

FOREIGN AGRICULTURAL SERVICE

**Statement of Suzanne Palmieri, Associate 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) 2017.

Introduction

FAS's mission is linking U.S. agriculture to the world to enhance export opportunities and global food security. This is an undertaking that is both challenging and extremely rewarding. For U.S. agriculture to continue to thrive, we must continue to open, expand, and maintain access to foreign markets, where 95 percent of the world's consumers live. FAS is committed to partnering with our stakeholders to assist U.S. agriculture. This assistance takes the form of everything from making our products known to global consumers, to overcoming non science-based sanitary and phytosanitary barriers, to accessing market opportunities, to negotiating trade agreements, to enhancing food security worldwide.

U.S. Agricultural Exports Remain Strong

For the period FY 2009 through 2015, U.S. agricultural exports climbed more than 45 percent in value, totaling over \$911 billion and marking the best seven-year stretch in history. In addition, agricultural exports increased in volume, demonstrating an increasing global appetite for American-grown products. FAS's global network of agricultural economists, marketing experts, negotiators, and trade specialists in Washington, D.C. and 93 international offices covering 170 countries are proud of their role in this achievement.

Credit for record exports belongs to America's hardworking farm and ranch families, and FAS's export expansion activities are an integral part of the story. For FY 2017, we are asking for \$196.6 million for salaries and expenses, a \$5 million increase over the FY 2016 appropriation, to continue our efforts to expand exports, reduce trade barriers, and promote global food security. We also are seeking \$182 million for the McGovern-Dole International Food for Education and Child Nutrition

(McGovern-Dole) program, including \$5 million of that amount for local purchase. The FY 2017 Budget also proposes \$15 million for the Local and Regional Procurement (LRP) program established by Congress in the 2014 Farm Bill.

The Role of the Foreign Agricultural Service

FAS is USDA's lead international agency, working with the Office of the U.S. Trade Representative to negotiate trade agreements to expand market opportunities for U.S. agriculture, providing export financing of commercial exports of U.S. agricultural products, 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 across the globe are American agriculture's envoys, providing real-time information on emerging trade and marketing issues, resolving issues that interrupt trade, matching buyers and sellers, and averting problems before they impede exports.

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 FY 2015, the diligence of FAS personnel secured the release of detained U.S. export shipments, and overcame sanitary and phytosanitary (SPS) restrictions, and technical barriers to trade, directly preserving \$3.6 billion in U.S. agricultural exports.

Opening Markets Through Trade Agreements

Congressional passage of the bipartisan Trade Promotion Authority (TPA) bill last summer affirmed the expectations for the high-standard trade agreements the Administration negotiates. The bill represents bipartisan support for U.S. leadership in global trade.

Providing TPA boosted the Administration's ability to complete negotiations of the landmark Trans-Pacific Partnership (TPP) agreement. When implemented, the TPP agreement, with eleven Pacific Rim countries, representing nearly 40 percent of global gross domestic product, will provide new market access for America's farmers and ranchers by lowering tariffs and eliminating other barriers. Rural America needs the good deal laid out in the TPP agreement. We are committed to working closely with Congress to obtain support for this historic deal so that our businesses can sell

more rural-grown and rural-made goods around the world. Rural exports support farm income, which translates into more economic activity in rural areas.

Most U.S. farm product exports will receive duty-free treatment immediately under TPP. Over 50 percent of U.S. farm products (by value) will enter Japan duty free once the agreement is implemented. These products include grapes, strawberries, walnuts, lactose, certain fruit juices, and pet foods. Vietnam committed to eliminate more than 60 percent of agricultural tariffs on current trade within five years. Malaysia and New Zealand committed to eliminate immediately more than 90 percent of agricultural tariffs. Other farm products will receive preferential access within new tariff-rate quotas (TRQs), which provide access for a specified quantity of imports at a preferential tariff rate, generally zero. Exports to Japan that will benefit from the new TRQs include: barley, wheat products, sugar-containing products, whey, butter and milk powder. Products exported to Canada that will benefit from these new TRQs include: dairy, poultry and eggs.

