S. HRG. 106–936

U.S. AGRICULTURE EXPORT PROGRAMS

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE SUBCOMMITTEE ON PRODUCTION AND PRICE COMPETITIVENESS

ONE HUNDRED SIXTH CONGRESS

SECOND SESSION

ON

U.S. AGRICULTURE EXPORT PROGRAMS

JULY 18, 2000

Printed for the use of the
Committee on Agriculture, Nutrition, and Forestry

U.S. GOVERNMENT PRINTING OFFICE
70–092 CC WASHINGTON : 2001

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

RICHARD G. LUGAR, Indiana, *Chairman*

CONTENTS

Page

HEARING:
Tuesday, July 18, 2000, U.S. Agriculture Export Programs 1

APPENDIX:
Tuesday, July 18, 2000 55
DOCUMENT(S) SUBMITTED FOR THE RECORD:
Tuesday, July 18, 2000 125

Tuesday, July 18, 2000

STATEMENTS PRESENTED BY SENATORS

Roberts, Hon. Pat, a U.S. Senator from Kansas, Chairman, Subcommittee on Production and Price Competitiveness, of the Committee on Agriculture, Nutrition, and Forestry 1
Kerrey, Hon. J. Robert, a U.S. Senator from Nebraska 3

WITNESSES

PANEL I

Timothy J. Galvin, Administrator, Foreign Agriculture Service, U.S. Department of Agriculture, Washington, D.C. 5
Parmer, Hugh, Assitant Administrator, Bureau for Humanitarian Response, U.S. Agency for International Development, Washington, DC. 7
Viadero, Roger, Inspector General, U.S. Department of Agriculture, Washington, DC., accompanied by James R. Ebbitt, Assistant Inspector General for Audits, U.S. Department of Agriculture, Washington, DC. 9

PANEL II

Cavanaugh, John, Chairman and CEO, Summit Limited, Omaha, Nebraska ... 31
Curtis, Marc, Chairman of the Board, American Soybean Association, Leland, Mississippi 46
Griffith, Bill, U.S. Rice Producers Association, Bolivar County, Mississippi 50
Hamnes, Bruce, National Association of Wheat Growers, Stephen, Minnesota . 44
Levinson, Ellen, Government Relations Advisor, Cadwalader, Wickersham, and Taft, Executive Director, Coalition for Food Aid, Washington, DC. 33
Molz, Otis H., Chairman of the Board, CoBank, Deerfield, Kansas 28
Pine, Roger, Chairman of the Board, National Corn Growers Association, Lawrence, Kansas 48

APPENDIX

PREPARED STATEMENTS:
Cavanaugh, John 89
Curtis, Marc 111
Galvin, Timothy J. 56
Griffith, Bill 120
Hames, Bruce 104
Levinson, Ellen 95

	Page
PREPARED STATEMENTS—CONTINUED	
Molz, Otis H.	85
Parmer, Hugh	63
Pine, Roger	116
Viadero, Roger	71
DOCUMENT(S) SUBMITTED FOR THE RECORD:	
Position statement submitted by The Coalition to Promote U.S. Agriculture Exports	126
Position statement submitted by The USA Rice Federation	130
Position statement submitted by, John H. Costello, on behalf of the Citizens Network for Foreign Affairs	134

U.S. AGRICULTURE EXPORT PROGRAMS

TUESDAY, JULY 18, 2000

U.S. SENATE,
SUBCOMMITTEE ON PRODUCTION AND PRICE
COMPETITIVENESS, OF THE COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2:44 p.m., in room SR–328A, Russell Senate Office Building, Hon. Pat Roberts, (Chairman of the Subcommittee,) presiding.

Present or submitting a statement: Senators Roberts and Kerrey.

OPENING STATEMENT OF HON. PAT ROBERTS, A U.S. SENATOR FROM KANSAS, CHAIRMAN, SUBCOMMITTEE ON PRODUCTION AND PRICE COMPETITIVENESS, OF THE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

The CHAIRMAN. Good afternoon, and welcome to today's hearing. This is the Subcommittee on Production and Price Competitiveness, and we have a hearing today on the export programs we have available to us within the Department of Agriculture.

Let me say that by creating jobs and providing very needed income to rural America, our U.S. agriculture exports will always be an integral part of a strong national economy. If you consider that 1 out of every 3-harvested-acres in America is exported, and over 25-percent of the Nation's farm income is generated by foreign trade, maintaining a strong and aggressive trade policy remains one of the Government's most vital roles for the farming community and for all of our citizens.

I think everyone involved in American agriculture is interested not only in feeding the people of this country, but the malnourished and the hungry of the world, and establishing new markets and hopefully increasing America's agricultural market share. This hearing should help us examine the current trade programs and pinpoint our strengths, as well as areas that would need improvement, as we move into the development of the new farm bill.

With international discussions underway to ensure free trade in the world marketplace, the United States has the weapons in its trade arsenal, if I could refer to it in that way, that effectively help farmers move commodity surpluses abroad, meet the international nutrition needs, and develop new markets without distorting a free trade atmosphere. That is a tall bill, but it is a bill that we hope that we can accomplish.

In particular, food aid and credit guarantee programs remain a cornerstone of our agricultural trade policy. Unfortunately, these programs have unfairly been subject to substantial scrutiny in the international arena. We need to fight to preserve these programs. At the same time, we must make every effort to ensure these programs do not displace any commercial sales that would otherwise take place.

As other countries continue to use their export subsidies and other very questionable trading practices, it is especially important that the United States effectively utilize the tools at our disposal, while working to achieve the ultimate goal of free trade.

As we move into the 21st century and strive to stay competitive in a changing world market, the credit guarantee and food aid programs can be better used to be even stronger. Considerable concerns with the programs still exist in the areas of monitoring and interagency conflicts, the ever-present. Bureaucracy, and full implementation. Improvements should be made.

For example, opening new markets for our Nation's farmers does little good if the Government is unwilling to use our credit programs to facilitate a commodity's introduction into these foreign markets. In addition, the same bureaucratic hurdles that I mentioned have severely slowed this year's delivery of food aid to countries in need of relief. This hold-up is especially counterproductive to our overall trade objectives because countries that receive food aid will eventually become trading partners once they are able in terms of their own economics.

Let me inform the panel and all present I just returned from Cuba, where I took part in a 10-hour meeting with Fidel Castro, and probably about a 12-hour meeting with 6-various-ministers. And I must tell you that many of these concerns, I think, apply to the situation in regard to Cuba.

I believe that we must achieve real sanctions reform that will work. However, as far as Cuba is concerned, and to some degree with the nations of concern that also are affected in regard to sanctions reform legislation, I must tell you that our goal should be for a long-term market. But I don't think that we are going to have any short-term gold mine as far as sales are concerned.

Simply put, the country of Cuba does not have the cash to purchase U.S. products. The economy must be allowed to open up and expand before these commercial sales can take place. As a matter of fact, in talking to Fidel Castro, we really pressed very hard to try to see if we could not get what I call a breakthrough arrangement, a breakthrough sale, to empower the Cuban people to enable them to have the means to trade with us, as opposed to the state-owned enterprises, where we always seem to find the hurdles.

In the interim, we must find ways to provide insurance for private financing, use our general sales manager [GSM] credits, and pursue food aid donations. However, I am concerned that the sanctions language that is proposed in the House—and I am referring to the nations of concern and Cuba—will tie our hands in this regard, and I look forward to discussing this issue with Mr. Galvin, who has had a long and valued experience in these matters.

In addition, I learned on my trip to Cuba that last year the European Union made $255 million in agricultural sales to Cuba under financing programs with 22-percent interest. Cuba has not and most likely will not repay this principal or interest. This is, in essence, a $255 million export subsidy that the European Union is providing to its farmers. I also look forward to asking Mr. Galvin to comment on how the U.S. can compete with these kinds of subsidies, and to also discuss how we can address issues such as these in our World Trade Organization [WTO] negotiations.

So with those issues in mind, I welcome today's guests. Because of the magnitude of this issue and its importance to U.S. agriculture, let me point out that a number of organizations have expressed a desire to offer testimony before the Subcommittee. But, unfortunately, time constraints will not allow us to hear from all the concerned parties, so at this time I will submit their testimony into the record.

I would like to remind the panelists that your entire testimony will be submitted for the record, and ask that you limit your statements to no more than 5-minutes, if that is possible, so that everybody has ample time to be heard.

We have an outstanding panel in regard to panel number one: Mr. Timothy J. Galvin, the Administrator of the Foreign Agricultural Service within the Department of Agriculture. Tim and I go back a long way; we are sort of bucket-toters in regard to Capitol Hill experience both on the House side and the Senate side.

We have Mr. Hugh Parmer, the Assistant Administrator for the Bureau of Humanitarian Response within the United States Agency for International Development.

We have Mr. Roger Viadero, the Inspector General of the Department of Agriculture. Let me say something in regard to the Inspector General. Back about 4-years ago when we were trying to basically streamline and save the Food Stamp program to make it better, Mr. Viadero worked very long and hard on this issue. He saved the American taxpayer literally billions of dollars.

His efforts made it possible for us to keep the program, to eliminate the fraud and abuse. So for the people who receive food stamps and the people who are involved in the program and the long-suffering taxpayer, he did an outstanding job. I wanted to go on record to thank you again for that, Roger, and welcome you to the panel.

I now turn to my distinguished colleague, the Senator from Nebraska, for any comments that he would like to make.

STATEMENT OF HON. J. ROBERT KERREY, A U.S. SENATOR FROM NEBRASKA

Senator KERREY. Well, thank you very much, Mr. Chairman. First of all, I welcome the witnesses, and appreciate very much everybody willing to come, especially Mr. Galvin and John Cavanaugh, who will testify with a later group of people.

Unfortunately, at least as I look at the appropriations this year, we have, in my view—though I think the administration has done a good job in promoting exports, it is relatively easy for us to take our eye off the ball and to get distracted and to look for some magical solution to solving our problems.

It is perfectly legitimate for us to be arguing about this farm program versus that farm program. I have done a fair amount of that in the last 12-years that I have been here in the Senate. But regardless of what kind of farm program we have got, we have got to continue to work to expand our export markets, for a whole range of reasons, for humanitarian reasons, for economic reasons, for reasons of political stability, especially in Russia that is engaged in the most important democratic experiment on the planet.

If that experiment is successful, there is no question in my mind that there will be enormous benefits that will accrue to the United States as a consequence of that success. So we have a stake in every single case to successfully transitioning to a market economy and to a liberal democracy, being able to successfully figure out the things that the United States has done to develop productive agriculture, and there is a whole range of things that we have done.

However, again, I have got to emphasize, Mr. Chairman, there is a tendency especially, I think, on the congressional side to forget that we have got to support this export effort. I know that in our Ag appropriations bill, we have a sufficient amount of money to prevent further downsizing of the FAS. We downsized six Foreign Ag Service offices around the world, including Tokyo, which Nebraskans consider a very prime market for our beef, and obviously a very, very important part of our capacity to be able to support about 100,000 jobs in the State of Nebraska that are involved with beef in one way, shape, or form.

Ag approps on the Senate side has a $4.2 million increase; the House has nothing. Ag approps also has, I think, $1.1 billion of emergency spending. I don't know what the Republican caucus talked about, but one of the things we talked about in our caucus is some of our guys are already talking about another ad hoc disaster program, which Bev Paul is morally opposed to, she tells me, who works for me.

But we could be knocking on the door, Mr. Chairman, of spending $40 billion direct, and I think we have got to balance those expenditures with more direct expenditures, trying not just to promote and to move exports through the export enhancement program and other export efforts, but through the P.L. 480 Food for Peace program and other efforts like that.

There are very few situations where we have an intersection of things that are in our economic interest and our moral interest and in our interest in trying to promote political stability throughout the world as there is in the promotion of good export policies.

So I appreciate very much, Mr. Chairman, your holding these hearings because I think we have to expand beyond what we are currently doing our support for export policies, at the same time that we continue to ask those who are engaged either on the Government side or on the private sector side, how do we do this better, how do we do this so that it does reduce worldwide suffering, how do we do this so it does promote the development of private sector agriculture, how do we do it so that it does promote the values and the interests that the United States of America hopes to be promoting through these policies.

So I look forward to the testimony of the witnesses.

The CHAIRMAN. I thank my distinguished colleague. I would only add that my predecessor in the House used to have a saying that in western Kansas, similar to western Nebraska, if you don't sell it, you smell it, and the taxpayer has certainly done that to a great degree.

It was just about 2-weeks ago I was in the constant listening that we do to our farmers and ranchers, and he said, Pat, you know, it is about time we took a gun to a gun fight. And he was referring to the competition that we have overseas. I think there is a belief on the part of many in agriculture that we certainly need to improve, to have an export program that is more consistent, more aggressive.

I am not trying to question the ability or the record of any of our panel here, but I think it is obvious what we face. Let me point out that Mr. Galvin used to work for a Congressman by the name of Berkley Bedell, and Berkley Bedell and I attended the first meeting of the export enhancement program, when we thought it was going to move product, but then it became sort of a—I am not sure what it became, sort of a foreign policy, I guess, jump ball, and they had a working group trying to figure out where we could apply this.

I would also point out the Public Law 480 program, the Food for Peace program, which has been such an outstanding program for so many years, was first written by the Honorable Cliff Hope, who was a Congressman from the 1st District of Kansas, and we need to build on that.

I thank my friend for his comments.

Let's start with you, Tim. Thank you so much.

STATEMENT OF TIMOTHY J. GALVIN, ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC.

Mr. GALVIN. Thank you, Mr. Chairman, and Senator Kerrey. It is a real pleasure to be before the Subcommittee this afternoon to review the export and market development programs for U.S. agriculture.

I would like to ask that my full statement be made a part of the record.

The CHAIRMAN. Without objection.

Mr. GALVIN. After three straight years of decline, we now expect that U.S. agricultural exports will reach $50 billion for fiscal year 2000, up $1 billion from last year. While export values remain below the peak of 1996, demand is expanding more rapidly than anticipated. In 2000, the world economy is expected to return to a growth rate rivaling the high recorded in 1996. So while the forecast is far short of the $60 billion recorded in 1996, it shows that U.S. exports are turning around and once again moving in the right direction.

The fact that export volume actually increased by more than 15-percent last year, even as export value fell, confirms that one of the major factors suppressing the export outlook has been the recent string of worldwide production increases for major commodities. We have now seen four, going on five, straight years of record or near-record production for grains and oilseeds, and the result is being felt in our export values and certainly at the farm gate. A rather strong U.S. dollar has also hindered our foreign sales, as have economic crises in Asia, Russia, Brazil, and elsewhere, although they seem to be abating.

The staff at USDA, including the Foreign Agricultural Service, has been working hard to bring about and sustain the current upturn. Through our broad array of export programs, including the market access program, the foreign market development programs, the dairy export incentive program, our food aid and export credit guarantee programs, we have been very aggressive in using our authorities to increase exports and help our farmers and ranchers earn a better income from the marketplace.

To illustrate the extent of our efforts to support U.S. agricultural exports, I would like to take a few moments to highlight activities under our export credit guarantee and food aid programs.

Over the past 2-years, export credit guarantee programs have supported sales of more than $7 billion in U.S. agricultural products. For FY 2000 to date, we have announced the availability of more than $5 billion in export credit guarantees for sales to countries where lack of credit might otherwise present a barrier to sales.

Last year, USDA used its food aid programs to move nearly 8-million metric tons of farm surpluses to help relieve hunger abroad. This was the largest quantity in recent history and it is in addition to the quantities provided by our friends at AID. U.S. commodities were shipped to 50 countries, from the unprecedented assistance package for Russia, to food for Kosovo refugees, famine victims in Africa and North Korea, and hurricane victims in Central America and the Caribbean. Once again this year, USDA will donate significant amounts of food aid to needy countries, including about 5.4-million-tons-of-wheat, rice, soybean products, and milk powder, and again this is in addition to what AID provides.

We are also working to improve long-term opportunities for our farmers and ranchers. Last year, the President announced sweeping sanction reforms that open new markets to U.S. agricultural exports. Despite continuing sanctions on most other products, American farmers and ranchers are now able to sell their commodities to Iran, Libya, Sudan, and North Korea. Already, there have been corn sales to Iran, wheat sales to Sudan and Libya, and wheat donations to North Korea through the World Food Program.

During this past year, USDA also helped to reach two major trade agreements with China. The agreement on U.S.-China agricultural cooperation resulted in sales of U.S. meat, citrus, and wheat. USDA also helped negotiate the U.S.-China WTO accession agreement, which offers major long-term benefits for U.S. agriculture. We understand that the Senate has a full agenda, but we are very hopeful that a vote can occur on granting permanent normal trade relations to China in the immediate future. This is an opportunity for our farmers and ranchers that we must not let slip away.

Three weeks ago, the United States presented an ambitious, comprehensive negotiating proposal for the next round of WTO agricultural talks. It establishes a blueprint for meeting the goals we have been talking about for more than a year—eliminating export subsidies, lowering tariffs and expanding TRQs, disciplining state trading enterprises, and facilitating trade in products of new technologies such as biotechnology.

It also seeks to cap trade-distorting domestic support at an equal, fixed percentage of a country's total value of agricultural production. If we have heard one thing from U.S. producers over the past several years, it is that we must level the playing field by avoiding further across-the-board percentage cuts that leave our farmers at a disadvantage.

With our new WTO proposal, the U.S. is very much in a leadership position in Geneva. In the months ahead, we will continue to work closely with our farmers, ranchers, processors, Congress, and our private sector advisory committees to refine our negotiating proposal further. The U.S. has proposed concluding the negotiations by the end of 2002 and reaching agreement on the fundamentals of further reform by the mid-term of the negotiations.

As USDA moves ahead with these efforts, we face many challenges. For example, we must continue to do more with less, as resources for administering our export market development programs have not increased. If the U.S. is going to be competitive, especially as nations compete for access to markets opening in China, Vietnam, and elsewhere, we will need to redouble our efforts.

Mr. Chairman, that concludes my statement and I would be happy to answer any questions.

[The prepared statement of Mr. Galvin can be found in the appendix on page 56.]

The CHAIRMAN. We thank you, Tim.

Mr. Parmer.

STATEMENT OF HUGH PARMER, ASSISTANT ADMINISTRATOR, BUREAU FOR HUMANITARIAN RESPONSE, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT, WASHINGTON, DC.

Mr. PARMER. Thank you very much, Mr. Chairman, and I also would like to have my written remarks submitted to the record, please.

The CHAIRMAN. Without objection.

Mr. PARMER. I had a brief prepared oral statement, Mr. Chairman, but in the course of your statement and Senator Kerrey's statement, you made the point about food aid leading to agricultural markets for American products. That was one of the major points of my oral statement. And then Senator Kerrey made the point about food aid representing a unique circumstance where our agricultural economic interests and our humanitarian ethic meet. And so I am left with very little in terms of an oral statement.

I would like to take the opportunity, if I could, to put just briefly a human face for you on food aid as I have seen it in the 2 ½ years that I have been in this role. One of the first things I think we all have to recognize is that the bulk of United States humanitarian assistance around the world is food assistance. It is the point of the lance of the U.S. capability in responding to humanitarian disasters, whether they be man-made or natural.

I remember, Mr. Chairman, when I was in Kosovo the first time, which was in September of 1998, and I was in a truck delivering United States food aid to people who had been driven from their homes by Serbian paramilitary and police forces. We were way up in the mountains 1-day and I came upon a group of people. There were 5-little-huts in the village and they were 250 people trying to live there, drinking water out of a polluted stream.

As I spoke with them through my translator, one of the people as we handed out some United States food assistance said—I said, what else do you need? And they said, we need peace. And I said, well, I can't bring peace; I bring food. That is a matter for diplomats and perhaps soldiers. And the gentleman to my left said something and my translator said—I said, you have to pray for peace. And he said, we will pray for peace; we will put our faith in God and the United States of America.

In the mountains of the Dominican Republic during Hurricane George, by United States Blackhawk helicopters accompanied by special forces soldiers, we were delivering United States food aid to people who had been cut off for over a week. And because we were fearful that people would rush the helicopter in their need for some sustenance, we had taken the local bishop along with us, and he and I were out in our shirt sleeves passing out 50-pound-bags that said "a gift of the people of the United States." An elderly woman as we finished grabbed me by the arm and said something. Well, I think I speak Spanish, but I did not understand her, and I turned to the bishop and he said, she said God bless America.

Finally, I was back in Kosovo after the war with a member of the United States Congress and we were traveling, again, looking at the aftermath and we met with a gentleman whose family was living under a tent. I said, this is really bad, maybe I could find you a place in town. He said to me, this is not so bad, we lived in the mountains and we lived on leaves and grass last winter, but now we are here and we are safe and we are alive.

And I said, well, are you sure you don't want to go to town? He said, no, I can't, I would have to leave what you gave me. And he opened the tent to show me those bags of food that said "gift of the people of the United States," and he said, you know, we have enough and we are safe. And I said, and you are free. And then he cried and I cried, and then the Member of the United States Congress shed a few tears as well.

So I appreciate the kind words you have said about the Food for Peace program. I think it is one of the most marvelous programs that I have an opportunity to administer, in what is the best job in Government, I think. I think you all know that we get a little over $800 million of appropriations; we have for the last few years. Over 70-percent of that is spent right here in the United States with agricultural producers and transporters and private voluntary organizations here in the United States.

This need for food internationally is not going to go down. The population in these low-income countries, particularly with the AIDS problem as severe as it is—AIDS strikes generally those people who are in the most productive age ranges, so agricultural production, we believe, is going to go down at the same time that the need for food in these countries and the ability to pay for that food is going to go up.

I would urge the Congress, and I am very grateful to the Senate for fully enacting the requested appropriation of $837 million for P.L. 480, Title II. Whatever influence you have with your colleagues across the way we would be deeply grateful for as well.

That is nowhere near too much food. There are 800-million-hungry-people in the world. That is a little over a buck apiece.

So I would say to you we are grateful for the bipartisan support that Food for Peace has enjoyed. We look forward to continuing to work with the committee and the Congress. And I personally want to thank the Senate who confirmed me a few years ago for an opportunity to serve in what is really the best job in the U.S. Government.

[The prepared statement of Mr. Parmer can be found in the appendix on page 63.]

The CHAIRMAN Mr. Viadero, and he is ably accompanied by Mr. James Ebbitt, the Assistant Inspector General for Audit.

STATEMENT OF ROGER C. VIADERO, INSPECTOR GENERAL, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC.; ACCOMPANIED BY JAMES R. EBBITT, ASSISTANT INSPECTOR GENERAL FOR AUDITS, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC.

Mr. VIADERO. Mr. Chairman and members of the Subcommittee, I appreciate the opportunity to be here today to testify about our work on the Department's food aid assistance programs. With me is James R. Ebbitt, Assistant Inspector General for Audit.

I have a prepared statement, Mr. Chairman, which I would like to submit for the record and summarize here this afternoon.

The CHAIRMAN. Without objection.

Mr. VIADERO. Thank you.

Since 1994, the Office of Inspector General has been involved in evaluating various aspects of the Department's food aid assistance programs. We have evaluated and monitored almost $3 billion in food aid assistance in the newly independent states of the former Soviet Union; evaluated the Department's control over private voluntary organizations, or PVOs, in the Food for Progress program; and investigated several elaborate schemes to defraud the Department's export programs.

Our reports identified that cooperating sponsors, both foreign governments and PVOs, did not always comply with their agreements. Also, the Department needed to better monitor these programs. I would like to note that the Department has implemented positive changes in response to many of our audit recommendations.

Let me first highlight our work on the 1999 Russian food assistance agreements. In December of 1998, the Governments of the United States and Russia entered into agreements that provided over 3-million metric tons of commodities. The agreements' goals were to provide contributions to the Russian pension fund and to distribute food directly to the most needy groups in Russia. From the outset, we monitored FAS' efforts to minimize the potential misuse of the commodities.

In February 1999, and as a result of our observations in Russia during May 1999, we made recommendations that included increasing the size and effectiveness of the on-site monitoring staff and verifying the financial integrity of private Russian institutions that would handle monetized proceeds. We believe that FAS made a significant effort to establish controls and strengthen its monitoring efforts.

Let me now focus on the Department's actions to address our concerns. These concerns fall into two categories. First, cooperating sponsors did not always comply with agreements. Second, the Department needed to strengthen its management controls over these programs.

In the first category, we found that cooperating sponsors did not always comply with their agreements because they did not file required reports, follow monetization requirements, and effectively control the commodities they received. In 1994, we first reported that because reports were not filed, the Department had no reasonable assurance that more than $99 million in donated commodities were properly used.

In 1994, we also reported that sponsors did not follow monetization requirements because they abdicated their control and violated the agreements. In 1994, we first reported that cooperating sponsors did not effectively control the commodities they received. As an example, a sponsor's control did not prevent the unauthorized diversion of almost 2,000 metric tons of donated butter valued at in excess of $2,800,000.

For one case we investigated in 1995 involving vegetable oils, the U.S. company defrauded the program by failing to deliver 4,200,000 pounds of oil and diverting an additional 1 million pounds of product. As a result of this scheme, the Department was defrauded of over $2 million in vegetable oil. This case represents one of the largest successful prosecutions involving Commodity Credit Corporation [CCC], contract fraud.

Effective controls over the monetized proceeds derived from commodities are also essential—a weakness we reported in 1999. FAS officials recently informed us that their compliance staff would begin to monitor the use of monetized proceeds.

As part of the second category of concerns, we found that management controls needed to be improved. In 1994, we reported that since effective management controls had not been instituted, the Department would be unable to recognize when commodities were at risk. The Department's improvements included publishing regulations and increasing oversight visits.

During 1999, we reported that the Department had improved its monitoring of private voluntary organization activities. However, we found PVO reports were not timely reviewed. These reports were held up until the grant close-out reviews were performed, a process that was significantly backlogged. As of September of 1998, 130 of 185 agreements for fiscal years 1992 through 1996 were in the process of being closed. In response to us, the Department developed a plan and time frame to eliminate this backlog and develop procedures to ensure that future reviews are timely performed.

Now, what does FAS need to do to look to the future? If the Department authorizes greater use of monetization of commodities, we believe that FAS will need to be vigilant in monitoring that intended recipients receive the commodities and the monetized proceeds are used for the intended purposes. This means timely reporting by sponsors and timely review by FAS, as well as increased on-site presence by FAS where large programs are operating.

Thank you for your kind comments at the opening of the hearing, Mr. Chairman. I would also extend an invitation on the very topic of food stamps, and particularly EBT. We are presenting testimony tomorrow before Mr. Kasich's committee in the House, and we would very much appreciate it if you would like to attend.

Thank you so much.

[The prepared statement of Mr. Viadero can be found in the appendix on page 71.]

The CHAIRMAN. We always had to give Mr. Kasich a Ritalin pill when he started out. I don't know if you will want to do that or not, but thank you for your testimony.

I think I will start with Mr. Galvin. Tim, I think you are aware that I recently visited Cuba, and I appreciated your advice and your suggestions prior to that with Senator Akaka and Senator Baucus. I think we have an opportunity. I am not very sanguine about this. I think long term we can make some progress, but short term we really have some problems, it seems to me, some complexities to work out.

But my question is if you take up the complexity of the situation—I am going to put you on the spot here a little bit—would adopting the sanction removal language that is being discussed in the House of Representatives be sufficient to help our farmers really penetrate this market?

And I will add on my second part of this. Does the administration prefer the House or Senate version of the Cuban sanction removal? Do you believe that it is important to retain the ability to feed the island's population through food aid programs or help our importers that are working to establish credit purchase in regard to U.S. commodities with export credits?

Mr. GALVIN. Thank you, Mr. Chairman. I think, given some of the constraints in the House language, we would find that the potential trade with Cuba would be very limited indeed. The prohibitions on government credit, private credit, that sort of thing, would, I think, vastly limit the potential, especially given, as you pointed out in your earlier comments, that the Cuban people themselves don't have much to trade in return. So their purchasing power is rather limited. In addition, as you pointed out, we certainly already face some competition in that country, given the presence of the EU and Canada and others.

With regard to which legislation we prefer, I think the President has been very clear in his public statements that he wants to see us trade food and medicine with Cuba, as well as the other countries that we lifted sanctions against last year. He has indicated that he prefers the flexibility of the type offered by Senator Lugar in his earlier bill, and he and Deputy Treasury Secretary Eizenstat and others have indicated concerns about restraints on the President's authority in the House and even the original Senate bill, restraints in terms of the 60-day notice period before any future sanctions could be imposed, as well as, again, the limits on credit, and that sort of thing.

The CHAIRMAN. I appreciate your candid answer. This also applies to the other nations of concern. It not only applies to Cuba, if you have a major market like Iran where you are trying to achieve a breakthrough. And I know the administration is trying to do this on a case-by-case basis. I get calls about every week from Secretary Eizenstat and others within the State Department indicating some progress.

It seems to me that if that bill would pass, we would take about one step forward in regard to, I guess, public attention, but maybe five steps back in our ability to actually make some progress. That is an editorial comment on my part.

We have a lot of low commodity prices. We have come through some very depressed times in our markets. There is a concern that the large food aid shipments are displacing potential commercial markets. What effect has the food aid program had on world commodity prices, and what efforts does the USDA take in approving the food aid programs so that you do not displace the domestic markets or disrupt any free trade in the world marketplace?

Mr. GALVIN. We think there has been minimal impact in terms of displacement and a depressing effect on world prices. In fact, one of the reasons that it takes so long in some cases to provide this food aid and do the agreements that we have to reach with each of the 50-recipient-countries is that we have to go into each one of those countries each year and do an assessment of their own production, their own consumption, and then estimate what their commercial purchases might be absent any sort of food aid.

So we have to go in and do a careful assessment and determine the so-called usual marketing requirements, and on that basis make a judgment as to how much food aid we could put in there without displacing commercial sales, without destroying the local incentive to produce, and that sort of thing. So we believe that we are very careful, and again this is one of the things that results in this taking a bit more time than we always want to see happen.

Senator KERREY. Could I just follow up on that line of questioning? The Chairman invited me to do this.

You have raised a subject, it seems to me, that is critical to examine, and that is aid can have a negative impact. We see it here in the United States. I mean, there are all kinds of examples. The most recent one is we are urging USDA to allow haying and grazing on CRP land, and my alfalfa guys are nervous that, that could crop the market for alfalfa, which is not a program crop. So we see it all the time, and that is one concern, provide a subsidized sale into a Nation as a consequence of humanitarian concern that could hurt the market price for products in that country, decrease the profit for established growers and processors, and actually produce economic dislocation as a consequence. That is concern number one.

Concern number two, which is an even larger one in some ways especially for emerging democracies and emerging market economies like Russia, where there is an argument going on inside the nation—the argument is the Government does it best, rather than having the market do it, so that the second concern is the assistance reinforces and strengthens preexisting government agencies as opposed to reinforcing and strengthening emerging individuals who are trying to survive in the marketplace.

How do you assess that, and do you think that we have mechanisms in place that enable us to direct the aid in a fashion that increases the chances that the private sector in those nations will continue to strengthen and grow?

Mr. GALVIN. Well, it is a real balancing of interests, and sometimes that is very difficult. I believe the Subcommittee has a copy of the chart that we passed out showing how we really ramped up food aid from 1998 to 1999. A big part of that increase is represented by the food aid to Russia, which was a bit over 3-million-metric-tons in 1999. We had to make a judgment that much of it should go to the Government in the sense that they were best equipped to see that was distributed to the people in need.

The CHAIRMAN. Can I challenge that, though?

Mr. GALVIN. Yes.

The CHAIRMAN. Were they best equipped? Didn't they have a conflict of interest, in that they would prefer that the Government agencies stay strong relative to the private sector?

Mr. GALVIN. That is right, they do, and we would like to see more of it go to the private sector, more of it monetized. But as Mr. Viadero pointed out in his statement, when you go to monetize a commodity or to provide it to all these different private sector interests that have good ideas that are trying to change things, that just means that you are dealing with a whole lot more folks, and it takes a much larger administrative capability than we currently have to make sure it is done right.

The CHAIRMAN. In fact, let me tie into what Mr. Viadero was saying. It seems to me that one of the things we have to be careful of doing is that in discovering evidence of fraud in transactions in the private sector, we don't want those fraudulent transactions, or shouldn't let those private transactions that are fraudulent spook us into doing more business with governments that might not look like they are fraudulent, but in fact might be just as fraudulent as what is going on in the private sector, especially in terms of the desire, it seems to me, that we ought to have on our part especially in Russia, but I would say everywhere. We ought to be trying to promote stable private sector economies, as opposed to stable government economies which are never very stable.

Mr. GALVIN. We most certainly want to do that.

The CHAIRMAN. As we send Mr. Viadero out to do his good IG work, which we need to do because the taxpayers are concerned about how the money is being spent, do we have to be careful not to overreact to instances of private sector fraud and alter our policies in a fashion that may make it difficult for the private sector in those countries to develop?

Mr. GALVIN. I understand. All I can say is that it is an extreme challenge in the case of operating in Russia. That was why a decision was made last year that a lot of the proceeds that would follow from monetization would go into the Russian pension fund as opposed to being put in different sorts of agricultural development accounts, that sort of thing, just because of the concern about fraud and misuse. But we continue to be engaged with Russia, looking for opportunities to support the reform that is occurring there. Under Secretary Schumacher was in Russia on that point just about 10-days ago.

The CHAIRMAN. Well, I would observe that just taking Russia, but I would do it with all countries, I would set some sort of objective goals that say, okay, here is the percent of the agricultural economy in Russia that is handled by the Government and here is how much of it we have in the private sector, and we have a goal of increasing the percentage of private sector agriculture, both production and processing, from whatever it is today to a higher number in 10-years or 5-years, or whatever the number is.

It puts some sort of benchmark out there to determine whether or not—and it is USAID as well, and it can be P.L. 480, it can be Commerce Department programs. It seems to me that we ought to set some objective goals of increasing private sector activity because if we don't set those goals, we will never know whether or not we are achieving any progress.

Mr. GALVIN. Well, I can tell you that is certainly our objective in a number of countries, to try to encourage reform where we can, given the limits on our capabilities.

