

Statement by
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Before the Committee on Agriculture, Nutrition and Forestry
United States Senate
May 14, 2003

Mr. Chairman, Senator Harkin and distinguished members, we are very appreciative of the opportunity to appear before you today to discuss the implementation of the Farm Security and Rural Investment Act of 2002 (Farm Bill). This hearing coincides with the one-year anniversary of the Farm Bill, which was signed into law by the President on May 13, 2002.

I would first like to make some general remarks about the challenges the Department has met in implementing this Farm Bill, then discuss the accomplishments of the past year, and conclude with some comments on the status of implementation of the Agricultural Assistance Act of 2003.

Our number one goal over the past year has been to implement all Farm Bill provisions as quickly and efficiently as possible. Overall, I am pleased and proud of the progress the Department has made so far. This was a major challenge given the late passage of the bill. Fortunately, the Department had been actively engaged in preparing for a new bill well before passage, so that as soon as the bill was enacted, we were able to go into high gear to implement it. Our staff throughout the country has been working tirelessly and aggressively to implement the new provisions and to get the benefits flowing to producers and other program participants. I know you would want to join me in expressing our great appreciation to all the hardworking USDA employees in State and local offices all over the country, as well as at Headquarters, who have put forth so much time and effort to implement the provisions of this bill. Literally thousands of USDA employees throughout the country have played a part in these efforts by conducting all sorts of analyses; developing decision documents; writing record numbers of regulations; developing software and websites; preparing reports, studies, correspondence and press releases; convening outreach conferences; signing-up participants; and issuing program benefits.

As you know, Farm Bill implementation was and continues to be a massive undertaking. The bill includes ten titles and over 400 pages with numerous sections and provisions.

As soon as the bill was enacted, we moved quickly to set up an internal structure for implementation to coordinate department-wide implementation of nearly 500 separate actions we identified that needed to be carried out. We are monitoring our progress very closely.

We have made extensive efforts to keep Congress, the general public and stakeholders informed at every step of the way. Through issuing press releases, holding Congressional and press briefings, and providing extensive up-to-date information about the Farm Bill on USDA's website, the Department has been able to address most of the issues and questions as they have arisen. The Department has also held 11 outreach sessions across the country, and in Puerto Rico, to ensure constituent groups were fully informed about the provisions of the Farm

Bill. These sessions were an important part of the implementation of the bill and reflected the Department's commitment to reach out to the full spectrum of USDA customers, including under-served customers, minorities and women to ensure they benefit from USDA programs and services. Based on Congressional and stakeholder input we have received over the past year, we were able to make some fine-tune adjustments in some of the things we were doing in order to meet constituent needs and the intent of Congress. Throughout the implementation effort, USDA has focused on customer service and a commitment to ensuring that all customers are treated equally and fairly.

We also want to thank Congress for its support by providing \$55 million for implementation funding in the bill. Last fall, the President requested an additional \$60 million in funding from the Appropriations Committees to cover the Farm Bill workload, and we are pleased that \$70 million was provided in February in the Agricultural Assistance Act of 2003 (2003 Act) to help with the Farm Bill, as well as to implement the new disaster assistance programs. We are making good use of the funds to hire over 2,200 temporary employees to help with signups and other activities in our service centers across the country. We are also using the funds to develop newly authorized programs and program application software, as well as improving program delivery through additional staff training and third party technical service providers. In this regard, the Farm Service Agency (FSA) conducted the largest personnel training exercise in its history.

To date, over \$8.0 billion in new commodity program payments have been issued so far during the first year of the Farm Bill. Partly due to these payments, net farm income prospects look reasonably good for 2003. Net farm income is forecast at \$44.9 billion for 2003. This is up over \$12 billion from the depressed 2002 level and is near the average for the past 10 years. With the help of the Farm Bill, net farm income is expected to remain near the average level of the past decade for the near term. In addition, the 2003 Act will provide over \$3.0 billion for the agricultural sector. Thus, the Farm Bill, the 2003 Act and other USDA programs are providing immediate relief to producers dealing with financial stress and will continue to do so.

