

AGRICULTURAL MARKETING SERVICE

Statement of David R. Shipman, Administrator before the Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies

Mr. Chairman and Members of the Subcommittee, I am pleased to have this opportunity to present the fiscal year (FY) 2014 budget request on behalf of the Agricultural Marketing Service (AMS). AMS programs facilitate the marketing of U.S. agricultural products domestically and around the world. These activities also support USDA's goals of assisting rural communities to create prosperity and ensuring that all of America's children have access to safe, nutritious, and balanced meals.

For this budget request, we propose to continue our dedicated efforts to support marketing systems for all agricultural commodities while increasing our efforts to strengthen the connection between farmers and consumers through local and regional food systems and focusing additional resources to help the organic industry grow and thrive. To do so, we are requesting a total of \$84 million in annual appropriations—about the same as for FY 2012. But before I describe our budget proposals, I would like to briefly review our mission and programs, and to highlight a few of our recent accomplishments.

AMS MISSION AND PROGRAMS

AMS' mission is to facilitate the competitive and efficient marketing of agricultural products. We rely on partnerships 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 in an effective and cost-efficient manner.

Our employees and partners collaborate every day to facilitate the marketing of hundreds of products from the producer to the consumer in the U.S. and around the globe. We provide impartial and accurate market data, essential for competitive and productive markets. We provide critical data on transportation infrastructure, and we support the development and utilization of local and regional marketing systems. We also assist markets to help themselves through the oversight of research and promotion programs and marketing orders.

We promote fair markets by ensuring the integrity of the USDA organic label, the country of origin label, the accuracy of USDA quality grades, and the accuracy of the purity labels on seed sold to a farmer or to a consumer planting a vegetable garden. We provide those selling and buying produce with an effective and cost-efficient way to resolve disputes through the Perishable Agricultural Commodity Act (PACA) Program. Those selling products to customers with specific production, content, or processing requirements (domestic or international) rely on a variety of AMS services, e.g., good agricultural practice audits, quality grades, and reviews of manufacturing practices, to fulfill customer or foreign government requirements and facilitate marketing.

Our programs also support a government-wide effort to improve food security and child nutrition. We monitor shell egg handling facilities, provide data on pesticide residues in foods, require high sanitary conditions for all facilities receiving USDA quality grade certification, have an ongoing 24/7 reporting process to the Food and Drug Administration (FDA) and the Food Safety and Inspection Service (FSIS) of any operation suspected of not meeting food safety requirements, and purchase healthy and nutritious food for the Food and Nutrition Service's (FNS) domestic nutrition assistance programs.

FY 2012 ACCOMPLISHMENTS

During FY 2012, we continued an emphasis on improved business processes to further enhance operational efficiencies. I would like to share some of our accomplishments.

Market News – AMS Market News plays an important role in the daily decisions of farmers, handlers, processors, and others in the food chain. We provide impartial and reliable information on supply, movement, contracts, inventories, and prices. This critical market

information is provided both through a volunteer and mandatory process. Legislatively-mandated price reporting provides information not otherwise available to meat and dairy producers. In FY 2012, we leveraged our mandatory meat reporting system to provide weekly wholesale dairy product prices for butter, nonfat dry milk powder, sweet whey powder, and cheddar cheese in blocks and barrels. We also successfully included wholesale pork sales in our mandatory meat reporting system. The mandatory wholesale pork reporting initiated in January 2013 increased both the transparency and volume of information available to the entire pork industry.

Transportation and Market Development – Our transportation program provides valuable analysis and information to agricultural markets. In FY 2012, we released an *Ocean Shipping Container Availability Report*, providing a weekly snapshot of current and projected short-term availability of various types of marine shipping containers at 18 locations for westbound trade lanes. By helping agricultural exporters identify available containers, we estimate they realized about a 25 percent increase in agricultural cargo volume. Our market development program also provides valuable analysis and information to agricultural markets. For example, we provided architectural plans and design assistance to establish or improve 10 farmers markets that offer consumers a source for local foods and help keep more of the food dollar in farmers' pockets.