The CHAIRMAN. It is those limits that I think are important, Tim. We don't want to ask for more reports from you, but I would hope that in your budget recommendations—and, of course, I know we are at a crossroads in regard to budget recommendations with the election coming up and a new administration coming on. But we will still be here. Well, I will still be here, at any rate, and you will in spirit, I know.

Senator KERREY. No, I won't.

[Laughter.]

The CHAIRMAN. Well, we will remember you. That is for sure.

We are going to wrestle with this thing, and all the way through this you have been indicating "with the personnel we have, with the resources we have." I have a lot of questions here for the Inspector General involving some things that I think are just incredible, and basically it is the lack of personnel, lack of funds, lack of adequate resources.

It seems to me that if we are going to do the job, we at least ought to have—I am not saying it is a laundry list or a wish list, but we have to become much more aggressive. And so any help you could give us along those lines would be appreciated by the Subcommittee, and I know you will.

I know you mentioned Secretary Schumacher's trip to Russia, and I think he just returned about a month ago. Was that basically to oversee the shipments of food aid, or is there a possibility of additional shipments? I know that the Russian crop—they have a shortfall.

Mr. GALVIN. He was there primarily to see how our current food aid effort is going, and he was pleased to note that we are ahead of schedule in terms of these payments into the pension fund that I mentioned. So we believe that things are going well. But he was also there to assess as best we could current needs in Russia, and I think he has talked about the obvious need for more feed grains and soybean meal if they hope to sustain, much less rebuild their livestock industry.

The CHAIRMAN. Mr. Parmer indicated that USDA reported that 800-million-people in the world are food-insecure. Boy, there is a PC word. They are hungry. Food-secure. Who the heck put that together? That is not my staff. Somebody must have written that.

Each night, 300-million-children go to bed hungry. That puts it in stark numbers. Those numbers come from the Economic Research Service, and they publish a report on the world's food security each year. I think every member of the Senate and the House are in agreement this is a global problem. It can't be ignored. However, the FAS Deputy Administrator of Export Credits, Mary Chambliss, characterized this year's food aid program best at the Food Aid Forum just last month when she said one word summarized this year's program—late.

My question is, if we all recognize the severity of the hunger situation and the understanding of the problem, why on Earth did it take over 6-months, after the beginning of this fiscal year, for the Department to announce the particulars of the food aid program? What role did interagency interaction play in this delay? What steps were taken to ensure that those nations in most need were not left without food while they were awaiting a decision, and what steps are being taken to make sure that such delays do not occur again next year?

Tim, you knew we were going to ask the question, so if you would like to respond, we would be happy to have you.

Mr. GALVIN. Well, as you point out, there is an interagency process involved in making these decisions. Mr. Schumacher does chair the Interagency Food Aid Advisory panel that looks at all the recommendations in terms of allocations by country and that sort of thing. But in the end, what is agreed to is a consensus sort of view, and other agencies certainly have an opinion in that.

All I can say is, yes, it does take a lot of time, including the kind of time I mentioned earlier to do these needs assessments in each country so that we can assure that the amount of food that is programmed is appropriate. But we are always looking for suggestions on how to improve the process. It certainly isn't perfect and we are open to recommendations.

The CHAIRMAN. That might even be the topic of a separate hearing. I am reminded of Mr. Parmer's personal experience over and over again. I had the same experience in Kosovo. Senator Kerrey has been involved in this, where you look people in the eye and it is a little tough to explain that to somebody who is going through a real problem in terms of the delay.

I sent a letter to President Clinton, along with the distinguished Chairman of the full committee, in regard to the Iranian market. In the past year, it seems to me that America sent 600,000-tons-of-corn, worth about $60 million, to Iran. We can certainly sell more to this important market.

I make a speech in farm country that Iran purchased 6-million-metric-tons—that is about half of the Nebraska wheat crop and one-third of the Kansas wheat crop—from our competitors. And we have tried very hard to use agriculture basically as a tool for peace, a tool for better understanding between our two countries. We know we have some other problems with Iran. 1.7-tons-of-wheat from Canada, worth about $200 million—a member of my staff just came back from Canada and learned that Iran will most likely be Canada's number one customer again this year.

I think it can be a very large market, especially for wheat, but we can't compete without some kind of foreign assistance. I would call it a subsidy or an investment. We need the tools at our disposal. The GSM program is not available to Iran. I talk to Secretary Eizenstat about every 2-weeks about this, and here again we are on a case-by-case basis, and I encourage that. I don't want to put in statute what is in the House language in regard to sanctions reform and say you can't use these. Then you have got 535 people horsing around with this in terms of trying to get an answer.

The exporter today is in a swamp, or what I call export purgatory, to try to figure out where the heck we are. But we have this working group, and I would tell Senator Kerrey that about every second foggy night at Foggy Bottom I am trying to figure out where the working group is and will they allow the sale. Well, we are allowing pistachios and rugs to come into this country, and perhaps we can allow a sale and we are not quite sure with GSM yet, but maybe. And then, of course, a lot of that depends on the category of the country in regard to state terrorism and some of our national security concerns.

I am not asking a question, I am making a speech, but basically does the Department have any plan to expand the export credit program's use around the world? You announced 18-months ago that we were going to eliminate food and medicine from the sanctions. We are doing it on a case-by-case basis, but it is pretty slow. So, you know, can you give me an update?

Mr. GALVIN. Well, there are no current plans to allow GSM financing in those formerly sanctioned countries.

The CHAIRMAN. Nations of concern.

Mr. GALVIN. Nations of concern.

The CHAIRMAN. We don't call them rogue nations anymore; they are nations of concern.

Mr. GALVIN. That is right, and that is not simply a departmental decision. That is an administration position.

The CHAIRMAN. Well, shucks.

[Laughter.]

We are just going to have to have meaningful dialogue there as best we can.

Let me just follow on. The next question is if, in fact, our competitors are doing that, and they are—France, the European Union, Canada, Australia making those sales to those countries—it follows with the rhetoric that the President has made in regard to sanctions. What is the obstacle here? What can we do to push that on over?

Mr. GALVIN. Well, I think there are concerns that somehow this financing will directly benefit the Governments of these countries.

The CHAIRMAN. It can only be used for food. I mean, you can't monetize it for something else. That is what the programs are for. We have designed those programs like that. That is what they are for.

Mr. GALVIN. I understand. I am just trying to convey what some of the concerns are.

The CHAIRMAN. What can we do to compete with the unfair subsidies that the other countries are using to facilitate their Ag exports? Are our current policies and programs sufficient? That is a big-ticket item. You have been in this business a long time. There are a lot of complexities out there—nations of concern, the Cuba situation, the WTO. We have the GMO issue, we have almost every other issue I can think of—the value of the dollar, record crops, all sorts of things.

Have you come up with any ideas, Tim, as to an improvement with the current programs that could tailor into what I consider to be an unfair advantage by our competitors?

Mr. GALVIN. Well, as I have pointed out, we are using GSM and food aid programs essentially at record levels, and certainly using the Section 416 program at virtually unprecedented levels. It was a big boost to wheat, for example, in 1999. If you again look at the chart, the big red bar there is about 6-million-tons-of-wheat that we programmed under food aid last year.

We have some, I would call them rather minor recommendations for improving the operation of the 416 program and some of our other authorities. We provided that to the House at their hearing 3-weeks ago and we would be glad to provide those same recommendations to the Subcommittee if you would like.

The CHAIRMAN. I have a great suggestion for you. You are going to like this, okay? I know the announcements are very difficult if you consider that the 416 program is dependent on the surpluses within the CCC, and the Department must wait for the final harvest numbers before any surplus projections are made.

Let me tell you that last year researchers at Kansas State University, home of the ever-optimistic and fighting Wildcats, developed a remote sensing model, and it was 95-percent accurate in predicting the Iowa corn harvest by 2-months in advance of the actual harvest, even better than Senator Grassley. The Department of Agriculture did not get their final numbers until after harvest.

Why couldn't you be better able to use technology like remote sensing to help speed up the process of determining the particulars of the Section 416 program?

Mr. GALVIN. Honestly, I don't feel that is a limitation on our operations right now. We clearly have plenty of commodities. We know that there is quite a bit more on the way. That is not the real constraint right now.

The CHAIRMAN. Yes, but the announcements are made late in part because you have got to wait on those numbers. Is that not correct?

Mr. GALVIN. Well, I think the delay is more the result of the interagency process.

The CHAIRMAN. Well, you know we are going to have surplus.

Mr. GALVIN. There is no question.

The CHAIRMAN. Look at the corn carryover that we have got and the wheat carryover we have got. I mean, you know that is going to be the case.

Mr. GALVIN. Right.

The CHAIRMAN. You have as much commodity as you want to use in any of the program crops.

Mr. GALVIN. Right, but I think the bigger problem is the fact that it takes a while to get a decision out of the interagency process, as you pointed out and as everybody understands. And even once that happens, then, and it comes back to FAS simply to administer the decisions made, we frankly face a situation where our budget has been frozen for 3-years now.

And I know I just sound like a bureaucrat asking for more staff and more resources, but it is a fact that our agency appropriation has been frozen for 3-years now. As a result, we have lost staff. We have people operating with Pentium 90s that crash two and three times a day as they are trying to program all this data and get these agreements out the door, and it is just a real limitation on our——

The CHAIRMAN. It is a real problem, and I think we should do something about that. I think we are penny-wise and pound-foolish.

Senator KERREY. Let me follow on that. First of all, do you have suggestions on the interagency process? Do you think you are willing to share with us how to expedite that process? Do we need to consider, for example, changes in the law that would give FAS more authority, that would specify that we want the process to occur in "x" number of days? We are doing that all the time with export of technology products that are getting slower and slower and slower. We set a time limit on the process itself.

Mr. GALVIN. I might simply point out that I believe Congresswoman Kaptur is looking at just that sort of thing in the House and has a proposal along those lines.

Senator KERREY. So your answer would be, yes, that you have some ideas on how to expedite the process? I mean, is it uncomfortable for you to make those suggestions?

Mr. GALVIN. I can't speak on behalf of the administration on that point here today.

Senator KERREY. So we could go to the Old Ebbitt Grill and have a couple of beers and you would tell me what you think ought to be done?

[Laughter.]

Is that a yes?

[Laughter.]

On the budget thing, Tim, simultaneous with the freezing of the budget over the last 3-years, although, as I said, the Senate Ag appropriations has some additional resources for FAS——

The CHAIRMAN. Yes, we have better numbers.

Senator KERREY. Simultaneous with that, what we are hearing from the private sector—and by the way, we will see votes just breeze through the Senate for ad hoc disaster assistance, another $6 billion for emergency this, emergency that. There is no trouble getting enough votes to do that.

The CHAIRMAN. It sounds like you have been at the Old Ebbitt Grill here lately.

Senator KERREY. And we will get tied up in knots and have very close votes on market access promotion for $90 million.

The CHAIRMAN. That is true.

Senator KERREY. I think the Congress really has to come to terms with this schizophrenia that it has got over agriculture programs and understand that no matter what you do, no matter how you slice this thing, I think relative to what we ought to be doing, we are spending too little to promote our exports. We just aren't doing it. You can't just put words in the air about it. We have got to actually do it, and if you don't do it, you are going to lose the market share. The markets get more and more and more competitive.

One of the things that I hear is that we spend this money to open the market itself, although, again, to be clear, I think it is less than we ought to be doing. We could give more resources to the IG to make sure we are not wasting that money.

Mr. VIADERO. We would gratefully accept them, Senator.

Senator KERREY. But at some point, you know, you have got to put the money on the table to promote the market because it creates jobs in the United States. But at the same time that we are doing that, what I am hearing is either our own Government or increasingly foreign governments are putting new requirements on the exporters for labeling, for product registration, for certification, new national standards that are being put up.

The companies are saying is FAS prepared to help us with this? And the answer has got to be no, because I hear you saying you have got to do more with less and you just can't do it. So it seems to me there is an urgency here to stop this game of starving FAS, on the one hand. On the other hand, the next statement we make, we kick you in the rear end for not doing more. I mean, you can't have it both ways.

Again, this Ag appropriations bill is going to be a great example. We are going to have $1.1 billion of emergency assistance on that thing, while we are struggling to get another couple hundred million dollars for FAS. It is nuts. I mean, the priorities are wrong. I don't know whether it ought to be $10 or $20 million, or whatever the dollar amount ought to be, but something is out of whack here because to hear us talk, you would think we had doubled our bet on export promotion. To hear both Republicans and Democrats talk when it comes to agriculture, you look at the budget numbers and you think we would double it up, that we are just awash with cash. But we are not, just the opposite.

Is that your experience? I mean, do you listen to us talk and sort of scratch your head and wonder whether or not we know what the hell we are talking about?

The CHAIRMAN. We will hold you harmless on that.

Mr. GALVIN. Thank you.

The CHAIRMAN. Or you can take the Fifth.

Senator KERREY. Or do you just scratch your head and wonder if I know what the hell I am talking about?

The CHAIRMAN. You can take the Fifth Amendment, Tim, if you would like.

Senator KERREY. If we are going to hold on to market share and get more market share both in the raw products and I would say in the value-added—I mean, if you want to have a higher standard of living in the United States of America, it is the value-added you have got to follow, and we are just barely in the game in the value-added.

Mr. GALVIN. If you look at some of our major program tools in this area, the cooperator program, for example, has been frozen at $30 million basically for 10-years now. The MAP program is now down to $90 million; it used to be better than $200 million. This is what really moves the high-value products. It is an area where our competitors are clearly spending more, both by their governments as well as by their private sector.

The CHAIRMAN. Let me interrupt you and just say we had to change the name to get the $90 million.

Mr. GALVIN. Right, I understand, yes.

Senator KERREY. So, anyway, your answer would be yes? I mean, your answer would be that you think that we are not spending enough money to promote exports in the United States of America, things that are either grown here or processed here in the United States?

Mr. GALVIN. I would point out that one of the recommendations from the administration in the last couple of years has been to allow us to use unused EEP balances each year for some of these other activities from food aid to other things.

The CHAIRMAN. Would you say that if a company expects to get assistance from FAS to do some of the certification work, the registration work, the forms that are going to be required for labeling and national standards—if they expect the FAS to do it with the current budget instructions, that is an unreasonable expectation?

Mr. GALVIN. Well, we are going to try very hard just as we do right now on the biotech front, on problems with new pesticide standards in Taiwan. And I could go on and name item after item after item. We are still going to continue to try, but I think we could do better if we had more resources.

Senator KERREY. But did I detect earlier in your testimony as well that you talked about the negotiations that are going on in OECD and in the Uruguay Round and that you believe that the WTO is a vehicle that the United States of America should use to——

The CHAIRMAN. Here, just read my question.

Senator KERREY. In your testimony, you briefly touched on—I can't do it, I can't do it. It is a Kansas dialect.

[Laughter.]

The CHAIRMAN. It is not written in red.

Senator KERREY. Do you think that strengthening the WTO and/or reforming the WTO, or however you want to describe it, is something that this Congress ought to put high on our agenda as we try to figure out how to promote exports and increase jobs here in the United States?

Mr. GALVIN. I would say we have been very pleased to get the strong bipartisan support that we have received from Congress on this issue. A whole lot of people lined up to endorse the proposal that we tabled in Geneva a couple of weeks ago, and I think it was understood by the other countries there that the proposal has strong bipartisan backing back home, and that sent a very strong signal. So I think Congress is right to place a priority there and I think that message has been sent.

The CHAIRMAN. Why are those talks stalled so much? Why are they stalled so much? Actually, that is what I wanted you to ask.

Mr. GALVIN. Well, I think agriculture has always been a contentious part of these sort of talks, but we are pleased that now we have sort of got things going again in agriculture, in part, because agriculture and services were part of the built-in agenda. But I do feel like the proposal that we laid down here a couple of weeks ago is really going to breathe some new life into the process.

I think it is also understood, however, that we are only going to be able to get so far just on agriculture before we really have to launch a broad round that affects other subjects like industrial sectors and that sort of thing.

The CHAIRMAN. I know you are not going to do this, but this has happened time and time and time again where agriculture ends up being the caboose because it too damn difficult to do. And you cannot do that or we will have another tear gas round in Seattle.

Mr. Parmer, I am going to ask you a similar question to the one I asked Mr. Galvin in regard to Cuba. Would the sanction removal language being discussed by the House enable you to meet the hunger needs on the island through food aid?

Mr. PARMER. Well, first of all, Mr. Chairman, as I am sure you know, the P.L. 480, Title II, emergency program, the humanitarian program, contains "notwithstanding" language. If there were, for example, a major hurricane that struck Cuba and——

The CHAIRMAN. Well, they are suffering from drought right now, and on the east side of Cuba the lines are growing longer and longer. You have the families standing in line for an hour or two to get the milk ration, and it is getting worse.

Mr. PARMER. If that situation were to reach the point where it constituted an immediate humanitarian crisis, I believe that under the existing law we could, in fact, provide humanitarian assistance to Cuba.

When I first came here in the spring of 1998, the drought situation in Cuba was very bad, and I can tell you that we had under active consideration a Food for Peace emergency response to deal with that drought. And you may recall that somewhere in that period, Premier Castro announced that he would not accept any humanitarian assistance from the United States. So I think that from an emergency point of view, we really don't need any authority other than what we have right now to deal with humanitarian crises.

The CHAIRMAN. OK, but now the question I had was—and I am not clear on this. Of course, I think the reason I am not clear is because we haven't seen the final language of the compromise that is being shaped in the House. But I am not sure that under the House language, you would be permitted to do what you have said.

Mr. PARMER. Senator, because of our belief, at any rate, that sanctions do not apply to humanitarian response, the language in our legislation says "notwithstanding any other provision of law or rule or regulation."

The CHAIRMAN. We will have to check on that because I think that is very important. Let me also point out that in my discussions with Fidel Castro, I think it is obvious that he does not want the blockade lifted because it gives him a very good excuse as to why his failed policies are not working. And he certainly doesn't want to become dependent on the U.S. for his food supply, and it puts his whole perception of the revolution in a very bad light if he has to accept that kind of relief. Now, those are big-time hurdles, so I wanted to get that out.

In April, you moved under the umbrella of the State Department. How has this marriage worked out?

Mr. PARMER. Well, it is an interesting one to observe because it was a compromise that resulted from a lot of negotiations. What happened was that USAID remained an independent agency, but our administrator is subject to the authority of the Secretary of State.

So the way that has developed, Mr. Chairman, is that clearly, if the Secretary of State gives an order to the Administrator of USAID and he passes that down the chain of command, that is an order that will be obeyed. Conversely, however, if an assistant secretary of State for, let's say, Africa, to use that as an example—they have no line authority to compel or to make orders within the Africa Bureau of USAID. I would say so far it seems to be working rather well, and I think it has increased coordination between State and USAID.

The CHAIRMAN. Well, let me raise just a Hobson's choice. Every administration has a foreign policy agenda, every administration has target countries. How do you make sure that the assistance programs are based or targeted on the humanitarian need if, in fact, there was some kind of a—or that wouldn't be just based simply on whatever administration was in power in terms of their foreign policy agenda?

Mr. PARMER. It is an inherent conflict and it is not entirely resolved by the present system. And I am not sure that there is not something healthy about that. I think that there ought to be a certain personal view, not total independence from your country's foreign policy, obviously, but a certain level of independence within the administration so there is a strong voice advocating humanitarian perspectives to counter-balance sometimes.

The CHAIRMAN. Here is the example that I would give. We have spent a great deal of time in the Balkans. I am not going to go into that in terms of that whole debate. We also have 360-million-people in what I call the Southern Command, or what Marine General Charles Wilhelm calls his Southern Command, 31 nations in the Southern Hemisphere, average age about 15, 16-years old, most of them malnourished.

Now, in terms of our foreign policy and what affects our daily lives and pocketbooks and how much energy we get from Venezuela, Mexico, etc., etc., immigration, sitting right next door, a lot of resources have been taken more especially within the Department of Defense, but also in regard to the USDA, from that area and focused on the Balkans. I have some problems with that, and you folks could certainly indicate in terms of the targeting and the criteria where it is most needed. That is sort of where I am driving at.

Mr. PARMER. I think that your question may have more relevance as it relates to overall USAID, the development end, as opposed to the humanitarian response end that I am in. We respond to humanitarian crises wherever they are—North Korea, for example, Afghanistan. I may be reflecting back a little on your earlier question, but we don't make our priorities based on what the State Department tells us. Our priorities for the delivery of humanitarian assistance are determined by our assessment of where the humanitarian need is greatest.

The CHAIRMAN. That is the answer I am looking for, that is precisely the answer I am looking for.

We have got a $67 million funding discrepancy for commodity donations between the House and Senate version of the Ag appropriations bill. We have the Ag bill up this afternoon. How would such a decrease from the administration's request in fiscal year 2000 affect your ability to meet the hunger needs? There is a softball for you.

Mr. PARMER. I think I talked earlier about the number of hungry people in the world. And, you know, a dollar apiece is certainly not an adequate amount of money for the United States to believe that it is going to deal with the hunger issues that we face around the world.

Cutting from that level, quite frankly, I think, would cause us to try and make priority decisions we don't want to make. Is a hungry kid in East Timor a little less important that is programmed for food currently than a hungry kid in Ethiopia. Those are not decisions that we want to make, and again I commend the Senate for the level of support, your support for the administration's recommendation. And I am very hopeful that when the process is all over, we won't have to establish those kinds of terrible priorities.

The CHAIRMAN. Are there too many agencies involved in the food aid program and too many agencies involved in the decision making process for food aid allocations?

Mr. PARMER. We work awfully well with the folks at the Department of Agriculture and it is a very symbiotic relationship. We couldn't have met the needs that existed in the world in the last 2-years if it hadn't been for our friends at USDA and the availability of 416(b). That is something that Congress needs to look at on a longer-term basis.

One of the reasons that you have delays, as you mentioned earlier, Mr. Chairman, is because when you are dealing with a commodities surplus mechanism as a primary mechanism for humanitarian response, you really can't make long-range plans because you do have to have a knowledge of what those surpluses are going to be. And I think in the future, from what these folks tell us it looks to us like there are adequate surpluses in the immediate future, but look 5-years down the road. With P.L. 480, Title II, we know what we have, we know what is available. We can program it, we can direct it, and we can be ready to respond to crises like the almost famine in the Horn of Africa.

The CHAIRMAN. Who makes the decision on what commodities are chosen, and what part does OMB play in that?

Mr. PARMER. I am not aware of OMB playing a part in the selection of the commodities. I would let my friends from Agriculture correct me if that at any time becomes the case. But generally speaking, we respond to requests from the World Food Program and from non-governmental organizations.

Food for Peace does only limited government-to-government food, and so essentially what we do is we look at the requests that come in from either the international organization, World Food Program, or from the NGOs, and from that we determine the mix of commodities that are needed. And we communicate those needs to the Department of Agriculture, who again does our purchasing for us.

The CHAIRMAN. In your opinion, what changes need to be made to the food aid program? If you could just name one or two to make it more effective, what would you do?

Mr. PARMER. Well, I want to join Tim in not wanting to sound like a bureaucrat, but the truth of the matter is we administer at Food for Peace an $800 million-plus program with 28 Government employees. We don't have the resources to really handle the level of program we have today without people working evenings and weekends. And there is nothing wrong with that in the short term and when you have a crisis, but it is a regular pattern of life at USAID's Food for Peace office.

There is a proposal, I understand, in the House that would allow us to use some P.L. 480, Title II, funding for program administrative costs to hire personal service contractors to supplement the activity. I very strongly recommend the Congress favorably consider that. Food for Peace folks are good people and hard-working people, and they are overworked.

The CHAIRMAN. One of the more surreal experiences I had in my life is when I was able to go to North Korea with Senator Stevens. We were trying to arrange a third-party grange sale at that particular time in our efforts to open doors with North Korea, or at least have a dialogue. It didn't work. Now, the situation hopefully has improved rather dramatically with the negotiations with the South Koreans and the North Koreans.

The USDA recently announced a food aid donation to North Korea. This is repeat question; you may not know the answer. If the sanctions language proposed by the House is enacted, would you be able to make a similar donation to North Korea in the future?

Mr. PARMER. Again, Senator, since we have operated under the presumption, and our legal people haven't brought to us a concern about the language affecting our "notwithstanding" authority, I'm sorry I probably don't have a precise answer. But I will get one not only because you asked for it, but because the raising of the question concerns me.

The CHAIRMAN. I wanted to just very briefly go back to the OMB role and the role they play in the food aid program, in general. Is it simply oversight or do they make decisions on recipient nations? In other words, you make a decision as to where it goes, what commodity, etc., etc. I have just had a feeling down through the years, both Republican and Democrat administrations, that depending on which Senator or Congressman calls and the budget numbers and what happens to be deficient in terms of price in that particular area that we get decisions that may or may not be very wise.

Mr. PARMER. Mr. Chairman, OMB has no input into the selection of countries for the Title II Food for Peace program.

The CHAIRMAN. Can they overrule USDA and USAID on the recommendations?

Mr. PARMER. I don't know about their legal capabilities.

The CHAIRMAN. Of course, they can overrule damn near anything, come to think of it.

Mr. PARMER. That has never happened in the 2 ½ years I have been there.

The CHAIRMAN. I appreciate that. I have no further questions, Mr. Parmer.

Do you want to ask Mr. Parmer questions?

Senator KERREY. Mr. Viadero, in the P.L. 480 program, under Title I authorities, the United States Department of Agriculture can grant credit assistance, 30-years with extensions, to governments or private sector entities, and it has traditionally been used for government assistance.

In 1999, I don't know what it was. Was it 1.7-million-metric-tons or some such number like that? After the 1998 collapse, we had a big shipment to Russia, and I think it has only been used—in fact, in later testimony Mr. Cavanaugh points this out, that it has been used once for providing assistance to private sector entities that are looking for credit assistance to make a purchase from the United States of America.

And given my belief that it is in our interest to promote the development of the private sector not just in Russia but elsewhere, are you able to assist USDA, Mr. Viadero, ahead of time, before there is fraud, in coming up with procedures under which they might be able to minimize fraud?

There is a lot of uncertainty, to put it mildly, inside of Russia and in the private sector, and the risk of fraud may deter—you may not think this, but people are afraid of you, and they are afraid the IG is going to come in and examine them and say, you have just done something horrible and there is going to be a big hearing, and so forth. So they may be reluctant to do something that might make sense just because they are not certain they can do it and adequately minimize the opportunity for fraud in the transaction.

Are you able to provide assistance to USDA in making certain that we peremptorily minimize that opportunity?

Mr. VIADERO. I thank both of you gentlemen for having this hearing, if nothing else for this opportunity to answer this very question. We are just flat out of money.

Senator KERREY. Oh, gee, not you, too.

[Laughter.]

Senator KERREY. Has anybody in this room got plenty of money?

[Laughter.]

Mr. VIADERO. We are pooling our resources for a Metro ticket back to the building from here.

This is my sixth year as Inspector General and we have been zero—I shouldn't say zero. We have been flat-lined; we have zero budget increase in 6-years, zero budget increases in 6-years. I have a 24-percent reduction in staff.

Do we think we can forestall this or get ahead of the curve, take a proactive approach? I guarantee we can. I will put it in writing to you that we can. Do we bring in exponentially more? Yes. Are the agencies afraid of us? That is a perception issue. We have alliances, we have working relationships so far as operating as a management advisory service within the Department with many of the large mission areas. I don't know what else we can do.

I realize I am not a warm, fuzzy guy. I am neither a liberal nor a compassionate conservative. I think we covered both bases on that one. But I will say that this is the one hearing where I can use two quotes from two great Americans, the first one from Henry Wallace, former Vice President and Secretary of Agriculture, that so long as there is hunger, there are no food surpluses. Number two, from another great American, Dwight Eisenhower—this is a good quote—the unaudited deteriorates. And this is what we have here.

Senator KERREY. I will give you one from Al Capone, who said a smile will get you a long way in life, but a smile and a gun will get you further.

[Laughter.]

Senator KERREY. And you, Sir, have a gun with a bullet in it.

Mr. VIADERO. Coming from the Bronx, we could arrange that.

But quite seriously, we get involved in these issues after they have occurred, after they have occurred. Now, what do we have to do? Now, we have to put on the black suit.

Senator KERREY. Your answer is, yes, if the resources were there, you could assist in reducing the potential for fraud in the Title I program of P.L. 480? If USDA says you are right, it is in our interest to promote the private sector in Russia, we want to use more of that Title I to go for private sector assistance, you could, if you had the resources, assist the USDA in reducing the potential for fraud in those transactions?

Mr. VIADERO. Unequivocally, yes.

Senator KERREY. Thank you.

Mr. VIADERO. Thank you.

The CHAIRMAN. How many billions did you save the taxpayer when you had that string operation with regard to the Food Stamp program?

Mr. VIADERO. On Operation Talon, Sir?

The CHAIRMAN. Yes, Sir.

Mr. VIADERO. Thank you, Sir. Our Operation Talon, where we went out and apprehended fugitive felons based upon the law that you assisted us in passing at that hearing on February 5, 1995——

The CHAIRMAN. This was not planned, Senator Kerrey.

Mr. VIADERO. I remember it was a five-hour hearing without a break, vividly. But I will say we have saved millions to date.

The CHAIRMAN. Sixty billion?

Mr. VIADERO. Yes sir, millions.

The CHAIRMAN. There is your payoff.

Mr. VIADERO. And I would like to point out that is cash in the pocket. That is not economic loss prevented. Those are people that were justifiably removed from the rolls of food stamps. These were convicted felons that belonged in jail under the custody of the Department of Corrections and not out receiving food benefits from the Department of Agriculture.

The CHAIRMAN. Let me give you an example. It says I am astounded and disappointed. I am not astounded, but I am disappointed about FAS's attempt to retroactively amend the fiscal year 1993 contract for the PVO that, for lack of a better term, stole $14 million from the American taxpayer.

Could you elaborate for us a little bit on this issue? What halted the efforts to stop this retroactive amendment?

Mr. VIADERO. Yes, Sir. I would like to start by saying it is a mixed bag. We had some $3.6 million unresolved in the Fund for

Democracy and Development, and basically no contracts were involved. We uncovered last year there was a fraudulent wire transfer for some $980,000 that we were able to track down in FDD. They have since recovered $966,000, or 98.6-percent, of that money. However, none of that money has yet to be returned to FAS or any other agency of the Department so it could be, again, put back into this specific program. So there is roughly $1 million right there.

In addition, we have another organization by the name of Citihope for some $14 million. Again, we have unresolved issues with them, and my office's recommendation was to suspend and debar Citihope until something good happens there. Well, nothing good has happened there and FAS hasn't done anything. They haven't responded to the recommendation. We just felt that this was an unnecessary expenditure, and again this——

The CHAIRMAN. When did you make a recommendation?

Mr. VIADERO. That recommendation went out in 1999, Senator.

The CHAIRMAN. And still you have no determination?

Mr. VIADERO. No, Sir, not as we speak. For both of the gentlemen present, this is not rocket science. We are not doing necessarily financial reviews, debits and credits. This boils down to two questions. Are there controls in place, yes or no? And are they working, yes or no? These are more compliance audits than substantive or financial audits.

Again, I don't know what to say other than this isn't astrophysics here. That is all we want to do, is get some control. We want to find some reliable factor out there that we can hang our hat on the audit side of the house to say the money that this body on the Hill appropriated for this program is properly spent.

The CHAIRMAN. I think you will get an answer.

There is obviously a problem with the ability of the PVO organizations being able to defraud our current system. I have several other examples here. I am not going to go into that. I am not speaking in a derogatory manner in regard to the fine work that the PVOs do. The vast majority are fine and upstanding organizations. They fill a very crucial need in regard to what we see in the world.

But what can we do to prevent this from happening again? Is there a legislative fix that we need here or is it administrative, or is it resources again? Obviously, it is resources. I don't want to go back down that trail.

Mr. VIADERO. I think it is both, or shall we say all three. And, of course, the link between the administrative and the legislative one is the resource one. That is the link, and we more than concur with your statement that the vast majority of the PVOs are upstanding organizations doing the right thing for the people in the world.

Again, we only highlight the ones that we found problems with, and that is again, Mr. Kerrey, the nature of the IG job, because we got in late. We would like to be included in and folded in the process early to work with FAS, as we do with other mission areas in the Department.

The CHAIRMAN. Well, they have got a tremendous backlog of cases. I am reading here in terms of staff information—your report is dated September 1998—the FAS had not completed the monitoring of 130 of 185 Food for Progress agreements signed in fiscal years 1992 through 1996.

Do we have a time frame that the Department has established to try to eliminate this backlog?

Mr. VIADERO. Well, I understand that as of today—and I say as of today; that is, all the backlog cases that have been closed, in other words not open. The only ones they haven't gone over to date as of today are those where there is current activity, especially current monetization of the commodities.

The CHAIRMAN. I would tell Senator Kerrey I am not too sure but that we ought not have a separate hearing in regard to this particular problem. We have other panelists that have waited patiently. I have got one other one.

It is apparent that improper monitoring has cost the CCC millions of dollars. How much of this money has been returned?

Mr. VIADERO. Again, I have to go back to your first question, and that is the mixed-bag answer, Sir.

The CHAIRMAN. Senator Kerrey, do you have any more questions of the Inspector General?

Senator KERREY. No. I have got one for you, but I will wait until the end of the hearing.

The CHAIRMAN. All right.

Let's welcome the second panel. Many thanks to the first panel, and we thank you for your contributions. I think it has been most helpful.

I would like to welcome to the hearing Mr. Otis Molz, the Chairman of the Board of CoBank, from Deerfield, Kansas; Mr. John Cavanaugh, a former colleague and a good friend, and Chairman and CEO of Summit Limited, of Omaha, Nebraska; and Ellen Levinson, of Cadwalader, Wickersham and Taft. She is the Executive Director of the Coalition for Food Aid here in Washington.

We want to welcome the panelists. I think you have heard our admonitions in regard to your statements. Please feel free to summarize. And you don't have to ask; without objection, all of your statements will be made part of the record.