Other parts of the President's agenda will also have a positive impact on agriculture. The Administration is working closely with Congress to pass an economic stimulus package, which would give tax relief and create jobs. The outlook for the farm economy would be enhanced if an economic stimulus package were enacted soon.

Also, the Administration has an aggressive trade agenda that will benefit agriculture over the long term. We are engaged in efforts to improve access to overseas markets and expand trade through a vigorous trade negotiation agenda — both multilaterally as well as bilaterally. All of these efforts are designed to expand U.S. agricultural exports and, thereby, enhance farm sector income.

I would now like to focus in more detail in some of the key accomplishments for the various titles of the 2002 Farm Bill.

Commodity Programs

The 2002 Farm Bill made significant changes in the commodity programs and the Department

has done a great deal of work to put these new programs in place. The core programs for direct and countercyclical payments are on track and payments are flowing to producers.

The new program gave farmers the option to update their production history for the first time in many years. They could choose to update their planted acreage bases and to partially update their crop yields for countercyclical payments to reflect the most recent four years (1998-2001). Signup began in October 2002, and within six months from enactment of the legislation producers began to receive payments. The signup has been a massive effort with over 2.1 million eligible farms and many complex determinations required by producers and the FSA. Acreage and yield selections were substantially completed by April 1, with special arrangements to complete the process for those who could not be serviced by April 1. Annual contracts must be signed by June 2, and that process is going well.

Producers had received over \$3.3 billion in direct payments by early May and over \$1.1 billion in countercyclical payments on the 2002 crop. Countercyclical payments are being made on cotton, rice, and peanuts but not for other crops because market prices are above the level needed to trigger countercyclical payment.

Another historic change made by the 2002 Farm Bill was the termination of the old peanut quota and price support program. Peanut producers are now eligible for direct and countercyclical payments and for a marketing loan program nearly identical to the programs for other commodities. The Farm Bill also provided quota buyout payments for peanut producers to compensate them for the loss of the long established peanut marketing quotas. Over \$1.2 billion in quota buyout payments have been issued.

A major new program for dairy producers, the Milk Income Loss Contract program (MILC) was added by the Farm Bill. This program is designed to compensate for low milk prices and it complements the traditional dairy price support program. MILC payments, which vary with milk prices, have been substantial. This has attracted many dairy producers to FSA offices for the first time ever and has been another big factor in FSA's workload. Since last September, nearly \$1.4 billion in payments to dairy producers have been made under this program. Continued low milk prices make this program's role important.

The traditional commodity marketing loan programs were continued by the Farm Bill and were extended to additional commodities including pulse crops, wool and mohair. The Farm Bill established new national loan rates for nearly all program crops and included loan rates for some new crops. In all cases, we have announced loan rate decisions earlier than ever to provide farmers more time to make planting decisions. We also attempted to respond to producer concerns about geographic and other inequities and have made many adjustments.

Other important changes made in the commodity programs included the establishment of a sugar marketing allotment program and changes in the sugar loan program, which have been implemented for fiscal year (FY) 2003.

A final rule to implement the adjusted gross income limitations on eligibility for farm program benefits is nearly ready. The Farm Bill limits eligibility for most commodity and conservation program payments to producers with adjusted gross incomes of \$2.5 million or less, unless 75

percent or more of the producer's adjusted gross income was derived from farming, ranching or forestry.

Payment limitation issues are being assessed by the Commission on Application of Payment Limitations in accordance with its mandate. However, due to the late start in getting all of the members appointed, the Commission will not be able to submit its final report by the May 13 due date.

In summary, the Commodity Program provisions in Title I are fully operational. They have essentially been implemented on time and producers are receiving the benefits of these programs.

