

AGRICULTURAL MARKETING SERVICE

Statement of
A.J. Yates, Administrator
Before the
House Subcommittee on Agriculture, Rural Development,
Food and Drug Administration and Related Agencies

Mr. Chairman and Members of the Committee, I am pleased to have this opportunity to represent the Agricultural Marketing Service in presenting our fiscal year 2005 budget proposal. To provide some context for our budget proposal, I would like to begin by reviewing our agency's mission and describing some of the customer service improvements we have made in delivery of our programs.

MISSION

The mission of the Agricultural Marketing Service—AMS—is focused on marketing: to facilitate the marketing of agricultural products in the domestic and international marketplace, ensure fair trading practices, and promote a competitive and efficient marketplace to the benefit of producers, traders, and consumers of U.S. food and fiber products.

We accomplish this mission through a wide variety of publicly funded activities that help our customers better market their food and fiber products and ensure that food and fiber products remain available and affordable to consumers. More specifically, AMS helps to make the nation's agricultural markets work efficiently by providing wide and equal access to market information for all producers and traders; by developing

agricultural product descriptions that provide a common language for commercial trade; by providing data on pesticide residues and microbiological pathogens that support science-based risk assessment; by providing “how to” technical expertise to growers, transporters, and others in the marketing chain; and by helping to develop alternative or improved market outlets.

AMS also offers voluntary fee-based services such as product quality grading, contract certification, export verification, and quality control services such as plant inspections, equipment reviews, and production quality or process control certification. Because these voluntary services are available to verify the quality of agricultural products and the efficacy of production processes, they support private contractual arrangements and marketing claims that can improve profitability for U.S. producers in both domestic and international markets. In delivering these voluntary services, we remain vigilant about their costs, while working in partnership with our customers to ensure that marketplace needs are met.

CUSTOMER SERVICE AND TECHNOLOGY

We continue to improve our service delivery by taking advantage of new technology--to improve public electronic access to information and services and to increase our operational efficiency. For example, the Livestock Mandatory price reporting system processes huge amounts of raw data—some 2 to 3 million data items each week—received from 112 slaughter facilities, that report their transactions involving purchases of livestock and sales of boxed beef and lamb, lamb carcasses, and imported boxed lamb cuts. These data, including prices, contracts for purchase, and other related information, are publicly disseminated in over 100 daily, weekly, and monthly reports on

fed cattle, swine, lamb, beef and lamb meat. AMS continues to make enhancements to existing reports and to introduce new reports in consultation with industry stakeholders.

In 2003, AMS began offering automatic email delivery of comprehensive Market News information to subscribers. Market News reports cover prices, volume, quality, condition, and other market data on farm products in production areas and at specific domestic and international markets. This free email subscription service, provided in partnership with the Mann Library at Cornell University, provides access to nearly 1,500 daily, weekly and monthly market reports covering the six major AMS commodity groups—cotton, dairy, fruit and vegetable, livestock and seed, poultry, and tobacco. Users can search by keyword or browse by commodity, then subscribe to and receive selected reports via email whenever an update is published. This initiative is part of the Federal e-government effort to streamline government-to-citizen communications.

AMS also is developing a Market News web portal that will allow users to establish their own unique web pages through which they can immediately access preferred market news reports, have the capability to build specialized reports, and add customized features including nationwide weather reports and metric data conversions. Users will be able to access five years of data and download it in usable formats, including charts, spreadsheets, and graphs. The portal will be available to public users later this year for fruit and vegetable reports, and we hope to expand it to market reports for other commodities soon thereafter.