Of great importance is that the TPP agreement also promotes SPS measures developed and implemented in a risk-based, scientifically sound manner, while ensuring that regulatory agencies in the United States and other TPP countries are able to protect food safety and plant and animal health.

I am pleased to note that today Secretary Vilsack and FAS Administrator Phil Karsting are promoting U.S. agriculture on a trade mission to expand export opportunities for U.S. agriculture in two TPP partner countries, Peru and Chile. In both countries, steady economic growth and an expanding middle-class population fuel demand for high-quality, made-in-America products. Now is a great time for U.S. companies – especially small- and medium-sized enterprises – to start or expand their exports to these countries. The United States enjoys strong trading relationships with both countries thanks to existing trade agreements. Since entering into a trade agreement with Peru in 2009, U.S. farm and food exports have nearly tripled, reaching a record \$1.25 billion in FY 2015. Under the U.S. Chile Free Trade Agreement (FTA), U.S. agricultural exports have grown more than 500 percent, totaling \$803 million in FY 2015.

FAS negotiators are also advocating on behalf of U.S. agriculture in the Transatlantic Trade and Investment Partnership (T-TIP) negotiations. The European Union (EU) is currently our fourth largest agricultural export market valued at \$12.3 billion in FY 2015. President Obama and EU leaders have reaffirmed their pledge to negotiate a comprehensive and high-standard agreement. FAS experts are an integral part of the negotiating team led by the Office of the U.S. Trade Representative, with USDA's economic analysis supporting the negotiating strategy on agriculture. U.S. 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. The T-TIP is an opportunity to address not only market access commitments, but non-tariff, SPS and technical barriers to trade issues that impede U.S. agricultural exports.

Ensuring Full and Fair Implementation of Trade Agreements

The Korea-U.S. FTA, and the U.S.-Colombia and U.S.-Panama Trade Promotion Agreement entered into force in 2012. FAS helped in facilitating the implementation of the agreements, including new tariff schedules, TRQs, and SPS commitments that are expanding U.S. agricultural exports. Trade agreements, like those with Panama, Colombia and South Korea, create opportunities for trade growth. U.S. agricultural exports to these three countries grew by nearly 28 percent, from \$7.6 billion in FY 2012 to \$9.7 billion in FY 2015, supporting approximately 73,000 American jobs.

Resolving SPS Barriers

In 2015, FAS personnel have been instrumental in resolving numerous SPS barriers to trade. For example, after almost a year of dedicated efforts to contain and eradicate the highly pathogenic avian influenza (HPAI) outbreak in 15 U.S. States, USDA reported to the World Organization for Animal Health in November that all HPAI in U.S. commercial poultry were eradicated. Although the 2015 HPAI outbreak was one of the largest animal health emergencies in the country's history, U.S. poultry and poultry product exports reached a total of \$4.6 billion, maintaining much of their value when compared to the same period the previous year. The tireless efforts of FAS and our sister agencies, such as the Animal and Plant Health Inspection Service both in Washington and abroad have helped to restore or maintain our poultry export markets that were lost, including significantly, South Africa, Hong Kong, and Vietnam. We are continuing our work to remove HPAI-related restrictions on poultry and poultry products in overseas markets, such as China, South Korea and Thailand.

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. The FAS's overseas network delivers export successes that create jobs for U.S. farmers in every state across the country. In FY 2015, FAS Foreign Service Officers assisted in the release of detained shipments around the world valued in the hundreds of millions of dollars. Without the assistance of FAS overseas staff, many of these shipments would have been returned, diverted, or destroyed. FAS personnel also reviewed thousands of regulatory

measures proposed by foreign governments that had the potential to negatively affect U.S. exports. FAS attachés worked to address hundreds of these measures through relationships built with their in-country foreign counterparts, through formal WTO procedures, and through other formal international fora to minimize the negative impact on trade. For example, U.S. apple exports to India grew 53 percent to a record \$102 million because FAS overseas staff in India helped reverse a decision to restrict all apple imports to a single port of entry. Further, the FAS Moscow office kept the Russian soybean market open after officials suspended the normal biotech approval process, preserving a nearly \$200 million market for U.S. soybeans.