Conservation

We are pleased with the strong conservation programs contained in the Farm Bill. The changes in the conservation policy support this Administration's commitment to a voluntary approach and provide the Nation's producers with a comprehensive portfolio of conservation options including cost-share, incentive, land retirement, and easement programs. I am very happy to report that rulemaking has been completed for those conservation programs reauthorized in the Farm Bill, including the Wetlands Reserve Program (WRP), the Wildlife Habitat Incentive Program (WHIP), the Farm and Ranchland Protection Program (FPP), and the Agricultural Management Assistance Program. We have also finalized the rule for the Conservation Reserve Program (CRP) and began the general sign up for the program on May 5, which will run through May 30.

We also will be announcing very soon the release of the final rule for the Environmental Quality Incentives Program (EQIP) that was reauthorized and amended by the Farm Bill. EQIP is one of the largest Farm Bill programs that promotes environmental quality and assists producers in meeting local, State and Federal environmental regulations. EQIP cost-share funds help farmers and ranchers install conservation practices that help reduce soil erosion, improve water use efficiencies and air quality, and protect grazing lands. A total of \$562 million will be allocated to the States for EQIP for FY 2003. We also announced the release of \$53 million through the Ground and Surface Water Conservation provision under EQIP as authorized in the Farm Bill. These funds will provide cost-share and incentive payments to producers in 17 States, including the Klamath River Basin area of Oregon and California that have had their operations ravaged by the effects of drought.

We will soon be initiating the first signup for the Grasslands Reserve Program (GRP). A Notice of Funding Availability (NOFA) will be issued shortly that will get a limited program up and running for 2003, given that we are more than half way through the fiscal year. We will then go through the rulemaking process for developing the program in time for FY 2004. Through GRP, landowners can grant an easement or enter into a long-term agreement to restore, preserve, and protect grassland, rangeland, pastureland and certain other lands. The Farm Bill authorizes a two million acre program through 2007.

The rulemaking effort needed to implement these programs was a major challenge and I believe we have succeeded on all fronts. Our focus recently has been on getting the FY 2003 funding

authorized by the Farm Bill into the system and out to producers and program participants. So far, we have allocated to States more than \$1.8 billion in financial and technical assistance funding for Farm Bill programs and other ongoing, non-Farm Bill conservation programs.

One of the key provisions in the new Farm Bill is the authority to use third-party, technical service providers (TSP) in delivering the technical assistance needed to support the implementation of conservation programs. We are moving aggressively ahead with the expansion of direct technical assistance to producers from the private sector, non-profit sector, and State and local government sources. The TSP system will facilitate technical assistance delivery and will ensure that producers have the maximum flexibility for choosing a third-party provider. We also anticipate that this will have a positive impact on rural employment levels and thereby significantly benefit local economies. This will be further enhanced by our efforts to accelerate deployment of the Customer Service Toolkit and the rollout of various web-based tools such as the electronic field office technical guide, e-forms including applications for the 2003 programs, and program specific public information products.

The comment period for the TSP interim rule ended on April 30, and comments on the TSP amendment will be received until June 30. While rulemaking is underway, the certification process will continue through the on-line Technical Service Provider Registry. So far, more than 400 technical service providers have been registered.

As we look ahead, we are also making steady progress toward the proposed rule for the Conservation Security Program (CSP). The Farm Bill authorized this new program and granted the Secretary broad discretion to establish program requirements. In order to determine how best to design and implement CSP, the Department issued an advance notice of proposed rulemaking (ANPR) in the Federal Register on February 18, 2003, to solicit public input on a number of key issues. The comment period closed on April 3, and nearly 4,500 comments from more than 700 individuals were received. We are now involved in reviewing and evaluating these comments, as well as working on the rule.

Trade

The Farm Bill recognizes the importance of export markets for the long-term health and vitality of the American food and agricultural sector. It reauthorized many of the Department's export promotion and trade development programs; made a number of modifications designed to bolster their effectiveness; and in a number of cases authorized increased annual funding levels. Taken together, these changes will enhance our ability to assist America's farmers and ranchers take advantage of emerging global market opportunities now and in future years.