Our market development effort has also focused on local and regional food production, an area where we have seen significant and growing consumer demand. There has been a 175 percent increase in the number of farmers markets nationwide since FY 2000, along with a dramatic increase in the number of local and regional food hubs, community supported agriculture operations, and other local food enterprises. These enterprise opportunities strengthen rural communities and increase consumer access to locally produced foods. In this emerging market, AMS plays an important role in analyzing and providing information and technical assistance to businesses along the supply chain. In March 2012, we released a report on distribution practices of eight producer networks distributing locally or regionally-grown food to retail and food service customers, entitled "Moving Food Along the Value Chain: Innovations in Regional Food Distribution." The study shares lessons learned and best practices to serve as a resource for others. We also led a collaborative effort to develop a database of more than 213 operating or emerging regional food hubs (double the number recorded in 2011) and launched

the Food Hub Community of Practice, a national peer-learning network intended to accelerate research, best practices, and sharing of resources. In April 2012, we published a new *USDA Regional Food Hub Resource Guide*, a comprehensive compilation of guidance for developing or participating in a regional food hub. Through such marketing models, agricultural producers—particularly small and medium-sized producers—are experiencing a substantial improvement in farm income as a result of facilitated sales to consumers, restaurants, schools and other institutional outlets. These marketing models also provide more reliable sources of locally and regionally produced foods for commercial clients.

National Organic Program – Our National Organic Program (NOP) develops, implements, and enforces national standards governing the production, handling and labeling of agricultural products sold as organic. NOP accredits certifying agents—private businesses, organizations, and state agencies in the U.S. and around the world—that are authorized to certify producers and handlers of organic agricultural products. As of January 2012, 17,281 organic farms and processing facilities in the U.S. were certified to the USDA organic standards, fueling a \$31.4 billion U.S. organic industry. Worldwide, there are 28,386 USDA organic operations across 133 countries. NOP protects organic integrity through a variety of activities including audits of operations and certifiers, residue testing to verify that prohibited pesticides are not being applied to organic production, and investigation of suspected violations.

We also establish equivalence agreements and export arrangements with foreign governments to facilitate organic product exports. In June 2012, we established the United States–European Union (EU) Equivalency Arrangement that has opened up a \$24 billion market to U.S. organic producers and handlers. We also conducted certifier audits and participated in meetings with government officials in Australia, China, Germany, Costa Rica, Brazil, Guatemala, and Argentina to facilitate marketing of organic products; and participated in technical discussions with Japanese government officials to assess future possibilities for organic equivalency.

International Activities – AMS facilitates international marketing and fair trade through the development of voluntary quality and product description standards for use in commercial transactions. We also offer a variety of fee-based, voluntary product certification services,

including domestic and export certification, product testing, and production/processing verification services that provide independent, third-party assurance that contractual agreements, foreign government requirements, and other requirements are met.

AMS supports the Canada-U.S. Regulatory Cooperation Council (RCC), created by President Obama and Prime Minister Harper, through efforts to harmonize meat cut nomenclature and provide financial resolution capabilities on produce traded between the U.S. and Canada. Our efforts successfully achieved an agreement whereby Canada will recognize the Institutional Meat Purchasing Specifications (IMPS) which will facilitate meat trade in North America. We also made significant progress toward creating financial tools in Canada comparable to PACA Trust Provisions. Fresh produce industry stakeholders in both countries support more effective contract management and licensing of fresh produce buyers, as well as regulatory measures that could be adopted to better ensure industry payment to fresh produce sellers in cases of buyer bankruptcy and insolvency. This collaborative effort should bring about the establishment of tools to mitigate financial risk in the sale of fresh and frozen fruits and vegetables in Canada.

All AMS certification programs support the eTrade Document Exchange (eTDE) System to improve the efficiency of document clearance for global trade. This system makes trade documents, including USDA certificates, available via the internet allowing for timely clearance of U.S. product domestically and through ports of entry around the world. In 2013, AMS will issue dairy health certificates to the EU using the eTDE system. Expansion of this system to all global markets is an AMS priority.

Efficiency Improvements – We continuously challenge the status quo and seek enhanced business processes to improve service delivery and efficiency. We have reduced many expenses, including those for travel and supplies, and have carefully managed our hiring and staffing. We are capitalizing on every opportunity to bring greater efficiencies to the Agency by streamlining our operations and cross-leveraging resources. We reorganized our administrative and information technology support personnel and our commodity purchasing staff, combined offices serving livestock and poultry, and combined our fresh and processed fruit and vegetable inspection staff. These changes have enabled us to continue to improve services while operating

at reduced funding levels. After sequestration and across-the-board rescissions, our Marketing Services funding for FY 2013 is 16 percent below the FY 2009 level. To operate within budget constraints this year, we are carefully managing hiring, delaying or modifying information technology investments, and reducing agreements to avoid service disruptions as much as possible.

Maintaining the integrity of the organic label is a key priority of AMS. The organic market represents the fastest growth sector of the food industry. To ensure that buyers can trust the organic seal, we focused on enhanced enforcement, regulations, and investigations in 2012. We streamlined our processes which resulted in doubling the number of violation cases closed, bringing greater confidence to consumers that they receive what they pay for when buying organic products.