The FY 2017 budget seeks to expand our overseas network with funding to establish an in-country presence in Cuba. USDA's presence is necessary to cultivate key relationships, gain firsthand knowledge of Cuba's agricultural challenges and opportunities, and develop programs for the mutual benefit of both countries. In FY 2015, the United States exported almost \$176 million in agricultural products to Cuba. Our on-the-ground presence in Cuba is necessary if we are to assist U.S. agriculture capitalizing on opportunities in this nearby market. Cuba's geographical proximity and demand for U.S. products makes it a natural market, but as Secretary Vilsack has said "We are now stymied by an embargo that has certainly outlived its purpose."

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

As previously noted, the Budget provides a level of \$196.6 million for salaries and expenses to maintain FAS's overseas presence and to continue our core activities: trade promotion, trade policy, capacity building, and food security. The FY 2017 request reflects increased funding for International Cooperative Administrative Support Services, pay increases for both Americans and Foreign Service Nationals, and the opening of an office in Cuba.

FAS is implementing management initiatives to engage employees, increase access to our programs, improve diversity, and increase performance and efficiency. Three examples provide insight into the types of initiatives and results that FAS produced during FY 2015.

FAS streamlined the application process for the Food for Progress (FFPr) and McGovern-Dole programs, reducing the time required for external stakeholders to prepare and submit applications by 17 percent or about 20 hours per proposal. FAS has established a standard set of performance indicators for country strategies that provide clear links between country strategies and the FAS strategic plan and strengthen FAS reporting on outcome-based measures. In addition, FAS held listening sessions with employees, in support of the Secretary's Cultural Transformation Initiative,

and generated 15 actions related to administrative systems, decision making, empowerment, teamwork and transparency that will be implemented by the end of March to make FAS a great place to work. Examples of these actions include developing a newsletter that will provide greater transparency on the agency's budget, establishing an internal communication position to improve information sharing within the agency, and strengthening standard operating procedures.

Market Development Programs

For FY 2017, the 2014 Farm Bill provides \$200 million for the Market Access Program (MAP); \$35 million for the Foreign Market Development (FMD) program; \$9 million for the Technical Assistance for Specialty Crops (TASC) program, and \$10 million for the Emerging Markets Program. In FY 2016, MAP provided direct funding to 62 U.S. agricultural trade associations, state regional trade groups, and agricultural cooperatives and FMD provided direct funding to 23 U.S. agricultural trade associations.

Working with our agricultural cooperator partners, our MAP and FMD programs have been shown to be highly effective. An independent study by IHS Global Insight, Inc. 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. FAS contracted with an independent company to update the cost-benefit analysis of these programs. This study is due in the spring of 2016.

In FY 2015, the Almond Board of California and FAS, using MAP funding, helped prevent the disruption of almond exports to South Korea by proactively working with the Korean government as it implemented new pesticide maximum residue levels. California almond exports to South Korea have tripled their value since 2010, to more than \$200 million in FY 2015.

With MAP and FMD program support, the U.S. wheat industry strengthened its competitive position in Vietnam through workshops to help flourmill managers develop wheat selection strategies and seminars to emphasize characteristics of U.S. wheat. The workshops led to one mill's decision to purchase an additional \$19 million in U.S. wheat. Because of the seminars, seven Vietnamese cake plants are exclusively using U.S. wheat in product formulations. U.S. sales of wheat averaged over 170,000 metric tons over the last five years; nearly four times higher than the previous decade.