The Department has worked diligently to ensure that the new authorizations and funding provided by the Farm Bill are fully utilized. For example, funding levels were increased for both of the Department's longstanding market development programs, the Foreign Market Development Cooperator Program and Market Access Program (MAP). The Department worked to ensure that the additional funding provided for 2002 was fully allocated by the end of the fiscal year. Equally important, the Commodity Credit Corporation (CCC) baseline program estimates prepared in conjunction with the President's 2004 budget, provide funding for these activities at their fully authorized levels which will ensure that our market

development objectives can be realized. In the case of MAP, this is particularly significant as annual funding will more than double from its previously authorized level to \$200 million per year by 2006.

The Farm Bill also authorized a new market development activity, the Technical Assistance for Specialty Crops Program, which is designed to address unique barriers that prohibit or threaten exports of U.S. fruits, vegetables, and other specialty crops. The program is funded through CCC at \$2 million per year through 2007. An interim final rule necessary to establish the program was published on September 10 of last year, and that action allowed 2002 program funding to be allocated completely. A final rule for the program has now been drafted and is undergoing review within the Executive Branch. Once it is published, we will move forward with implementing the 2003 program.

The Farm Bill also made a number of significant changes in the Department's foreign food aid activities. For example, annual CCC funding of the Food for Progress program was increased. As a result, Food for Progress programming was boosted last year and will continue at the expanded level in future years.

Another notable change in the Department's food aid programs was the authorization of the new McGovern-Dole International Food for Education and Child Nutrition (IFE) Program. The IFE builds upon the Global Food for Education Initiative the Department implemented during 2001 and 2002. The new authority provides for the donation of U.S. agricultural commodities and financial and technical assistance to carry out preschool and school feeding programs and maternal, infant, and child nutrition programs in foreign countries.

The Farm Bill provides a program level of \$100 million for the IFE program during 2003, with funding provided through CCC. Beginning in 2004, the program is to be funded through annual appropriations, and the 2004 President's budget requests \$50 million to carry out the program next year. The requested level of funding will provide a stable level of assistance because many of the programs approved in 2003 will carry over and be implemented during 2004.

Because separate statutory authority was provided for the IFE, program regulations must be promulgated before it can be implemented. A proposed rule was published on March 26, and the public comment period ended on April 25. The Foreign Agricultural Service (FAS) is now reviewing those comments and expects to have a final rule ready for interagency review in the near future. FAS is optimistic the final rule will be published in early summer, which will allow the 2003 program to be implemented fully by the end of the year.

Rural Development

The Rural Development title included a wide range of new authorities and a major commitment of funding for improving the economic opportunities and quality of life for rural America. One of the most important features of this title was to provide funding to reduce the backlog of loan and grant requests for water and waste disposal projects. Because most of the preparatory work to ensure the quality of these projects had already been done at the time the Farm Bill was enacted, USDA was able to act quickly in selecting the projects and obligating this funding. On

August 20, 2002, we announced awards totaling more than \$700 million in loan and grant assistance for 377 projects in 47 States and Puerto Rico.

Another important action occurred on January 29, 2003, when USDA launched the program established under the Farm Bill for expanding broadband telecommunications. This program has sufficient funding to support \$1.4 billion in direct and guaranteed loans to rural telecommunication providers. This funding is critical to building an infrastructure to help rural residents and rural businesses share in the benefits of e-commerce and other applications of high-speed telecommunications. The Department is currently accepting applications for the new program. In addition, the Department expects to be able to publish, within the very near future, proposed regulations for operating the local television access program for which the Farm Bill provided sufficient funding to support almost \$1 billion in loan guarantees.

A smaller, but equally important program for making grants to producers for value-added production and marketing of agricultural commodities was also implemented. This program has substantial potential for creating new income opportunities for producers of agricultural commodities, as well as new job opportunities for rural residents. The first round of awards of grants was made on October 22, 2002. A total of \$37 million was awarded to 231 recipients in 43 States. Regulations are being developed for establishing the program on a permanent basis.

Other Titles

We are also making good progress with respect to other titles of the Farm Bill. These other titles often do not get as much attention as the commodities and conservation titles do, but they are nonetheless important and deserve comment. Here are some of the significant actions we are undertaking with respect to the other titles of the bill.

