, and workshops to share information

with more than 1,400 small and mid-sized enterprises and individuals on marketing and purchasing strategies for locally and regionally produced foods. AMS has partnered with other Federal agencies, providing information to 82 food service managers at Veterans' Administration hospitals across the country regarding ways to source more local food. These efforts create economic opportunities for rural communities and help increase access to fresh, healthy food where it is most needed.

National Organic Program – Our organic program sets standards for USDA certified organic products from more than 25,000 organic operations around the world, of which 18,500 are in the U.S. The USDA label assures consumers that organic products have been produced using approved methods and without prohibited substances. NOP supports the integrity of the organic label for buyers and consumers by monitoring and enforcing compliance by organic operations and accredited certifiers. In 2013, NOP reduced the backlog of open complaint investigations for the first time by completing investigations on more than 200 complaints alleging violation of the organic regulations. The program issued 18 civil penalties through settlement agreements for willful violations of the USDA organic regulations, ranging from selling product as “organic” without certification to the application of prohibited substances on organic crops. To expedite service to the industry, NOP streamlined its appeals process and increased the use of settlements, which cut the number of open appeals cases in half and reduced the average days a case is open by more than half.

To reduce the regulatory burden on businesses, NOP initiated a “Sound and Sensible” initiative to make organic certification more accessible, attainable, and affordable for small and beginning farmers. The ‘Sound and Sensible’ initiative involves identifying and removing barriers to organic certification, streamlining the certification process and focusing enforcement on egregious violations, correcting small issues before they become larger ones, and supporting the Secretary’s efforts to eliminate duplicative requirements through cross-USDA collaboration.

NOP works closely with the Foreign Agricultural Service and the Office of the United States Trade Representative to establish international agreements that expand export market for U.S. organic operations. The NOP maintains recognition agreements with India, Israel, and New Zealand; a trade agreement with Taiwan; and organic equivalency arrangements with Canada, the European Union, and, as of this year, Japan. As of January 2014, the organic equivalency

arrangement with Japan means that certified organic operations in Japan and the U.S. may sell their products as organic in either country. The organics sector in the U.S. and Japan is valued at more than \$36 billion combined, and it is rising every year. This partnership streamlines access for U.S. farmers and processors to the growing Japanese organic market, benefiting the thriving organic industry and supporting jobs and businesses on a global scale.

Standards and Export Certification – Another way AMS supports export market access is through our commodity standards and export certification programs. Through collaboration with Federal regulatory and trade agencies and industry groups, we represent the interests of U.S. producers in the development of internationally-recognized standards and specifications to enhance and expand export market access for U.S. commodities. For example, the U.S. and Canada just announced an agreement to harmonize their terminology for wholesale meat cuts, thereby removing a longstanding trade irritant with one of our largest trading partners.

Our fee-funded export certification and verification programs offer opportunities for American farmers and businesses to succeed by connecting them with foreign markets. Federal agencies and the agricultural industry depend on AMS to develop and administer market and export assistance programs. These quality systems verification programs and laboratory approval programs make products eligible for export to various countries by certifying they meet export requirements and policies of specific countries. For example, AMS' Dairy Program offers inspection and certification of dairy and related products for export that attest dairy products are fit for human consumption, produced under sanitary and wholesome conditions, and free from animal diseases. In 2013, the dairy program implemented an electronic document system to facilitate export certification for product going to the European Union (EU), and issued over 32,000 export certificates. These certificates were issued to over 110 countries impacting nearly \$5 billion in trade.

As the use of veterinary drugs is an increasing issue for animal agriculture in America and abroad, export verification has become a high priority issue for the beef, pork, and turkey industries. Notably, in 2013 the Russian Federation banned the use of a drug approved for use in food-producing animals to promote leanness and to improve feed efficiency. To address Russia's zero-tolerance policy, the Foreign Agricultural Service and the Food Safety and

Inspection Service approached AMS to develop a program to help U.S. beef, pork, and poultry producers meet the new requirements. The new program establishes a system of approved labs to verify these products meet international requirements. With this certification program, market opportunities are protected for U.S. products in the European Union, Russia, China, and other countries. In fact, after banning imports of U.S. pork for 12 months, Russian officials announced this month that they would again allow pork into Russia if the pork was produced from facilities that have been approved by AMS to meet Russia's requirements that pork be produced from animals never fed beta agonists. This AMS program will also help facilitate the export of pork to China, where there is a similar requirement.

Also in 2013, AMS launched the Processed Eggs and Egg Products Export Verification program, which verifies that facilities handling processed eggs and egg products are operating according to FDA Good Manufacturing Practices for sanitation and food safety. As of mid-March, AMS has certified 33 facilities to export products to Mexico and the EU, facilitating exports in a previously untapped export market that forecasts predict could exceed \$500 million. Similarly, the AMS Poultry Export Verification Program helps U.S. poultry companies export their products to EU countries. Thanks to this program, one American turkey processor was able to export close to 300,000 pounds of product in 2013. The Animal Protein Verification Program was developed for customers looking for poultry products that are not fed animal products or by-products. In some nations, such as Saudi Arabia, this is a requirement for all poultry products. By participating in the program, one company exports close to 20 million pounds of products every year.