PARTNERSHIPS

AMS depends on strong partnerships with cooperating State agencies and other Federal agencies to carry out many of our programs. State agency partners collect data,

provide inspection, monitoring, and laboratory services for AMS, and otherwise maximize the value of both State and Federal resources through sharing and coordination. For instance, AMS' Market News program maintains cooperative agreements with 40 States to coordinate local market coverage with the regional and national coverage needed for AMS market reporting. State employees who inspect shipments of seed within a State provide information on potential violations in interstate shipments to AMS' Federal Seed program. Thirty-three States and territories participate with AMS in Pesticide Recordkeeping education and record inspection activities and are reimbursed for their services. Furthermore, our Pesticide Data program depends on its State and Federal partners to collect and test the product samples on which the program results are based. In fact in fiscal year 2004, the Pesticide Data program will direct about 80 percent of its funding to its eleven State partners in reimbursement for services provided. The resulting information generated by AMS can be utilized by other Federal agencies such as EPA and FDA for policy and regulatory actions, as well as other USDA agencies, academia, agricultural industry, international organizations, and global traders.

We work with local and city agencies to improve wholesale, farmers, and other direct marketing opportunities. In 2003, our Wholesale, Farmers, and Alternative Markets program supported wholesale or farmers market facility projects in Mississippi, Georgia, Florida, Oregon, Arizona, New York, Texas, American Samoa, Hawaii, and Kentucky. The program also supports marketing and market technology research projects as well as numerous marketing conferences and workshops. In an effort to help link farm direct sales with school nutrition programs, for example, AMS organized a

workshop focused on farm to school marketing in fiscal year 2003 at the first national “Farm to Cafeteria Conference” in Seattle, Washington.

Farmers markets directly benefit local producers and continue to be an important farm product outlet for agricultural producers nationwide. Farmers markets have risen in popularity due to growing consumer interest in obtaining fresh products directly from the farm. The number of farmers markets has grown by 79 percent between 1994 and 2002 to more than 3,100 facilities nationwide. AMS supports farmers markets by conducting research on emerging trends in market operations and practices and providing research reports, reference material and fact sheets to farm vendors, farm market managers, and the general public through the AMS website and a telephone hotline. We also participate in industry, producer, and academic conferences and training sessions across the country.

Another source of support for local agriculture programs is AMS’ Federal-State Marketing Improvement Program, or FSMIP. These matching grant funds, made available to State departments of agriculture and other State agencies, fund 25 to 35 projects each year. In 2003, we allocated FSMIP grant funds to 20 States for 28 projects of local and regional importance, such as marketing studies or developing innovative approaches to the marketing of agricultural products.

Our National Organic program, in partnership with its advisory committee, provides nationwide standards and a certification system for the U.S. organic food industry, which has over \$8 billion in sales and has seen annual growth in excess of 22 percent. Between 1995 and 2000, the U.S. organic market expanded by 175 percent and is expected to more than double its 2000 value of \$7.8 billion to approximately \$16 billion by 2005. AMS works with the National Organic Standards Board to develop

standards for substances used in organic production, maintain a National List of approved and prohibited substances for organic production, and convene technical advisory panels to provide scientific evaluation of materials considered for the National List. AMS program personnel accredit State, private, and foreign certifying agents who certify that organic production and handling operations are in compliance with the national organic standards. As of February 2004, AMS received 137 applications for accreditation. Of these, the program has thus far accredited a total of 90 certifying agents -- 53 domestic certifying agents, including 15 States, and 37 foreign certifying agents. AMS also administers two cost share programs through agreements with the States that help to offset certification costs for organic producers. Additional resources provided in fiscal year 2004 will allow us to strengthen our support of Board activities, including technical advisory panel evaluations of materials and program evaluations—or peer reviews—and to strengthen program enforcement.

Our Transportation Services Program works with Federal, State, and local policy-makers to maintain an efficient national transportation system that supports the needs of farmers, agricultural shippers, and rural America. The program helps to support farm income, expand exports, and maintain the flow of food to consumers. AMS conducts and sponsors economic studies of domestic and international transportation issues and provides technical assistance and information on agricultural transportation, rural infrastructure and access, and food distribution to producers, shippers, carriers, government agencies, and universities. Program experts have generated studies and reports on U.S. waterways, rail lines and rail car availability; rail and shipping rate analyses; and geographically disadvantaged farmers and ranchers, and many others. The

program also produces periodic publications that provide information for agricultural producers and shippers on various modes of transportation, such as the weekly *Grain Transportation Report*, the *Refrigerated Transport Quarterly*, quarterly issues of the *Ocean Rate Bulletin* and *Agricultural Container Indicators*, and the semiannual *Agricultural Ocean Transportation Trends*.