Otis, please proceed.

STATEMENT OF OTIS MOLZ, CHAIRMAN OF THE BOARD, COBANK, DEERFIELD, KANSAS

Mr. MOLZ. Thank you, Mr. Chairman. My name is Otis Molz. I am a farmer and rancher from Deerfield, Kansas, and Chairman of the Board of CoBank. I am accompanied today by Candace Roper, a CoBank vice president and division manager. Ms. Roper has just returned to the U.S. after a 3 ½-year stint as head of CoBank's Singapore-based Asian regional office. In that capacity, Ms. Roper worked extensively with foreign purchasers of U.S. agricultural products, exporters, foreign banks, and the U.S. Department of Agriculture's GSM programs. We appreciate this opportunity to provide testimony on the importance of the GSM export loan guarantee programs.

Historically, CoBank has been the most significant financial institution participating in the GSM loan guarantee programs, accounting for nearly one-half of all the guarantees issued. Since 1982, the bank has provided about $25 billion in loans to support the export of agricultural products. About 90-percent of this financing was provided in connection with the GSM loan guarantee.

CoBank has offices in Singapore, Mexico City, Buenos Aires, as well as throughout the United States. We have correspondent banking relationships with more than 500 banks in 80 countries, and have financed the export of about 45 different agricultural products, everything from apples to wheat, and chicken feet to recycled telephone poles.

In one important respect, CoBank is different from every other bank that operates in the international marketplace. We are involved in a transaction only when a foreign purchaser wants to acquire a U.S. agricultural product. Our competitors in the financial services industry, including U.S. banks, do not necessarily care if the transactions they finance result in the sale of U.S. products. International banks will aggressively pursue the opportunity to finance a country's purchase of a product without regard to the origin of the product. CoBank is unique because we are in the business of matching foreign purchasers with only U.S. sellers. That is the reason we have provided far more financing under the GSM program than all other U.S. banks combined.

Today, I would like to comment on four topics: first, the importance of the GSM program in opening foreign markets to U.S. products; second, the GSM program changes; three, the value of the GSM program from the perspective of the foreign purchaser; and, fourth, the need for trade sanction reform.

First, the GSM program continues to be a critical tool in opening and maintaining markets for U.S. agricultural products. Ten years ago, Korea was a major user of GSM loan guarantees. It was the GSM program that was instrumental in introducing Korean consumers to U.S. food products. As the Korean economy grew, that Nation began making cash purchases of imported food. The volume and value of U.S. products being purchased was increasing and the need for financing was decreasing. However, the recent Asian financial crisis has caused Korea to once again begin making use of the GSM program. The point is the GSM program has been a critical tool for ensuring access for U.S. exports to this important market, no matter where the country is in the economic cycle.

I have included another example in my written statement of the benefits of being a reliable trade partner that relates to Mexico. It illustrates an important point, and I would like to call it to the committee's attention. To summarize this point, it would be very short-sighted to curtail the program or bargain away its key benefits to U.S. agricultural exporters during the trade negotiations because of market conditions at this particular time.

My comments in regard to the value of the GSM program to purchasers: Recently, the U.S. has had to defend the GSM program in trade negotiations. In particular, some of our competitors have been calling for a maximum tenor for export credit guarantees on all commodities of 180 days. We are concerned that the importance of tenor, the duration of the loan, is underestimated.

In many cases, the tenor of financing is the factor that determines who will ultimately make the sale. Tenor of the financing is often more important than the price of the product which is set in the world marketplace or the interest rate on the loan. GSM provides for tenors that are typically unavailable in the market, and this is a crucial strength of the program. Shortening the tenors of GSM-supported financing substantially decreases its economic benefit and the attractiveness of U.S. products. The current two-year tenures in Mexico and Korea and other markets already adversely affect export volumes in these markets, and the contemplated reduction in tenures to markets such as Turkey will have the same effect.

Number three, the current GSM program rules prohibit a single entity from both issuing a letter of credit and being the beneficiary of the CCC's payment guarantee. The USDA is considering a proposal to end that prohibition. Effectively, this will mean that a single or related financial institution could be on both sides of the same export transaction, largely removing the checks and balances that exist when one bank has a vested interest in making certain that the counterparty is making every effort to meet its obligation.

This change could lead to abuse of the program by banks that have operations in many countries. The change would make it possible for a bank with branches in two countries to receive payment twice, once from the purchaser in the foreign country and once from the U.S. Treasury when the foreign bank fails to make payments to its related institution in the U.S.

Presumably, USDA would not allow such an abuse to occur more than once. However, this reform which was implemented several years ago to ensure the integrity of the program and the arms-length relationship between lenders should be retained. We have shared with the Department of Agriculture several other suggestions for improving the operation and utilization of the GSM program. A few of these suggestions are also included in my written testimony.

Finally, the trade sanctions reform. Mr. Chairman, I would be remiss if I didn't take this opportunity to comment on the need for trade sanctions reform. I am not qualified to provide advice on our Nation's foreign policy positions with regard to specific countries. However, the general observation, it would seem to me, is that our Government is too quick to impose sanctions on too many countries.

Mr. Chairman, I would personally take this opportunity to commend you on your initiative with Cuba. From my perspective as a producer who knows that almost 40-percent of what I raise must be sold to foreign purchasers, I am troubled that I am locked out of markets that are being served by my competitors in other countries. And we know from experience that once we but ourselves off from a market, it is difficult to reestablish the U.S. as a reliable source of products.

I also have a perspective on this matter as an ordinary citizen who cherishes the freedoms we enjoy in the U.S. I have had the good fortune to travel to many parts of the world. As a result of my travels, I am convinced that through trade we can share our culture and values with people who live in countries that do not enjoy our freedoms. By doing so, we plant the seeds for democracy and the free enterprise system. When we turn our backs on those countries, we miss an opportunity to demonstrate the benefits of our political and economic system.

Mr. Chairman, I appreciate the opportunity to appear here today and I would be pleased to respond to questions.

[The prepared statement of Mr. Molz can be found in the appendix on page 85.]

The CHAIRMAN. We thank you, Otis.

John.

STATEMENT OF JOHN J. CAVANAUGH, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, SUMMIT LIMITED, OMAHA, NEBRASKA

Mr. CAVANAUGH. Thank you, Mr. Chairman. It is a pleasure to be here this afternoon with you and with my longtime friend and colleague from Nebraska, Senator Kerrey. We are going to miss him tremendously, as I am sure you will, and I am happy that he invited me to be with him before he leaves in December.

Mr. Chairman, this is an extremely important and I think timely hearing, and you and the committee are to be commended. The American farmer continues to be the envy of the world for his productivity and efficiency, while remaining the perpetual economic victim of an erratic and at times capricious global market. The challenge for American policymakers is to match the American farmer's genius for producing food with creating a global trading system and marketplace equal in efficiency.

I have a very specific and narrow recommendation that I think can be implemented immediately and have positive effects not only on the current crop cycle but long-term effects.

P.L. 480, Title I, provides for government-to-government sales of agricultural commodities to developing countries under long-term credit arrangements. In 1996, the Congress exercised considerable foresight in amending the Title I loan authority provisions to include permitting loans to private entities, in addition to foreign governments. To date, this authority has been utilized only for a single facility financing in Indonesia.

P.L. 480, Title I, government-to-government commodity loans have been utilized successfully to facilitate the sale of millions of tons of American agricultural commodities to developing economies throughout the world. In 1991, Title I was used to finance the sale of 1.7-million-metric-tons of agricultural commodities to Russia in the wake of the 1998 Russian economic collapse, which occurred at the same time that Russia experienced the lowest grain harvest in 40-years.

This sale occurred at a time when all Russian credit facilities, both public and private, had collapsed as a result of the devaluation of the ruble and the fall of the Russian government. The sale succeeded in stabilizing Russian food supplies during this critical period in Russia's transition, and no doubt contributed to the social stability leading up to the successful democratic transfer of power in the elections.

Without this utilization of P.L. 480, Title I, authority, Russia would have no doubt experienced a much more severe economic and social crisis during the past 12-months, and American farmers would have lost an opportunity to sell these commodities.

But this transaction was not without its negative short-term and long-term consequences as well. The use of the Government-to-government loan authority resulted in the Russian government directing all commodity sales through former Russian government monopoly trading organizations, to the detriment of what had been a rapidly developing private commodity trading structure.

Consequently, private traders and food processors were further disadvantaged because they were denied access to commodities and credit. Traders also experienced the revitalization of government trading monopolies which had collapsed in the face of market competition.

Second, deliveries of the commodities to Russia and distribution of the commodities within Russia were based upon Russian Federal and regional government goals and directives rather than actual market demand for specific commodities, resulting in disparities in pricing and utilization of the commodities delivered.

Third, significant increases in Russian domestic poultry and pork production resulting from the widespread availability of American feed, corn and soy meal at affordable prices were not sustainable because of the lack of a follow-on program and the failure to revive commercial trading structures and credit facilities.

Finally, the use of the proceeds from the sale of the loan commodities were directed at funding the Russian pension system rather than reinvested in improving Russian agricultural production or reviving commercial trade with U.S. commodities.

The Russian food crisis continues today, and I have provided you with a rather dramatic chart which I think tells the whole story of the Russian agricultural collapse from 1990 to the present, and it continues. This is a chart of Russian livestock inventories and feed grain utilizations, and if you track this dramatic decline, which I think is the most dramatic decline of any agricultural producing country in the industrialized world, in the history of the world, this chart could be matched with a similar decline in protein consumption and nutrition health among the Russian people.

In fact, Russian meat consumption has declined from 70-kilograms-per-person in 1990 to less than 42 today. The United States' average consumption is 123, and Russian meat consumption is the lowest in the industrialized world. That coincides with a similar decline in life expectancy in Russia, which in the last 10-years has resulted in male life expectancy declining to 59-years, which also is the lowest in the industrialized world. So this is a crisis that is ongoing and that is not over.

What I think essentially, Mr. Chairman, could be done and should be done is USDA should respond to the market opportunities in Russia, and should be strongly encouraged to use the private sector loan authority granted by Congress in 1996 in any future P.L. 480, Title I, lending program for Russia.

Extending long-term commodity loans to private organizations focused on development of private agriculture and commercial trade in Russia will have immediate and long-term benefits to Russia and for American producers. Expanding a private, market-based Russian agricultural sector represents large long-term market opportunities for American producers and food processors. Reviving the commercial food trade with Russia, disrupted in 1998, and building an expanded agricultural market for American farmers should be a major goal of U.S. trade and economic policy for Russia.

I do want to point out, Mr. Chairman, that in the past year U.S. policymakers have withheld support for further development of the private sector in Russia, adopting a wait-and-see approach to the new Russian government. The result has been a further weakening of the private sector in Russia at a critical time in the Russian evolutionary process.

All of the USDA private sector development initiatives have been held in suspension in the interagency review process, in which all USDA program initiatives are reviewed by the State Department, Treasury, OMB, and NSC. Rather than achieving the goal of coordinated policy initiatives toward Russia, the process seems to produce a policy paralysis.

During the past year, all private sector initiatives to develop and revive the agricultural sector in Russia and commercial trade have been stymied by this interagency review process. As a result, the current market opportunities for U.S. commodities are not being met.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Cavanaugh can be found in the appendix on page 89.]

The CHAIRMAN. We are happy now to welcome you, Ellen, and please proceed.

STATEMENT OF ELLEN S. LEVINSON, GOVERNMENT RELATIONS ADVISOR, CADWALADER, WICKERSHAM AND TAFT, AND EXECUTIVE DIRECTOR, COALITION FOR FOOD AID, WASHINGTON, DC.

Ms. LEVINSON. Thank you, Mr. Chairman. I appreciate the opportunity to testify today before the Subcommittee regarding agricultural programs. I am going to focus my remarks on food aid.

I am Government Relations Advisor at the firm Cadwalader, Wickersham and Taft, and I have been very fortunate since 1985 to work on behalf of private voluntary organizations and serve as Executive Director of the Coalition for Food Aid.

The PVOs, or private voluntary organizations. I represent have extensive experience in food aid. They have been conducting programs overseas for 50 or more years. They are very accountable for their resources. Under the P.L. 480, Title II program, which is actually reserved for PVOs and the World Food Program primarily, PVOs have losses of less than 1-percent of the commodities that are provided.

They also are very concerned about the impact of their programs, and this is perhaps their biggest focus. What more can we do than just deliver food? That is what they want to focus on. What can we do to improve people's lives in the long term?

In order to achieve those goals, multi-year programs are very important. P.L. 480, Title II permits this, and it is a very important part of the food aid program. Thus, one of our first recommendations is, please, if you can, increase the P.L. 480, Title II program. We see multiple additional uses in child development. We see additional uses for HIV/AIDS. We see it for agricultural and irrigation projects, and also private sector micro-enterprise. These are all the kinds of programs that are being conducted under the Title II program. I know the remarks of Mr. Parmer tended to focus on emergency assistance, but under the Title II program—75-percent is for development, and it does have an impact.

We do need some reforms in how that program is being administered. I appreciate the hearing today because I feel—I wrote a lot of this in my testimony there is a need to streamline at USAID. PVOs don't want to sound like cranks, but they are cranks when it comes to having to deal with all the paperwork, and I have to say we need to respect that. I think there is a reason for it.

They don't need to be constantly micromanaged. There needs to be a balance, and I hope there is a way to move forward. PVOs try to work with USAID on streamlining, but I always feel that everyone becomes overcome by events. In a sense, they start on a process to talk about reengineering food aid programs and then something else comes up. PVOs have to do environmental impact reviews, or decide what to do about liability issues, and people get sidetracked. PVOs don't have endless staff, and so it is hard for them to keep track of all of this. So, anything we can do streamline would be appreciated.

I also want to address something very, very important at USDA. PVOs are active under the 416 program, but their activity is extremely limited, and this is because of the way the program is administered. This year more than ever, it was a mess, and that is because of the big word you said, Mr. Chairman—late. It is more than late.

This Food Assistance Policy Committee, this interagency group, from my outside perspective, seems to have interfered greatly in the proper procedures for the Section 416 program. Tonnages of commodities should have been announced publicly. All organizations—private voluntary organizations, World Food Program, governments—should have all had the opportunity to come in with good proposals. Then you would see good market analysis being done, good planning of programs.

My members, the PVOs who are my members, worked with the American Soybean Association and the United Soybean Board, and created excellent proposals that could not get into the mix or be considered, and this is because behind closed doors the Food Assistance Policy Committee chose the countries and the allocations. I really feel sorry that Tim Galvin couldn't speak openly to this, and I guess he can't, but this isn't how it should be and there is a better way.

I also want to mention Food for Progress. This is a wonderful program. It can be terrific. It is limited to 500,000-metric-tons in current law. I highly recommend doubling that. The emerging markets that we are seeing today are demanding assistance. If we want them to have good private sector growth and development, we really need to lend a hand. This program could do it, and can do more. USDA received 150 proposals for FY 2000 for that program and, of course, can't get anywhere near funding it. So anything you can do in that area would be very positive.

The CHAIRMAN. Why don't you just briefly explain that program real quickly?

Ms. LEVINSON. Sure. Food for Progress, which I have to give credit to Senator Helms for from 1985—he was the one who put it in the Food Security Act originally. It has been modified since then.

It was established basically to help countries that are transitioning to market economies, particularly to improve their agricultural sectors in private sector marketing and production.

It hasn't been used very well for that purpose because, again, when there was the dissolution of the Soviet Union, a lot of the food was provided almost like an emergency program. It was like putting a band-aid on rather than actually looking for the long-term benefits.

It has changed. USDA has done a great job of changing how it administers this program and is trying very hard now to focus more on development. And it could do a lot more, not only in the former Soviet Union. We have proposals in for Africa. There are a lot of African countries making reforms. You have Latin American countries and Asian countries, as well, that are making reforms.

When there is a structural adjustment program and a government is you are changing, basically cutting back on budgetary outlays, and also floating its your currency, what happens is that there are a lot of structural imbalances that occur in the economy and you are not able to all of a sudden reform everything. You don't have rule of law. You are not able to have fair trade or fair internal processes. It is very hard to make those transitions; it takes a lot of work. And I think that it would be very helpful if Food for Progress could be used more effectively to help the private sector in those countries during these transitional periods. So, that is that program.

The CHAIRMAN. Give me an example where you think this has worked.

Ms. LEVINSON. Where Food for Progress currently works?

The CHAIRMAN. Yes.

Ms. LEVINSON. Well, actually, there are programs right now; there have been some in the NIS that have worked. What they did is they sold the commodity and they used the proceeds for things like private sector credit, and those have worked. We also see the same kind of thing in Africa. We have recommended quite a few programs in Africa for Food for Progress and for 416, and I hope that some of those could be——

The CHAIRMAN. Can you tell me what that budget was?

Ms. LEVINSON. For Food for Progress?

The CHAIRMAN. Yes.

Ms. LEVINSON. Well, it is capped at 500,000-metric-tons. It is funded through CCC.

The CHAIRMAN. Oh, I see.

Ms. LEVINSON. I don't know the cash outlays. The transportation costs are capped at $30 million, and that limits how much tonnage you can ship. Transportation can be very expensive to many of these countries. So if you lift the cap on commodities, you must also lift the cap on transportation in order to ship more commodities. They go hand in hand.

The CHAIRMAN. I am sorry I interrupted you. I just wanted to get that clarity on this program.

Ms. LEVINSON. The other things I was going to mention are really very much along the lines of what you have been saying today. First of all, for the future, besides the increases in tonnages there needs to be more flexibility. Could you really consider ways—I think USDA is open to this and I would like USAID to be more open.

There has been collaboration between PVOs and the agriculture community, for example what I was saying before about the soybean producers working with PVOs. They work jointly on market analysis to choose the right commodity for programs in specific countries and literally work together on deciding the right commodity and program development. I would like to see more collaboration and encouragement along those lines.

I also hope that for the Section 416 program, which is based on surpluses, this current fiscal year is already pretty much past, so, we can't do much more, but for the upcoming fiscal year, to encourage the administration to announce the program as early as possible. You raised that issue, I know, and it is extremely important.

If you could put the notice in the FEDERAL REGISTER so everybody has access, which is how it used to be done, and do it early enough. That would help USDA so it is not stuck in the last few months of the fiscal year trying to program all this tonnage, because that is not effective. Plus, it makes it very difficult for USDA then to review a hundred proposals or so, proposals that they could receive from PVOs. So it limits access by PVOs.

I really hope that something more could be done for a mix of commodities under 416. Section 416 is not a panacea, it is a year-by-year program, so we don't see it as a long-term panacea for emergency needs or for humanitarian needs otherwise. In order to have an effect long term, you really need to have multi-year programs. But in the short term it could do some very good things in a country if the programs are well developed.

I will leave you with that. I have many other comments in my testimony. Thank you.

[The prepared statement of Ms. Levinson can be found in the appendix on page 95.]

The CHAIRMAN. I want to thank all the panelists not only for their testimony, but specifically for their suggestions. Ellen has 19 of them here, I would tell Senator Kerrey, and I am not trying to disparage that. I think she has some very good suggestions.

Senator would you like to start off with the panel?

Senator KERREY. Well, actually, for both Ms. Levinson and Mr. Cavanaugh, and perhaps Mr. Molz as well, you heard the question that I was asking the Inspector General earlier. I think one of the problems that USDA has—and I suspect specifically to Russia it is apt to be there under Title I as they consider whether or not they are going to do a loan to a private sector company inside of Russia that all published accounts say is suffering from significant corruption in the private sector.

So, now, we have got corruption in the private sector and an Inspector General that is going to check the transaction that I do. There isn't a government agency that has ever been created by human beings that didn't set up procedures that penalize mistakes much more than it rewards doing the right thing. So you are always sitting out there sort of risk-averse, trying to make sure you don't have 100 actions and have 99 of them that are perfect and 1 of them that is wrong. The one that is wrong could cost me my job.

So they are sitting in that operating environment knowing that they are not likely to—the sort of "what have you done for me lately" mentality; they are worried about that. I am wondering if you have given some thought, either one of you—I mean, you are likewise asking for increasing flexibility, but that flexibility produces a risky environment for the individual who is making a decision on the Government side, who then could get investigated by IG and find themselves with a career-ending decision.

Mr. CAVANAUGH. Well, if I might just speak to the narrowness of what I am proposing in terms of having an expanded utilization of the Title I loan authority to private organizations, that would be envisioned that private U.S. organizations would be the borrowers of the commodities. You would put them in the place of the Russian government, who was the borrower this year and historically throughout the use of the program.

There are a lot of implications to this, one of which is—and the reason I think it has such great potential is that you would be able to lend the commodities to private U.S. organizations with good credit ratings, with good performance ratings, and with a detailed plan of development.

The way this program would work, the way I would envision it, is what you would do is you would sell the commodities. You would establish an escrow account from the initial proceeds assuring repayment of the long-term low-interest loan. You would deploy the rest of the proceeds into some detailed development purpose.

In the case of Russia, what is critically needed today are commercial credit facilities. So what we would envision is recycling the proceeds from the first sale into a credit facility that would immediately transition into the commercial markets. That is what is missing in Russia today. We dumped our commodities in last year through the Russian government and we have no residual benefit, when Russia is right now at a critical stage in which it needs to be bridged back into the commercial world. It has the financial capacity to do that. It doesn't have the structures to do that, and we should be using our development assistance, our financial assistance, to build those structures, because we don't want to continue and we don't want to be facilitators of reviving the Russian state structure with our own structures.

We want to be capitalizing on what is this huge potential. This is, without question, a 10-year stable market to rebuild the feed industry in Russia, to rebuild their domestic production. They might at some point become self-sufficient, but in the interim, right now, they should be major customers of ours. They have the potential to be commercial customers. We haven't used our programs and our resources intelligently enough, strategically enough, to get ourselves to that position.

What you will see in terms of what has happened to Russia is they had a huge ramp-up in pork production and poultry production based on the 1999 shipment. In May of this year, that fell off the charts and poultry prices skyrocketed in Russia. Poultry and meat prices skyrocketed in Russia because in May when the feed ran out, they had no commercial ability to replace that. They had no government program in place to replace it, and we sat here unable to make a follow-on decision, which gets you into this interagency process. So there wasn't a continuing strategy. We simply laid the commodities out there and now we are sitting here wondering what to do.

Senator KERREY. Well, there are several ways you can approach this, but you wonder if what is needed isn't almost a presidential assistant who is assigned the job of sorting this all out, with the direction of, in this case, promoting the development of the private sector inside of Russia and working out the checks that make certain that we minimize the opportunity for fraud.

If I am the Agency making the decision, if I do a $500 million loan to a Russian agency and they default on the loan, we don't call it fraud. So the IG is going to look at something like that and they may say, well, gee, you know, you paid your money, took your chances, no big deal. But if it is a private sector entity and there is a fraudulent transaction and they are in default there, it is really bad, even though the impact is the same as far as the taxpayer is concerned. The impact is exactly the same, but one is encouraged and one is very much discouraged with the penalties that are applied for making a mistake.

So it seems to me some sort of procedural changes that reinforce from the top—if you don't get it reinforced from the top, it isn't going to happen, it just is not going to happen. You are talking about fairly substantial change with risk, and you need somebody up there with significant authority that can direct it to happen and then measure it.

We have been talking about private sector development in Russia. I don't see a lot of progress in the agriculture sector over the last 10-years. There is a little toe-hold that has been established, but in part I think it is because we have not set benchmarks to determine whether or not we have been successful or whether or not we have failed.

Mr. CAVANAUGH. When you talk about the delay in granting the overall monetization approvals, there has been no approval of any Russian private sector development programs under 416 this year.

Senator KERREY. And I would say to both you and Ms. Levinson, I think the biggest reason for that and the unwillingness to grant flexibility is they are afraid to do it. It is risky, it is risky to do it, and there can be consequences for making those kinds of mistakes. So it seems to me that permission has got to be granted to do this with checks, with reasonable controls.

There are a lots of ways to set up a control system and minimize the opportunity, not eliminate the opportunity—you are always going to have mistakes made—but to minimize. It seems to me there is an urgency to do it. Otherwise, you are just going to get a bottleneck and nothing happens.

Mr. CAVANAUGH. That is where we are right now.

The CHAIRMAN. Let me ask Otis a question, if I might. I want to come back to your testimony, Otis, about the administration's proposed changes in the GSM program. Would you go over that again in regard to how they could affect your operation, CoBank's operation? You raised some concern, I think.

Mr. MOLZ. Well, in regard to the terms of the contracts, the mere availability of loan guarantees is not enough to make the program successful. Lots of times, the tenure is more important than the other terms of the guarantee, like the interest rate, and so forth.

The other concern was in regard to having an entity on both sides of the transaction, which has been prohibited previously in law, and we would hope that the law would prevail in that respect and that would be continued. Now, the CCC has administrative authority to make changes, but we would hope that the law would prevail. And the committee needs to monitor that and keep that prohibition in place.

The CHAIRMAN. OK, I thank you very kindly.

I think all the witnesses heard my concern in regard to nations of concern, but more particularly in regard to Cuba. Any ideas?

Ellen, what you say really strikes home. And, John, it is the same thing as well. You meet with the Cuban ministers and you meet with the state-owned enterprises that actually run the Catholic relief service programs. And then you talk to our people and they say, you know, we have made adjustments, we have exempted the food and medicine, and we have a streamlined procedure that is expedited. As a matter of fact, you can even get financing. It is like two different ships at night; they just don't—now, I have no illusions about the Castro government and what they will and won't do. Don't misunderstand me.

Do you have any suggestions in regard to which of these—you have the experience in Russia, John. And, Ellen, you have got several good ideas where we could—you know, what I am looking for here is right now they desperately need powdered milk. And it just seems to me that perception-wise—and in talking with the commandante for 10-hours, we were trying to figure out what kind of a breakthrough, not a sale, but an accommodation that could empower individual Cubans, much in the same fashion you are talking about with Russia, John. I am not sure what kind of a program we have that could scale all of the political problems that we have with this issue.

Do you have any thoughts about this? I am sort of fishing here for your response.

Mr. CAVANAUGH. Let me tell you how I view what you have in terms of program right now, and if you used it coherently, looking at these emerging markets, what it would look like to me in a master plan.

You have 416(b), which is basically a donation program run through PVOs, and if you directed that at economic development segments in particular economies and building private structures, whether they are in Cuba, whether they are in Iran, whether they are in Pakistan or Indonesia or Russia, that is almost a cornerstone of developmental direction using our food product as a development tool.

What I am proposing is a second stage which really leads to the third stage, which is the GSM program, where you actually have viable commercial structures. But in the second stage, rather than—and I think we are caught in a mind set of P.L. 480, Title I, loans to governments because we have done that for 30-years.

The CHAIRMAN. Sure.

Mr. CAVANAUGH. And we really in some respects are still treating Russia like the former Soviet Union, in the sense that we see this huge market potential and what we want them to do is organize themselves so we have one buyer who is reliable and a good credit risk. It is not that way and it is not going to be that way again, and we really need to look at Title I as this interim step. What the name of the game is to use that step to build private structures, private commercial structures.

Senator Kerrey, I think that, if properly implemented, you do treat this as a real commercial structure. You would get better pricing of the product by the private entities who would take the loans than you did in the Government-to-government program. You would get better marketing in the sense that—in some aspects of the delivery of the program last year, they did things differently everywhere.

In St. Petersburg and Leningrad, what they did was deliver the soy meal, and they authorized through the oblast every farm in the region got 100 tons of the soy meal. All those little farmers didn't know what to do with it. A lot of them weren't feeding, so they all sold it to a distributor, who sold it to another distributor down the line. That was a very inefficient way of doing that.

If you would have had a private borrower running that program rather than the Government, you would have targeted in exactly on the feeders and the emerging feeders and the feed mills because that is the way the business would be done. You would have cut out another step.

Senator KERREY. By the way, I think one of the points that you almost have to make as you are doing that is that we shouldn't fear the successful development of the Russian economy, because we can see in the decline of the consumption of protein all by itself what happens when you have got a decline in their economy. They have an inability to purchase the value-added products that at the end of the day we need to sell in order to lift our standard of living. So their purchasing capacity declines if they are not able to make the successful transition to a market economy in the agriculture sector.

Mr. CAVANAUGH. I apologize. That is a little bit of a long answer.

Senator KERREY. Well, Ms. Levinson did something that was very unkind in her testimony. She includes an excerpt from the Senate Agriculture Committee report from the 1990 farm bill, and here is what it says. "If any message regarding the P.L. 480 program came through loud and clear to the committee, it was the wide-ranging expressions of concern from both inside and outside the administration"—and here is the key phrase—"that bureaucratic procedures and delays have seriously and adversely affected U.S. food aid programs. This frustration has been focused on the food aid subcommittee of the Development Coordinating Committee. The DCC is an interagency group comprised of USDA, AID, State, Treasury, OMB, and occasionally the National Security Council. Just as an employee can't work well with five bosses, Public Law 480 doesn't work well with five agencies overseeing its operations. This bill makes specific Government agencies responsible."

Well, apparently, it didn't because we are right back in the same—whatever we did in 1990 didn't work. Maybe it improved things at the margin and we would make a case, but we have got a problem when the person who understands what needs to be done, who was here earlier—I mean, I have got to haul him down to the Old Ebbitt Grill to find out what he actually thinks needs to be done, and even then I am not certain either, A, he is going to tell me what needs to be done or, B, I am going to remember it.

Both of you have watched—Mr. Molz as well—this Government operation. I think you can be sympathetic to the dilemma that they are in. The decisionmaking process is flawed. It rewards people who avoid risk and rewards people who prolong the process of decisionmaking. That is what we had in 1990, that is what we had in 1996, that is what we have in 2000. How do we change that?

Ms. LEVINSON. I think there are so many issues wrapped up in what you are asking. The problem isn't just a question of interagency; it is intra-agency as well, of course. There are difficulties within agencies.

If I may, I would like to start with this concept of Cuba and some other countries that are difficult countries, not rogue, but let's just say difficult, because besides a Cuba or an Iraq, for example, you are dealing with countries that are difficult otherwise when you are dealing with food aid.

You are reaching countries that are undeveloped. They have poor infrastructure. Their government structures are weak. There is really a lot of internal corruption, what you and I would call corruption, but is normal business in the country because they don't have contract laws. They don't have enforcement, they don't have a reliable judicial system. So you are really operating—and PVOs are used to this; I mean, my members are very used to that.

So they have a delicate balancing act between working with the recipient country government, meaning a relationship, and also working at the local level, very targeted, in the communities, so that their programs really can be effective because they have people there on the ground.

So I think one of the most important elements to consider is, is it possible to program food aid in a way that there is an intermediary such as a PVO there that can take that kind of responsibility, has ground experience, really has the experience to work there. This helps to mitigate the risk for USDA and USAID. They cannot be in all those communities. They cannot be there monitoring all those communities. It is really up to a reliable partner. So choosing reliable partners with a good track record, I think, is number one. And I think that could work even in Cuba, if you had reliable partners. I know Catholic Relief Services has raised this before, to have an intermediary that is reliable that can work locally.

We have also seen some very good work done where you monetize commodities. For example, on 416, because it is short term, you can monetize and put that in an account and use this for private sector development. And there are many models of this and they have been done successfully all over, and I hope that we could build on that.

I think one of the things USDA needs to do is, on monetization, not try to be in such a rush; in other words, give some more time for an organization; when it sells the commodity and puts the money into an account, give it a longer term to spend that money effectively and focus on the effective use of the money rather than trying to get it off the books in 2-years or something, so maybe a longer-term outlook.

Another way to mitigate, I think, this risk is multi-year programming, in general. What Mr. Cavanaugh is referring to is at two levels. One is assuming our Government is so together and coordinated that the State Department, AID, NSC and everyone, even if they sit together, can come up with a plan for Russia. Now, I wouldn't presume that, and we can't assume that is ever really going to happen. So let's drop that off the books for a minute because I think that is pie in the sky.

So I think really finding at the second level reliable methods, reliable partners, not just relying on foreign governments but really good intermediaries, and using them to make things work better is really the best we can do, and having them on the ground with multi-year programming. We can't always have some master plan for a country, and then, of course, events occur and that master plan will be changed in a year anyway. So that is why it is good to rely on partners. So I hope that maybe addresses that. And powdered milk sounds great to me if there is a way to do it.

Senator KERREY. Well, Mr. Chairman, just in the interests of making certain that we get—I guess there is one more panel.

The CHAIRMAN. Well, we have the growers. I did this once when I used to be somebody in the House of Representatives, when I was chairman, and I can't remember what hearing it was, but we actually had the commodity growers, the farmers, testify first. It made the Department of Agriculture mad as hell, but we got them first. And they have been waiting patiently, and we have four very fine individuals who have a lot of experience in this, so we do want to get to the panel.

Senator KERREY. Let me say to you, Mr. Chairman, my guess is the final panel is not going to do anything other than cause me to feel even stronger about it. I really think this is the pointed end of a very important spear. I am a person who graduated from the University of Nebraska in 1965, right in the teeth of the Cold War when they had a thing called the Selective Service and they were drafting us to go off and fight real wars in Vietnam and elsewhere.

Now, what we are looking at is a different kind of war, and it is a war to make democracy work and it is a war to make free markets work. Of the all the Federal efforts we have got going, this is the most important one. Will it benefit farmers in the State of Nebraska? Yes, but there is a far bigger benefit, in my view. There is a humanitarian mission that is enormously important, and it does link to eventual trade and it can link, as well, to confidence-building on the democratic side and on the free market side.

It can establish friendships that will make it possible for us to do things that we otherwise could not do. There is nothing quite like a friendship to give people confidence they can do things together. I mean, that is what you and did on crop insurance. We surprised everybody and nobody gave it any attention because it was 96 to 4, and it has got to be 50–49 before it gets in the newspaper. But it seems to me that this is vital and that it is still dysfunctional. I mean, I think you and I ought to——

The CHAIRMAN. Well, we ought to spear-head this and we ought to take the suggestions by John, by Ellen, by Otis, and by others and see if we can't come up with a specific recommendation. And I will commit that we will do this. After all, that is the job of the Subcommittee.

