

S. HRG. 108-155

Senate Hearings

Before the Committee on Appropriations

Agriculture, Rural Development, and Related Agencies Appropriations

Fiscal Year 2004

108th CONGRESS, FIRST SESSION

H.R. 2673/S. 1427

DEPARTMENT OF AGRICULTURE
DEPARTMENT OF HEALTH AND HUMAN SERVICES:
Food and Drug Administration
NONDEPARTMENTAL WITNESSES

Agriculture, Rural Development, and Related Agencies Appropriations, 2004
(H.R. 2673/S. 1427)

**AGRICULTURE, RURAL DEVELOPMENT, AND RE-
LATED AGENCIES APPROPRIATIONS FOR FIS-
CAL YEAR 2004**

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE
COMMITTEE ON APPROPRIATIONS
UNITED STATES SENATE
ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

ON

H.R. 2673/S. 1427

AN ACT MAKING APPROPRIATIONS FOR AGRICULTURE, RURAL DEVELOPMENT, FOOD AND DRUG ADMINISTRATION, AND RELATED AGENCIES PROGRAMS FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 2004, AND FOR OTHER PURPOSES

Department of Agriculture
Department of Health and Human Services: Food and Drug
Administration
Nondepartmental witnesses

Printed for the use of the Committee on Appropriations

Available via the World Wide Web: <http://www.access.gpo.gov/congress/senate>

U.S. GOVERNMENT PRINTING OFFICE

85-908 PDF

WASHINGTON : 2003

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**AGRICULTURE, RURAL DEVELOPMENT, AND
RELATED AGENCIES APPROPRIATIONS FOR
FISCAL YEAR 2004**

THURSDAY, MAY 8, 2003

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 9:58 a.m., in room SD-192, Dirksen Senate Office Building, Hon. Robert F. Bennett (chairman) presiding.

Present: Senators Bennett, Cochran, Specter, Burns, Craig, Stevens, Kohl, Harkin, Dorgan, Durbin, Johnson, and Byrd.

DEPARTMENT OF AGRICULTURE

OFFICE OF THE SECRETARY

STATEMENT OF ANN M. VENEMAN, SECRETARY OF AGRICULTURE

ACCOMPANIED BY:

JAMES R. MOSELEY, DEPUTY SECRETARY

KEITH COLLINS, CHIEF ECONOMIST

STEPHEN DEWHURST, DIRECTOR, OFFICE OF BUDGET AND PROGRAM ANALYSIS

Senator BENNETT. The subcommittee will come to order.

Let me apologize, Madam Secretary, to you and your team and to the others who are interested in the hearing for the fact that we are starting so late. We had a historic vote on the floor of the Senate. The leader reminded us that this is the 58th anniversary of VE Day, which makes me feel a little old because I remember VE Day.

But for those who do not understand, that stood for Victory in Europe, and was the day when the Nazi war machine surrendered and ended the war in Europe, and of course, a day of great rejoicing and excitement.

And symbolically on this day we have just ratified the treaty that expands NATO and brings into NATO those former Soviet Republic, nations that were under the Soviet yoke, that have now become part of NATO. The leader asked us all to be on the floor and vote in the traditional fashion, standing at our desks. I think that was worthy delaying the hearing for.

So we again thank you for your indulgence and your patience while we went through that.

This is my first hearing as chairman of this subcommittee and I very much appreciate the support and openness which we have

received from the Department of Agriculture. I have been down to the Department and met with Secretary Veneman and her staff, and am impressed with the depths of her bench as they deal with the very significant problems that we have here.

I am looking forward to working with Senator Kohl, who chaired this subcommittee in the previous Congress and with whom I have had very productive conversations in anticipation of this new assignment.

The Department of Agriculture, I discover, has a very diverse jurisdiction. It is not just about corn. There are all kinds of things going on in the Department which require our attention and funding. So we are looking forward to hearing the Secretary discuss this.

The situation in which we meet is somewhat unusual in that the request for fiscal year 2004 was written before the legislation adopting appropriations for fiscal year 2003 was completed. I do not remember any previous situation where that was true. That leads to some confusion. That leads to some uncertainty as to where we are and what we will be doing.