Our transportation specialists are called upon to provide information and advice when agricultural transportation is disrupted, such as late in 2002, when a labor stoppage closed the West Coast ports and threatened millions of dollars of losses for agriculture from commodities spoiled in transit. After 9/11, we are increasingly asked to provide more analyses on transportation security for agricultural products. In 2003, AMS developed a Transportation Security Briefing Book using the information currently available. The book provides an overview of the agricultural transportation system, existing safety measures, and discusses the adverse effects of past disruptions in the system. While this is a good start, we have found that much more study is needed in this area for all modes of transport, but particularly for trucking, which moves 90 percent of agricultural freight for at least one segment of its transportation to destination.

Finally, AMS works in close cooperation with both the Food and Nutrition Service (FNS) and the Farm Services Administration (FSA) to administer USDA's nutrition assistance and surplus commodity programs. AMS purchases agricultural commodities under authority of Section 32 of the Act of August 24, 1935, which permanently authorized an appropriation equal to 30 percent of customs receipts to encourage the exportation and domestic consumption of agricultural commodities. These funds, plus unused balances up to \$500 million from the previous fiscal year, may be

authorized by the Secretary to support markets by purchasing commodities in temporary surplus, for domestic nutrition assistance programs, for diversion payments and direct payments to producers, for export support, and disaster relief.

AMS retains only about 13 percent of the funds appropriated under Section 32. In 2005, AMS expects to retain \$800 million, half of which--\$400 million--will be spent on purchases for the Child Nutrition Programs. Most of the rest is available to AMS' commodity purchases program for emergency surplus removal. Eighty-six percent of the \$6.2 billion total appropriation will be transferred to FNS to administer the Child Nutrition Programs and one percent to the Department of Commerce to develop fishery products.

The commodities purchased by AMS are donated to various nutrition assistance programs such as the National School Lunch Program, the Emergency Food Assistance Program, and the Food Distribution Program on Indian Reservations, according to their needs and preferences. In fiscal year 2003, AMS purchased 1.46 billion pounds of commodities that were distributed by FNS through its nutrition assistance programs.

AMS purchases the non-price supported commodities--meat, fish, poultry, egg, fruit and vegetable products--and FSA supplies the price-supported commodities--flours, grains, peanut products, cheese and other dairy products, oils and shortenings--that supply the National School Lunch Program and other nutrition assistance programs administered by FNS.

To maximize the efficiency of food purchase and distribution operations, AMS, FNS, and FSA each provide a component of program administration according to their organizational structure and expertise, but the system is complex and requires close

coordination. AMS and FSA purchase for FNS the entitlement commodities provided to schools. Schools and other nutrition assistance programs can also receive bonus commodities that are purchased to support agricultural markets through AMS' surplus commodity program. AMS and FSA are responsible for issuing and accepting bids, and awarding and administering contracts. FNS is responsible for taking commodity orders from the States, monitoring purchases and entitlements throughout the year, and the overall administration of the commodity nutrition assistance programs. Before a purchase is announced, AMS and FSA specialists work with potential vendors, FNS, and food safety officials to develop a specification for each product purchased that details product formulation, manufacturing, packaging, sampling, testing, and quality assurance. After market conditions, availability, and anticipated prices are assessed, and recipient preferences determined, AMS and FSA invite bids for particular U.S. produced and domestic origin food products under a formally advertised competitive bid program. Bids received from responsible vendors are analyzed and contracts are awarded by AMS and FSA. FSA administers the payments to vendors, ensures the proper storage of commodities when needed, and assists in their distribution.

To better coordinate the operations between the three agencies and control the vast array of details inherent to the procurement process, the Processed Commodities Inventory Management System, or PCIMS, was developed more than ten years ago to track bids, orders, purchases, payments, inventories, and deliveries of approximately \$2.5 billion of commodities used in all domestic and foreign food assistance programs every year and another \$1 billion in price support commodity products maintained in inventory. PCIMS is still being used by the three agencies with modifications having been made

over the years, when feasible, to add capabilities such as financial tracking or to meet changes in program delivery.