Thousands of U.S. farmers, ranchers and other businesses benefit from use of the USDA Organic Seal, which has become a leading global standard. Through our arrangements with Canada, the EU, Japan, and South Korea, U.S. organic farmers and businesses have streamlined access to

international organic markets valued at over \$35 billion. In 2015, USDA built on this success by helping to secure an agreement with Switzerland that eased the flow of trade through Europe. Together with other U.S. government partners, USDA is in active negotiations with Mexico and Taiwan on organics equivalency agreements and has been using market development programs to bolster this effort. In FY 2015, the Organic Trade Association (OTA) received funding from our TASC program to begin work on equivalence comparisons for Mexico and Taiwan. In addition, FAS allocated MAP funds to OTA for use in Mexico and Taiwan to educate consumers on the value, quality, and integrity of USDA certified organic products.

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 billion will be made available for the GSM-102 program and \$500 million for the Facility Guarantee Program. The 2015 GSM-102 program facilitated sales of a wide variety of agricultural commodities, including corn, soybeans, soybean meal, wheat, paper products, rice, wood products, and cotton. The Latin American region moved into first place in GSM-102 with strong use for bulk commodities. South Korea continues to show diversity in use with guarantees issued for sales of U.S. agricultural exports that are benefitting from the trade agreement, including grapefruit, lemons, wine, lentils, and animal feed products.

Building Trade Capacity and Global Food Security

Achieving global food security is important not only to nearly a billion food insecure persons, but also to the sustainable economic growth of developing nations and the long-term economic prosperity of the United States. International trade contributes to global food security by creating reliable, varied food supplies. As we help countries become more food secure and raise incomes, we also enhance export opportunities for American producers. For example, between FY 2009 and 2015, U.S. agricultural exports to developing countries grew 51.7 percent, outpacing the 33.8 percent to developed countries over the same time period.

Trade capacity building facilitates understanding and acceptance of U.S. and international trade and regulatory standards and policies. Food assistance through the McGovern-Dole program and Food for Progress program bolsters food security, reduces hunger and malnutrition, and strengthens rural communities. The FAS Cochran and Borlaug fellowship exchange programs, and development work through food assistance programs, work to strengthen capacity focusing on institutions like customs, national standards authorities, and food safety systems. 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 Budget proposes \$182 million to support 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 3.4 million women and children worldwide in 2017. 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.” Procuring local food such as fruits and vegetables, FAS will be able to offer more nutritionally rich meals and boost local farmer incomes, which will in turn build community support for our McGovern-Dole programs. Building community support enhances long-term success and increases the probability that local governments take over the school feeding programs.

Congress identified fostering local self-sufficiency and ensuring the longevity of programs as one of the priorities of awarding McGovern-Dole grants. In Bangladesh, FAS is witnessing success in obtaining local support and sustainability. The Government of Bangladesh 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.

Last spring, I saw firsthand elementary school girls in rural Honduras who are enthusiastic about learning and engaged in their school gardens. These girls are fed daily meals through a McGovern-Dole program in Intibucá, Honduras through a project with Catholic Relief Services. They receive an education on nutrition, food safety and sanitation, knowledge they take back to their families. Near the elementary school was a kindergarten where the young girls have only been in a school feeding program for a few months. As a result of being undernourished for much of their 5 years, their lack of energy and poor physical condition was clearly visible. Due to the McGovern-Dole program, which also provides transportation to distant schools for the most vulnerable students, these girls have the chance to experience school that their elder classmates enjoy.

The Budget proposes a total of \$20 million to continue implementing the Local and Regional Procurement (LRP) program authorized in the 2014 Farm Bill. We are requesting a line item of \$15 million for LRP and \$5 million from the amount made available for the McGovern-Dole program. The \$5 million in McGovern-Dole funds matches the funding provided by this subcommittee in our

FY 2016 appropriation, funding that will be programmed this year. We know from USDA's "Farm to School" efforts that bringing locally grown foods into the schools has multiple benefits – added nutrition, improved science skills, and increased income for local growers. We want to expand this success to our international school feeding programs. In FY 2017, the LRP program will focus on improving supply chains, and procuring supplementary food for school meals in McGovern-Dole programs.