Senator KERREY. Mr. Chairman, I am willing to go so far as to say that we need to shift the authorities. I am in 12-years of doing this sort of thing, and these decisions get hung up at OMB. They get hung up at the National Security Council.

The CHAIRMAN. Yes, they do.

Senator KERREY. They get hung up God knows where. You don't know where they are. Maybe the IRS is making some of the decisions, for all I know. I don't know, but it's like you are chasing it around and nobody has to accept any responsibility for it because nobody has any real authority. The authority is all cut up and divided all over the place, so there is no master plan.

John, you used those two words together, and this is as far away from a master plan as I have ever seen. You know, it is one thing if it was something that wasn't terribly important. But 10-years from now, I hope we are able to look back and see fewer missed opportunities. The opportunities we have missed in Russia break your heart, given the consequences of bad decisionmaking. They just break your heart.

The CHAIRMAN. Well, we have successfully poked them, I think, in the eye in so many different policy areas. The stability of Russia, more especially with Mr. Putin at the helm, and what we are involved in terms of our mutual discussions with that country are absolutely imperative.

Senator KERREY. What I am saying, Mr. Chairman, is I think we ought to think about even converting this to some legislative recommendations that will cause people to say, oh, my God, Roberts and Kerrey are doing it again.

The CHAIRMAN. Can we make that Kerrey and Roberts?

[Laughter.]

Senator KERREY. When the French were playing one of their games, you and I introduced legislation that said that the French had to put a label on their wine that said this bottle may include dried animal blood. Well, that got attention, and all of a sudden the French cared about us and who we were.

The CHAIRMAN. I sort of hoped you wouldn't mention that again.

[Laughter.]

We want to thank the panel for indulging the Kerrey-Roberts show here for a while.

Senator KERREY. Thank you.

The CHAIRMAN. I would like to welcome Bruce and Marc and Roger and Bill. We have got the Rice Producers Association from Mississippi. We have got the National Corn Growers from Lawrence, Kansas. We have Marc Curtis, the Chairman of the Board of the American Soybean Association, and Bruce Hamnes of the National Association of Wheat Growers.

Gentlemen, I apologize to you that we are getting you on at 10-minutes after five, and my sincere apologies. Rest assured, all of your statements will be made part of the record. And we will start with Bruce, go to Marc, to Roger, and to Bill, and we welcome you to the panel. Thank you for the job you are doing on behalf of our beleaguered producers.

Pour yourself a glass of water and start off.

STATEMENT OF BRUCE HAMNES, NATIONAL ASSOCIATION OF WHEAT GROWERS, STEPHEN, MINNESOTA

Mr. HAMNES. Mr. Chairman and members of the Subcommittee, thank you for the opportunity to provide the wheat industry's perspective on the benefits of the current export programs and the future of these programs. I am Bruce Hamnes, a wheat grower from northwest Minnesota, and I have been a wheat grower since 1963.

Let me begin by saying that the importance of the USDA export programs for U.S. wheat cannot be overstated. U.S. wheat growers export nearly 50-percent of their production, making flexible, effective, and fully funded export programs critical to our long-term success.

I commend you on the timeliness of your review of export programs, their future, and on their value in facilitating the market development and promotion process. We believe that these programs must be protected and allowed to expand under the rules of the World Trade Organization. As the negotiations of the next round are just beginning, it is appropriate to make it very clear to our trading partners that we believe these programs are not trade-distorting and that the industry expects our negotiators to protect them and our Government to employ them aggressively.

Market promotion and development are "green box," or non-trade-distorting activities under current WTO rules. The trend toward reduction and elimination of trade-distorting programs clearly puts added emphasis on market promotion and development activities. These activities should be utilized to their fullest extent as a significant element in the foundation of future agriculture policy.

Equally as important as the WTO negotiations is the need to expand these programs to the maximum extent possible in the upcoming farm bill discussions. Freedom to Farm made great strides toward improving flexibility and opportunity for American farmers. However, as historical support was eliminated, use of agricultural export programs remained stagnant, and in some cases decreased, as U.S. farmers were sent out into the world market to survive without their traditional tools of support.

Well-funded export programs, which are a necessary part of the equation, were not reinforced. Now is the time to correct that oversight. As we embark on the debates surrounding the new farm bill, export programs that give American farmers and ranchers the tools to survive in the new economy must not be overlooked or taken for granted. Maintaining and increasing the export market for U.S. wheat is absolutely essential. What we don't use or export will sit in our bins and depress prices.

The preliminary year-end sales figures for marketing year 1999–2000 show that 79 countries purchased wheat on a commercial basis from the United States. Another 14 countries received U.S. wheat solely as a result of food aid, and 21 countries that received wheat donations also purchased U.S. wheat on a commercial basis.

We must have access to a variety of export programs that provide flexibility in reaching our customers around the world. Let me list the specific issues affecting export programs now used to move U.S. wheat in the world market. You have more detail before you in my written testimony: the foreign market development program, the Market Access Program, export credit guarantee programs, International Monetary Fund, food aid, and the Export Enhancement Program. Sanctions must continue to be reformed so that all markets are open and these programs are available. The export of American agricultural product is possible because of a large group of dedicated in the USDA who depend on you for their funding and to whom the industry is indebted. They make our export programs work.

Now, what is in the future of agriculture export marketing? Every Nation has in place a set of policies and programs that are designed to help meet its citizens' food and fiber needs, as well as capitalize on potential trade opportunities. The Uruguay Round of GATT and the WTO have not changed this. The playing field is not level. Our national policies and programs must be equally competitive.

American agriculture cannot compete against foreign governments. The U.S. must develop a comprehensive trade strategy for American agriculture that reflects the dynamics of the global marketplace and world competition. This includes passing fast track negotiating authority, responsible oversight of the WTO negotiating process, meaningful unilateral sanctions reform, the granting of permanent normal trade relations for China, and an unshakable commitment to provide American agriculture with the proper tools to develop markets and promote agricultural goods.

We must tell the world that we are serious about negotiating, and fast track is an important part of that message. The paper tabled last month by the U.S. Trade Representative's office in Geneva before the WTO is a positive start toward efforts to promote free and fair trade in agriculture. Meaningful unilateral sanctions reform must be implemented to ensure that the U.S. is considered a reliable supplier of agricultural products to the world.

If Congress fails to grant China permanent normal trade relations in a timely and honorable manner, we can expect to see very few, if any, sales in the future. There is no issue more important to the future of the industry than finalizing this process.

We believe that the Market Access Program should be funded at no less than $200 million, and foreign market development should be no less than $42 million. While the EEP program must be maintained to counter unfair trade practices, we support congressional direction to the Secretary to use the unexpended funds in market promotion and development programs.

The Foreign Agricultural Service and APHIS must be funded at levels that allow for adequate personnel and programs to meet the demands of opening and expanding world markets. In a dynamic, competitive world market, we need to strengthen the programs that will enable agricultural marketing development organizations to continue their partnership with Congress, the USDA, and the industry to maintain a growing market share in an extremely competitive world market.

Thank you for the opportunity to discuss the export programs and their importance to the future of our industry.

[The prepared statement of Mr. Hamnes can be found in the appendix on page 104.]

The CHAIRMAN. Well, we thank you, Bruce, for a very comprehensive statement. Let me just say for the record that I would wave the flag for every one of your suggestions as we mount the parapets of a strong and consistent export policy.

Marc, please proceed.

STATEMENT OF MARC CURTIS, CHAIRMAN OF THE BOARD, AMERICAN SOYBEAN ASSOCIATION, LELAND, MISSISSIPPI

Mr. CURTIS. Thank you, Mr. Chairman, and good afternoon. I am Marc Curtis and I am Chairman of the American Soybean Association. ASA represents 28,000-producer-members on issues of importance to all soybean farmers. We compliment you on having this hearing and we appreciate the opportunity to present our views on some important issues.

Exports are vital to maintaining and enhancing soybean prices and U.S. soybean farmer profitability. One out of every two bushels of annual soybean production must be exported in the form of soybeans, soybean oil, and soybean meal. The importance of export markets has only increased, as U.S. soybean acres have increased from 62.5-million in 1995 to 74.5-million this year.

The 1996 FAIR Act introduced changes in U.S. farm policy that have heightened the importance of having effective export programs and trade policies. Elimination of crop acreage bases and set-asides in favor of full planting flexibility on all crop land has made U.S. agriculture truly market-oriented and market-dependent. This linkage was recognized by the authors and supporters of Freedom to Farm when it was enacted 4 years ago. It has been reiterated on various occasions since then, including in a letter of May 17, 1998, from major farm organizations to the administration and congressional leadership.

The need for strengthening export programs and trade policies have been a top priority of ASA, and actions needed to make the current domestic program successful. Unfortunately, many of the initiatives urged by ASA and other farm groups since 1996 have either been ignored or given only partial attention by the administration and Congress.

The exception, of course, has been the area of trade policy, with the House approval of China PNTR as a solid victory for U.S. agriculture. ASA strongly urges the Senate to take similar actions as soon as possible, and certainly before the August recess. Also, the WTO negotiating position tabled by the administration in Geneva last month contains a number of positive proposals to reduce import tariffs, eliminate export subsidies, and balance trade-distorting domestic support programs.

On the other side of the ledger, however, we are very concerned about the inability of Congress and the administration to support reform of the unilateral economic sanctions on agricultural exports, as provided for in legislation authored by Senator Ashcroft and others. We will remain uncertain over the status of a new WTO round until Congress provides trade negotiating authority and comprehensive talks are finally launched.

In addition, there simply has not been enough attention given to support for programs designed to enhance U.S. competitiveness in the short and long term. I was going to comment on five areas, but in the interest of time let me just touch on one and move to some recommendations we would like to make.

Humanitarian food assistance; we have heard a lot about that already this afternoon. Ms. Levinson in the panel before me commented about our joint effort this past year in this program. The declining U.S. commitment to support humanitarian food assistance during the past 20-years is one of the most tragic casualties of the effort to balance the Federal budget.

Between 1985 and 2000, Congress and the administration agreed to reduce by more than half, funding for our core food aid program; P.L. 480, from $2.2 billion to $1 billion. Worse, funding for the market development portion of P.L. 480, Title I, has been greatly reduced. As commodity surpluses have grown since 1997, the administration has turned increasingly to donations under Section 416(b) to offset the decline in P.L. 480 programming.

In March 1999, ASA submitted to USDA a list of potential recipients of soy products under Section 416 totaling $1 billion. ASA also worked with soy processors and private voluntary organizations to develop 14 proposals that would not displace commercial sales covering 21 countries. These were submitted to the USDA last November.

In February of this year, the Department announced its Section 416 allocation for this year. Soy products totaled only 425,000-tons, a fraction of ASA's request, and included only two of the proposals and five of the countries targeted by the ASA. ASA estimated that this program would have raised prices and reduced LDP payments to farmers by as much as $2.5 billion, which has not been disputed by anyone.

During my years as ASA president, this was the most frustrating issue I faced. I do not understand why this administration can choose not to invest $1 billion to save up to $2.5 billion for the taxpayers and help feed poor, starving people around the world, and help U.S. farmers in the process, just to say that we didn't give farmers more money. ASA has renewed its request for a substantial increase in soy product exports this year under P.L. 480 and the Food for Progress program, as well as under 416.

Facing another large soybean crop, we are calling on Secretary Glickman to designate soybeans, soybean meal, and soybean oil as surplus commodities, and that USDA purchase a substantial quantity of these products using CCC Charter Act authority. We ask that these actions be taken as quickly as possible this fall to ensure a positive impact on prices at harvest, which would reduce LDP outlays on the 2000-soybean-crop.

Let me skip now to our recommendations, Mr. Chairman. U.S. agriculture is owed a substantial back debt of funding for export programs. ASA recommends the following actions to restore the competitiveness of U.S. exports and reduce price-depressing surpluses.

Point one: authorize funding of the foreign market development program of not less than $40 million. Establish an export program task force to work with USDA to identify additional markets to utilize the maximum $5.5 billion in export credit guarantees. Have a task force also work with exporters to determine how terms should be adjusted to make the supplier credit program effective for bulk commodities. Restore the Food for Peace program to its 1985 level of $2.2 billion under a super P.L. 480 initiative, with substantial funding utilized under the Title I market development portion of that program.

Pass legislation authorizing unused EEP funds to be used for market development and export assistance activities. Expand exports of soybeans and soybean products, including soy protein products, under Food for Progress and Section 416. Have the export program task force develop recommendations on how the interagency Food Aid Policy Committee can streamline its review process in order to expedite USDA recommendations on Section 416 and other food aid initiatives.

Direct the task force to work with the World Food Program and PVOs to develop an international school lunch program or a child development program with the goal of providing nutritious meals for the preschool and school-age children of the world's poorest countries. And, finally, provide FAS and APHIS with additional staff and budget resources to support trade-related activities.

Mr. Chairman, many of these programs would take substantial funding increases, and we realize that it would have to be ramped up over a number of years. But in this time of increasing surpluses and low prices, if we are to correct the situation and relieve the Government of having to provide supplemental support payments in the range of $17 to $19 billion a year, we have to do something and do it soon.

[The prepared statement of Mr. Curtis can be found in the appendix on page 111.]

The CHAIRMAN. Well, your point is well taken about that. That is for sure. Thank you, Marc.

We now welcome Roger Pine, who is from Lawrence, Kansas, and is the Chairman of the National Corn Growers Association.

Roger.

STATEMENT OF ROGER PINE, CHAIRMAN OF THE BOARD, NATIONAL CORN GROWERS ASSOCIATION, LAWRENCE, KANSAS

Mr. PINE. Thank you, Mr. Chairman. My name is Roger Pine. Our family raises corn, soybeans, wheat, and turf grass near Lawrence, Kansas. I am here today as Chairman of the National Corn Growers Association. We appreciate the opportunity to appear before this subcommittee to discuss ways to improve U.S. exports.

U.S. corn farmers are efficient, but our export performance does not always reflect that comparative advantage. Ten-years-ago, the United States controlled over 80-percent of world corn exports. This crop year, our market share is estimated at 59-percent. World and U.S. corn exports increased during the 1970s, but have not grown since. Domestic farm policy and an ill-advised grain embargo limited U.S. corn exports in the first half of the 1980s.

Once farmers were permitted to use certificates to redeem price support loans at local market prices, U.S. corn exports began to increase. But weak export performance in the 1990s has contributed to the high stock levels and low prices that plague producers today.

CCC export credit guarantee programs facilitate commercial sales of U.S. agricultural products to creditworthy foreign customers. The CCC guarantees payments due from foreign banks enabling U.S. financial institutions to offer competitive credit terms. The GSM–102 is the most significant program for corn exports. This program offers customers up to 3-years to repay loans. Mexico has been the largest user of GSM–102 credit guarantees for feed grain purchases this fiscal year. Turkey and South Korea have also used the program extensively.

The U.S. and other members of the OECD are currently negotiating changes to export credit guarantee programs. Our competitors are demanding that we drastically shorten the repayment period for GSM loans. NCGA supports efforts to complete OECD negotiations. However, we must insist that our loan guarantee programs meet the credit needs of our export customers.

Export price subsidies have cheapened grain on world markets. The U.S. proposal for agricultural trade reform in the WTO calls for the elimination of export subsidies. This is an objective that NCGA fully supports. The Market Access Program and the Foreign Market Development Cooperator Program help fund private sector market development activities. These programs boost exports through advertising, trade servicing, technical assistance, and other non-price market development activities. We spend only a fraction of what our competitors spend on market development activities. It is time for Congress to demonstrate that the United States is prepared to invest in new markets with increasing funding for MAP and FMD.

The United States has shared our abundance with developing countries in times of famine and food shortages. Besides addressing critical food needs, our food aid and donation programs are an important part of broader foreign assistance. The United States individually and through international organizations can help developing countries meet critical food and health needs. Children provided proper nutrition, health care, and educational opportunities today will become more productive adults who will buy more U.S. products.

If U.S. farmers are to remain competitive in the global market, they must be able to deliver their products to domestic and world markets efficiently and cost effectively. We urge Congress to provide adequate funding to upgrade our river transportation system to reduce costly delays and expedite the movement of corn and other products.

The U.S. has imposed unilateral trade sanctions more often than any other Nation. Sanctions encourage the use of trade-distorting domestic farm programs in every country that is unwilling to trust the United States as a reliable supplier of food. Congress must exempt commercial sales of food, feed, and other agricultural products from unilaterally imposed sanctions. Finally, the Senate must pass PNTR for China without amendment. This legislation will open the world's biggest country to U.S. corn farmers.

This subcommittee provided the leadership to improve the crop insurance program to make adequate risk management tools affordable. We thank you for that leadership and for the financial assistance to help farmers faced with low commodity prices. We hope that the suggestions you hear today will lead to improved export programs and higher prices in the future.

Thank you for allowing me to present the views of the National Corn Growers Association.

[The prepared statement of Mr. Pine can be found in the appendix on page 116.]

The CHAIRMAN. Well, we sure share that goal, Roger.

OK, Bill, you are next.

STATEMENT OF BILL GRIFFITH, U.S. RICE PRODUCERS ASSOCIATION, BOLIVER COUNTY, MISSISSIPPI

Mr. GRIFFITH. Chairman Roberts and members of the Committee, my name is Bill Griffith. I am a third-generation rice, soybean and wheat farmer from Boliver County, Mississippi. I currently serve as Chairman of the Rice Committee of Mississippi Farm Bureau, and also the National Rice Committee of the American Farm Bureau. I am here today representing the U.S. Rice Producers Association.

There are several major points I would like to address as part of my testimony today. Federal export programs must assist all forms of commodities. The future of our industry, both long term and short term, will be determined by our Government export policies and programs.

Export credit guarantees are an effective form blind export success. We do not need to tamper with the USDA GSM export credit guarantee program. This program has been very successful in opening and maintaining export markets. This program by its very design encourages overseas buyers and purchasers of U.S. products on commercial terms. This design makes rice growers and exporters equally eligible for credit guarantees. This form blind design is prevalent for every major commodity except rice and a number of other USDA food aid and export programs.

An innovative success story is the quality samples program recently used by our fellow producers in Mississippi. This innovative program has many good points. This program allows the producer to ship a sample of a new rice variety to a foreign buyer for testing in the market. As a result, the overseas buyer has already agreed to purchase more rice in the coming year and the use of the USDA to promote the purchase. The quality sample program is a good example of an ingenious new program that helps farmers market their crops directly to foreign buyers.

We urge the Congress and the USDA to continue supporting these types of programs. We also urge Congress to take another look at brand advertising programs for the purpose of making this type of program available to commodity groups. Traditionally, USDA food aid and export programs need producer-friendly improvements. There are many other USDA programs designed to increase exports of U.S. farm commodities that should not be overlooked in our quest to improve the health of farmers.

Rice is the only remaining major farm commodity that our Government repeatedly fails to offer and make available to potential customers in its unprocessed form. USDA's management of P.L. 480 and other food aid programs continue to discriminate unfairly against rice producers.

For example, Grains Jamaica, the main importer of U.S. rice, still contends that they would make a 100-percent U.S. market if they were allowed to import rough rice under P.L. 480. I have to wonder how the wheat producers would react if they were told that they could only ship wheat flour to a P.L. 480 customer. Or what is the soybean producers were told that they could only ship soybean oil?

All forms of rice should be considered in international trade negotiations, and we are hopeful that the U.S. negotiators will consider rough rice while discussing policy issues with the European Union and others at the upcoming WTO meeting.

Unilateral sanctions hurt U.S. farmers. More than anything, we would like to see our farm and export programs work to raise farm income. We believe this can be accomplished by removing the trade embargo against Cuba. Cuban citizens consume 400,000-tons-of-imported-rice, all of which is produced by our competitors. This would be the greatest single action that Congress can take this year to raise prices and export opportunities for the U.S. rice farmer.

In conclusion, we already have the tools for expanding overseas sales and giving farmers a hand up in improving their current plight. When considering the food aid programs, we encourage this committee to allow the U.S. rice industry to break with a 45-year tradition and allow all forms of rice to be programmed. We thank you for seeing the need to help us with these issues, and we are grateful for your time and concern.

Thank you.

[The prepared statement of Mr. Griffith can be found in the appendix on page 120.]

The CHAIRMAN. Thank you, Bill. Bill, give a quick summary on the quality samples program. I was reading about that in your statement and I know that you didn't have enough time to go over that. I think that is the Missouri rice producers. Could you just give me a quick summary of that?

Mr. GRIFFITH. Well, what they did was they have got a variety—now, this is what I have been told. I haven't talked to any of the producers themselves, but I understand they have a variety that they are working with a country that wants them to buy the rice and to use it.

The CHAIRMAN. But that importer, according to your testimony, spent a sizable amount of their money to advertise its own brand of this product. And then on that label, it said it was a product of Missouri. So you have got a quality sample there or a program, a new variety, and with USDA help, the importing country actually helped pay for that.

Mr. GRIFFITH. Yes, Sir.

The CHAIRMAN. You have described it as ingenious. I think that really attracted my attention. Then on page 5, you indicated, "When considering food aid programs, we urge this committee to allow the rice industry to break with the 45-years of tradition and allow forms of rice to be programmed." Do you have support for that across the board?

Mr. GRIFFITH. Mr. Chairman, speaking as a rice farmer, I understand there are complications maybe with some that would rather have the rice milled. But as far as a rice farmer's standpoint, we don't care if it is cracked, split, milled, whatever. We just want it out of our surplus and moved on to another country.

We don't really think that rice has been treated fair because it has always been it has to be milled, and we think that if a foreign country wants to buy unprocessed rice, let them buy unprocessed rice. Why not? As long as the surplus can come down, it would sure benefit the United States rice farmer.

The CHAIRMAN. You said that about the most important thing we could do is to facilitate the opening up of trade with Cuba. I will report to you that virtually every Cuban minister I visited with this weekend, and that includes even discussion with Fidel Castro, when you mention commodities—obviously, I was going to try to mention wheat and corn, Roger, and soybeans, Marc, but I was sort of leading off with wheat—it always came back to rice, and that they are importing all that from Vietnam. It is a poor product and it takes forever, and it just doesn't make any sense.

I am just not sure we have heard a great deal of discussion, and you have been very patient in the audience, as to what kind of a program we could devise, and then if you could get past the political opposition of the Cuban government and all of that, you know, to get that done. I agree with you, but I must say that I don't think that the House bill—and I am just going to be very frank—helps us much.

As a matter of fact, I think that is more of a headline than it is a specific step forward. It is about five steps backwards. And I am not too sure we can do that this year. I am just not sure that the politics of it—and there is a lot of politics involved, to say the least—will be enable us to do that.

But I want to make a promise to you. I mean, if I had to spend 10 hours with Fidel and all the ministers and go down there, I think rice is the one where we can get the breakthrough. We talk about powdered milk and that would be the humanitarian issue. But that makes sense to me; that makes a lot of sense. It also makes sense in regard to the strategic national security issue in regard to Cuba.

Castro is 74-years old. He was talking about his own transition, and the more we are able to empower the individual Cuban and have that wherewithal so that infrastructure can withstand that transition, the better off we are going to be.

So I really encourage your activities and your support and any suggestions that you might have. Do you have any suggestions along those lines?

Mr. GRIFFITH. Well, I don't know what the statistics are now, but back in February, of course, our rice surplus was about like the rest of the commodities. I mean, it is just overflowing. That is the reason our markets are down so much. Back in February, we had 425,000-tons too much. Well, you can see in my statement there that they eat 400,000.

The CHAIRMAN. There you go.

Mr. GRIFFITH. So, you know, that right there would have taken care of us. It is like every time we can get a buyer, there is a sanction thrown on them. I can't remember what year it was, but it was back in the late 1980s, Iraq bought 90-percent of Mississippi rice.

Well, I think the following year or maybe the year after that was when they invaded Kuwait.

The CHAIRMAN. I remember that debate. As a matter of fact, we were suspending trade relations with Iraq, and some fellow named Roberts got up and said once again the farmer is being disadvantaged. That was on about a Friday, and on about a Tuesday he invaded Kuwait, and I was trying to revise and extend my remarks. [Laughter.]

But the point was still well taken. Obviously, when you have a national security threat, you know, that is the case.

Let me ask all of you something, if I might. The Department of Agriculture is in Paris discussing the United States export guarantee program as we try to achieve some progress in the WTO and all of that. We have got a sticking point, and that is the issue of the loan duration period.

Can you give me each commodity's view on that? Should all commodities receive equal treatment? I know some want a longer period, some want shorter. I would prefer longer, but where are you on that?

We will start out here with wheat, Bruce. Do you have any commentary?

Mr. HAMNES. One-year to 18-months.

The CHAIRMAN. Marc, any comments?

Mr. CURTIS. Yes. Of course, we want to see the negotiations completed in OECD. We made that commitment in the Uruguay Round. We are very afraid that if it gets into the present negotiations for the new WTO treaty that it will be done away with completely. So we think it is very important that the negotiations be completed in OECD.

Of course, we want terms as long as we can get them, but the soybean industry wants to be very emphatic in the fact that we want to be treated equitably. We are not willing to stand aside and let one commodity get 2-years and us get 1-year, and so on. We have to all get the same.

The CHAIRMAN. Roger?

Mr. PINE. It is 3-years now, isn't it, I think? We could probably do a little bit less than that, but we don't want to go too far down. I would say a year-and-a-half to 2-years.

The CHAIRMAN. But you are consistent with the others. Everybody is in the same boat.

Bill, do you have a——

Mr. GRIFFITH. It is about the same here, Mr. Chairman. It is working right now for us.

The CHAIRMAN. We have only got 31-working-days-left in this Congress, and you all indicated that the number one issue of concern—or I think you did—was the successful passage of PNTR, and I think that is going to happen. There is some question as to whether we will take that up in the Senate prior to the convention break in August or whether or not it will be the first thing that we take up in regard to September. But I want to emphasize the bipartisan support of the Subcommittee and the Committee in that behalf.

Other than PNTR, is there anything—there is a tax package that we passed, but unfortunately it got taken out, that was part of the ledger that I kept talking about clear back in 1996, and then also sanctions reforms. Is there anything else you think we ought to be doing here in the last 31-days that we could actually do, where we could get a concerted effort in behalf of all of our farm organizations and our commodity groups?

[No response.]

All right. Any final comment?

[No response.]

We thank you for coming, and the Subcommittee stands adjourned.

[Whereupon, at 5:44 p.m., the Subcommittee was adjourned.]

APPENDIX

JULY 18, 2000

Statement by Timothy J. Galvin
Administrator
Foreign Agricultural Service
U.S. Department of Agriculture
Before the
Senate Committee on Agriculture, Nutrition, and Forestry
Subcommittee on Production and Price Competitiveness
July 18, 2000

Mr. Chairman, members of the Subcommittee, it is a pleasure to appear before you to discuss export and market development programs for U.S. agriculture.

The U.S. Department of Agriculture has been working at full throttle to build long-term trade opportunities, increase exports, help relieve hunger abroad, and help American farmers and ranchers earn an adequate income from their farms.

Building Long-Term Trade Opportunities

In April of last year, the President announced sweeping sanctions reforms that are already beginning to open new foreign markets to U.S. agricultural exports. Despite continuing sanctions on most other products, American farmers and ranchers are now able to sell their commodities to Iran, Libya, Sudan, and North Korea. The broad easing of sanctions could bolster U.S. agricultural exports by as much as $500 million a year. Already, there have been sales of 29,000 tons of hard red winter wheat to Sudan, 20,000 tons of durum to Libya, and more than 600,000 tons of corn to Iran.

In general, commercial exports of food and other human necessities should not be used as tools of foreign policy except under the most compelling circumstances, and the Administration has extended this policy to existing sanctions on a case-by-case basis. We look forward to working with the Congress to solidify this policy in a way that does not unduly limit the

President's discretion.

For 2000, USDA allocated $90 million in Market Access Program funding for export promotion activities to 65 U.S. trade organizations, state/regional groups, and cooperatives. USDA also approved plans for $33 million in overseas marketing activities under the Foreign Market Development program. This year, USDA also initiated a Quality Samples Program that assists U.S. exporters in introducing new products to potential buyers.

USDA recently announced actions to improve the cleanliness and competitiveness of U.S. wheat. USDA has lowered the acceptable maximum dockage levels in wheat purchased for U.S. foreign food assistance programs. This tells the world that U.S. wheat meets a higher standard. USDA will also seek public comment very soon on whether to establish an official U.S. standard for maximum dockage levels in exported wheat. Cleaner exports will help create greater demand for U.S. wheat and help U.S. wheat suppliers compete internationally.

USDA continues to pursue its bilateral and multilateral efforts around the world to reduce trade barriers and create new export opportunities, while closely monitoring compliance by other countries with Uruguay Round commitments.

During this past year, USDA helped reach two major trade agreements with China. Under the Agreement on U.S.-China Agricultural Cooperation, China removed longstanding bans on U.S. wheat, citrus, and meat and poultry. As a result, the first direct exports of U.S. meat and the first exports of California and Florida citrus were recently shipped to China, and China purchased 50,000 metric tons of U.S. wheat shipped through the Pacific Northwest. In addition, USDA helped negotiate the U.S.-China World Trade Organization accession agreement, which offers major, long-term benefits for U.S. agriculture. We understand that the Senate has a full agenda of legislation to consider, but we must not let this unprecedented opportunity for our farmers and ranchers slip through our fingers.

Three weeks ago, the United States presented an ambitious, comprehensive negotiating proposal for the next round of WTO agricultural talks. It moves us beyond the Uruguay Round to accelerate world agricultural reform and create a level playing field for all farmers and ranchers. It establishes a blueprint for meeting the goals we have been talking about for more than a year: eliminating export subsidies; lowering tariffs and expanding tariff-rate quotas; disciplining state trading enterprises, and facilitating trade in the products of new technologies.

This proposal was developed from the grass roots up, with input from farmers, ranchers, processors, our advisory committees and members of Congress. As a result, the proposal is supported by a broad range of the U.S. agricultural community, and enjoys bipartisan Congressional support.

I believe this plan will improve prospects for America's farmers and ranchers, who are still coping with low commodity prices, worldwide surpluses and closed markets. Agriculture is twice as dependent on exports as the rest of the U.S. economy. To thrive in the 21st century, our farmers need access to a freer and fairer global market. This proposal would give them just that.

It seeks to level the playing field by capping "trade distorting" domestic support at an equal, fixed percentage of a country's total value of agriculturai production. If we have heard one thing from U.S. producers over the past several years, it is that we must avoid further across-the-board percentage cuts that leave our farmers at a disadvantage. This happened under the Uruguay Round, which mandated uniform cuts by all countries, but still allowed those who started at a higher level to retain their advantage.

The proposal simplifies the system of classifying domestic support. It would do away with the green, amber, and blue box system and replace it with two categories: exempt support, which has little or no trade-distorting impact, and non-exempt support, which distorts trade and will be capped. This innovative approach would go a long way toward leveling the playing field partly because it would change the current situation in which there are no limits on certain types of trade-distorting expenditures known as "blue box" support. The EU has exploited this loophole to the tune of roughly $25 billion per year, while the United States does not use blue box support.

The U.S. proposal articulates a vision for the organization of agricultural policies for the new century. We believe that real reform is necessary to put our agricultural economy on a sound footing, and is in the best interests of all WTO members. The U.S. approach recognizes the rights of countries to support farmers and rural communities, but countries also have the responsibility to shoulder the costs themselves rather than imposing them on other countries, especially developing countries.

Several other countries submitted negotiating proposals in Geneva -- Canada, the Cairns Group, the European Union, and a group of developing countries. However, the United States was the only country that submitted a comprehensive proposal. This clearly puts us in a leadership position for these negotiations.

Where do we go from here? Last March, countries agreed to an end-of-the-year deadline for submitting initial negotiating proposals, with the ability to amplify or modify proposals through the first quarter of 2001. In the months ahead, we will continue to work closely with our farmers, ranchers, processors, Congress, and our advisory committees to refine our negotiating proposal. The United States has proposed concluding the agricultural negotiations by the end of

2002, and reaching agreement on the fundamentals of further reform by the midterm of the negotiations.

Increasing Exports

Over the past 2 years, USDA has used its export credit guarantee programs to support sales of more than $7 billion in U.S. agricultural products. In fiscal 1998, during the height of the Asian financial crisis, USDA made $1.5 billion in credit guarantees available to exporters for sales to South Korea alone, and Korean importers used more than 90 percent of that amount for commercial purchases of U.S. agricultural products. Over the past 2 years, exporters to South Korea and the countries of Southeast Asia have used USDA credit guarantees to sell $2.6 billion worth of American oilseeds, wheat, corn, cotton, meats, and other products. As a result of these efforts and rising world demand, combined beef, pork, and poultry exports are forecast to top $6.6 billion this fiscal year, up from $5.8 billion a year earlier. U.S. beef especially is benefitting from both higher prices and strong overseas demand. While pork and poultry are still recovering from losses incurred during the Asian and Russian financial crises, both are forecast at least to equal, if not exceed last year's market share figures.

For fiscal 2000 to date, USDA has announced the availability of more than $5 billion in export credit guarantees for sales to countries where lack of credit might otherwise present a barrier to sales.

With the help of USDA's Dairy Export Incentive Program, U.S. exporters sold more than 136,000 tons of dairy products valued at $337 million in fiscal 1999. Under DEIP, USDA awarded bonuses of $145 million to help U.S. dairy producers and exporters compete in overseas markets. For fiscal 2000 to date, nearly $76 million in bonuses have been awarded, supporting sales of around 93,000 tons of U.S. dairy products.

We continue to support legislation we previously proposed that will authorize the Secretary of Agriculture to reallocate unobligated Export Enhancement Program funding in the last quarter of the fiscal year to be used for U.S. foreign food assistance activities, including P.L. 480 and Food for Progress programs, and for purchasing commodities to replenish the Bill Emerson Humanitarian Trust.