FISCAL YEAR 2005 BUDGET REQUEST

This leads us to the first of our two budget requests for fiscal year 2005, which involves both a multi-agency partnership and an electronic (e-) government initiative that will significantly improve customer service.

WEB-BASED SUPPLY CHAIN MANAGEMENT SYSTEM

AMS, FNS and FSA are working together to replace PCIMS with a Web-Based Supply Chain Management System, or WBSCM. For fiscal year 2005, AMS is requesting funding of \$10 million in our Marketing Services appropriated account to begin developing the entire new system rather than each of the three agencies separately requesting portions of the funding needed.

WBSCM has undergone extensive reviews within USDA and was approved as one of the Department's selected e-government "smart choice" initiatives. WBSCM is designed to greatly reduce the time required for processing purchases; shorten delivery times; improve USDA's ability to collaborate with other Departments; improve reporting capability; reduce transportation, inventory, and warehousing costs; and enable future system updates as needed. Furthermore, the system will create a single point of access for customers, allow us to share information more quickly and conveniently, automate internal processes, and assist in breaking down bureaucratic divisions. Eventually, WBSCM will be able to support agencies that manage similar commodity distribution programs for export. The Foreign Agricultural Service, the Agency for International

Development, and the Maritime Administration, have been included in the development phases to ensure the new system can address the needs of export programs.

Over the last few years AMS, FNS, and FSA have undertaken extensive business practice reengineering efforts. Since PCIMS was developed and “hard coded” to automate the business practices of the time, it often cannot be modified to accept significant changes in process without undue costs. As a result, agency employees frequently have to develop electronic entries external to PCIMS and then update the system with the results. In contrast, WBSCM is designed to use commercial off the shelf software which will speed up implementation, incorporate industry and commercial best business practices, and give the agencies the flexibility to reconfigure the system after implementation when processes change. We expect that increased efficiency, better coordination, and improved services will begin as soon as the basic system is in place in mid-fiscal year 2007, when WBSCM will provide those services being performed by PCIMS. Until then, we must continue to maintain the PCIMS system.

AGRICULTURAL TRANSPORTATION SECURITY

Our second proposal this year is to strengthen our agricultural transportation security expertise within the Transportation Services program. We are requesting \$300 thousand to produce more in-depth analyses of agricultural transportation security. Transportation is a critical link in the food supply chain. Closer analysis of the sector will provide the information needed for critical assessments of the strengths and vulnerabilities of the various transportation modes used to move farm inputs, food, and other agricultural products from farm to market. These funds will strengthen USDA’s Homeland Security efforts by helping to safeguard the U.S. food supply and supporting

the Department of Homeland Security. We will be better able to provide the information requested by policy officials in planning strategies to prevent potential disruptions, and to provide comprehensive information more quickly when any emergencies occur. Our current expertise and established contacts with transportation providers give us a distinct advantage in addressing agricultural transportation security issues. The transportation industry also has a serious interest in protecting shipments. For example, the Agricultural and Food Transporters Conference (AFTC) recently requested help from AMS in developing voluntary security guidelines. AMS is supporting a cooperative effort between USDA and the AFTC to prepare a guidebook. With expanded information and analysis, we will also be better able to advise agricultural producers and shippers on improving their own security.

BUDGET REQUEST SUMMARY

Our total budget request includes \$86 million for Marketing Services, which includes an increase for pay costs partially offset by a decrease for savings associated with information technology. We also include a decrease of \$2 million in Federal-State Marketing Improvement Program grants funding under Payments to States and Possessions. These funds were provided in fiscal year 2004 to support Wisconsin specialty products. We request \$11 million in Section 32 Administrative funds for commodity purchasing and \$16 million for Marketing Agreements and Orders. These requests also include an increase for pay costs.

Thank you for this opportunity to present our budget proposal.