To further add to that, we have still not nailed down the allocation that we will receive from the full committee for this subcommittee. We have had some preliminary numbers but the chairman of the full committee has been unable to reach complete agreement with the chairman of the House. We do not know what number the House is going to come up with. We do not necessarily have to have the same number but that, I think, is a byproduct of the confusion that arose because the fiscal year 2003 bill had not been enacted when the 2004 request was being put together.

So we are going forward with our hearing. We want to get the information that the Department has to offer to us available and in front of us. But we are going forward with a little more uncertainty than would normally be the case. So that is why we are looking forward to this year with much anticipation, because it will be tremendously informative.

I look forward to learning more, both at this hearing and in a continuing dialogue with the Secretary and the members of the Department that are here.

Senator Burns, we are grateful that you are here with us. Senator Burns presides over the Interior Subcommittee which presides over a good chunk of the Department of Agriculture's budget, so maybe he is here to ask those kinds of questions as well. But Senator we appreciate your being here and we are happy to hear whatever you have to say.

PREPARED STATEMENTS

Senator BURNS. Thank you very much, Mr. Chairman, and thank you, Madame Secretary, for being here this morning. Thank you for a lot of good work along the way, drought assistance being one of those. I know that was a painful thing that went on downtown and we appreciate your good work on that.

I have come this morning to take all the Ag money and put it over in Interior, so you guys who have all those books, can go on back to work now.

When we take a look and see what the President proposed, and I am going to put my statement in the record, Mr. Chairman.
 Senator BENNETT. Without objection, it shall be included.
 [The statements follow:]

PREPARED STATEMENT OF SENATOR CONRAD BURNS

Good Morning: Thank you, Mr. Chairman for holding this hearing on Ag Appropriations and welcome committee members and new member Mr. Bennett.

Secretary Veneman—welcome—thanks for coming and I would like to thank you for your continued hard work and efforts in helping America's producers provide a food supply that is safe, reliable, abundant and affordable.

Thanks for drought assistance. It was a long hard battle, but you, worked well with myself and farmers and ranchers from Montana.

However, there is still work to do. The Farm Bill greatly increased the number of farmers and ranchers eligible for price support payments, conservation funding and farm program payments. Wood, mohair, honey and pulse crops became eligible for price support payments through loans and LDP's. Milk producers are receiving direct payments based upon milk production and price for each month. I welcome the increased participation which means that farm programs are helping more farmers and ranchers, especially those small and mid sized producers in rural areas.

USDA's Farm Service Agency (FSA) has had the largest proportional reductions in permanent staffing at USDA during the past 9 years. FSA's personnel cuts have resulted in the loss of 5,694 permanent positions or a 38 percent reduction of staff since 1994. Temporary staff years have been reduced since 1996 by 1,424 staff years or a 41 percent reduction. President Bush's new budget proposal for 2004 further reduced 2 temporary staff years or an additional 15 percent while keeping permanent employee levels current.

The shortage of staff is also resulting in delayed implementation of the Direct and County Cyclical Program, a major component of the Farm Bill. As of February of 2003, 39.3 percent of the nation's farms have been enrolled in the Direct and Counter-Cyclical Program with 79 percent of the enrollment period completed. The shortage of employees and increased demands create the likelihood of errors by overworked staff resulting in increased inefficiencies in the FSA County Offices.

Clearly, we have many challenges to face in the critical time of agriculture. Thanks again for being here today and thanks for all you support and hard work in helping the American farmer and rancher. Thank you, Mr. Chairman.

PREPARED STATEMENT OF SENATOR BYRON L. DORGAN

Ms. Secretary, I welcome you and your staff to our subcommittee and I thank you for your appearance before us today. I recognize the challenges of putting together any Departmental budget during these tough budgetary times. As you point out, this budget is "highly constrained." I would call this budget more than "constrained" and argue that it fails to meet the commitments that we made to the American people in the 2002 farm bill.