Helping Relieve Hunger Abroad

Last year, USDA used its food aid programs to move nearly 8 million metric tons of farm surpluses to help relieve hunger and suffering abroad. This was four times the previous year's tonnage and the largest quantity in recent memory. It included more than 5 million tons of wheat and wheat products donated under the President's Food Aid Initiative. U.S. commodities were shipped to 50 countries, from the unprecedented assistance package for Russia to food relief for Kosovo refugees, famine victims in Africa and North Korea, and hurricane victims in Central America and the Caribbean.

Once again, this year, USDA will provide significant amounts of food aid to needy countries, including about 5.4 million tons in Section 416(b) donations of wheat, rice, soybeans and soybean products, and milk powder.

Conclusion

As USDA moves ahead with these efforts, we face many challenges both domestically and internationally. USDA must continue its efforts to do more with less, as resources for administering our export and market development programs have not increased. In 1999, the Foreign Agricultural Service received two Hammer Awards from the Vice President for improving the efficiency of its export programs through the development of a "Unified Export Strategy" and a streamlined process for advancing funds to Private Voluntary Organizations for humanitarian food assistance. However, as much as FAS works to operate its programs more efficiently and less expensively, this will not change the fact that our largest competitors outspend us for market development activities. The European Union outspends the U.S. by about $92 million, and the Cairns Group outspends us by about $306 million. If the U.S. is going to be competitive, especially as nations compete for access to the opening Chinese market, we will need to join with the private sector in increasing our efforts to develop markets.

Mr. Chairman, the export decline of the past several years has been sobering for America's farmers and ranchers, as well as for policy makers trying to address their concerns. While our export programs will never be a substitute for strong global markets and an adequate safety net, we must ensure that the programs we administer are effective and efficient. I look forward to discussing with you the best way to achieve this goal.

This concludes my statement. I will be glad to answer any questions.

Statement of Hugh Parmer
Assistant Administrator
Bureau for Humanitarian Response
U.S. Agency for International Development

Before the
Committee on Agriculture, Nutrition, and Forestry
Subcommittee on Production and Price Competitiveness
United States Senate

July 18, 2000

Mr. Chairman and members of the committee, it is an honor to appear before you today to testify on the multiple benefits of the various United States food aid programs and to give you my perspective on the future these vitally important activities.

As we look forward to the period of the next farm bill several demographic patterns within developing countries, impacting world markets, appear to clearly etch themselves into the pattern of recent history. World population, and especially population in some of the poorer countries, especially those that have been unable to move ahead with economic reforms necessary to attract investment, will continue to become younger and poorer, affected by HIV- AIDS and accompanying high birth rates, as overall life expectancy declines. While total populations in some cases may decline over time, the more immediate impacts over the period of the farm bill are likely to be a decline in local agricultural production, as the population of work force age is the most dramatically hit by the affects of the epidemic, and an increased demand for imported food. The ability of those countries to feed themselves that are caught in the dual vise of disease and declining development resources will become increasingly imperiled. In the short term, for countries affected by this situation the demand for food assistance among the poor will increase, while commercial demand declines precipitously.

U.S. food assistance programs today are funded through a variety of sources and cover a variety of critical objectives. The U. S. Agency for International Development (USAID) is responsible for the administration of the Public Law 480 Title II and Title III programs. The Title II program, which is managed by the Office of Food for Peace in the Bureau for Humanitarian Response, is funded through an annual appropriation of over $800 million and is the leading U.S. food aid program for emergency humanitarian response and development (non-emergency) activities. While not currently funded, the Title III program provides the authority for government-to-government food aid grants that may be used, inter alia, to promote policy changes in recipient countries to strengthen the food security infrastructure and to support non-governmental organizations working for food security.

The United States Department of Agriculture (USDA) is currently responsible for the administration of the P.L.480 Title I program, the Section 416(b) program, and the Food for Progress program. The Title I program receives an annual appropriation and supports the sale of U.S. agricultural commodities to recipient governments on concessional credit terms. Under Section 416(b) of the Agriculture Act of 1949, the Commodity Credit Corporation is authorized to donate surplus commodities to meet food aid requirements overseas. The Food for Progress program, which was authorized under the Food for Progress Act of 1985, uses U.S. food commodities to assist developing countries, and particularly emerging democracies, that have made commitments to introduce or expand free enterprise elements in their agricultural economics.

Today, this broad and abundant array of U.S. food assistance tools has enabled our country to lead the world in responding to both emergency and non-emergency food aid requirements in developing countries, to expand commercial markets for U.S. goods, and to support U.S. foreign policy objectives. Following the more than 9 million tons of food aid provided in fiscal year (FY) 1999, the United States is expected to provide about 7 million tons of commodities in FY 2000. These millions of tons of commodities - together with the millions of dollars of cash resources that support their transport, management, and distribution - are commonly recognized for providing a direct life-saving or life-enhancing benefit to millions of people overseas.

A clear example of the direct benefit of U.S. food aid is the current food aid response to the drought and conflict in the Horn of Africa. To date, the U.S. has committed over 1.2 million metric tons of food to the approximately 20 million drought and conflict-affected people in the region. Of that amount, approximately 400,000 metric tons has already been delivered. This entire response is being provided with resources from the Title II and Section 416(b) programs.

During the middle of March of this year, I had the opportunity to travel to Ethiopia to review the extent of the crisis there with local officials and to monitor the delivery of U.S. food assistance. After meeting with the Ethiopian Director of the Disaster Preparedness and Prevention Commission (DPPC) in Addis Ababa, it became clear to me that the United States would have to play the leading role in the donor community in order to prevent the food shortage from turning into a full-scale famine. With over 7 million drought affected people at that time (there are more than 10 million today), Ethiopia was in urgent need of huge volumes of food aid and extraordinary amounts of technical assistance.

The day after meeting with the Commissioner of the DPPC, I flew to the town of Gode in the Somali region of Ethiopia to see the impact of the drought on the poorest Ethiopians. Although I have traveled extensively to crises in Kosovo, Angola, and Central America, the scene I experienced in Gode was the most graphic and unsettling of my career. Livestock carcasses were visible throughout the town. Health workers from our partner Save the Children reported that 61 people in the town had died in the previous two weeks with the majority being children under 5 years of age. In general, the population of the town and surrounding area was very weak and vulnerable to disease and infections. I continued my review of the town with a visit to both a supplementary and therapeutic feeding center that had recently been built by Save the Children. The therapeutic feeding center already had 86 patients suffering from severe malnutrition – all were under the age of 5 years. The supplementary feeding center had over 850 patients even though its planned capacity had not been expected to exceed 500 patients. Hundreds of new patients were arriving each day. In response to the overwhelming situation at the feeding centers, I immediately instructed my staff in the Offices of Food for Peace and Foreign Disaster Assistance to airlift corn-soy blend and other commodities appropriate for malnourished children to Gode. In addition, I tasked my staff with working with the DPPC and our partner agencies to significantly expand the number of feeding centers established around the country. Due to the severity of the drought in the Somali region, I ordered another airlift two weeks later.

Title II resources are also supporting development activities that promote sustainable food security and make the poor less vulnerable to disasters. Some examples of success stories directly attributable to U.S. food assistance are:

- Agricultural productivity increased and incomes improved in Mozambique
- More efficient water use helped poor farmers in Eritrea

- Improved watershed management results in a wide range of benefits for lower caste, poor farmers in India
- Sustainable rural enterprises created jobs and reduced rural poverty in Ghana
- Honduran farmers produced a timely surplus in the aftermath of Mitch
- Severely malnourished children in Peru regained good nutritional status
- Integrated program results in decreased malnutrition and improved health for women and children in Bolivia
- Haiti's most vulnerable children received a better education
- Title II food helped girls stay in school in Ghana

While the story of the impact of U.S. food aid on the beneficiaries overseas is of paramount importance – and is a story that I take pride in telling – it is really just the first chapter in the book on the benefits of U.S. food assistance programs. Additional chapters might have headings like "Food Aid Supports American Businesses," "Food Aid and Foreign Policy," or "Food Aid: America's Values at Work." Let me briefly explain what I mean by each of these chapter headings.

Food Aid Supports American Businesses: Using the P.L.480 Title II program as an example, I can tell you that out of approximately $960 million dollars disbursed in FY 1999:

- Approximately $480 million or 50 percent of the total program budget paid for U.S. agricultural commodities.
- Approximately $170 million or about 18 percent of the total program budget financed the shipping of the commodities on U.S. flag vessels.
- Approximately $18 million, or about 2 percent of the total program budget, funded support to U.S. private voluntary organizations (PVOs) whose humanitarian spirit is deeply rooted in American values.

As you can see, even a very conservative evaluation of food aid expenditures shows that about 70 cents out of every dollar expended on U.S. food assistance activities is spent in the United States. When you consider the multiplying factor that these dollars represent as they are further spent in the market, the employment and tax generation impact is significant. The money spent on delivering emergency commodities to Ethiopia touches farmers, processors, vitamin suppliers, truckers, stevedores, and, in most cases, U.S. flag vessels and our PVO partners.

In addition to the multiplier effect, the benefits of food aid resources are spread widely across the country. According to a recent study commissioned by USAID, more than $3.0 billion dollars in P.L.480 resources have been spent since 1997 purchasing and transporting U.S. commodities. During that same period, more than 37 states each have benefited by more than $1.0 million from P.L.480 Title II purchases alone. Commodity purchases range from bulk corn from Minnesota, to flour milled in Kansas, Missouri and Texas, to peas and lentils produced in Idaho. The eleven states that benefited most from these programs are Louisiana, Texas, Illinois, Kansas, Tennessee, Indiana, Washington, Wisconsin, Nebraska, Iowa, and Arkansas. I am pleased to note that my home state of Texas ranked number two, just behind Louisiana, among states benefiting from P.L.480 resources. In large part, of course, this high standing for the states of Texas and Louisiana has to do with the large volume of P.L.480 commodities that move through their ports to destinations overseas. Just ask the port interests and stevedoring companies in New Orleans or Lake Charles, Louisiana or Houston or Jacinto City, Texas whether P.L.480 resources are important to them.

Food Aid and Foreign Policy: A key aspect of U.S. foreign policy is the mitigation and prevention of crises around the world. Crises, whether natural or manmade, can disrupt or derail a country's progress toward sustainable development, they can disrupt or destroy markets and market structures, and their effects can destabilize the social and economic infrastructure of entire regions. Another U.S. foreign policy goal is the expansion of markets for U.S. commodities and the promotion of free and competitive trade practices around the world. U.S. food aid resources have proven over the last 50 years to have an inherently strong secondary benefit that often supports one or more of these foreign policy objectives. For example:

- In natural or manmade crisis situations from Angola to Kosovo to Rwanda to East Timor, Title II emergency resources have proven to provide critically needed food to address the humanitarian requirements of the affected populations.

- Title III resources, in developmental or non-emergency situations, have been used to meet specific food requirements in recipient countries while at the same time encouraging sustainable development policies and practices. In Haiti, as an example, Title III resources were used to encourage the privatization of local industry.

- USDA's Food for Progress program emphasizes market development and market strengthening activities. By introducing U.S. commodities into new markets and strengthening the commercial market infrastructure, these programs support the U.S. foreign policy objective of expanding markets for U.S. products and strengthening commercial market structures worldwide.

Food Aid: America's Values at Work: U.S. food aid programs are a direct outgrowth of America's values. We live in the strongest democracy in the world. Our country is blessed with abundant natural resources. We believe in hard work and just rewards. At the same time, we are a compassionate people; a people who believe that our wealth should be used to assist those less fortunate - both domestically and abroad; and a people who believe that our values and ethics should be shared with others as a means of guiding them to self-sufficiency. Those values are reflected in the "U.S. Action Plan on Food Security," our Government's strategy to meet the goal of the 1996 World Food Summit of reducing the number of hungry in the world by half by 2015. U.S. food aid programs are a clear reflection of these values. Let me explain:

- All Americans universally recognize food as a basic human need. U.S. food assistance programs respond to this need.
- By procuring all commodities in the United States, U.S. food assistance programs serves the dual goals of responding to the needs of food insecure populations around the world and simultaneously supporting the domestic agricultural economy.
- In cooperation with partners such as CARE, Catholic Relief Services, Save the Children, World Vision, and others, U.S. food assistance programs support the transfer of a combination of technical and organizational skills and practices. This aspect of U.S. food assistance programming is the engine that drives all sustainable development activities.

U.S. food aid programs have been the foundation for all U.S. foreign assistance activities for more than 50 years. Each program was established to have certain strengths that would enable it to respond to specific needs and circumstances as they arose. The two largest programs, Title II and Section 416(b), however, are, also, the two oldest programs. It would be advantageous if both were updated to acknowledge the post-Cold War environment and the new complexities of food aid programming. Some of the more pressing issues are as follows:

- Food aid requirements have increased in the post-Cold War era. With the Soviet Union no longer addressing some of the food requirements of the developing world and with large amounts of food assistance being required in the countries of the former Soviet Union, food aid requirements worldwide have increased dramatically.
- U.S. food aid appropriations have declined by almost 50 percent in dollar terms since 1990. As a result, the consistent availability of U.S. food aid resources cannot be assured.
- Section 416(b) resources, while substantial, cannot be programmed on a multiyear basis due to the annual nature of their availability.
- U.S. food aid activities are becoming more complex. The monetization or sale of food aid commodities to support food security or market development activities has increased the cost of managing and implementing food aid activities.
- U.S. direct-distribution activities, in particular those in sub-Saharan Africa, are increasingly more expensive to implement due to the costs of moving the commodities to isolated areas.
- Resources set aside for the administration of food aid activities are not keeping pace with the changing nature of the programs.

In an effort to ensure the continued vitality and effectiveness of the U.S. food assistance programs, the following changes to the authorizing legislation would be helpful:

- With more than 800 million hungry or malnourished people in the world today, the United States must ensure that sufficient resources are available to meet an appropriate portion of the associated food and nutrition requirements.
- We are concerned about the lack of consistency in U.S. food aid availability. The integration of food aid resources into long-term sustainable development activities is not viable as long as the largest food aid program, the Section 416(b) program, is not available on a consistent basis.

It would be helpful if additional flexibility was added to the authorizing legislation of U.S. food aid activities to allow for the funding of internal transport, storage and handling (ITSH) costs for non-emergency activities.

Thank you again, Mr. Chairman, for the opportunity to speak before you today. Using U.S. food aid resources to respond to humanitarian and developmental requirements sends a clear message that we are willing to make a critical direct investment in the future of the world's food insecure. At the same time, however, I am convinced that that same direct investment in the world's poor has a much more profound and long-term impact on this country and the world. By providing assistance to a people or country in crisis, by promoting free-market transactions, or by introducing competitively priced commodities into new markets, food aid programs stimulate sustainable development that benefits the entire world community. I hope that I have helped convey the tremendous role that U.S. food aid programs play in supporting the foreign policy of this country, supporting thousands of jobs in the United States, and, most significantly, fulfilling the mandate of the American people to use the abundant resources of this country to help the less fortunate around the world. Thank you.

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

TESTIMONY OF ROGER C. VIADERO
INSPECTOR GENERAL
OFFICE OF INSPECTOR GENERAL
U.S. DEPARTMENT OF AGRICULTURE

Before the

UNITED STATES SENATE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY
SUBCOMMITTEE ON PRODUCTION AND PRICE COMPETITIVENESS

on the

DEPARTMENT'S FOOD AID ASSISTANCE PROGRAMS

July 18, 2000

ROGER C. VIADERO
INSPECTOR GENERAL
U.S. DEPARTMENT OF AGRICULTURE
BEFORE THE
UNITED STATES SENATE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY
SUBCOMMITTEE ON PRODUCTION AND PRICE COMPETITIVENESS

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I appreciate the opportunity to be here today to testify about our work on the Department's food aid assistance programs. I will give an overview of our prior work; briefly summarize our involvement with the 1999 Russian Food Aid Agreements, our review of private voluntary organizations (PVO's) that administer some of the Department's food aid assistance programs, and our investigative efforts; and finally, highlight the Department's actions to correct the concerns we have raised. With me today is James R. Ebbitt, Assistant Inspector General for Audit.

OIG's Efforts

Since 1994, my office has been involved in evaluating various aspects of the Department's food assistance programs. We have evaluated and monitored the almost $3 billion in food aid assistance in the Newly Independent States (NIS) of the former Soviet Union. We have also reported on the sufficiency of the Department's controls over PVO's use of Food for Progress (FFP) program grant funds. For fiscal year's (FY) 1996 and 1997, the Department had 61 FFP grant agreements with 27 PVO's that provided over 336,000 metric tons (MT) of commodities and almost $18 million in administrative funding. We have issued six reports describing the results of our reviews.

We have also investigated several elaborate schemes to defraud the Department's export programs. Our reports on food aid assistance identified that cooperating sponsors (foreign governments and PVO's) did not always comply with their agreements; they (1) did not file required logistical and financial reports, (2) did not effectively control accountability for the commodities they received, and (3) in some instances, improperly used monetized proceeds. (The sales process of converting commodities to cash is called "monetization.") In addition, we found that the Department needed to strengthen its management controls over the food assistance program primarily through stronger monitoring. The Department has implemented positive changes in response to our recommendations.

1999 Russian Food Aid Assistance Agreements

In December 1998, the Governments of the United States and Russia entered two food aid agreements that provided over 3 million MT of wheat and various other commodities to the Russian Government. According to the Department's Foreign Agricultural Service (FAS), the program goals of these two massive food aid assistance agreements were to provide contributions to the Russian Pension Fund and to distribute food directly to the most needy groups. The estimated total cost for all the agreements was in excess of $1 billion. The commodities were estimated to have a cost of $746 million, and their monetized proceeds were estimated to total $403 million.

Beginning in December 1998, we monitored FAS' efforts to implement procedures to minimize potential misuse and losses of commodities. In February 1999, we recommended that, among other things, FAS increase the size and effectiveness of its monitoring staff in Moscow; verify the financial integrity of any private Russian institutions that would handle monetized proceeds; and assign the Moscow FAS monitoring staff responsibility to track the deposits going to the Russian Pension Fund.

In May 1999, OIG participated with FAS on a U.S. Government Interagency Team trip to Russia to observe the implementation of the food aid agreements. I want to emphasize that our participation on this Interagency Team was as an observer. We were able to corroborate much of the information that FAS had been providing to us on its monitoring efforts. We documented our observations on this trip in a memorandum to FAS. We believe that FAS made a significant effort to establish controls and strengthen monitoring efforts. However, because our earlier request for additional funding to perform onsite reviews of these controls was declined, we could not provide you with more assurance that these controls were effective. But we have continued to work with FAS to monitor and to assist it in its oversight responsibilities.

Investigations

The criminal investigations we have conducted have uncovered elaborate schemes and identified substantial monetary fraud. For example, in 1995 we reported our investigation of a North Carolina vegetable oil supply company that resulted in the conviction of the company vice president, the plant manager, and a former USDA grain inspector on charges that they conspired to under fill contracts to deliver vegetable oil to the Commodity Credit Corporation (CCC). CCC purchased the packaged oil from the supplier for export and free distribution to developing countries under the Food for Peace Program. Our investigation disclosed that the supplier bought 4.2 million fewer pounds of oil than he billed CCC for under his contract, and diverted another 1 million pounds of oil that was earmarked for the CCC contract. The supplier sold this oil to two domestic oil companies in New Jersey and New York. As a result of the scheme, CCC was defrauded of over $2 million in vegetable oil.

The company vice president used over $130,000 of the illegally obtained CCC funds to pay kickbacks to his plant manager for under filling the contracts. The plant manager in turn paid the USDA inspector over $2,000 to falsify official USDA weight reports.

In addition to the convictions, our investigation resulted in an order of restitution in the amount of $1,020,000 and other monetary penalties of over $6.4 million. This case represents one of the largest successful prosecutions involving CCC contract fraud.

In 1996 we reported that our investigation found that an exporter had submitted false statements to FAS to receive payments for shipping nonfat dry milk under the Dairy Export Incentive Program (DEIP). The purpose of the DEIP was to promote the sale of U.S. dairy products abroad through payments to U.S. dairy exporters for sales of dairy products to specified foreign countries. Our investigation found that the exporter diverted nonfat dry milk that should have been shipped to the United Arab Emirates (UAE) to Singapore and eventually shipped the material to the Philippines, an area not eligible for DEIP payments. This resulted in a loss of over $1 million in DEIP funds. Our investigation also determined that the UAE buyer of the nonfat dry milk listed on the paperwork submitted by the exporter to FAS had been created by the exporter as a device to fraudulently obtain the DEIP payments. The subject of this investigation pled guilty to making false statements and was sentenced to 6 months imprisonment and 3 years' supervised release. He was also ordered to pay over $1 million in restitution.

The Department's Actions to Address the Concerns We Raised

I would like to highlight the Department's actions to correct the internal control and accountability areas we have questioned. Our concerns fall in two categories:
(1) Cooperating sponsors did not always comply with food aid agreements; and (2) the Department needed to strengthen its management controls over the food aid assistance programs.

➢ Cooperating Sponsors Did Not Comply with Agreements

Cooperating sponsors include both foreign recipient governments and PVO's. In a direct feeding operation, PVO's may directly distribute food stocks to beneficiaries including widows, orphans, and sick children in shelters and orphanages in a recipient country. PVO's can also monetize (sell) the USDA donated commodities as a component of a wide range of projects. Both the monetization and the related projects must have prior approval of the Department. For example, a PVO may use proceeds from monetized commodities to provide loans to farmers in a recipient country to increase agricultural production.

We found that cooperating sponsors did not always comply with their agreements by not (1) filing required reports, (2) following monetization requirements, and (3) effectively controlling commodities they received.

1. Cooperating Sponsors Did Not File Required Reports.

   In 1994, we reported that because two cooperating sponsors did not file required reports, USDA did not have reasonable assurance that donated commodities, valued at over $99 million including transportation costs, were being properly used to accomplish program objectives. In 1996, we again reported on this issue because we found that the Department was not aware of the problems created by a PVO that was negligent in managing the distribution and monetization of 12,750 metric tons of commodities valued at over $19.6 million. In response to our recommendations, the Department included monitoring requirements in the agreements and emphasized reporting requirements to cooperating sponsors. Finally, the Department has not entered into any new program with the PVO; however, they did not agree to debar the PVO.

2. Cooperating Sponsors Did Not Follow Monetization Requirements.

   In 1994, we reported this issue after evaluating agreements with two foreign governments and six PVO's. We found this situation had occurred because the cooperating sponsors abdicated their control over monetization to third parties who were not subject to the agreement, violated the terms of the agreements, or incorrectly believed that the monetized proceeds were used in accordance with the agreement. As a result, over $900,000 in proceeds for two agreements with a foreign government was not realized because commodities were sold for less than established prices and due to apparent collusion between the buyers and sellers. In addition, 95 percent (over 307,000 metric tons) of the commodities monetized in another country were not sold at competitive prices established through private channels as required by the agreement. Also, two PVO's established unauthorized loan revolving funds from monetized proceeds. One of these PVO's had committed $809,000 in monetized funds to projects not covered by the agreement and had not complied with the foreign government's law regarding the importation and monetization of humanitarian aid.

In response to our recommendations, the Department corrected the specific deficiencies. The Department also increased the number of meetings with the cooperating sponsors to enhance their knowledge of processes necessary to carry out successful monetization programs.

In 1999, we reported that four of the five PVO's reviewed generally complied with grant agreement terms for FY's 1996 and 1997. However, the other PVO had a history of serious grant agreement violations dating back to FY 1993. We believe that this PVO materially violated provisions of its agreements and should be debarred. In fact, the foreign governments' assessed import taxes against this PVO on $3.7 million of commodities donated as part of its FY 1996 and 1997 agreements. The two governments declared the PVO's activities in their countries were commercial businesses and taxed the monetization proceeds derived from the sale of these commodities. As a result, nearly all of the $3.7 million of commodities and freight costs provided by the Department under the two agreements will be used to pay import and sales taxes and these funds will not be available for the intended purposes. In response to recommendations, the Department ceased its efforts to retroactively amend the agreements and conducted reviews on the PVO's open grant agreements. At this time, we do not believe that the Department has effectively dealt with this PVO. We continue to work with the Department on this issue.

In 1999, we also reported on the PVO's noncompliance with a FY 1993 agreement involving about 8,000 MT of commodities valued at $14 million. A 1999 follow-up review conducted by FAS in response to our work raised even more serious questions regarding the PVO's use of monetized proceeds from the sale of the commodities. The FAS review determined that the PVO (1) monetized over 2,000 MT of commodities that should have been directly distributed to the needy, (2) monetized 8,000 MT of commodities through retail outlets affiliated with the PVO, and (3) used monetized proceeds for unauthorized and ineligible purposes. The unauthorized and ineligible purposes included (1) making loans that did not qualify as humanitarian assistance, (2) making grants to affiliated organizations and for purchases of ineligible items such as a golden belt, and

(3) payment of expenses related to other agreements including commercial taxes. As a result, little of the commodities were distributed directly to the recipients.

3. Cooperating Sponsors Did Not Effectively Control the Accountability for the Commodities They Received.

In 1994, we reported that a cooperating sponsor's controls over commodity accountability did not prevent the unauthorized diversion of almost 2,000 metric tons of donated butter, which were valued at over $2.8 million. In addition, we found that a PVO allowed donated commodities to be transshipped and bartered in direct violation of the agreement. This PVO bartered over $470,000 in commodities for services for which it had already received payment. This PVO also transshipped $680,000 in commodities to another country. In response to our recommendations, the Department reviewed and monitored cooperating sponsor operations to ensure that there were adequate controls to safeguard commodities against diversions, transshipment, and unauthorized bartering. The Department also agreed to hold cooperating sponsors liable for these losses and in future agreements for excessive losses caused by inadequate controls or misuse of commodities.

Effective controls over the monetized proceeds derived from commodities are also essential. In 1999, we found that the Department did not require budgets for monetization proceeds that PVO's used to pay for projects and did not monitor the use of those proceeds. Department officials have expressed concerns about funding and staffing for these requirements and have also stated that the controls in these areas are sufficient. However, as an alternative, they recently informed us that compliance staff would begin to monitor and validate the use of monetized proceeds. We are waiting for documentation of their final corrective action plan.

4. Joint Commission Operations in Kyrgyzstan and Russia Were Inefficient and These Operations Did Not Comply With Their Agreements.

In 1997, we reported that although the work of the U.S. Joint Commissions in Kyrgyzstan and Russia provided benefits to the recipients of its loans, funding needs were not prioritized using agricultural assessments, and legal matters were not thoroughly researched before the establishment of the joint commissions. As a result of the inefficiencies of the joint commissions, monetized funds and interest totaling about $11.8 million were not available for use in agricultural and humanitarian projects.

The Department needed to improve its oversight and controls to ensure that the terms of agreements were fulfilled. We found that the Government of Kyrgyzstan bartered over half of the donated commodities to Uzbekistan for a natural gas debt. As a result, the Kyrgyzstan Joint Commission was denied the use of over $2.5 million and agribusiness and rural development goals were not met. Further, the Russian Federation did not follow the terms of its 416(b) commodity agreement. As a result, collusion among the buyers and restricted sales to government or former government entities in Russia caused commodities to be sold for over $38 million less than anticipated during the monetization process. In response to our recommendations, the Department sought recovery of the funds and terminated both Joint Commissions. The Department also took the position to not enter into, or support any future Joint Commissions without a legislative mandate and specific guidelines for implementation.

5. PVO's Received Funding for Foreign Taxes They Did Not Pay.

In 1999, we reported that three of the five PVO's reviewed had received over $264,000 in grant funds for foreign social security and payroll taxes that they did not pay to their host governments. In response to our recommendations, the Department conducted follow-up inquiries and reviews of these activities and made determinations on the questioned costs. Departmental officials recently told us that these issues have been resolved and the appropriate amounts have been collected. They will soon forward documentation of these actions to my office.

➢ **Controls Over Food Aid Assistance Needed to be Improved**

In 1994, we reported that the Department had not instituted effective management controls over the food aid assistance program. We believed that without such controls, the Department would be unable to fully identify program accomplishments or recognize when commodities were lost, stolen, or being diverted to unauthorized uses. A couple of the specific weakness we reported included that (1) Federal regulations and internal operating procedures on program operations needed to be published and (2) independent auditors and more supervisory field visits could be used to better manage the program. The Department took actions to initiate these program improvements.

In 1999, we reported that the Department had improved its monitoring of PVO activities by implementing a two-tiered system to control advances of grant funds, requiring a standardized budget for administrative funds, and developing software to analyze quarterly PVO budget reports. However, other controls needed to be strengthened to ensure that funds and commodities are efficiently used to achieve Food for Progress goals and objectives. As an example, the Department did not conduct timely reviews of the semiannual logistics and monetization reports submitted by PVO's. These reports were held until the grant closeout reviews were performed. As of September 1998, the Department was still in the process of closing out 130 of 185 agreements for FY's 1992 through 1996. In response to our recommendation, the Department developed a plan and timeframe to complete closeout reviews of the backlogged agreements. They also developed procedures to ensure future agreements receive timely closeout reviews. In addition, the Department had not validated information PVO's reported in the semiannual reports or required the PVO's to submit copies of their annual audit reports for review. In response to these concerns, the Department developed a process for validating information reported by PVO that it is now implementing. And, the requirement to have annual audit report submitted is now in place.

Suggestions for the Future

Mr. Chairman, the Department funds initiatives in countries where other donor countries have departed, but where market reforms are beginning. In the past, donations were heavily concentrated in the NIS; the Department is now shifting to other areas of the world with the greater use of monetization of commodities. In complement with this global expansion, the Department is also seeking more of a balance between the direct distribution of commodities and proposals with market development potential. As such, FAS will need to be vigilant in monitoring the shipments of the commodities to ensure the intended recipients receive them and that the monetary proceeds from the sale of the commodities are used for the intended purposes.

Mr. Chairman, thank you for the opportunity to present the issues that we have identified regarding the Department's food aid assistance programs. Our goal has always been to ensure the successful accomplishment and the financial integrity of the programs. This concludes my prepared statement Mr. Chairman, I will be happy to answer any questions you may have.

GSM PROGRAMS BENEFIT U.S. AGRICULTURE AND THE RURAL ECONOMY

Mr. Chairman, my name is Otis Molz. I'm a farmer and rancher from Deerfield, Kansas, and chairman of the board of CoBank. I am accompanied today by Candace Roper, a CoBank vice president and division manager. Ms. Roper has just returned to the U.S. after a three and one-half year stint as head of CoBank's Singapore-based Asia Regional Office. In that capacity, Ms. Roper worked extensively with foreign purchasers of U.S. agriculture products, exporters, foreign banks and the U.S. Department of Agriculture's GSM programs.

We appreciate this opportunity to provide testimony on the importance of the GSM export loan guarantee programs. Trade is critical to the agricultural economy and trade financing is a key part of CoBank's business.

I will summarize my testimony but ask that the entire text of my statement be made part of the record.

Historically, CoBank has been the most significant financial institution participating in the GSM loan guarantee programs—accounting for nearly one-half of all the guarantees issued. With $24 billion in assets, CoBank is the largest bank in the Farm Credit System, although we are a small institution when compared to our international competitors. We provide financial services to about 2,300 customers, who are also our member-owners. These member-owners include farmer-owned cooperatives, rural telecommunication companies and electric systems. We also provide financing to support the export of agricultural products.

Since 1982, the bank has provided about $25 billion in loans to support the export of agricultural products. About 90 percent of this financing was provided in connection with a GSM loan guarantee.

CoBank has offices in Singapore, Mexico City, and Buenos Aires as well as throughout the United States. We have correspondent banking relationships with more than 500 banks in 80 countries and have financed the export of about 45 different agricultural products—everything from apples to wheat and chicken feet to recycled telephone poles. Additional information about CoBank's international banking operations can be found in the attached fact sheet.

In one important respect, CoBank is different from every other bank that operates in the international marketplace. We are involved in a transaction only when a foreign purchaser wants to acquire an U.S. agricultural product. Our competitors in the financial services industry—including U.S. banks—do not necessarily care if the transactions they finance result in the sale of U.S. products. International banks will aggressively pursue the opportunity to finance a country's purchase of a product without regard to the origin of the product. CoBank is unique because we are in the business of matching foreign purchasers with only U.S. sellers. That is the reason we have provided far more financing under the GSM programs than all other U.S. banks

combined.
Today I would like to comment on four topics: (1) the importance of the GSM programs in opening foreign markets to U.S. products; (2) GSM program changes; (3) the value of the GSM programs from the perspective of a foreign purchaser; and (4) the need for trade sanction reform.

The GSM Programs Open and Develop Markets—The GSM program continues to be a critical tool in opening and maintaining markets for U.S. agricultural products. The world market for agricultural products tends to move in cycles much like the agricultural economy itself. As economic and weather conditions change, the users of the program change to reflect those new conditions.

For example, ten years ago Korea was a major user of GSM loan guarantees. It was the GSM program that was instrumental in introducing Korean consumers to U.S. food products. As the Korean economy grew, that nation began making cash purchases of imported food—the volume and value of U.S. products being purchased was increasing and the need for financing was decreasing. However, the recent Asian financial crisis has caused Korea to once again begin making use of the GSM program. The point is the GSM program has been a critical tool for ensuring access for U.S. exports to this important market, no matter where that country is in the economic cycle.

Another example of the benefits of being a reliable trade partner is Mexico. Mexico was one of CoBank's first international customers. Some of our oldest international correspondent banking relationships are with Mexican banks.

With the help of the GSM programs, CoBank and our customers have been able to sell products in Mexico as that country has weathered some fairly serious economic conditions. During some of those downturns in the business cycle, other banks and countries abandoned the Mexican market. CoBank, with the help of GSM, has always stayed in the market—in good times and in bad.

The result is that Mexican banks and food purchasers have a high degree of loyalty and confidence in CoBank and U.S. food exporters. It's difficult to put a dollar value on that kind of relationship. However, we know with certainty that Mexico, and many other countries, when all other things are equal will choose to do business with sellers and a lender who see benefit in long-term relationships.

A country's purchase of food differs from the purchase of other goods. Ensuring an adequate food supply for its citizens is one of the most critical responsibilities of any nation. A country with a starving populace is certain to experience a great degree of instability. As a consequence, a nation looks differently upon a trading partner that helps feed people as compared to providing other types of goods.