The Budget assumes \$175 million in CCC funding for the FFPr program, which is expected to support approximately 263,000 MT of U.S. commodity purchases. The FFPr program provides for donations of U.S. agricultural commodities to developing countries committed to free enterprise in the agricultural sector. I had the privilege of seeing firsthand how this program is a sound investment in sustainable capacity building at the Ixoqui Women's Training and Food Processing Center in Guatemala's Chimaltenango area. The facility was developed through a FFPr project implemented by Texas A&M University, starting with an irrigation system for greenhouses and later supporting a processing and packaging facility. Women who now possess the skills and knowledge to produce and market roses are engaging in regional trade and exporting roses to El Salvador, generating income for their families. While the project started with USDA funds, it is now a sustainable enterprise.

We also have the ability to respond to requests by governments. Last May, I traveled with the Secretary to Jordan for the signing of a FFPr agreement to provide 100,000 MT of U.S. wheat, valued at approximately \$25 million to the Government of Jordan. Jordan, a steadfast partner in the Middle East, requested the assistance. Proceeds from the sale of the commodities will improve the country's agricultural productivity and security through water conservation (over 20 percent of Jordanians are water insecure). The effort will relieve some of the country's economic burden associated with over 600,000 refugees from Syria living in Jordan.

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. For example, through a partnership with the World Cocoa Foundation, FAS trained over 50 Borlaug Fellows to research topics such as pest management, breeding, soil management and disease control and prevention. Cacao is the perfect commodity to demonstrate how helping other farmers contributes to food security and, through trade, benefits our own economy. The United States is not a significant

producer of cacao, but every dollar of imported cacao generates two to four dollars of sales of U.S. peanuts, sugar and dairy.

Since 1984, the Cochran Fellowship Program has trained over 16,800 international participants from 124 countries worldwide, including 557 fellows in 2015. In FY 2015, Cochran training yielded positive results that enhanced U.S. market access, helped expand U.S. agricultural exports, and improved global food security. Thanks to a collaborative effort by FAS' Cochran program, the Southern Forest Products Association and the Softwood Export Council, executives from five Thai lumber companies visited the United States and received an extensive overview of the U.S. wood products industry. Several participants subsequently made first-time purchases of U.S. softwood, a big step for U.S. producers to make headway into the \$58 million market in Thailand.

Public Law 480

The Budget proposes \$1.35 billion in funding in FY 2017 for the P.L. 480 Title II international food assistance program, administered by the U.S. Agency for International Development (USAID), complemented by resources requested in the Development Assistance (DA) account under USAID's Community Development Fund. Together, these resources support efforts to address chronic food insecurity in areas of recurrent crises using a multi-sectoral approach to reduce poverty and build resilience.

The majority of the FY 2017 Title II request provides emergency food assistance in response to natural disasters and complex emergencies. The request allows up to 25 percent of the appropriation, valued at \$337.5 million, for market-based food assistance for emergencies including interventions such as local or regional procurement of food near emergencies, food vouchers, or cash transfers. This flexibility makes emergency food aid more timely and cost effective, improving program efficiencies and performance and allowing USAID to assist about two million more emergency beneficiaries annually with the same level of resources.

Conclusion

Thank you Mr. Chairman and members of the Subcommittee for your support. FAS contributes to economic prosperity in communities across America through our support for the export of high-quality, U.S. agricultural commodities and products and our ability to resolve barriers to trade. We take pride in delivering U.S. food aid, building agricultural capacity in developing countries, and our contribution to food security throughout the world. Your thoughtful consideration of the agency's FY 2017 Budget request is very much appreciated.