This budget proposes to take many programs, recommended for mandatory funding in the farm bill, and make them discretionary programs. These include the rural broadband loan program, which I think is critically important to deploy technology to rural America, and many of the renewable energy programs. Given the tough times facing rural America, funding for rural development programs are really critical. Some of these areas have taken a pretty big hit in your budget recommendation, and I would urge the Subcommittee to take another look at your recommendations. Tight limits on discretionary spending will force the subcommittee to make some difficult decisions, and I hope that we will be able to work together to carry through on the promises made in the Farm Bill.

This budget also contains some artificial offsets that will complicate our jobs. Proposals for new user fees, loan sales and caps on delivery expense reimbursements for crop insurance companies have been proposed before and rejected by Congress. These prospects for using these offsets to provide us some relief on limited discretionary spending are not good.

One of my top priorities on this Subcommittee remains robust funding for agriculture funding. Unfortunately, the fiscal year 2004 budget moves us in the wrong direction. Funding for ARS's research programs (\$987.3 million requested) is down from an estimated \$1 billion in fiscal year 2003, and there is also a slight decrease in formula funds for agriculture research and extension at the land grant Colleges

of Agriculture. I hope that we will be able to continue moving this research in the right direction.

Finally, I hope that USDA becomes more aggressive in pursuing trade violations and I am hopeful that the slight increase of \$6.6 million that this budget requests to deal with trade issues will result in more action. I have a question about wheat trade with China that I will pose to the Secretary, but I hope that any increase we provide will yield results in the area of trade enforcement.

Ms. Secretary, I look forward to your testimony.

PREPARED STATEMENT OF SENATOR RICHARD J. DURBIN

Chairman Bennett, thank you for holding this important hearing today. I look forward to working with you, Senator Kohl, and my Subcommittee colleagues on the fiscal year 2004 Agriculture budget. Mr. Chairman, I'd like to welcome USDA Secretary Ann Veneman to this morning's hearing. Madam Secretary, I look forward to working with you and the rest of the USDA team. I'm certainly familiar with the three gentlemen you've brought with you today, Deputy Secretary, James Moseley, Chief Economist Keith Collins and Budget Officer Steve Dewhurst—who all testified last March before this Subcommittee, along with the Secretary. I always enjoy their budget insights.

I'd like to take a few minutes this morning to talk about some very important issues that affect the Department, and my home state of Illinois. When I go back to Illinois, one of the things I hear from farmers is: How can we get the rural economy back on track? As you stated in your testimony, there are over 60 million people that call rural America home. Illinois has a significant rural community so I am pleased to see USDA is committed to creating new economic opportunities and improving the quality of life for a diversified rural population.

One way in which we can improve the rural economy is through providing farmers with incentives for things such as biodiesel and ethanol.

The expanded role for ethanol and biodiesel means more than a boost to industry; it means jobs to rural America, and increased energy security. In my home state of Illinois, roughly one in every six rows of corn, approximately 280 million bushels is the source for ethanol. Illinois ranks second in the nation in corn production, with more than 1.5 billion bushels produced annually, and is the nation's leading source of clean-burning ethanol. Corn grown in Illinois is used to make 40 percent of the ethanol consumed in the United States.

Illinois farmers are the foot soldiers in our battle for energy independence. Farmers throughout the country have come together to build ethanol production facilities that, in many instances, have become the backbone of a regional rural economy. In fact, farmer-owned ethanol plants, taken together, are the single largest segment of the U.S. ethanol industry. As we look for solutions to rural economic stability, we must remember that renewable fuels are part of the solution. Replacing Mideast oil with Midwest ethanol is winner for everyone but the oil sheiks. When we can use our Illinois agricultural expertise to reduce our dependence on foreign suppliers, the whole nation benefits.

In short, we must also work to become less dependent on foreign oil by opening and broadening markets for American agricultural products and find appropriate alternative uses. We need to create incentives for our farmers to produce and develop more efficient ways to make biodiesel and ethanol. I will continue working with my colleagues in Congress, and in the Bush Administration, to make every effort to expand the role of biodiesel and ethanol. Expanding biodiesel and ethanol's role is a win for our farmers, a win for the environment a win for the rural economy.