For these reasons, the GSM program is an important tool we need to have available at all times—regardless of the economic cycle. It would be very short sighted to curtail the program or bargain away its key benefits to U.S. agriculture and exporters during trade negotiations because of market conditions at a particular point in time. Market conditions and needs change, sometimes rapidly, and the availability of the GSM programs is an important tool that gives us much needed flexibility at minimum cost.

The Value of the GSM Program to Purchasers—Recently, the U.S. has had to defend the GSM program in trade negotiations. In particular, some of our competitors have been calling for a maximum tenor for export credit guarantees (ECGs) on all commodities (especially grains) of 180 days.

We are concerned that there is not a good understanding on the part of our trade negotiators and agricultural groups in the U.S. on the importance of tenor (i.e., the duration of the loan) as a consideration on the part of the foreign purchaser. In many cases, the tenor of the financing is the factor that determines who will ultimately make the sale. Tenor of the financing is often more important than the price of the product, which is set in the world marketplace or the interest rate on the loan.

The maximum three-year tenor of GSM financing is critical to the program's success. GSM provides for tenors that are typically unavailable in the market and this is a crucial strength of the program. Shortening the tenor of GSM-supported financing substantially decreases its economic benefit and the attractiveness of U.S. products. Limiting GSM to shorter tenors undermines the value of the program by removing the economic incentive for a foreign bank and its customers. The current two-year tenors in Mexico and Korea and other markets already adversely affect export volumes to these markets and the contemplated reduction in tenors to markets such as Turkey will have the same effect.

GSM Program Changes—Last month, USDA officials announced a number of ideas being considered to make the GSM programs more effective. We commend the Department of Agriculture for taking this initiative. However, we are concerned about one change being discussed that will reverse a reform implemented several years ago to help ensure the integrity of the program.

Current GSM program rules prohibit a single entity from both issuing a letter of credit and being the beneficiary of the CCC's payment guarantee. The USDA is considering a proposal to end that prohibition. Effectively, this will mean that a single or related financial institution could be on both sides of the same export transaction—largely removing the checks and balances that exist when one bank has a vested interest in making certain that the counter party is making every effort to meet its obligations.

This change could lead to abuse of the program by banks that have operations in many countries. The change would make it possible for a bank with branches in two countries to receive payment twice—once from the purchaser in the foreign country and once from the U.S Treasury when the foreign branch fails to make payment to its related institution in the U.S.

Presumably, USDA would not allow such abuse to occur more than once. However, this reform which was implemented several years ago to ensure the integrity of the program and the arms-length relationship between lenders should be retained.

We have shared with the Department of Agriculture several other suggestions for improving the operation and utilization of the GSM programs. I will mention a few of those suggestions for the committee to consider as well.

- The current level of loan guarantee authority should be maintained as a minimum level, if not expanded.
- The amount of loan guarantee available should be restored in a revolving fashion for credit guarantees repayable within 12 months.
- The program should be expanded to cover 100 percent of the fee and freight charges to be capitalized into the gross invoice value/contract price covered by the guarantee, as is now permitted in some special cases.
- The guarantee fee structure should be modified to directly relate to the differentiated risks of individual borrowers and terms of the credit, with the sliding scale price structure tied to the risk exposure of the CCC.
- A special program should be established for Economies in Transition or Emerging Markets which would provide enhanced GSM guarantees in support of commercial financial transactions for countries undergoing IMF and/or Paris Club approved structural reforms.
- USDA should establish an advisory forum that meets regularly to exchange information between lenders, exporters, governmental officials and potential users of the program. Such a forum would help USDA and exporters keep abreast of changing market conditions and the competitive environment.

Trade Sanctions Reform—Mr. Chairman, I would be remiss if I didn't take this opportunity to comment on the need for trade sanction reform. I'm not qualified to provide advice on our nation's foreign policy positions with regard to specific countries. However, as a general observation, it seems to me our government is too quick to impose sanctions on too many countries.

From my perspective as a producer who knows that almost 40 percent of what I raise must be sold to foreign purchasers, I'm troubled that I'm locked out of markets that are being served by my competitors in other countries. And, we know from experience that once we cut ourselves off from a market it's difficult to re-establish the U.S. as a reliable source of products.

I also have a perspective on this matter as an ordinary citizen who cherishes the freedom we enjoy in the U.S. I've had the good fortune to travel to many parts of the world. As a result of my travels, I'm convinced that through trade we can share our culture and values with people who live in countries that do not enjoy our freedoms. By doing so, we plant the seeds for democracy and the free enterprise system. When we turn our backs on those countries, we miss an opportunity to demonstrate the benefits of our political and economic systems.

Mr. Chairman, I appreciate the opportunity to appear here today. I'd be pleased to respond to any questions.

<> Testimony <>

Hon. John J. Cavanaugh
Chairman & CEO, Summit Limited

Committee on Agriculture, Nutrition and Forestry, Subcommittee on Production and Price Competitiveness

Hearing On Expanding U.S. Agricultural Production Export Markets

Tuesday, July 18, 2000

Mr. Chairman and members of the Committee: I am pleased and honored to have been invited to be with you today and to participate in this timely and important hearing on expanding U.S. agricultural export markets.

The American farmer continues to be the envy of the world for his productivity and efficiency while remaining a perpetual economic victim of an erratic and, at times, capricious global market.

The challenge for American policy makers is to match the American farmer's genius for producing food with creating a global trading system and marketplace of equal efficiency.

This is a daunting and almost endless challenge. This committee is to be commended for confronting the challenge. I have one very specific and practical proposal, which can be implemented immediately. It could have a significant, positive effect on the current crop cycle and has potential to become a major tool in the development of long-term markets in emerging economies throughout the world in addition to Russia.

PL-480, Title I provides for government-to-government sales of agricultural commodities to developing countries under long-term credit arrangements. Repayments for agricultural commodities sold under this title may be made either in U.S. dollars or in local currencies on credit terms up to 30 years, with a grace period of up to seven years. Local currencies received under Title I sales agreements may be used in carrying out activities under section 104 of the Agricultural Trade Development and Assistance Act of 1954, as amended. Activities in the recipient country for which these local currencies may be used include developing new markets for U.S. agricultural commodities on a mutually beneficial basis, paying U.S. obligations, and supporting agricultural development or research. The local currency provisions contained in section 104 have not been implemented for budgetary reasons.

In the 1996 Farm Bill, the Congress exercised considerable foresight in amending the Title I loan authority provisions to include permitting loans to private entities in addition to foreign governments.

To date, this authority has been utilized only for a single facility financing in Indonesia.

PL-480 Title I government-to-government commodity loans have been utilized successfully to facilitate the sale of millions of tons of American agricultural commodities to developing economies throughout the world. In 1999, Title I was used to finance the sale of 1.7 million metric tons of agricultural commodities to Russia in the wake of the 1998 Russian economic collapse, which occurred at the same time that Russia, experienced its lowest grain harvest in 40 years. This sale occurred at a time when all Russian credit facilities, both public and private, had collapsed as a result of the devaluation of the ruble and debt default of the Russian Government. The sale succeeded in stabilizing Russian food supplies during this critical period in Russia's transition and no doubt contributed to the maintenance of social stability as well as leading up to the first successful democratic transfer of political power in Russian history. Without this utilization of PL-480, Title I loan authority, Russia would have no doubt experienced a much more severe economic and social crisis during the past 12 months and American farmers would have lost the opportunity to sell these commodities.

However, while the mutual benefits to both Russian consumers and American producers were substantial in this utilization of Title I loan authority on a government-to-government basis, there were also significant short and long-term adverse consequences to the transaction. Among the most important concerns raised both in Russia and the United States are the following:

1) The use of government to government loan authority resulted in the Russian Government directing all commodity sales through the former Russian Government monopoly trading organizations to the detriment of what had been a rapidly developing private commodity trading structure.

    a. Consequently, private traders and food processors were further disadvantaged because they were denied access to commodities and credit. Traders also experienced the revitalization of government trading monopolies, which had collapsed in the face of market competition.

2) Deliveries of the commodities to Russia and distribution of the commodities within Russia were based upon Russian Federal and Regional Government goals and directives rather than actual market demand for specific commodities resulting in disparities in pricing and utilization of the commodities delivered.

3) Significant increases in Russian domestic poultry and pork production resulting from the widespread availability of American feed corn and soymeal at affordable prices were not sustainable because of the lack of a follow-on program and the failure to revive commercial trading structures and credit facilities.

4) The use of proceeds from the sale of the loaned commodities were directed at funding the Russian pension system rather than reinvested in improving Russian agricultural production or reviving commercial trade in U.S. commodities.

Russia's food problems are still urgent today. There is an immediate need for two million metric tons of feed grain. Predictions for this year's harvest range from 52-65 million metric tons, far short of the market requirement of 75 million metric tons. These needs represent important opportunities for American agriculture.

USDA should respond to the market opportunities in Russia and should be strongly encouraged to use the private sector loan authority granted by Congress in 1996 in any future PL-480 Title I lending program for Russia. Extending long-term commodity loans to private organizations focused on development of private agriculture and commercial trade in Russia will have immediate and long-term benefits to Russia and for American producers. An expanding private, market based Russian agriculture sector represents large, long-term market opportunities for American producers and food processors. Reviving the commercial food trade with Russia disrupted in 1998 and building an expanded agriculture market for American farmers -- should be major goals of U.S. trade and economic policy for Russia.

During the past year, U.S. policy makers have withheld support for further development of the private sector in Russia, adopting a wait-and-see approach to the new Russian Government. The result has been a further weakening of the private sector in Russia at a critical time in the Russian evolutionary process.

All of the USDA private sector development initiatives have been held in suspension in the Interagency Review process in which all USDA program initiatives are reviewed by the State Department, Treasury, OMB and NSC. Rather than achieving the goal of coordinated policy initiatives toward Russia, the process seems to produce policy paralysis. During the past year all private sector initiatives to develop or revive the agricultural sector in Russia and commercial trade have been stymied by this Interagency Review process. As a result, the current market opportunities for U.S. commodities are not being met.

Russia can be a major consumer of U.S. poultry and meat products and of U.S. feed grains but we need to do what we can to help develop the market. By channeling long-term commodity loans through the private sector, which will use the proceeds of the loan to both repay the U.S. treasury and to spur investment and provide commercial trade finance, we can do much to jumpstart long-term market opportunities. Russia should be a consumer of a minimum of 500,000 MT of U.S. poultry and meat products annually and at least two to five million metric tons of grains annually for the foreseeable future.

Two things are needed in order to develop Russia into a long-term and stable consumer of U.S. agricultural commodities, inputs and technology.

1) Commercial credit and trading structures destroyed in the 1998 debt default must be replaced
2) Russian private domestic food production processing and distribution enterprises must have access to equity and credit financing.

A proper use of private sector commodity loans through PL480 Title I, targeted at achieving those strategic goals could break the cycle of Russian dependence on emergency food assistance and help to transform Russia into a stable and reliable customer.

The United States has a multiplicity of interest in assisting Russia to achieve long-term economic and political stability and integration into Europe and the global economy.

The greatest threat to maintaining a stable, democratic Russia and developing a strong Russian market economy is the ongoing decline in Russian agricultural production.

Russia is continuing a decade-long decline in all aspects of its agricultural production. Russia has undergone a massive liquidation in animal production with cattle, hog and poultry populations all at record low levels. Russia does not currently have the ability to produce an annual grain harvest that meets the basic subsistence needs of the Russian people.

Russia has experienced a parallel decline in per capita meat consumption, which has declined from 70 kg per person per year in 1990 to 42 kg in 1999. Russian per capita meat consumption is now less than half of the average for all industrialized nations. U.S. meat consumption is approximately 123 kg per capita.

Russian annual grain production is now chronically below its 75 million metric ton annual requirements achieving a 40-year low of 47 million metric tons in 1998.

The Russian food production system is in desperate need of dramatic restructuring if it is to avoid a major disaster.

The severity of the Russian agricultural crisis has been masked first by the Russian economic bubble which burst in August of 1998 which had permitted imported food products to replace lost domestic production and subsequently by a major food assistance program in 1999 which replaced commercial imports of food products.

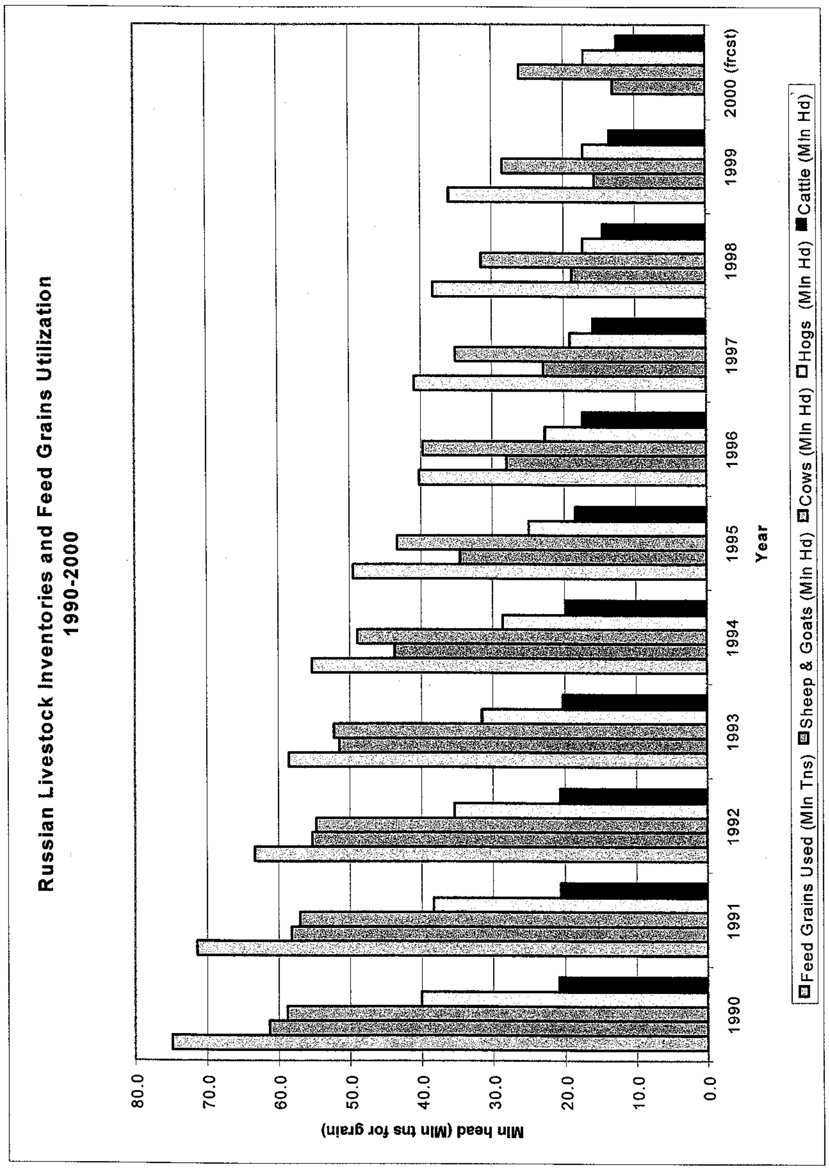
Russian consumption and nutrition levels have continued to decline to levels that now threaten the health and social fabric of Russian society.

Russian male life expectancy has declined dramatically during the past decade and at 59 years of age and is the lowest of all industrial countries.

The following chart dramatically demonstrates the severity of the ongoing crisis.

Russia has the natural and human resources required to achieve food production levels, which would allow the Russian people to achieve nutritional levels comparable to any country in the industrialized world. To unlock this potential, major changes must occur.

Using the private loan authority Congress has granted under PL-480 Title I to support programs designed to break the cycle of Russian dependence on periodic food assistance and rebuild domestic Russian food production would be mutually beneficial in both the near term and the long run. Programs and policies that are directed at strengthening the Russian private sector in agricultural supply, production and processing will create stable and reliable markets for U.S. producers.


Russian Livestock Inventories and Feed Grains Utilization
1990-2000
Mln head (Mln tns for grain)
80.0
70.0
60.0
50.0
40.0
30.0
20.0
10.0
0.0
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000 (frcst)
Year
Feed Grains Used (Mln Tns)
Sheep & Goats (Mln Hd)
Cows (Mln Hd)
Hogs (Mln Hd)
Cattle (Mln Hd)

STATEMENT OF ELLEN S. LEVINSON
Government Relations Advisor, Cadwalader, Wickersham & Taft
before the

SUBCOMMITTEE ON PRODUCTION AND PRICE COMPETITIVENESS
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY
U.S. SENATE

July 18, 2000

Mr. Chairman, thank you for the opportunity to testify before the Subcommittee regarding the benefits of current agricultural export programs, prospects for the future and ways to make these programs more effective.

In addition to serving as Government Relations Advisor to Cadwalader, Wickersham & Taft, I am Executive Director of the Coalition for Food Aid. The Coalition was established in 1985 and is comprised of US private voluntary organizations and cooperatives (jointly referred to as "PVOs") that conduct development and humanitarian programs overseas.[1] Recognizing that over 800 million people suffer from chronic hunger and many others are threatened with starvation due to crises, US food aid donations are a vital component of these PVOs' international assistance efforts.

Food aid has been and can continue to be a very effective means to help people and countries faced with temporary or structural food deficits. Well-planned food aid programs can also have lasting effects. Instead of just distributing food or turning the food over to local governments or agencies, PVOs focus on food as a resource for development. Today, I would like to comment on how US food aid programs are currently administered and opportunities for greater effectiveness in the future.

PVO Approach to Food Aid: People-to-People

PVOs are very thorough when planning programs— conducting needs assessments to identify target population groups; analyzing food habits, local markets and consulting with agricultural experts to choose appropriate commodities; working closely with local governments, businesses and community groups to develop program objectives, procedures and evaluation plans; establishing management, distribution, sales and monitoring systems; and assuring personnel and systems are in place for oversight and accountability.

The great benefit of food aid is that it can be used to address a variety of problems. For example, nutritious foods along with immunization and health care are provided during critical growth

---

[1] The members are Adventist Development & Relief Agency International, Africare, ACDI/VOCA, CARE, Catholic Relief Services, Food for the Hungry International, International Relief & Development, OIC International, Save the Children, TechnoServe and World Vision, Inc.

periods for mothers and children. A nutritious meal served in classrooms combined with the establishment of PTAs, teacher training and improved lessons provides an incentive for poor families to send their children to school. Infrastructure and sanitation in poor communities are improved by giving food as payment for work on sewage and water systems. Land use and conservation are enhanced when food is provided as an incentive for community participation in reforestation and land conservation projects. Agricultural productivity and incomes are improved by selling donated food and then using the sales proceeds to invest in agricultural and small business projects. Currently, PVOs are exploring ways to use food aid as part of their assistance to HIV/AIDS-effected communities.

Linkages to US Agriculture: Aid to Trade

From a US agricultural perspective, food aid is one intervention in a continuum of programs that can lead from aid to trade. Many of the countries where PVOs operate have not been analyzed or targeted by US agricultural organizations since they are low income and are not current targets for commercial sales. Yet, there is more and more interest among agricultural organizations to explore how food aid can be integrated into their long-term planning.

Food aid reaches places where there is unexpressed demand – that is, people may want the commodity, but cannot afford it. So, in the first instance, it provides an additional market for US goods. However, there is a longer term benefit, as well. If properly planned, food aid programs promote "food security" -- the ability of people to produce, to buy or otherwise to access enough food to meet their nutritional needs. As a family improves economically, it can afford to buy more and as a developing country improves its economic situation, the demand for food and higher-valued food increases. Thus, there are linkages between food aid programming and future market development.

History has shown that US food aid can be the foundation for trade. In the 1960s, 60% or more of our wheat exports were in the form of food aid, and this could amount to 10 – 14 MMT a year. Today, 40% of our commercial agricultural exports are sold to countries that were food aid recipients.

Agricultural organizations cooperate in different ways with PVOs for food aid programming. Some provide information about their products and respond to questions by PVOs about the efficacy of using a particular commodity. Others directly assist or work with a PVO to conduct market analyses and to develop monetization plans in a target country.

As an example, in the summer of 1999, U.S. soybean producers, through their contributions to the United Soybean Board (USB) and state soybean boards, initiated a collaborative effort with PVOs to identify the best uses for donated soybean products in developing countries. The purposes are (1) to provide soybeans, soybean meal and soybean oil, which are in surplus in the United States, to countries that need these products in the near term, (2) to have a long-term benefit by integrating the proceeds from the sales of these products into economic and social development programs, and (3) to identify opportunities to use soy protein products to improve the nutritional quality of foods available in a target country.

As a first step, about 20 countries were chose for on-ground market analysis to see if a soybean donation would be appropriate. If the market analysis showed that a particular soybean product is in demand and the sale of that product under a Section 416 program would not compete with commercial sales or domestic production, then a Section 416 proposal was developed by PVOs working in that country. The 14 PVO proposals developed through the USB-PVO consortium would use the proceeds from commodity sales in projects that help improve health, incomes and living conditions of the poor. Several of these proposals were for sub-Saharan Africa, which has received very little of the Section 416 food aid, except for emergency use.

For the future, USB and PVOs are collaborating on Food for Progress and Title II proposals. In order for these and other innovative proposals to be implemented, USDA and USAID must provide a conducive environment for the submission and review of proposals.

Government Agency Administration: USDA and USAID

Two different agencies are responsible for administering US food aid programs. USAID administers PL 480 Title II and Title III, while USDA administers Food for Progress, PL 480 Title I and Section 416.

PVOs and the UN World Food Program (WFP) are eligible to implement Title II, Food for Progress and Section 416 programs. Title II emergency programs, Food for Progress and Section 416 may also be implemented through agreements with foreign governments. Title III is reserved for government-to-government agreements and Title I, although it allows agreements with private entities, is primarily government-to-government, as well.

Each agency, USAID and USDA, has its own guidelines for submitting proposals, criteria for determining which proposals will be approved and methods for program oversight. Overall,

1. Requirements for PVO programs are more detailed and extensive than those for WFP or government-to-government programs.

2. USAID guidelines for PVO programs are much more elaborate and prescriptive than USDA program guidelines.

The many requirements that USAID places on PVOs result in additional management burdens for USAID. To solve this problem USAID FY 2001 guidelines limited the number of non-emergency Title II PVO programs that they will approve to 75 and delegated more responsibility to overseas USAID missions. PVOs opposed these actions by USAID since the program number is already about 75 and this means that new programs are unlikely to gain approval. It also discriminates against (1) smaller-sized programs, even if they have very good operational plans; (2) programs in smaller countries, even where there is need; and (3) programs in the many poor countries that do not have USAID missions.

Despite efforts by Congress in the last two farm bills to streamline administrative procedures by USDA and USAID and to encourage USAID to provide greater flexibility for PVO programming, improvements are still greatly needed.

<u>Section 416(b) Administrative Procedures: "Too Many Chefs Spoil the Stew"</u>

Section 416(b) permits the Secretary to furnish surplus commodities to developing and friendly countries. To provide opportunity for all eligible organizations and foreign governments to submit proposals, USDA typically announces the availability of the commodities in the Federal Register and request proposals. Such proposals identify the country and why there is a need for food aid; the commodity and tonnage request; why the commodity is appropriate; and the operational plan for the program (usually monetization and the use of proceeds for certain social and economic development activities). USDA reviews the proposals, gets input from State Department, USAID and agricultural attaches, and decides which programs will be approved.

Since this is just a one-year-at-a-time opportunity, procedures are supposed to be very streamlined. Section 416(b)(8) states that "To the maximum extent practicable, expedited procedures shall be used in the implementation of this subsection."

Public announcement of the FY 2000 program never occurred. Instead, an interagency group, the Food Assistance Policy Committee (FAPC), comprised of USDA, USAID, State Department and the Office of Management and Budget (OMB), met over several months, behind closed doors and decided the Section 416 countries and tonnages for each country and how much would be allocated to WFP. In March 2000, an announcement was sent to diplomatic posts advising them of the amounts for each country and directing each post to advise its respective country government of the availability of the donation.

Since there was no public announcement of the total amount of commodities available for FY 2000 and proposals were not requested, PVOs were not able to have fair access to the program. Examples of opportunities that were lost are the proposals developed through the USB-PVO collaboration. Because the FAPC pre-determined the countries, the market analyses and the operational plans developed by PVOs for specific countries did not have a chance to be considered. In addition, the closed-door negotiations took so much time that USDA was given at most 6 months to develop agreements and to order commodities. This is a terrific administrative burden and does not contribute to good program planning, orderly delivery of commodities and effective implementation.

Prior to the 1990 Farm Bill, an interagency group called the Food Aid Subcommittee decided which programs would be approved under PL 480. The 1990 Farm Bill eliminated that group and gave direct authority to each implementing agency -- either USDA or USAID -- for food aid programs under its jurisdiction. Below as an excerpt from the Senate Agriculture Committee Report 101-357, pp 159-160:

> If any message regarding the PL 480 program came through loud and clear to the Committee it was the wide ranging expressions of concern from both inside and outside the Administration that bureaucratic procedures and delays have seriously and adversely affected U.S. food aid programs. This frustration has been focused on the Food Aid Subcommittee of the Development Coordination Committee (DCC). The DCC is an interagency group comprised of USDA, AID, State, Treasury, OMB an occasionally the NSC.

> Just as an employee can not work well with five bosses, Public Law 480 does not work well with five agencies overseeing its operational decisions. . . . The bill makes specific government agencies responsible.

It seems that history is repeating itself, with unfortunate consequences.

Food Aid and the WTO

Under Article 10.4 of the Uruguay Round Agriculture Agreement, food aid is permitted as long as it meets the requirements set forth by the Food Aid Convention (FAC). Food aid may be provided for emergencies or non-emergency purposes and through governments, international organizations or PVOs. The food may be distributed or sold in the recipient country. US food aid programs meet these requirements.

The treatment of food aid should not be subject to change under the new WTO agricultural negotiations, since it is very important that donor countries maintain their commitments to less developed and food deficit countries. The US position paper submitted to the WTO contains this recommendation.

Monetization, the sale of food aid commodities and the use of the proceeds for specific assistance programs, is a very important form of food aid and is permitted under the FAC. Care must be taken in program development to assure that commodity chosen does not interfere with commercial sales or local marketing. In cases where a country is experiencing economic hardships, food aid can also be justified for temporary assistance.

Monetization has multiple benefits. First, it increases the availability of the commodity in the market, which is particularly important for a "net food-importing, developing country." These are low-income countries that depend on imports to meet basic food requirements. Under the Uruguay Round Trade Agreement, the Ministers acknowledged that such countries may not benefit from expanded trade, since they do not have adequate hard currency earnings from exports. Thus, they will need assistance, and food aid is cited as one way to provide the aid. Second, the funds are used in programs that have an impact on economic and social development. Most important, there is flexibility to adapt the program to meet local needs.

As examples, some foreign governments or PVOs may use the funds to procure medical equipment or medicines for immunizations. The proceeds can also be used for public works, agricultural development, education, AIDS prevention and small enterprise development projects. In countries that are undergoing difficult IMF economic restructuring programs, are heavily burdened with debt and/or are trying to establish democratic institutions, the food aid and the funds generated from monetization provide an important boost. For countries that regularly experience seasonal flooding or drought, the funds can be used to improve land conservation and develop protective infrastructure.

Administrative Reforms: Positive Partnerships with PVOs

Reform of food aid programs should be built around core principles to assure effectiveness while eliminating excessive administrative requirements. In general, the strictest and most burdensome requirements are applied to PVOs, so relief is primarily needed for these organizations. Key components of successful food aid programs, whether administered by USDA or USAID, are:

1. ***Partnership relationship between the PVO or and the administrative agency.*** If a PVO has the capability to conduct programs, the administrative agency should give the PVO flexibility to develop a program that responds to local needs without trying to micromanage PVO decisions.

2. ***Use of performance standards and best practices, rather than prescriptive requirements.*** User-friendly program guidance and flexibility for PVOs to adapt a program to meet the changes encountered during the implementation phase are necessary. Once guidelines are in place, modifications or new requirements during the program cycle should be rare. USAID guidance in particular needs to be streamlined and stabilized.

3. ***Grant PVOs greater managerial responsibility for food aid programs.*** PVO programs are independently audited, are subject to US government audit and are independently evaluated. The value added by a PVO is its ability to develop a program that meets local needs and to implement this program. US government agencies should rely more heavily on these abilities and provide PVOs greater flexibility to make programmatic changes as they work to achieve program objectives.

4. ***Food aid programs should be based on local needs assessments.*** Programs should be developed to address local constraints to food security. For example, under USAID guidance, a PVO is supposed to develop a program that will either show a measurable increase agricultural productivity or improved nutritional status of children under the age of five within a five-year period. These are good measures of success for certain programs, but are not useful for food for education where improved attendance in school and improved educational quality may be appropriate, or for programs that help people create enterprises and increase incomes.

5. ***Other than emergencies, multi-year programs are necessary in most parts of the world to achieve impact.*** This is particularly the case for low-income, food deficit countries ("CIFDCs"), where 7- 10 years may be needed to show enduring results. USAID currently provides 5-year agreements for Title II countries, most of which fall in the CIFDC category. Transitional countries, such as those covered by Food for Progress, may require less time, perhaps 3 years, but multi-year programs are currently not the norm. Section 416 is only available when there are surplus commodities, so multi-year agreements are not possible. Through monetization of Section 416 food aid, however, generated funds can be used effectively over several years for social and economic development programs.

Administrative Reforms: Commodity Use Improvements

1. ***Flexibility is needed to permit delivery of the appropriate commodity.*** Currently, there are set specifications for each type of commodity purchased by USDA for food aid programs and the specifications may not be appropriate for a particular target country. Processing, cooking and eating habits vary country-to-country, it is important to be able to provide, for example,

the right variety of wheat, the appropriate type of rice, specific color of dry bean or specific heat treatment and quality tests for dry milk.

2. ***Establish a transparent method for selecting eligible commodities.*** Many processors and commodity groups are interested in having their products reviewed for eligibility in US food aid programs and to have USDA develop specifications for their products. The procedures for such determinations should be transparent, should permit PVO and agricultural group input, and should aim for a range of cost-effective products to meet a variety of food security needs of recipients.

3. ***Collaboration between US agricultural organizations and PVOs.*** U.S. agricultural organizations can provide technical assistance for determining the appropriate commodity for distribution or monetization in a target country. This could extend to assistance with monetization or using the food or generated proceeds to improve local agricultural processing, food manufacturing, in the quality of the food and local marketing.

4. ***Monetization should be guided by fair market price.*** The cost recovery should be the local market value of the commodity at the time of sale. This benchmark is used by USDA. USAID requires the recovery of 80% of the C&F value (plus local administration costs) or the FAS price. This can preclude US commodities that are more costly than the world market price, such as flour and milled rice.

5. ***The reality of the market should be factored into program agreements***. The sales value of a commodity estimated in the proposal will likely differ from the actual market price at time of sale since proposals may be developed a year or even more before a commodity is received. Flexibility should also be provided to allow the Cooperating Sponsor to switch to a different commodity or to modify the tonnage level in response to market conditions.

6. ***USAID and USDA should to continue to work with industry to address the issues of micronutrient losses and quality control for Title II.*** Since fortification was first introduced to PL 480 commodities in the 1960s, the program has grown to where nearly 40% of Title II commodities are now fortified. A recent study commissioned by USAID found significant losses of Title II micronutrients from production to consumption. To assure that micronutrients can maintain their potency in field conditions and reach those in need, and to justify the cost of fortification, appropriate technologies -- such as more heat stable, bioavailable, and cost-effective micronutrient compounds – should be considered.

7. ***The USAID value-added list should include crude soybean oil and soybean meal.*** For non-emergency Title II programs, 75% of commodities must be processed, fortified or bagged. USAID created a "value-added" list identifying commodities that are eligible, but did not include crude soybean oil or soybean meal. ASA, NOPA and the Coalition have asked USAID to add these products since they are processed and can be used effectively in food aid programs.

Administrative Reforms: More Staff and Less Time

1. ***Staff enhancement at USDA and USAID.*** Right now, neither of these agencies has adequate staff dedicated to food aid programs. USAID's Food for Peace Office uses

consultants to process proposals, develop program requirements and conduct evaluations, which seems to help in handling the workload. USDA's Export Credit Division only has a handful of full time employees to dedicate to their food aid programs, yet about 150 proposals were submitted for Food for Progress for FY 2000 and Section 416 is supposed to provide about 3 MMT.

2. ***Eliminate micromanagement by the FAPC.*** The FAPC should not be used to make decisions on specific programs and countries. This is the responsibility of the administrative agency which receives and reviews program proposals. In the case of Section 416, Title I and Food for Progress, this is USDA. For Title II and Title III, this is USDA.

3. ***Reliable and consistent time frames and transparent procedures for proposal submission and approval are needed.*** This will give potential Cooperating Sponsors fair access to the programs and will allow for orderly delivery of commodities and program implementation. For Section 416, commodity amounts available should be publicly announced in the Federal Register either right before the start of a fiscal year or as soon thereafter as possible.

Rationalize the Approach to Food Aid for the Future

1. ***Establish a reliable mechanism to provide food aid for urgent emergencies.*** When a crisis occurs, rather than diverting commodities away from on going valuable programs, a mechanism is needed so the US can respond quickly and effectively to mitigate the loss of life and suffering. One way to achieve this goal is to fill the Bill Emerson Humanitarian Trust, which currently holds about 2.5 MMT of wheat, to its 4 MMT capacity, using surplus commodities. The Trust can hold up to 4 MMT of a mix of wheat, rice, corn and sorghum. When commodities are released for overseas emergency needs, they can be fortified, processed or exchanged for other commodities, including soybean oil, powdered milk, dry peas, beans and lentils. Modifications are needed to make the Trust a more reliable source of commodities when there are emergencies and the US does not have surplus stocks.

2. ***Double the Food for Progress program from 500,000 to 1,000,000 MT per year and permit multi-year programs.*** A staggering number of proposals have been submitted to USDA for this program, which targets countries in transition. The amount of commodities should be doubled since there are many excellent opportunities for using this program to assist people overseas. The funds available for transportation should be tripled. This program is funded through CCC.