Commodity Purchases – Our Commodity Purchase Program provides much needed assistance to producers while supporting the Department's nutrition assistance programs. We make every purchase count for suppliers and recipients of our purchase program. Last year, AMS' Commodity Procurement purchased a total of almost \$1.6 billion of food to support USDA nutrition assistance programs like the National School Lunch Program, the Emergency Food Assistance Program, and others. This included over \$720 million worth of food from our nation's producers using funds available to AMS, including more than \$400 million in fruits and vegetables. AMS also strives to support small businesses with these purchases, with over 45 percent of contract dollars awarded to small businesses in 2013. Our total purchases also include

nearly \$850 million of commodities paid for with FNS funding to fulfill nutrition program needs. Foods purchased by AMS meet the highest safety and quality standards, as evidenced by our purchase specification data, available through the AMS web site.

FY 2015 BUDGET PROPOSALS

For FY 2015, AMS proposes a discretionary appropriation of \$84.2 million, including \$83 million for all Marketing Services activities and \$1.2 million for Federal-State Marketing Improvement Program (FSMIP) grants.

Our Marketing Services request continues our on-going marketing support for agricultural producers large and small, conventional and organic. Given the continued growth in consumer demand for locally-produced foods and the strong interest we see from those utilizing our services, we propose to focus additional resources to support local and regional markets. Investing in local and regional marketing efforts, like farmers markets and food hubs, gives small and mid-sized producers – including young farmers, veterans, immigrant farmers and others – the opportunity to sell more of their products and provides fresh, healthy food for consumers. We also see a growing number of large farms diversifying into specialty offerings such as locally-branded food; our efforts in this area truly benefit American agriculture as a whole. Our proposal supports USDA's efforts to strengthen regional economies and improve access to healthy foods for consumers.

In any business venture, the key to reaching a new market is starting with accurate and comprehensive information. Specifically, our 2015 budget requests additional resources for our Transportation and Market Development program to generate information concerning state and regional food needs that is not readily available to food system developers and investors. We will partner with Federal and State agencies, land-grant universities, and regional planning commissions to conduct assessments of supply chain resources available in various states to support food system development. The resulting information will better inform planning by helping state and local governments understand where and what agricultural resources and food businesses exist, allowing them to strengthen their policies and initiatives using existing assets and infrastructure. This information will also assist producers and local and regional food

businesses by helping them connect with others in their supply chain to strengthen local and regional food distribution systems. In addition this initiative supports the Farmers Market and Local Foods Promotion Program that was authorized and funded by the 2014 Farm Bill. Through this Farm Bill program, AMS will award grants to increase domestic consumption of agricultural products and to develop market opportunities for farm and ranch operations serving local markets.

This proposal will complement our plan to expand Market News reporting on local and regional food (within current funding levels). There is currently inadequate market data available on agricultural products sold locally, which can often command a premium. We plan to generate Market News information on locally-produced fruits, vegetables, meat, poultry, egg, and dairy products at local markets, in farm-to-school programs, and at regional food hubs. This will generate new transparency for local markets and new opportunities for producers, including young, beginning, and disadvantaged farmers and ranchers. Local and regional market reporting will lead to a better understanding of the prices paid to producers, which can be used to establish loan values and develop crop insurance tools, leading to more sustainable business models. We will work with our partners to make this pricing data available for utilization by other USDA agencies that provide these services. This effort also fulfills a Farm Bill mandate that USDA develop pricing data for local food products (Sec. 5105 and Sec. 10016).

Together, AMS programs will help agricultural producers access institutional markets, restaurants, grocers, and other buyers of local and regional food. Expanding into mainstream markets can involve aggregation, processing, and distribution, which offers an important opportunity for smaller producers to scale up, for midsized producers to serve a scale-appropriate market segment such as institutions and grocers, and for producers of all sizes to diversify their sales. These new market outlets mean that producers receive a greater share of the retail price and support economic development in rural and urban communities.

Our Marketing Services request reflects a net total increase of \$3 million from the 2014 budget, including \$1.3 million for AMS' share of decentralized GSA rent and DHS security costs previously funded at the Department level, and \$443 thousand for the proposed 1 percent pay

increase. Cost reductions and efficiencies across Marketing Services programs totaling \$1.3 million help to offset the proposed increase.

CONCLUSION

By facilitating a competitive and efficient market for agricultural products, our programs make it possible for agricultural producers, processors, handlers, shippers, and sellers to conduct business efficiently and effectively. We believe the allocation of resources proposed in the 2015 Budget represents the most effective use of available funding to accomplish AMS' important mission. Thank you for this opportunity to present our budget proposal.