Through our commitment to process improvement, we were able to operate the Country of Origin Labeling (COOL) program effectively with fewer resources, including reduced travel, training, and partnership costs through the deployment of a Web-based training and program operational system. We used data available through the new Web-based system to more strategically allocate enforcement resources and improve the return on each enforcement dollar. We reduced the number of reviews by targeting facilities with a high occurrence of violations.

In FY 2012, AMS procured \$797 million in foods with Section 32 funding and another \$647 million worth of food on behalf of FNS. The food commodities we buy are distributed through FNS' nutrition assistance programs. AMS launched redesigned procurement programs for 2012 and used requests for proposals (RFPs), which enabled us to award delivery contracts before specific orders and destinations were known. Securing these contracts—in advance of seasonal planting and harvest schedules—allowed us to lock in volume for over 50 food items from producers who otherwise would have committed much of the acreage and harvest elsewhere in the commercial market.

The improvements in our procurement operations would not be possible without the Web-Based Supply Chain Management (WBSCM) system. We implemented the new system in 2011. We now have over 9,000 users, relying on the system for critical food supplies.

FY 2014 BUDGET PROPOSALS

For FY 2014, AMS proposes a discretionary appropriation of \$84.2 million, including \$82.8 million for all Marketing Services activities and \$1.4 million for Federal-State Marketing Improvement Program (FSMIP) grants. The Marketing Services request includes additional resources for two programs to further USDA's goal to strengthen regional economies and help producers meet consumer demand—an increase to enhance community capacity to improve local and regional food value chains and an increase for the National Organic Program (NOP) to keep up with violation complaints and international agreements.

The requested funding for our Transportation and Market Development Program will enable us to build on our current efforts to create new economic opportunities for producers by helping them 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. A recent ERS study of five local food supply chains found that producers received a greater share of the retail price in the local food supply chain, and producer net revenue ranged from roughly equal to more than seven times the price received per unit from mainstream chains. Empirical research has found that expanding local food systems in a community can increase employment and income in that community.

As consumer demand for local food increases, AMS will assist producers and supply chain businesses by identifying innovative and cost-efficient models for regional food distribution. AMS will work through cooperative agreements with other federal agencies, state and local governments, universities, non-profit and other organizations to conduct the majority of these activities.

The request for the NOP is needed to ensure the integrity of the USDA organic seal in the U.S. and throughout the world. As organic sales expand and the number of certified operations rises, the NOP must have sufficient resources to accredit, audit, and oversee the work of certifying agents, keep pace with violation investigation and enforcement, and maintain and expand trade opportunities provided by equivalency agreements with foreign countries. While

we have made efficiency improvements, additional funds are needed to meet increased requirements for compliance and enforcement of organic labeling. These resources will allow the NOP to keep up with the quickening pace of incoming complaints and will ensure timely enforcement action where violations are found. The request also includes funding to pursue international agreements with additional countries while fully supporting existing agreements. NOP plays a key role in coordinating international organic equivalency and recognition agreements. The establishment of new agreements requires careful assessment and evaluation of other governments' organic standards and oversight systems. Once established, these agreements require ongoing compliance monitoring and standards coordination. The growth of organic markets internationally opens market opportunities for U.S. exports. With additional funding, NOP will be able to maintain existing agreements while pursuing equivalency arrangements with India, Japan, Korea, and Costa Rica.

This budget request proposes termination of Pesticide Recordkeeping Program activities in FY 2014 to support budget reduction efforts and because the program is not central to the core mission of AMS. Private applicators of federally restricted-use pesticides will still be required to maintain their records, but AMS will no longer conduct compliance inspections and educational activities for non-commercial applicators.

In Payments to States and Possessions, we are requesting an increase for FSMIP competitive matching grant funds to meet demand for marketing projects proposed and co-funded by State agencies that are of practical use to the agricultural industry. This program puts resources directly into rural communities nationwide, which stimulates local economies. FSMIP projects often serve as catalysts for new initiatives that improve farm income and consumer welfare.

The budget includes a proposal to adequately fund USDA's Web-Based Supply Chain Management (WBSCM) system from within Section 32 program funding. AMS manages the WBSCM system, which has improved the procurement, delivery, and management of more than 200 foods (4.5 million tons) through domestic and foreign feeding programs administered by AMS, FSA, FNS, FAS, and the United States Agency for International Development (USAID).

Additional funds are needed to begin a technical software upgrade that must be completed in 2015 to keep the system operating efficiently and cost-effectively.

CONCLUSION

By facilitating a competitive and efficient market for agricultural products, our programs play a significant role in the ability of agricultural producers, processors, handlers, shippers, and sellers to conduct business efficiently and effectively. We believe the allocation of resources proposed in the FY 2014 Budget represents the most effective use of available funding to accomplish AMS' important mission. Thank you for this opportunity to present our budget proposal.