3. ***Simplify and expand P.L. 480 Title II.*** As described previously, this program needs to be streamlined to allow greater flexibility and innovation for effective programming by PVOs. Recently, a proposal has been set forth by His Excellency George McGovern and Senator Bob Dole to establish additional school feeding and WIC-type programs in developing countries. PVOs currently conduct such programs, which are called "Food for Education" and "child survival" using Title II resources. There is a great possibility for expanding these child development programs, particularly for pre-school and school-age children, focusing on both cognitive and physical growth. In order to do so, however, additional funding would have to be provided for multi-year programs through a mechanism such as P.L.480 Title II.

It would not be wise to try to fund a new initiative at the expense of ongoing and valuable programs that are currently helping the poor.

4. ***USAID should reform procedures for the Food Aid Consultative Group (FACG) so final recommendations can be made on outstanding topics.*** At the last meeting of the FACG, PVO members distributed a list of recommended organizational improvements so that (1) non-governmental input could be timely and meaningful, (2) there is a timetable for action on specific issues, and (3) there are reliable procedures to address different topics and to prepare for meetings. The FACG was established by law to require USAID to consult regularly with PVOs and agricultural groups on Title II procedures and guidance.

Mr. Chairman, thank you for this chance to testify. I would be glad to answer any questions you may have.

Statement of the
Wheat Export Trade Education Committee
U.S. Wheat Associates
and
National Association of Wheat Growers

TO THE
SENATE SUBCOMMITTEE ON
PRODUCTION AND PRICE COMPETITIVENESS OF THE
COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY ON
THE FUTURE OF U.S. AGRICULTURAL EXPORT PROGRAMS

Presented by
Mr. Bruce Hamnes, Chairman
Wheat Export Trade Education Committee and
U.S. Wheat Associates
July 18, 2000

Mr. Chairman and members of the Committee, thank you for the opportunity to provide the wheat industry's perspective on the benefits of the current export programs and the future of these programs. Let me begin by saying that the importance of the USDA export programs for U.S. wheat cannot be overstated. U.S. wheat growers export nearly 50 percent of their production making flexible, effective, and fully funded export programs critical to our long-term success.

I commend you on the timeliness of your review of export programs, their future and on their value in facilitating the market development and promotion process. We believe that these programs must be protected and allowed to expand under the rules of the World Trade Organization. As the negotiations of the next round are just beginning, it is appropriate to make it very clear to our trading partners that we believe these programs are not trade distorting and that the industry expects our negotiators to protect them and our government to employ them aggressively.

Market promotion and development are "green box," or non-trade distorting activities, under current WTO rules. The trend towards the reduction and elimination of trade distorting programs clearly puts added emphasis on market promotion and development activities. These activities should be utilized to their fullest extent as a significant element in the foundation of future agriculture policy.

Equally as important as the WTO negotiations, is the need to expand these programs to the maximum extent possible in the upcoming Farm Bill discussions. "Freedom to Farm" made great strides towards improving flexibility and opportunity for American farmers. However, as historical support was eliminated, use of agricultural export programs remained stagnate and in some cases decreased as U.S. farmers were sent out into the world market to survive without their traditional "tools" of support. Well-funded export programs, which are a necessary part of the equation, were not reinforced.

Now is the time to correct this oversight. As we embark on debates surrounding a new farm bill, export programs that give American farmers and ranchers the tools to survive in the "new economy" must not be overlooked or taken for granted.

America is the most powerful economy and the most important market in the world. And the agricultural community is proud of its contribution to our nation's economy. However, in today's economy the health and vitality of American agriculture is directly related to the industry's ability to access export markets, meet the challenge of post General Agreement on Tariffs and Trade (GATT) negotiations, and to maintain market opening programs as the WTO discussions move forward.

Unfortunately, however, power does not develop the wheat market. Market development is knowing who the customers are, what their needs are, and how to meet those needs. It is being sensitive and attuned to local cultures and regional differences. It is knowing that a mill is being planned in this port, or a mill is expanding their product line in that region, or a phytosanitary problem is developing in this market, or our competitors are targeting the buyers in that market. It is a full-time, year-round, long-term commitment.

Maintaining and increasing the export market for U.S. wheat is absolutely essential. What we don't use or export will sit in our bins and depress prices.

Over 100 million tons of wheat is traded globally, and the U.S. wheat has a global market share of 28%, making us the world's largest wheat exporter. But we face increasingly stiff competition from Canada, Australia, the European Union and Argentina.

People who are unfamiliar with global commodity trading are often surprised to find that exporting wheat is not a simple proposition.

- Each wheat producing country has its own varieties, each with distinct qualities. These varieties and qualities must "fit" with importers product needs. For instance, a mill in the United Arab Emirates that makes flour to produce the local flatbread will need to be convinced that one of the U.S. varieties is better for their product than one of the Australian varieties.
- Within the varieties, crops vary—from year to year and region to region—in moisture content and protein level which, for instance, will affect the bread or noodle or cake that is ultimately produced. The crop size and quality also affects market prices, which may aid or dissuade buyers, depending on their needs and finances.
- On top of the pure "market" aspects, trade policies, barriers and disputes—of the U.S. and of importing countries—can and do affect U.S. wheat exports.

The preliminary year end sales figures for marketing year 1999/2000 show that 79 countries purchased wheat, on a commercial basis, from the U.S. Another 14 countries received U.S. wheat solely as a result of food aid and 21 countries that received wheat donations also purchased U.S. wheat on a commercial basis.

No wheat customer is the same. Each has specific needs, whether it is assistance in specifications and purchasing; education on milling, storage and handling; information on markets, wheat quality and trait characteristics; or assistance with U.S. government programs. But, for simplicity's sake, we can generalize that there are three basic types of customers: the mature and loyal customers who are accustomed to buying U.S. wheat; the "changing" customer in areas where government buyers are being replaced by inexperienced private buyers; and the customers from countries that have been closed to U.S. wheat because of sanctions or trade barriers.

The challenge is to defend the loyal market from sustained forays by our "trading partners," educate the changing buyers about the advantages of using U.S. wheat, and convince the buyers from previously sanctioned countries that we will now be a good and reliable supplier and that they want to switch to us from their current supplier. It is having access to a variety of export programs that helps provide flexibility in reaching these divergent customers.

Let me expand on the specific export programs as they are used to move U.S. wheat in the world market.

Government funds for export market development are awarded to commodity organizations under various formulas and, in the case of U.S. Wheat Associates (USW), the industry's market promotion and development organization, about a third of the total $14 million budget comes from producers and two-thirds from U.S. government export programs.

Foreign Market Development (FMD)

The largest source of funding, and the most important single tool, for U.S. Wheat Associates activities is the Foreign Market Development (FMD) Program. USW is a major user of this program, as it provides for office space, overseas salaries and activity budgets for 15 offices servicing over 100 countries.

In recent years, in spite of rising costs, total funding for FMD has remained static at about $30 million. This program provides funding for several cooperators in addition to USW, and it should be increased to no less than $42 million.

Market Access Program (MAP)

The second most important federal program providing funds to USW is the Market Access Program, which has been an invaluable tool for building markets. MAP funds, though accounting for less than 10% of the budget, are essential as USW develops consumer promotion and educational programs. For instance, MAP funds assist in the continuing development of the Korean Baking School, which has provided instruction to over 45,000 bakers; helping to develop a baking industry as sophisticated as any in the world.

Funding for MAP has been reduced over recent years despite increased promotion activity by our competitors. The wheat industry urges Congress to increase the budget for MAP to no less than $200 million.

The Korean Example, The Korean Baking School leads to an illustrative example of how effective USDA export market development programs can be when the various programs come together to work for U.S. wheat. Korea was the impetus for the Agricultural Trade Development and Assistance Act of 1954, also known as P.L. 480 or the Food for Peace program. Korea's four flour mills were completely destroyed during the Korean War, and after the armistice was signed in 1953, they started rebuilding and the U.S. was there to help.

According to the Korean Flour Mills Industrial Association, "the wheat import in 1956 was recognized as very important, as it was the first shipment of wheat from the United States under the Public Law 480 program. All previous shipments had been in the form of flour." The aid program helped to develop their milling and wheat foods industry, which led to a healthy commercial export market once the country was ready to graduate to the next step.

As their domestic wheat foods industry blossomed, with the assistance of the U.S., Korea became a major wheat market. As their economy strengthened, Korea didn't need wheat donations anymore, but they still needed some help. So they became a client of the GSM 102 export credit guarantee program, where the U.S. provides backing for commercial loans.

By FY 1996, the Korean Ministry of Finance & Economy phased out requests for the GSM 102 program in order to reduce the amount of long-term credit being used by Korea. However, when financial difficulties arose during the Asian financial crisis, GSM-102 credit was once again requested on a temporary basis.

Today, Korea now imports up to, and sometimes over, 4 million metric tons of wheat annually. Year after year, the U.S. is the largest wheat supplier and, in 1999, had over 50% market share. With only 46 and a half million inhabitants, Korea is the fifth largest export market for U.S. wheat.

Export Credit Guarantee Programs

The Commodity Credit Corporation (CCC) administers credit guarantee programs for commercial financing of U.S. agricultural exports. The commercial credit guarantee programs made it possible for U.S. commodities to maintain a market presence in many Asian countries during the economic crisis in that region. They are important tools in helping maintain markets in many countries where it is necessary to sustain or increase U.S. sales. Without the CCC guarantees, financing in these markets would not be possible

USDA General Sales Manager Dick Fritz is heading to the OECD in Paris this week for the next step in reforming agricultural export credits — not just for the U.S., but for other countries, including the European Union and Canada. Our GSM programs are under attack as trade subsidies. As part of the Uruguay Round agreement member countries agreed to work toward disciplines on the use of government sponsored export credit programs in agriculture. We hope that this process can be concluded is a meaningful way in Paris.

This is an important program for wheat. Wheat sales accounted for 16.5 percent of the program last year, third after soybeans and cotton.

International Monetary Fund (IMF)

The CCC must qualify importers as credit worthy for the GSM programs and for many countries this requires the endorsement of creditworthiness by the International Monetary Fund, particularly in times of economic crisis. Thus the debate on funding the IMF is extremely important to American agriculture. Although not considered an export program, the IMF is a critical link in the big picture of maintaining market presence and being able to finance sales to countries in need.

Food Aid

The USDA programs, used in a smart and comprehensive fashion, are important foreign aid tools. And while the wheat industry applauds the basic reasons for these programs — to help countries that are not as fortunate as the U.S. — we also look to them with a practical eye. Last year, the federal government, with food aid programs, was the largest single purchaser of U.S. wheat.

While the U.S. wheat industry does not want to rely on government purchases, they are important to us, especially when markets shrink as they did during the Asian financial crisis of 1997-98. And even though the P.L. 480 program has been reduced - it has shrunk tremendously from the late 1950's when it accounted for 4 out 5 dollars' worth of wheat exports - the USDA stepped in these last two years with a greatly expanded use of the Section 416(b) program. This program provides for donations of surplus commodities to developing countries. In addition to helping to reduce burdensome supplies that drive down prices this program also can lend itself to market development: donating the appropriate wheat can serve to introduce a struggling country to a product that can be purchased later when their private markets emerge.

Export Enhancement Program (EEP)

Another program that has helped to facilitate sales is the Export Enhancement Program (EEP), which helps products produced by U.S. farmers meet competition from subsidizing countries, especially the European Union. Under EEP, the U.S. Department of Agriculture pays cash to exporters as bonuses, allowing them to sell U.S. agricultural products in targeted countries at prices below the exporter's costs of acquiring them. The program is used to expand U.S. agricultural exports and to challenge unfair trade practices. By 1996 the U.S. voluntarily stopped administering the EEP for wheat sales, despite the fact that EU subsidies for wheat and wheat flour exports are still used. We disagree with the Administration's refusal to use this program, especially in the face of greatly increased EU exports of subsidized flour.

Sanctions Reform

The U.S. recently made a positive step towards (re-)developing markets in previously sanctioned countries. For several years, FAS has issued program notices listing countries in which market development activities under MAP and FMD were forbidden due to economic sanctions. Recent policy and regulatory changes now allow licensed commercial sales of agricultural commodities and products to Iran, Libya, Sudan, and Cuba. This is a new opportunity, and we expect to make the most out of it. (Thus far, market activities in previously sanctioned countries have been financed by state wheat organizations.)

Unfortunately, even though prohibitions of agricultural sales to Cuba are supposedly lifted, the facts are that we still can't sell there. But we are hopeful that this Congress will act and will give U.S. wheat farmers a Cuban market to develop.

USDA

The export of American agricultural products is possible because of a large group of dedicated people in USDA who depend on you for their funding and to whom the industry is indebted. They make the export programs work.

These are the people of the Foreign Agricultural Service, who fight for market access and against political trade barriers as they arise. These people are critical to the success of export programs. The Animal Plant Health Inspection Service staff around the world who, along with FAS and the industry resolve some very vexing sanitary and phytosanitary issues that sometimes become almost immovable trade barriers. The Federal Grain Inspection Service provides a credible and critically important inspection system that overseas buyers can rely on and trust.

What is in the future of agriculture export marketing?

Every nation has in place a set of policies and programs that are designed to help meet its citizen's food and fiber needs as well as capitalize on potential trade opportunities. The Uruguay Round of the GATT and the WTO have not changed this. The playing field is not level. The global market place is and will continue to be characterized by heavily subsidized and protected competition.

In the real world of global competition, America's farmers are the world's most competitive. We have the production capacity, technology, infrastructure, management and marketing expertise. These are not enough. Our national policies and programs must be equally competitive. American agriculture cannot compete against foreign governments.

The U.S. must develop a comprehensive trade strategy for American agriculture that reflects the dynamics of the global market place and world competition.

I urge you to work closely with the industry and the administration to ensure that everything possible is in place to achieve the absolute best for America's farmers and ranchers. This includes passing Fast Track negotiating authority, responsible oversight of the WTO negotiating process, meaningful unilateral sanctions reform, the granting of Permanent Normal Trade Relations for China, and an unshakable commitment to provide American agriculture with the proper tools to develop markets and promote agricultural goods.

- We must tell the world we are serious about negotiating and Fast Track is an important part of that message. With out this authority U.S. negotiating efforts are hampered as our competitors will have no reason to take our negotiators seriously.
- The paper tabled last month by the U.S. Trade Representative's office in Geneva before the WTO is a positive start towards efforts to promote free and fair trade in agriculture. However, this is just the beginning of a long negotiating process. A watchful eye must be kept on our competitors during this process so that they do not drive the negotiating agenda down a path that would ultimately be harmful to American agriculture.
- Current sanctions policies unduly burden U.S. agriculture and present a difficult market development project once sanctions have been lifted. Meaningful unilateral sanctions reform must be implemented to ensure that the U.S. is considered a reliable supplier of agricultural products to the world.
- If Congress fails to grant China Permanent Normal Trade Relations in a timely and honorable manner we can expect to see very few, if any, sales in the future. There is no issue more important to the future of the industry than finalizing this process.
- An over all trade strategy must also ensure that U.S. policies are competitive with those of other trading countries. This includes maintaining maximum funding and aggressively implementing programs such as all legal green box programs, including food assistance, export credit, market development and promotion and the Export Enhancement Program.
- We believe that the Market Access Program should be funded at no less than the $200 million and the Foreign Market Development program should be no less than $42 million. While the EEP program must be maintained to counter unfair trade practices, we support congressional direction to the Secretary to use the unexpended funds in market promotion and development programs. The Foreign Agricultural Service and APHIS must be funded at levels that allow for adequate personnel and programs to meet the demands of opening and expanding world markets.

In 1995 USDA set a goal of increasing U.S. agricultural exports 50 percent by the year 2000. Such an increase would have added nearly $45 billion to the U.S. export total and would have created as many as 500,000 new jobs. However, this goal did not foresee the Asian economic crisis and the devastation that would engulf agricultural trade. We believe with fulfillment of the market opening commitments of "Freedom to Farm", fully funded export programs and a solid commitment to being a world leader for free and fair trade, American agriculture can continue to the lead world trade and meet the goal set by USDA in the near future.

In a dynamic, competitive world market, we need to strengthen the programs that will enable agriculture market development organizations to continue this partnership between Congress, USDA and the industry to maintain a growing market share in an extremely competitive world market.

Thank you for the opportunity to discuss export programs and their importance to the future of our industry.

American Soybean Association

STATEMENT BY MARC CURTIS

CHAIRMAN, AMERICAN SOYBEAN ASSOCIATION

BEFORE THE

SUBCOMMITTEE ON PRODUCTION AND PRICE COMPETITIVENESS

UNITED STATES SENATE

JULY 18, 2000

Good afternoon, Mr. Chairman and Members of the Subcommittee. I am Marc Curtis, Chairman of the American Soybean Association, which represents 28,000 producer members on issues of importance to all U.S. soybean farmers. ASA compliments you on calling this hearing, Mr. Chairman, and appreciates the opportunity to present our views on this important issue.

Exports are vital to maintaining and enhancing soybean prices and U.S. soybean producer profitability. One out of every two bushels of annual soybean production must be exported in the form of soybean, soybean oil and soybean meal. The importance of export markets has only increased as U.S. soybean acres have increased from 62.5 million in 1995 to 74.5 million this year.

The 1996 FAIR Act introduced changes in U.S. farm policy that have heightened the importance of having effective export programs and trade policies. Elimination of crop acreage bases and set-asides in favor of full planting flexibility on all cropland has made U.S. agriculture truly market-oriented and market-dependent.

This linkage was recognized by the authors and supporters of "Freedom to Farm" when it was enacted four years ago. It has been reiterated on various occasions since then, including in a letter of May 17, 1998, from major farm organizations, to the Administration and Congressional leadership. The need for strengthened export programs and trade policies have been at the top of ASA's list of priority actions needed to make the current domestic farm program successful.

Unfortunately, many of the initiatives urged by ASA and other farm groups since 1996 have either been ignored or given only partial attention by the Administration and Congress. The exception has been in the area of trade policy, when House approval of China PNTR was a solid victory for U.S. agriculture. ASA strongly urges the Senate to take similar action as soon as possible, and certainly before the August recess. Also, the WTO negotiating position tabled by the Administration in Geneva last month contains a number of positive proposals to reduce import tariffs, eliminate export subsidies and balance trade-distorting domestic support programs.

On the other side of the ledger, however, we are very concerned about the inability of Congress and the Administration to support reform of unilateral economic sanctions on agricultural exports, as provided for in legislation authored by Senator Ashcroft and others. And we will remain uncertain over the status of the new WTO round until Congress provides Trade Negotiation Authority and comprehensive talks are finally launched.

ASA
American Soybean Association

In addition, there has simply not been enough attention and support for programs designed to enhance U.S. competitiveness in the short and long-term. I would like to comment briefly on five areas where more needs to be done - market development, export credits, humanitarian food assistance, the Export Enhancement Program, and funding for FAS and APHIS activities.

MARKET DEVELOPMENT

ASA and other Cooperators under the Foreign Market Development program have been seeking a long-term commitment to fund the program at not less than $40 million. Overseas programs and personnel who carry them out involve multi-year commitments and planning, and should not be subject to annual proposals to cut FMD funding by up to one-third in the President's Budget. The decision to transfer FMD funding from discretionary accounts through the appropriations process to the Commodity Credit Corporation has increased the priority of providing a minimum funding level in FMD's authorizing legislation, and we urge the Congress to provide a minimum authorization level as soon as possible.

We are also concerned about recommendations contained in USDA's checkoff task force report that would limit Cooperators' ability to utilize checkoff funds to inform foreign customers and governments about the effects of foreign laws and regulations. As countries around the world increasingly try to restrict U.S. exports through law or regulation, it is critical that Cooperators be able to continue to utilize checkoff funds in FAS-approved activities.

Finally, we understand that CCC funds provided to operate various export programs at USDA, including FMD and MAP, are not being made available by OMB until well into each Fiscal Year. These delays can cause serious problems as Cooperators have ongoing expenses to pay. Congress should take action to ensure that OMB allocates the full amount of funding for these programs promptly so that funds are available at the beginning of the Fiscal Year.

EXPORT CREDITS

The GSM-S Export Credit Guarantee program has been a significant tool in financial sales of U.S. soybeans, soybean meal and soybean oil to foreign markets. With suspension of the Export Enhancement Program after 1994, GSM credit is the only government program available to assist U.S. agricultural exports to compete for commercial sales.

Under the last two farm bills, Congress authorized $5.5 billion in annual export credit sales. Since 1995, however, use of this important program has averaged only about $3.5 billion per year. There has been no clear indication as to why the full authorized amount of credit has not been utilized.

The 1996 farm bill also authorized the Supplier Credit Program under which private companies can initiate credit sales that would otherwise not be made under the GSM-102 program. USDA recently increased the amount of risk or coverage it will provide from 50 percent of the transaction value to 65 percent. Still, the program is not being widely used and is not achieving its potential in facilitating U.S. exports. ASA urges the Congress and USDA to consult with exporters that handle

ASA
American Soybean Association

bulk commodities to determine how terms of the Supplier Credit Program can be improved to make it useful in facilitating sales of soy products.

HUMANITARIAN FOOD ASSISTANCE

The declining U.S. commitment to support humanitarian food assistance during the last 20 years is one of the most tragic casualties of the effort to balance the federal budget. Between 1985 and 2000, Congress and the Administration agreed to reduce by more than half funding for our core food aid program, P.L. 480, from $2.2 billion to $1.0 billion. Worse, funding for the market development portion of P.L. 480, Title I, has been greatly reduced.

As commodity surpluses have grown since 1997, the Administration has turned increasingly to donations under Section 416 (b) to complement the decline in P.L. 480 programming. In March 1999, ASA submitted to USDA a list of potential recipients of soy products under Section 416 totaling $1.0 billion. ASA also worked with soy processors and Private Voluntary Organizations to develop 14 proposals covering 21 countries, submitted to USDA last November. In February of this year, the Department announced its Section 416 allocation for this year. Soy products totaled only 425,000 tons—a fraction of ASA's request—and included only two of the countries targeted by the ASA/PVO proposals.

ASA estimated that this program would raise prices and reduce LDP payments to farmers by as much as $2.5 billion, which has not been disputed by anyone. During my year as ASA President, this is the most frustrating issue I faced. I do not understand why this Administration can choose not to invest $1.0 billion to save up to $2.5 billion and help feed poor and starving people around the world, and help U.S. farmers in the process, just to say that they didn't give farmers any money.

ASA has renewed its request for a substantial increase in soy product exports this year under P.L. 480 and the Food in Progress program as well as under Section 416. Facing another large soybean crop, we are calling on Secretary Glickman to designate soybeans, soybean meal and soybean oil as surplus commodities, and that USDA will purchase a substantial quantity of these products using CCC Charter Act authority. We ask that these actions be taken as quickly as possible this Fall to ensure a positive impact on prices at harvest, which would reduce LDP outlays on the 2000 soybean crop.

One of the largest obstacles in securing approval of Section 416 proposals is lack of consensus in the interagency Food Aid Policy Committee, which includes State Department, AID and OMB, as well as USDA. In the 1990 Farm Bill, Congress attempted to streamline approvals of food aid initiatives by making the interagency process consultative rather than requiring approval of USDA decisions. Unfortunately, this system has broken down into bureaucratic bickering, with OMB playing the role of rejecting food aid donations and concessional sales in order to limit agricultural spending. Clearly the food aid approval system has broken down and must be fixed.

ASA has also noted with interest the proposal for an International School Lunch Program, initiated by U.S. FAO Ambassador George McGovern and former Senate Majority Leader Bob Dole. When fully implemented, the U.S. would fund one-quarter of its projected annual budget of $3 billion to provide nutritious meals to school age children in recipient countries. This concept could be

ASA
American Soybean Association

expanded to include pre-school children in a "Food for Child Development" Program. There is an undeniable linkage between nutrition and mental as well as physical development that provides a strong moral and humanitarian motivation for this approach to improving life in the world's poorest countries. ASA urges the Congress to begin consideration of an international school lunch program that not only would benefit children around the world in the long and short terms, but also U.S. farmers and ranchers.

EXPORT ENHANCEMENT PROGRAM

As Members of the Subcommittee recall, the 1996 FAIR Act authorized funding of the Export Enhancement Program at levels permitted under the Uruguay Round Agreement on export subsidies. The total amount of EEP funds authorized for FY-1995 through FY-2000 totaled over $2.0 billion. However, the Administration discontinued use of EEP after 1994, and less than $100 million has been used in the past six years. Furthermore, since it has been clear that EEP will not be used, the Congressional Budget Office regularly scores the cost of EEP at zero. This means that EEP funds, although authorized every year, are not available for use under other WTO-legal programs. Congress should pass legislation authorizing unused EEP funds to be used for other export development and assistance programs.

FOREIGN AGRICULTURAL SERVICE AND APHIS TRADE SUPPORT FUNDING

The Foreign Agricultural Service (FAS) administers market development and export programs, conducts and supports trade negotiations, analyzes export markets, and must rapidly respond to and address measures that disrupt U.S. agricultural exports. Likewise, Animal and Plant Health Inspection Service (APHIS) personnel work with FAS to address sanitary and phytosanitary issues affecting U.S. exports. Currently, FAS and APHIS do not have the resources necessary to fully support U.S. agricultural exports. ASA urges the Congress to provide FAS and APHIS with additional staff and budget resources to allow them to better support U.S. agricultural exports, Cooperators and exporters.

RECOMMENDATIONS

Mr. Chairman, U.S. agriculture is owed a substantial back debt in funding for export programs. ASA recommends the following actions to restore the competitiveness of U.S. exports and reduce price-depressing surpluses:

- Authorize funding of the Foreign Market Development Program at not less than $40 million.
- Establish an Export Program Task Force to work with USDA to identify additional markets to utilize the maximum $5.5 billion in export credit guarantees.
- Have the Task Force also work with exporters to determine how terms should be adjusted to make the Supplier Credit Program effective for bulk commodities.

ASA
American Soybean Association

- Restore the Food for Peace program to its 1985 level of $2.2 billion under a "Super P.L. 480" initiative, with substantial funding utilized under the Title I market development portion of that program.
- Pass legislation authorizing unused EEP funds to be used for the market development and export assistance activities.
- Expand exports of soybeans and soy products, including soy protein products under the Food for Progress and Section 416 for FY-2001.
- Have the Export Program Task Force develop recommendations on how the inter-agency Food Aid Policy Committee can streamline its review process in order to expedite USDA recommendations on Section 416 and other food aid initiatives.
- Direct the Task Force to work with the World Food Aid Program and PVOs to develop the International School Lunch Program as a "Child Development Program," with the goal of providing nutritious meals to the pre-school and school-age children in the world's poorest countries.
- Provide FAS and APHIS with additional staff and budget resources to support trade-related activities.

Obviously, several of these programs entail substantial costs, and would need to be vamped up over a period of years. Others, including full funding of FMD, full use of the export credit program, an increase in Section 416 donations, and changes in administering Supplier Credit Programs and making approved CCC funds available at the beginning of each Fiscal Year can and should be done immediately. The fact that $2.0 billion in funds authorized to make U.S. exports more competitive in foreign markets under EEP have gone unused since 1994 is ample justification for moving ahead with these recommendations. If another reason is needed, the consequence of inaction is the status quo of production exceeding demand, low prices and farm income, and federal price and income support payments in the $17-19 billion range.

Thank you, Mr. Chairman, I will be glad to respond to questions.

Statement by Roger Pine
Chairman of the National Corn Growers Association
before the
Subcommittee on Production And Price Competitiveness
Committee on Agriculture, Nutrition, and Forestry
U.S. Senate
July 18, 2000

Mr. Chairman, members of the subcommittee, my name is Roger Pine. We raise corn, soybeans, wheat and turf grass on our family farm located on the outskirts of Lawrence, Kansas. I am testifying today on behalf of the National Corn Growers Association (NCGA), which represents 30,000 members in 47 states. I currently serve as chairman of the NCGA. We appreciate the opportunity to appear before this subcommittee to discuss export programs and to suggest ways to improve our export development efforts to benefit U.S. agriculture.

U.S. corn farmers are efficient, productive and competitive in world grain markets, but our export performance does not always reflect that comparative advantage. Ten years ago the United States controlled over 80 percent of world corn exports. This crop year our market share is estimated at 59 percent. (See attached chart). We export additional corn as high fructose corn syrup, corn gluten feed and meal, as meat and poultry and in countless other value-added products. It is important that we consider the entire export demand for corn and corn products, but my testimony today will focus on bulk corn exports.

I have attached a chart to my testimony that shows remarkable growth in world and U.S. corn exports during the 1970s, but disappointing performance over the last twenty years. Domestic farm policy limited U.S. corn exports in the first half of the 1980s. Once farmers were permitted to use certificates to redeem price support loans at local market prices, U.S. corn exports began to increase. But export levels fell again in the early 1990s, and except for two years with U.S. corn exports above 2 billion bushels, weak export performance has contributed to the high stock levels and low prices that plague producers today.

NCGA policy supports fair and open global trade to assure U.S. corn and its products full access to world markets. Effective export programs can help position U.S. agricultural products in foreign markets and can develop new markets where economic growth generates demand for additional food and fiber. Food assistance programs enable the United States to share our abundance to meet the food needs of developing countries.

Export Credit Guarantees
The Commodity Credit Corporation (CCC) operates the Export Credit Guarantee Program (GSM-102) and the Intermediate Export Credit Guarantee Program (GSM-103) to assist importers that need credit to purchase food and fiber. These programs facilitate commercial sales of U.S. agricultural products to creditworthy foreign customers. The CCC guarantees

payments due from foreign banks, typically 98 percent of principal and a portion of interest at an adjustable rate. The guarantee enables U.S. financial institutions to offer competitive credit terms.

The GSM-102 is the most significant export program to facilitate corn exports. This program offers customers up to three years to repay loans. Mexico has been the largest user of GSM-102 credit guarantees for feed grains purchases this fiscal year. The Andean countries, Turkey and South Korea have also used the program extensively.

The United States and other members of the Organization for Economic Cooperation and Development (OECD) are currently negotiating changes to export credit guarantee programs. The United States fully discloses our loan guarantee programs and is calling for greater transparency in other countries' loan programs. Our competitors are asking the United States to agree to drastically shorten the repayment period for GSM loans.

The NCGA and other agricultural organizations support efforts to complete the OECD negotiations. We believe that the OECD can best resolve the financial issues of export loan programs. If this issue can be resolved now, the agricultural negotiations in the World Trade Organization (WTO) can concentrate on trade-distorting export programs. However, the United States must not accept an unworkable OECD agreement. The United States must continue to insist that our loan guarantee programs meet the credit needs of our export customers and that every country is required to fully disclose their export credit programs.

Export Subsidies
Export price subsidies have cheapened grain on world markets and made it more difficult for unsubsidized grain to compete. The United States' proposal for agricultural trade reform in the WTO calls for the elimination of export subsidies. This is an objective that NCGA fully supports. The Uruguay Round Agreement on Agriculture began the process by requiring developed countries to reduce subsidized export volume by 21 percent and subsidy expenditures by 36 percent from the 1986-90 base period on a commodity basis. Member countries also agreed that only products whose exports were subsidized during the base period would be eligible for future export subsidies.

Market Development
The United States operates two modest market development programs – the Market Access Program (MAP) and the Foreign Market Development Cooperator Program (FMD) – that help fund private sector market development activities. These programs boost exports through advertising, nutritional information, store promotions, trade servicing, technical assistance, and other non-price market development activities.

The United States spends only a fraction of what its competitors spend on market development activities. It is time for Congress to demonstrate that the United States is prepared to invest in new markets with increased funding for MAP and FMD.

Food Assistance
The United States has shared our abundance with developing countries in times of famine and food shortages. Besides addressing critical food needs, our food aid and donation programs are an important part of broader foreign assistance. The United States – individually and through international organizations – can help developing countries meet critical food and health needs. Children provided proper nutrition, health care and educational opportunities today will become more productive adults who will generate the economic demand for the food and fiber that American farmers produce.

Infrastructure
If U.S. farmers are to remain competitive in the global marketplace, they must be able to deliver their products to domestic and world markets efficiently and cost-effectively.

Our foreign competitors – Brazil, Argentina and China – have made significant investments in their transportation infrastructure, thereby enhancing their global competitiveness. At the same time, the transportation infrastructure in the United States is deteriorating at an alarming rate. The lock and dam system developed nearly 60 years ago is outdated in light of today's transportation needs.

NCGA wants to ensure that U.S. farmers retain their ability to deliver their commodities to the world market in the most efficient and economical manner. We urge Congress to provide adequate funding to upgrade the locks along the Mississippi and Illinois Rivers to reduce costly transportation delays and expedite the movement of corn and other products.

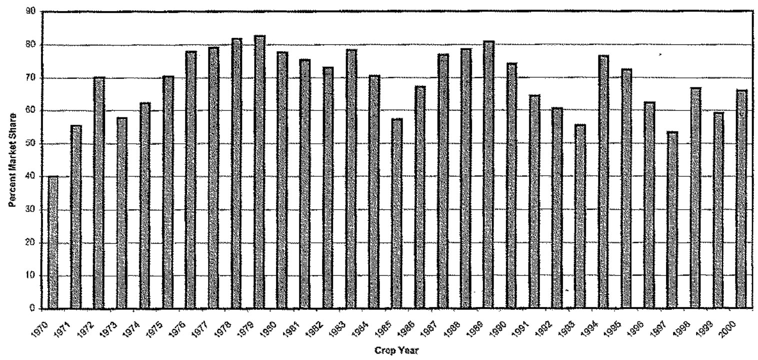
Sanctions – the antithesis of export programs
The United States has imposed unilateral trade sanctions more often than any other nation. Not all sanctions restrict agricultural trade, but all unilateral actions undermine the economic relationships between the United States and our customers and potential customers.