Madame Secretary, I would like touch on an issue of great importance, food safety. Each year in the United States, food borne illness sickens 76 million Americans and causes more than 5,000 deaths. Tragically, 40 percent of the victims are children. Parents have had to watch their children die terrible deaths from E. coli 0157:H7 contamination, and countless others have seen their children suffer after eating food contaminated with pathogens such as Listeria or Salmonella.

Madame Secretary, I know you have heard these statistics before, and I know you share my belief that 5,000 deaths each year from illnesses we can prevent is simply unacceptable. All of us have been frustrated by court decisions that have stripped the Department of important enforcement powers, needless delays in cleaning up dirty food processing plants and industry resistance to increased food safety inspections. The time has come for us to provide the necessary resources and adequate regulatory framework to ensure the safety of the food eaten in our homes, the safety of food sold in our stores and the safety of food served to our schoolchildren.

While I applaud the proposed \$42 million increase for the Food Safety and Inspection Service to hire more plant inspectors and expand the pathogen testing program, the Administration makes these improvements contingent on Congress approving \$122 million in new fees on the industry. As you know, similar user fees have been rejected in the past primarily because requiring industry to pay for its own regulation, particularly critical food safety regulation, brings into question the independence of such vital safety programs. Food inspections have historically been considered an essential government function and they should remain so. And, of course, industry simply passes the cost of user fees on to the consumer.

If these fees are rejected as they have been in the past, we would be forced under the administration's program to either writing \$80 million out of other vital programs to pay for these critical inspector positions and testing program, or let them go unfunded. I would ask your commitment to fully fund the expansion of FSIS programs without relying on industry fees, and I support your efforts to expand pathogen inspection, testing and training programs to ensure the safety of our food supply.

I also seek your support of legislation that will significantly bolster the safety of our food supply. One important measure, the Safe School Food Act which I introduced earlier this year, would improve the inspection, purchasing and preparation of food served in our nation's schools. Since 1990, there have been more than 100 reported outbreaks of food borne illness in schools that have sickened more than 6,000 children nationwide. The Centers for Disease Control and Prevention tells us that 10,000 more children were sickened in school-related food outbreaks during that time, although those children never learned what food or pathogen made them sick. And those numbers are likely a fraction of the true amount since food borne illness in schools is seriously under-reported in this country.

In fact, the Chicago Tribune recently reported that countless Illinois schoolchildren were served ammonia-contaminated chicken, hamburgers and potatoes over the course of several months last year contaminated food that apparently both Federal and State officials knew about but allowed to be served. In one Illinois elementary school, 42 kids and teachers became so ill after eating chicken with ammonia levels 133 times the acceptable amount, that several were rushed to the hospital. I understand, Madame Secretary, that your agency has worked to improve the safety of food in our schools, but when our schoolchildren are being sent to the hospital after eating the food we provide, inspect and regulate, then obviously much more needs to be done.

The Safe School Food Act fills the numerous gaps in our school lunch food safety program through increased inspection of foods donated to schools by the USDA, increased cafeteria inspections, improved food safety planning at the local level, helping schools incorporate food safety requirements in their purchasing contracts, sharing information on food suppliers' safety records and perhaps most important, giving your agency the authority to ensure that tainted food is removed from schools through mandatory recalls. Some say that the number of food borne illness outbreaks in our schools is relatively insignificant compared to the number of meals served each year. But I believe, as do many others, that when our schoolchildren are being hospitalized because of the food we serve them, we are breaking our promise that we will provide them with a safe and secure learning environment.

Chairman Bennett and Senator Kohl, thank you again for the opportunity to talk about these issues and the fiscal year 2004 Budget.

FSA PERSONNEL CUTS

Senator BURNS. I want to bring up a point that really caught my attention and I think it is something that is indicative of the Department and it is something that I have been saying all along about the Department of Agriculture. It is the reduction in FSA, in staff, and their ability to get their work done. That concerns me.