Nutrition

The Nutrition title reauthorized food stamps and other nutrition assistance programs and funded Seniors Farmers' Market and the WIC Farmers' Market Nutrition programs. Program changes enacted, and now implemented, improve access to food stamps by allowing eligibility for legal immigrants who have lived in the U.S. for at least five years, increasing benefits for larger low-income families, and allowing simplifications that will enable States to improve program efficiency and customer service. Penalties were targeted to States with persistently high rates of erroneous payments. Financial incentives for good performance were also provided. Since USDA and the States had reduced error rates to historical lows prior to this change, we are hopeful that States will maintain or increase their commitment to low error rates even in the face of State funding shortfalls and rising caseloads. Finally, the fruit and vegetable pilots for the school food programs have been very successful, and are popular. We are working to extend use of current funding and hoping to expand these pilots if additional funds can be found.

Research

Within the Research title, we have implemented the Senior Scientific Research Service, which will allow the Department to attract and retain the highest caliber scientists in the fields of agriculture and forestry. At the present time, we are using this new tool to actively recruit top

notch scientists to the Department's research agencies. Additionally, FAS and the Cooperative State Research, Education, and Extension Service have teamed up to expand the International Internship Program, which allows students from U.S. colleges and universities to intern at FAS field offices overseas and gives USDA another avenue to make the public more aware of the work we do every day representing U.S. agriculture's interests abroad. The Department has awarded \$8 million in grants for rural youth development to establish pilot projects to expand programs in rural areas and small towns throughout the United States. Finally, we are continuing our efforts to publish rules e.g., increased matching fund requirements for the 1890 institutions, and to finalize a number of Farm Bill reports and studies.

Forestry

The Department has been working with our partners to implement the Forestry Title of the Farm Bill. The Forest Land Enhancement Program (FLEP) interim rule is undergoing final review within the Administration and is expected to be published soon. This program will provide technical, educational, and cost-share assistance to promote sustainability of nonindustrial private forest lands and is authorized at \$100 million through FY 2006.

Energy

The Energy Title of the Farm Bill supports the President's energy policy, by providing new opportunities for USDA to foster the development and use of bioenergy, biobased products and renewable energy, and by assisting farmers, ranchers and small rural businesses in becoming more energy efficient. In developing regulations for implementing these new authorities, we have made special efforts to solicit input from the public. For example, USDA hosted a public hearing on December 2, 2002, to obtain input for implementing the Renewable Energy and Energy Efficiency Program. We also encourage public comments on the proposed rule for Federal Procurement of Biobased Products, due to be published this summer, which would establish guidelines requiring Federal agencies to give preferences to biobased products for their procurement needs.

Recently, the final rule that continues the Bioenergy Program, which reimburses participating commercial fuel grade ethanol and commercial biodiesel producers for part of their production costs, was published. For FY 2003, \$115.5 million is available under this program. For the Biomass Research and Development initiative, which provides funding for joint USDA-Department of Energy research and development projects, \$21 million in grant funding has been made available for this fiscal year, after \$2.7 million in grants was awarded for FY 2002. For the Renewable Energy Systems and Energy Efficiency Improvement program, which authorizes grants, loans, and loan guarantees to farmers, ranchers, and rural small businesses for the development of energy conservation improvements, \$23 million in grant funding for FY 2003 has been made available. During FY 2003, the program will be administered under a Notice of Funds Availability (NOFA). The NOFA was published in the Federal Register on April 8.

Miscellaneous

Under the Miscellaneous Title we are working on the following items:

As required by the Farm Bill, we are pleased to report that Vernon Parker was recently confirmed as the Department's first Assistant Secretary for Civil Rights. He is working closely with agencies and officials of the Department to help ensure that Farm Bill and other USDA programs are delivered fairly and are readily accessible to all who are eligible.

Under the Apple Market Loss Assistance Program, over \$92 million in apple market loss assistance payments have been made to apple producers for losses associated with the 2000 crop in addition to about \$75 million in payments provided by the appropriations act.