The damage from unilateral sanctions is much more destructive than the loss of individual markets. Every country has the responsibility to ensure its citizens basic food security through national policies that encourage the production or importation of adequate food supplies. U.S. sanctions policies encourage the use of trade distorting programs in every country that is unwilling to trust the United States as a reliable supplier of food.

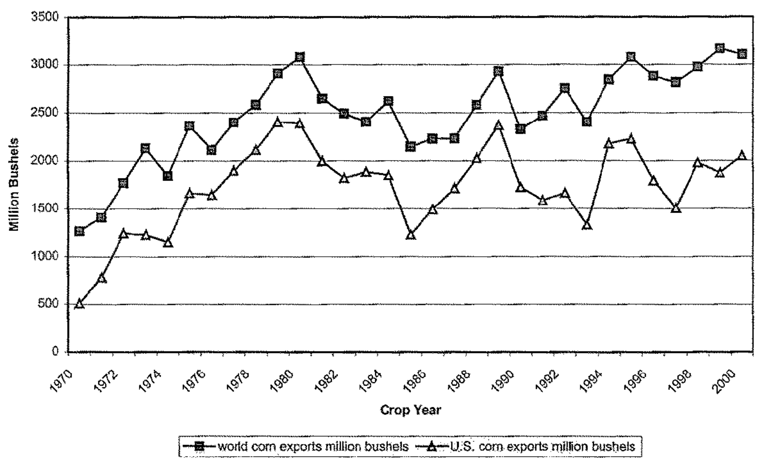
To avoid this perception, Congress must exempt commercial sales of food, feed and other agricultural products from unilaterally imposed sanctions. In addition, the U.S. government should weigh the cost to our own economy before imposing unilateral sanctions around the world. Even when the sanctions are eventually lifted, U.S. exporters will have to rebuild relationships with former customers and will have to convince those customers that the United States can be a reliable supplier.

Thank you for allowing me to present the views of the National Corn Growers Association on this important issue.

U.S. Share World Corn Exports



World and U.S. Corn Exports



USDA. 1999 estimated export numbers. 2000 projected export numbers.

Testimony of
Bill Griffith
1997 Mississippi Rice Farmer of the Year
2000 Delta Council Rice Producer of the Year

Before the
Senate Agriculture Committee
Subcommittee on Production and Price Competitiveness
Washington, D.C.

July 18, 2000

Introduction

Chairman Roberts, members of the Committee, good afternoon. My name is Bill Griffith, and I am a third generation rice, soybean and wheat farmer from Boliver County, Mississippi. I also currently serve as Chairman of the Rice Committee for the Mississippi Farm Bureau and am on the National Rice Committee for the American Farm Bureau. I am acutely aware of the local issues that currently are affecting farmers in my region, and I hope to relate to you these concerns as well as the concerns of my fellow rice producers from a national and international perspective.

I would like to thank all subcommittee members for their time and concern for agriculture. As each of you know, agriculture is in a very precarious situation. Low commodity prices brought about by declining world markets combined with a huge stockpile of stocks both in the U.S. and worldwide are the chief causes for our present predicament. This plus poor climatic conditions have recently necessitated large outlays of Federal funds and insurance claims. At a time when the rest of the economy is performing at historically high levels, agriculture, at all levels, is left searching for ways to simply survive. Even though agriculture is the backbone of our nation, both domestically and internationally, we as a nation are left struggling with how to correct the current situation. As our leaders, we appreciate that you will listen to many ideas from across the nation; and we put our faith in you to identify the best of these and other strategies, and to implement these strategies to the benefit of agriculture.

Agriculture is a multi-faceted enterprise, which encompasses many layers of American society. More than anything, the people of agriculture are hardworking, cost conscious, enterprising individuals. We are not looking for a hand out. We would like a hand up.

Low prices that have plagued the rice industry for the past few years have become a world- wide phenomenon. I have always heard that when the going gets tough, the tough get going. In spite of growing resistance from non-farm interests, we truly appreciate that Congress has acted to support farm income, and we hope that you will continue to do so. We in the rice industry, however, feel that there are other tools already at our disposal that are not fully being deployed. We want to be proactive in suggesting that all stops be pulled in making more of our product available and more attractive to overseas buyers. An in-depth review of all sales, credit and food aid programs is needed to determine what more can be done, or what mechanisms can be revived, to boost agriculture exports.

Federal Export Programs Must Assist All Forms of Commodities

We need to continue to open export markets if U.S. rice producers are to survive. Almost half of the U.S. rice crop must be exported each year if the industry is to remain profitable. Our share of world trade must be increased to previous levels. Excess rice stocks are increasing, further driving down domestic prices. Rather than control output to control these stocks with the faint hopes of reviving prices, let's look today at other more proactive means to remedy our tough situation.

The future of our industry over the short and the long term will be determined in large part by our government's export policies and programs. I would like to share with you good and bad examples of the type of export program design your committee should encourage or avoid as you consider agriculture legislation or budget appropriations in the months ahead.

Export Credit Guarantees Are an Effective, "Form-Blind" Export Success

One important USDA program that we need not tamper with is the GSM Export Credit Guarantee Program. In recent years this program to finance commercial commodity exports has been very successful in opening and maintaining export markets. This type program continues to provide overseas buyers. especially those that face exorbitant interest rates at home, greatly encourage them to buy U.S. products on commercial terms. The U.S. rice industry in particular has greatly benefited from this program.

I would also commend to your committee the commodity "form-blind" design of the GSM programs. Unlike a number of export programs I will address later in my testimony, the GSM program provides credit guarantees to exporters of agricultural commodities regardless of the form which these commodities take. In the case of rice, for example, shipments of rough (unmilled), brown (partially milled), and white (milled) rice are all equally eligible for GSM credit guarantees without question. This assures that the buyers of U.S. rice – our customers – receive the commodity in the form that they desire. As I will detail below, this "form-blind" policy is one that is prevalent for **every major commodity** ***except rice*** in a number of other Department of Agriculture food aid and export programs. This nondiscriminatory treatment should also be applied to rice exports on the same basis as it is with other commodities.

In addition to supporting the continued aggressive use of the basic GSM export credit guarantee programs, we also support the creative use of the Supplier Credit and Facilities Credit Programs.

Quality Samples Program – An Innovative Success Story

In looking for solutions for our current dilemma my business philosophy is look at those who are doing it successfully and try to follow their good example. My fellow producers in Missouri have a promising new export project at the producer level that is nearing completion. Last year they raised a sizeable crop of "baldo" rice, a variety of rice new to the U.S. These farmers have marketed this crop directly to a foreign importer with assistance from an innovative new Federal program: the Quality Samples Program.

These farmers decided to develop, grow, and market this rice understanding that if the venture failed they would be responsible for their own losses. They also realized that there would be a sizable learning curve to marketing their own crop internationally. I understand that they are nearing completion of this project, and hope to have it shipped out in the next three weeks.

To encourage overseas buyers to try this new variety, USDA provided the Missouri producers with funding under the Quality Samples Program. This innovative program allowed them to ship a sample of this new rice to a foreign buyer for testing it in the market. As a result, the overseas firm that will receive this sample product has already agreed to buy more rice in the coming year and will use another USDA-sponsored program to promote it. This program also encouraged the importer to spend a sizable of its own money to advertise its own brand of this product with a product label that will clearly identify it as a "Product of Missouri".

The Quality Samples Program is a good example of an ingenious new program that helps farmers market their crop directly to foreign buyers. It is the type of successful program that the Congress and the USDA should continue to support.

More Brand-Advertising Programs Are Needed

A few years back most commodity groups were forced to drop most of the brand-advertising programs that the previously mentioned foreign importer of Missouri rice is willing to use. Critics claimed that too many corporate giants were unjustifiably using branded promotions at the expense of smaller firms. Most cooperators, like those that support the U.S. rice producer, were advised to drop this program rather than face charges of supporting "corporate welfare". There were many good smaller firms that were also using brand advertising whose programs also got cancelled. Now that's a prime example of throwing the baby out with the bath water. USDA should not be fearful of making this program available to all commodity groups just because a few were perceived of misusing it or because someone objected to the way it was previously administered. Nor should we stop using a marketing program that has historically opened markets for U.S. rice producers in Europe, Mexico and Turkey, to name a few.

Traditional USDA Food Aid and Export Programs Need Producer-Friendly Improvement

There are many other USDA programs designed to increase exports of US farm commodities that we should not overlook in our quest to improve the health of our farmers. Unfortunately, many of these programs are older, hidebound programs that put the interests of exporters before the interests of actual farmers.

The Rice Producers Association continues to work with USDA to encourage it to provide our export buyers with the form of rice that best suits their needs. Despite these efforts, rice is the only remaining major farm commodity that our government routinely fails to offer or make available to potential customers in its unprocessed form. As a result, USDA's management of P.L. 480 and other food aid programs continue to discriminate unfairly against rice producers.

Mr. Chairman, as an operator of a diversified farming operation, I am pleased that buyers under the P.L. 480 program can buy the soybeans grown on my farm in a variety of forms of their choosing. They may purchase soybeans, soybean meal, or soybean oil, based on their needs. The same philosophy of "the customer is right" also applies to wheat, corn, and other commodities under the program. Only rice is singled out administratively as a commodity for which purchases of the raw commodity are officially discouraged, if not prohibited altogether.

Approximately 30 percent of our recent rice exports have been in the form of rough rice. The administrative policy excluding rough rice from our food aid programs effectively shuts the U.S. rice farmer alone off from the use of these important programs for developing this large portion of the world market. This policy unfairly discriminates against rice producers. We ask that this committee clarify this policy at the earliest opportunity.

Rice producers believe that there are export markets and customers willing to pay for U.S. rough rice as a substitute for foreign brown and milled rice. If other such opportunities are found for rough rice, are we to assume that there will be restrictions on programming rough rice for these? We understand U.S. milling interests being opposed to shipping non-milled rice abroad. We faced the same opposition when we first started selling rough rice into Mexico almost a decade ago. Today Mexico is our largest long grain market and rough rice now accounts for 30 percent of our sales. Where would our farmers be today had we not been successful in opening commercial markets for rough rice? What's wrong with using P.L.-480 to find others for rough rice to help farmers help themselves?

<u>All Forms of Rice Should be Considered in International Trade Negotiations</u>

We are hopeful that U.S negotiators will consider rough rice when discussing policy issues with the European Union and others at the upcoming WTO meetings. Rough rice was basically left off the agenda at the Uruguay Round negotiations. As a result, many of our European customers complained that they could not import this form of rice due to proportionally higher tariff rates charged for rough rice versus other forms. Rice producers now have a group that will give us a voice in such policy matters, the U S Rice Producers Association. We are pleased to hear that USDA has been active in consulting with our producer trade association, and we look forward to a more equitable policy being created in the future for all in our industry. As in the case of P.L.-480, we just want our customers to have the opportunity to buy whatever form of rice that they desire.

Unilateral Sanctions Hurt U.S. Farmers

More than anything, we would like to see our farm and export programs work to raise farm income. Other countries subsidize *their* farmers tremendously, while our own government imposes a number of real or de facto sanctions against some of our potentially best export customers. How can we have free trade when we maintain such restrictions against these countries?

Cuba is a prime example. There have been sanctions against Cuba for almost 40 years, with little apparent effect. Prior to the imposition of the embargo, Cuba accounted for more than 50 percent of U.S. rice exports. Today, Castro is still in power, Cuba is still communist, and the Cuban citizenry consumes 400,000 tons of imported rice, all of which is produced by our competitors.

We applaud the many Members of the Senate and the House who have shown the courage to support the reform of our unilateral sanctions policy, especially the lifting of the Cuban embargo. This legislation needs to be enacted as soon as possible, and it needs to be enacted in a form that offers significant export opportunities for U.S. rice farmers to sell rice to Cub and other sanctioned countries. This would be the greatest single action that Congress can take this year to raise prices and export opportunities for U.S. rice farmers.

Conclusion

In summary, I wish to state that we already have the tools for expanding overseas sales and giving farmers a hand up in remedying their current plight. These include the aggressive use of "form-blind" export programs such as the GSM export credit guarantee programs, as well as the expanded use of sales programs that encourage overseas buyers to buy from the U.S., like the Quality Samples Program or any brand-advertising activities.

When considering food aid programs, we urge this committee to allow the U.S. rice industry to break with 45 years of tradition and allow all forms of rice to be programmed. Just treat us like other commodities. As seen already with commercial sales, this may be the best or only means to re-capture markets or discover new customers abroad.

We thank you for seeing the need to help us with these issues, and we are grateful for your time and concern.

I would be pleased to answer any questions that you may have.

DOCUMENTS SUBMITTED FOR THE RECORD

JULY 18, 2000

Coalition to Promote U.S. Agricultural Exports

STATEMENT BY
COALITION TO PROMOTE U.S. AGRICULTURAL EXPORTS
TO THE
SUBCOMMITTEE ON PRODUCTION AND PRICE COMPETITIVENESS
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY
U.S. SENATE
WASHINGTON, DC

JULY 18, 2000

The Coalition to Promote U.S. Agricultural Exports is an ad hoc coalition of over 80 organizations, representing farmers and ranchers, cooperatives, small businesses, regional trade organizations, and the State Departments of Agriculture (see attached). We believe the U.S. must continue to have in place policies and programs that help maintain the ability of American agriculture to compete effectively in a global marketplace still characterized by subsidized foreign competition.

Farm income and agriculture's economic well-being depend heavily on exports, which account for one-third or more of domestic production, provide jobs for millions of Americans, and make a positive contribution to our nation's overall trade balance. Without aggressive action, however, U.S. agriculture exports are projected to remain below $50 billion this year due to a combination of factors, including continued subsidized foreign competition and related artificial trade barriers. U.S. agriculture's trade surplus is also expected to remain around $11.5 billion, down nearly 50 percent from 1996, with continued low commodity prices also forecast.

According to a recent USDA study, the *EU and other foreign competitors are outspending the U.S. by a factor of 20 to 1 with regard to the use of export subsidies and other expenditures for export promotion.* In 1997, in addition to spending over $7.2 billion in export subsidies, our leading foreign competitors spent a combined $924 million on various activities to promote their exports of agricultural, forestry, and fishery products, including some $365 million by the EU.

According to the most recent information by USDA, spending by these competitor countries on market promotion has increased by 35%, or nearly $1 billion, in the past three years, while U.S. spending remained flat. Almost all of this increase has been directed to the high-value and consumer-ready product trade.

Information compiled by USDA also shows the *EU and other foreign competitors are spending over $100 million just to promote sales of their products in the United States.* In other words, they are spending more to promote their agricultural exports to the United States, than the U.S. is currently spending ($90 million) to promote American-grown and produced commodities worldwide! And according to the most recent USDA numbers, for the first time ever, during FY 1999 we imported almost $1 billion more in agricultural products from the EU than we exported to them.

50 F STREET N.W. SUITE 900 WASHINGTON, DC 20001 202-626-8700

The USDA study noted above goes on to say that "because market promotion is a permitted 'green box' activity under World Trade Organization (WTO) rules, with no limit on public or producer funding, it is increasingly seen as a centerpiece of a winning strategy in the future trade battleground. Many competitor countries have announced ambitious trade goals and are shaping export programs to target promising growth markets and bring new companies into the export arena."
European countries are expanding their promotional activities in Asia, Latin America, and Eastern Europe. Canada, Australia and New Zealand have also sharply bolstered their export promotion expenditures in recent years. Without a similar aggressive strategy, U.S. agriculture will continue to be at a severe disadvantage.

Clearly, as the EU and our other foreign competitors made clear in Seattle, they intend to continue to be aggressive in their export efforts. For this reason, we believe the Administration and Congress should immediately work to strengthen funding for USDA's Market Access Program (MAP) and other export programs, including the Foreign Market Development (FMD) or Cooperator Program, and ensure that such programs are fully and aggressively utilized.

Since MAP was originally authorized, funding has been gradually reduced from a high of $200 million to its current level of $90 million - a reduction of more than 50 percent. Again, given what our foreign trade competitors are doing, we believe it's time to restore funding for this vitally important program up to its original level. American agriculture is the most competitive industry in the world, but it can not and should not be expected to compete alone against the treasuries of foreign governments.

Accordingly, we strongly urge enactment of legislation (S. 1983) introduced by Senators Murray (D-WA) and Craig (R-ID), among others, to reverse the decline in support for U.S. agricultural exports. Specifically, the bill would (1) authorize not less than $90 million and up to $200 million per year for MAP; (2) provide a minimum of $35 million annually for FMD; and (3) allow up to 50 percent of available funds under the Export Enhancement Program (EEP) to be used for related market development and promotion activities.

Both MAP and FMD, it should be emphasized, are administered on a cost-share basis with farmers and other participants required to contribute up to 50% of their own resources. These programs are one of the few tools specifically allowed under the Uruguay Round Agreement to help American agriculture and American workers remain competitive in a global marketplace still characterized by subsidized foreign competition. But to be effective, however, they must be adequately funded and aggressively utilized – especially in the face of continued subsidized foreign competition.

Again, as we look at the current trade environment, we believe approval of S. 1983 is urgently needed to help maintain and expand U.S. agricultural exports, protect American jobs, and strengthen farm income. Approval of S. 1983 would also provide needed flexibility under existing programs to better respond to changing market conditions and capitalize on potential new market opportunities- such as China. It would also send a powerful message to our foreign competitors and strengthen the U.S. negotiating position in future trade talks under the WTO.

For all these reasons, we want to emphasize again the need to help strengthen the ability of U.S. agriculture to compete effectively in a changing global marketplace. As a nation, we can work to export our products, or we can export our jobs. USDA's export programs, such as MAP and FMD, are a key part of an overall trade strategy that is pro-growth, pro-trade and pro-job.

Again, we appreciate very much this opportunity to share our views and we ask that this statement be included in the official hearing record.

Coalition to Promote U.S. Agricultural Exports (See attached.)

Coalition to Promote U.S. Agricultural Exports

Alaska Seafood Marketing Institute
American Forest and Paper Association
American Hardwood Export Council
American Meat Institute
American Peanut Council
American Quarterhorse Association
American Seed Trade Association
American Sheep Industry Association
American Soybean Association
American Vintners Association
APA – The Engineered Wood Association
Blue Diamond Growers
Calcot
California Asparagus Commission
California Canning Peach Association
California Cling Peach Growers Advisory Board
California Kiwifruit Commission
California Pistachio Commission
California Plum Marketing Board
California Prune Board
California Tomato Commission
California Walnut Commission
Chocolate Manufacturers Association
CoBank
Diamond of California
Eastern U.S. Agricultural and Food Export Council
Florida Citrus Mutual
Florida Citrus Packers
Florida Department of Citrus
Georgia Poultry Federation
Ginseng Board of Wisconsin
Gulf Citrus Growers Association
Highlands County Citrus Growers Association, Inc.
Hop Growers of America
Indian River Citrus League
International American Supermarkets Corporation
Kentucky Distillers Association
Mid-America International Agri-Trade Council (MIATCO)
Mohair Council of America
National Association of State Departments of Agriculture
National Association of Wheat Growers
National Barley Growers Association
National Cattlemen's Beef Association
National Confectioners Association
National Corn Growers Association
National Cotton Council
National Council of Farmer Cooperatives
National Dry Bean Council
National Grange
National Grape Cooperative Association, Inc.
National Grain Sorghum Producers
National Milk Producers Federation
National Pork Producers Council
National Potato Council
National Renderers Association
National Sunflower Association
North American Millers' Association
Northwest Horticultural Council
Pet Food Institute
Produce Marketing Association
Sioux Honey Association
Softwood Export Council
Southern Forest Products Association
Southern U.S. Trade Association
Sunkist Growers
Sun Maid Growers of California
Sunsweet Growers, Inc.
The Farm Credit Council
The Popcorn Institute
Tree Top, Inc.
United Egg Association
United Egg Producers
United Fresh Fruit and Vegetable Association
USA Dry Pea and Lentil Council
USA Poultry & Egg Export Council
U.S. Apple Association
U.S. Dairy Export Council
U.S. Livestock Genetics Export, Inc.
U.S. Meat Export Federation
U.S. Rice Producers Association
U.S. Wheat Associates
Vinifera Wine Growers Association
Washington Apple Commission
Wine Institute
Western Growers Association
Western Pistachio Association
Western U.S. Agricultural Trade Association
Wheat Export Trade Education Committee

USA RICE
FEDERATION®

Washington Location: 4301 North Fairfax Drive • Suite 305 • Arlington, VA 22203-1616 Telephone: (703) 351-8161 • FAX: (703) 351-8162
Houston Location: 6699 Rookin St. • Houston, TX 77074 / P.O. Box 740123 • Houston, TX 77274 Telephone: (713) 270-6699 • FAX: (713) 270-9021

STATEMENT OF THE USA RICE FEDERATION TO THE SUBCOMMITTEE ON PRODUCTION AND PRICE COMPETITIVENESS U.S. SENATE "AGRICULTURE EXPORT PROGRAMS" JULY 18, 2000

The USA Rice Federation appreciates the opportunity to submit a statement to the Subcommittee on Production and Price Competitiveness concerning USDA's export and market promotion programs. These programs – primarily the Foreign Market Development (FMD), Market Access (MAP), and the PL 480 Programs – have been critical to establishing and maintaining overseas markets for U.S. rice.

The USA Rice Federation represents all segments of the U.S. rice industry. USA Rice members are active in all seven major rice-producing states: Arkansas, California, Florida, Louisiana, Mississippi, Missouri, and Texas. USA Rice members grow 80 percent of the rice produced in the United States. USA Rice members handle virtually all of the U.S. rough rice exported and all of the rice milled in the United States. USA Rice also represents shippers, handlers, and other allied industries of the rice trade. The U.S. Rice Producers' Group, USA Rice Council, and the Rice Millers' Association are the charter members of the USA Rice Federation.

Trade policy successes like the NAFTA and the Uruguay Round Agreement make headlines, but USDA's export programs lock-in the market access gains of trade agreements for U.S. agriculture. Successful trade agreements are only the beginning of competition for market share and exports between the United States and our competitors. The FMD and MAP provide needed medium and long term backing to U.S. exporters to establish market presence and support trade servicing and marketing.

The U.S. rice industry has been an active partner in USDA's market development programs, including the MAP, the FMD Program and PL 480, for decades. These programs have assisted the American rice farmer in the expansion of sales to new markets and the improvement of product value in traditional markets. Not only has the American rice farmer benefited from growth in export trade, but exports are also important for the off-farm U.S. jobs created in allied industries of processing, handling, shipping and finance.

Nearly half of America's rice production is exported each year and today we are the world's third largest exporter of rice. USDA's programs enable the entire U.S. rice industry to work together to promote U.S. rice in more than 60 markets. Without these programs, such promotions simply would not occur. It is estimated that more than 85 percent of future food consumption growth will be outside the United States. Meeting the needs of foreign buyers will be critical if American rice farmers are to compete in a global economy. Competition for the expanding markets overseas is increasing. Whereas 15 years ago only a few foreign competitors offered export expansion assistance to agriculture, today dozens of exporting countries support their agricultural producers in marketing food products overseas. Whether it is European exports of rice to Turkey, or Argentine exports of rice to Mexico, the U.S. rice industry faces overseas competitors who receive assistance in marketing their rice products.

American farmers benefit from USDA's marketing programs. Industrywide organizations like the USA Rice Federation use USDA's programs to foster trade promotion partnerships with foreign buyers on behalf of the entire industry. For example, the largest rice importer in Turkey wrote the USA Rice Federation in June stating, "... thank you for your continuous and effective job in promoting U.S.A. rice in Turkey. It is obvious that these activities increase product awareness and consumption, strengthen trade ties with wholesalers and distributors, and improve product value, thus encouraging packers to identify (U.S. rice) in the market." Similarly, this importer's leading customer (the largest distributor of brand-identified U.S. rice in Turkey) stated, "USA Rice promotions helped boost our retail sales by 300 percent during last fall's (marketing) campaign." Turkey is among the top 10 export destinations for U.S. rice.

USA Rice conducts critical promotions using USDA and industry funds in Japan, the highest value export destination for U.S. rice ($141 million in 1999). For years, we have been working with U.S. trade negotiators to gain meaningful access to Japan's quality conscious consumers. While Japan is a very important market, we strongly believe there is a much larger potential for U.S. rice in that market, if consumers had the opportunity to taste and buy U.S. rice at a reasonable price. Today, because of import restrictions, less than one-half of one percent of U.S. rice exported to Japan reaches consumers labeled as such. There is little opportunity for a Japanese housewife to find a 5 kilogram bag of 100 percent U.S. rice in her local grocery store. Through promotions run under these USDA programs, we are working to change this.

In order to increase the opportunity for these consumers to try U.S. rice and be convinced of its high quality, we undertake a number of promotions in Japan, using USDA funds in conjunction with industry's. In order to familiarize the importers, wholesalers, and retailers in Japan with our products, we conduct seminars on the qualities of U.S. rice and have taste-tests of popular dishes. As a result:

- Earlier this year, about 150 rice trade professionals in the Osaka region learned for the first time about the qualities of six different U.S. rice varieties and tasted various dishes at the seminar.
- Over 5,000 housewives asked to participate in a consumer taste-testing we conducted, ten times the number we could accommodate.
- Our 1999 trade seminar event in Tokyo attracted more than 350 food industry professionals who heard from credible Japanese experts that the many U.S. rice varieties grown specifically for the Japanese market are very comparable to Japanese varieties.
- At the annual Japanese trade show for foodservice and food processing professionals this year in Tokyo, USA Rice served over 36,000 samples of various U.S. rice varieties.
- For the first time this past year, we launched a promotion of U.S. rice on television. TV ads ran in one of the larger market areas for a period of five months, reaching approximately 14,700,000 households with positive messages on the quality of U.S. short

grain rice. Throughout the five months, some twenty Japanese companies (our tie-in partners) sold identified U.S. rice in their supermarkets, convenience stores and department stores and the ads featured tags indicating where and when the consumer can buy U.S. rice.

These promotions lay a strong foundation for the development of even more substantial U.S. rice sales to Japan.

The USA Rice Federation is also using USDA promotion assistance to build new ties with Mexico's foodservice and hypermarket sectors, another substantial market with great potential. U.S. rough and milled rice will soon have duty-free access to Mexico under the NAFTA, and USA Rice's ongoing efforts to integrate promotion and trade servicing activities in Mexico will build on very favorable market access to strengthen commercial relationships and encourage sales.

Building markets through trade servicing and public relations campaigns has proven benefits for rice producers, but requires significant financial commitment. The USA Rice Federation is committed to increasing its share of contributions to program activities to reinforce the cooperative nature of these programs. With less than $5 million of USDA market promotion funds the U.S. rice industry sells $1 billion of rice around the world. This is a remarkable return to the U.S. economy for a relatively small investment.

Another important market development tool is overseas food assistance, largely in the aid provided under the PL 480 program. The U.S. rice industry is proud of its role in providing overseas food aid to people in need. Ready-to-cook rice provides nutritious calories and other benefits. Rice was the single largest-valued commodity utilized last year in the main food aid program, PL 480 title 1, and rice made up about one-fifth of total U.S. overseas food assistance last year.

Not only a market development tool, food aid benefits local and state businesses in this country, creating demand for rice from farmers and mills, and for other services from companies providing freight, handling, bags, and distribution services. We are concerned that a proposal to use taxpayer-financed food aid programs to export unprocessed rough rice would weaken the economic infrastructure of the U.S. industry and transfer the value added from U.S. businesses to foreign mills.

Unlike some other commodities where the processing business has been lost to foreign countries, the United States still has a viable rice milling industry that can provide the service of processing rice into consumable form. The issue is keeping value-added processing and jobs in the United States.

Just as U.S. farmers rightly insist that U.S. foreign aid should not enhance the competitive position of overseas farmers at their expense, using taxpayer-funded foreign aid to export food aid as rough rice subsidizes competing foreign rice mills.

The U.S. rice industry believes commercial customers should have the opportunity to buy the type and form of rice desired. In fact, members of the USA Rice Federation sell the vast majority of all forms of U.S. rice, including rough rice. The United States is the largest exporter of rough rice in the world, and the only major rice exporter to permit rough rice exports. Rough rice accounts for just over one quarter of total U.S. rice exports. Commercial rough rice exports from the United States are strong. Since 1997/98, the U.S. has exported over 1 million metric tons of rough rice annually, and, for this year, another 1 million tons are forecast.

We are pleased when countries appear ready to transition from a food aid recipient to a commercial market. That's why the U.S. Rice Producers' Group and the Rice Millers' Association – charter members of the USA Rice Federation -- supported the U.S. Government's effort to achieve equal market access for U.S. rough rice commercial sales to Jamaica (a zero import duty) to make them competitive with Guyana. As of last year, commercial sales of U.S. rough rice can enter Jamaica with the same zero import duty as afforded food aid shipments.

U.S. rough rice exports to Jamaica are now commercially viable. In fact, when USDA correctly decided to offer the Government of Jamaica brown or milled rice in this year's PL 480 package, the United States did not "lose" the Jamaican market. The sole Jamaican rice mill has bought nearly 20,000 tons of U.S. rough rice on the commercial market to date this year, despite intense commercial pressure from exporters in Guyana.

The USA Rice Federation is committed to working with the Committee and USDA to strengthen USDA's export promotion programs so that maximum value accrues to U.S. agriculture and the U.S. economy.

Testimony

John H. Costello
President and CEO

Citizens Network for Foreign Affairs

Submitted to

Senate Committee on Agriculture, Nutrition, and Forestry
Subcommittee on Production and Price Competitiveness

Hearing on
The Future of U.S. Agricultural Export Programs
July 18, 2000

On behalf of the Directors of the Citizens Network for Foreign Affairs and the Citizens Network Agribusiness Alliance, I appreciate the opportunity to submit testimony to share with the Committee our experience and perspective on the future of U.S. agricultural export programs, particularly as they relate to supporting strategic objectives in Russia and Ukraine.

The Citizens Network for Foreign Affairs develops and implements innovative strategies to empower private farmers in the world's emerging democracies and in countries that are making transitions to market-based economies. Our programs and activities link farmers and agribusiness enterprises to markets, affordable credit, training and technology. CNFA challenges state-controlled input supply and marketing structures that compete with the emerging private sector. CNFA works in tandem with Western agribusiness and USAID to leverage public resources with private investment to empower people to be successful in a competitive economic environment.

The empowerment of private farmers is the key to achieving the promise of emerging countries' vast potential. It is our experience that the opportunity and incentive to earn a profit in private enterprise is one of the most potent and sustainable engines for development in the emerging countries. Economic growth in market-based economies benefits everyone, including American farmers.

The American farmer and the U.S. economy have an enormous stake in increasing exports of American agricultural commodities and products. Indeed, one of the principal reasons our agricultural sector is in such dire economic straits today is the recent collapse of our Asian export markets. Now that these Asian markets are beginning to recover, we ought to do everything we can to ensure that our products and our export opportunities remain competitive, and that American producers are treated fairly and openly.

Just as Asia represents enormous potential for American producers, so do the markets of the former Soviet Union – particularly Russia and Ukraine.

In these countries there are significant prospects for development of substantial long-term markets for exports of U.S. animal feeds such as soybeans and corn, as well as all kinds of purchased inputs necessary for an efficient agricultural economy. U.S. farmers and agribusiness firms should not have to compete with foreign governments, and strengthening the role of the private sector in the emerging democracies is the only effective way to overcome this problem.

Also, Russia and Ukraine are two countries where the United States has a major geopolitical strategic stake in promoting stable democratic market-based economies. Congress and the Administration have committed billions of dollars attempting to ensure that this objective is realized.

In the 1996 Farm Bill Congress empowered USDA to expand P.L. 480 Title I commodity lending authority to include the private sector as one way to deliver on all of these objectives. Previously Title I authority was restricted to government-to-government lending only. This new authority is one of the most potent mechanisms we have at hand to build new and expanded long term markets in Russia and to strengthen an expanding private enterprise sector there and in other emerging countries.

This change has truly important implications and holds great potential for builing long-term markets and, in many cases, breaking the cycle of dependency that is perpetuated in many countries around the world where bad government policies have continually strangled opportunity and enterprise. Congress is to be commended for its foresight and leadership in initiating this authority.

In just about every emerging economy and democracy with which the United States is engaged today we are spending considerable effort and money to promote government reform, to build democratic institutions and to strengthen market based economies.

It simply makes no sense to promote reform, democratization and the building of private enterprise on one hand, while on the other hand extending Title I and other concessional loans and terms to governments that resist reform and openly seek to maintain control over out-moded parastatal input and distribution monopolies. This results in the stifling of emerging private enterprises and private farmers and retards real reform and progress that is the stated objectives of U.S. policy.

When the government-to-government process is by-passed, and the private sector is engaged directly, the U.S. Title I program can channel resources through the private sector. This can be done is ways that expand immediate exports, that monetizes or sells the commodities to private processing and distribution enterprises and then utilizes the sales proceeds to build long term agricultural markets and repay the U.S. treasury.

Unfortunately, with the exception of two small programs in Indonesia, USDA has not used the new private sector Title I authority Congress provided in 1996.

Russia is a telling case in point. The U.S. has spent billions of dollars promoting reform, privatization and the transition to a market-based economy. When the Russian government requested food assistance in 1998 following the worst harvest there since 1948, the U.S. missed an historic opportunity to provide food assistance in a way that would have benefited an emerging private Russian food sector. We could have generated critical resources to be used to encourage US investment and reestablish increased trade opportunities for American farmers and agribusiness. Instead, the assistance was provided directed to the Russian government, which used the proceeds to prop up its own internal government infrastructure.

Consequently, Russia's food problems are still urgent today. There is an immediate urgent need for as much as 2 million metric tons of feed grains to sustain the existence of the animal food sector. Predictions are that this year's harvest will produce only 52 million metric tons of grains. This is far short of its requirement for 70 million metric tons and only marginally better than its disastrous 1998 harvest.

It is our experience, based on more than a decade of intimate interaction with the emerging private sector in Russia and other countries of the former Soviet Union, that P.L. 480 Title I program funds should be directed through private entities.

We urge that the Congress insist that the new private sector Title I authorities it established in the 1996 Farm Bill are implemented vigorously and without delay.