In July 2002, \$5 million in CCC funds was transferred to the Agricultural Marketing Service to implement the Organic Cost Share Certification Program, of which \$3.3 million has been allocated to 44 state organic programs to date.

On October 8, 2002, Voluntary Country of Origin Labeling Guidelines were issued. Over 75 comments were received in response to a notice published in the Federal Register on November 21, 2002 regarding the potential paperwork burden for mandatory country of origin labeling. On March 4, 2003, a press release announced plans to hold 12 listening sessions nationwide. The sessions began on April 29, 2003, and will conclude on June 26, 2003.

USDA is making steady progress in the implementation of the Animal Health Protection Act, which updates and consolidates previous laws. Work on most sections of the Act have been completed and we are in various stages of the regulatory process to implement remaining sections. Of note, the comment period recently closed on a proposed rule to improve detection of animal diseases.

Disaster Assistance

I would also like to take this opportunity to update the Committee on where the Department stands in implementing the 2003 Act. The Department has been working diligently over the past months to provide assistance to the many producers affected by drought and related conditions in 2001 and 2002. The Federal Crop Insurance Program has paid indemnities of nearly \$4 billion for losses incurred during the 2002 crop year.

USDA has utilized all available resources to address the most severe drought situations over the past year. Emergency haying and grazing of selected Conservation Reserve Acreage was authorized and a new Cattle Feed Program utilizing surplus non-fat dry milk was implemented last fall. A new 2003 Livestock Feed Assistance Non-Fat Milk Program was implemented on April 8 to provide further relief. Last fall, USDA also developed the Livestock Compensation Program (LCP), which provided \$855 million to producers in 1825 declared disaster areas. Currently, the Department is engaged in implementing the over \$3.0 billion package of disaster assistance authorized by the 2003 Act enacted on February 20 as part of the Consolidated Appropriations Resolution, 2003. A Disaster Assistance Working Group has been

coordinating the implementation of this Act and many of the procedures which proved useful in implementing the new Farm Bill are being applied to getting the disaster assistance implemented quickly.

The 2003 Act extends the LCP to additional counties and could result in as much as \$350 million to over \$400 million in additional assistance. Signup for LCP began April 1 and ends in early June. A separate program to assist catfish producers is also under development. Signup for two other programs is underway as well. The Tobacco Payment Program signup began on March 17, and ends on May 16. This will provide nearly \$55 million to tobacco producers. The Cottonseed Payment Program signup began on May 2, and will end on May 23. This program will provide \$50 million in assistance.

The major component of the 2003 Act is the Crop Disaster Program, which is estimated to provide over \$2.1 billion in assistance to producers with qualifying losses in 2001 or 2002. This is also a complex program which required considerable effort to develop. Signup is scheduled to begin June 6. The program has been designed so as to not discourage producers from purchasing adequate crop insurance coverage.

Work is progressing rapidly on other major components of the 2003 Act. Assistance programs for sugar beet producers and separate assistance for sugar cane growers with hurricane damage are being developed and should be ready soon. The Livestock Assistance Program which will provide \$250 million in assistance for grazing losses will require a signup later this summer. Procedures are being developed to make adjustments for LCP and Cattle Feed Program Payments already received by producers. Other aid is on a faster track, for example, refunds of the Conservation Reserve Program grazing deductions are already being issued with about \$11 million already made.

Unfortunately, the drought persists into this year in some parts of the country, particularly the Northern Plains and northwest States. In this regard, we have established a Drought Coordinating Council at USDA to closely monitor drought conditions in order to be able to develop timely responses as problems arise and resources permit.

Mr. Chairman, this concludes my statement. The staff at USDA is working very hard to get the job done of implementing the Farm Bill, as well as the disaster assistance legislation so that all program participants can receive the benefits they are entitled to under the legislation. We are committed to do the best job we can do. We are also committed to working with Congress and stakeholders to ensure the legislation is implemented properly and fairly. I would be glad to answer your questions.