FSA's personnel cuts have resulted in a loss of 5,694 jobs or a 38 percent reduction since 1994.

I do not know whether any other department in the Department of Agriculture has taken cuts like that or not. You can fill me in on that if you would. But temporary staff years have been reduced since 1996 by 1,428 staff years or a 41 percent reduction.

The President's new budget, proposed for 2004, further cut temporary staff years an additional 15 percent while keeping permanent employees' level current. When you look at those numbers, the

shortage of staff is also resulting in delayed implementation of the Direct and Countercyclical Program, a major component of the Farm Bill. As of February of 2003, 39.3 percent of the Nation's farmers had been enrolled in the Direct or Countercyclical Program with 79 percent of the enrollment period completed. The shortage of employees and increased demands, I think, is creating a likelihood of errors, number one, by overworked staff resulting in increased inefficiencies in our FSA county offices.

I think it points to an attitude towards producer. We are here for the producers and we are just not doing things in that respect that would assist them or to do originally what the Department of Agriculture was created for in the first place.

So I think we are in a time where we have critical challenges. I really believe this wholeheartedly. If somebody can clear me up on this, I would sure stand corrected and I will feel better about the whole thing. But that is the only gun I am going to fire this morning.

Thank you, Mr. Chairman, for allowing me to get on with that sermon. I will pass the plate later.

Senator BENNETT. You took careful aim. Thank you.

Madame Secretary, we appreciate very much your being here and we look forward to hearing what you have to tell us.

STATEMENT OF ANN M. VENEMAN

Secretary VENEMAN. Thank you very much, Mr. Chairman. I appreciate the opportunity to be here with you and the members of the committee and it is an honor to appear before you today.

We have with us today our Deputy Secretary Jim Moseley, our Chief Economist Keith Collins, and our Budget Officer Steve Dewhurst, as well as a number of our staff who are here in the audience as well.

I want to thank this committee again for your support of USDA this year and for the long history of effective cooperation between this committee and the Department in support of American agriculture. I look forward to working with you and continuing to work with you, Mr. Chairman, in your new role as chairman of this subcommittee, as well as the other members, to make progress on issues during the 2004 budget process and to ensure strong programs for our Nation's farm sector and the many other USDA mission areas that we have as well.

I submitted a formal statement that discusses in detail the Administration's 2004 budget and particularly, that of Department of Agriculture. I would be grateful if this would be included in the record.

Senator BENNETT. It will be.

FISCAL YEAR 2004 BUDGET OVERVIEW

Secretary VENEMAN. In the next few minutes I want to provide a quick overview of our budget proposals.

First, the fiscal year 2004 budget focuses on key priorities for USDA, enhancing protection and safety of the Nation's agriculture and food supply, continuing rapid implementation and diligent administration of the 2002 Farm Bill including providing record amounts of conservation funding and protecting natural resources,

providing unprecedented funding for our food and nutrition safety net, expanding agricultural trade, expanding housing for rural citizens, investing in America's rural sector, and improving USDA's programs delivering customer service.

The 2004 budget calls for \$74 billion in spending, an increase of \$1.4 billion or about 2 percent above the level that was requested in 2003. This is approximately \$5.4 billion higher than the actual level in 2001 and represents a growth of 8 percent since this Administration took office.

Discretionary outlays are estimated at \$20.2 billion, about a 1 percent change or \$300 million below the 2003 requested level.

The request before this committee for fiscal year 2004 amounts to \$15.5 billion. The budget seeks record level support for USDA's Food Safety and Inspection Service, or FSIS as we refer to it, our meat and poultry food safety programs, as well as increases to strengthen our agriculture protection programs. These areas of our budget have been top priorities for this Administration since we came into office and particularly since the tragic events of September 11th.

FSIS funding will increase to a program level of \$899 million, an increase of nearly \$42 million over the 2003 requested level. This represents \$117 million or a 15 percent increase in these food safety programs since 2001 when the Bush Administration came into office.

The \$899 million for FSIS is comprised of \$797 million in appropriated funds and new fees for inspection services provided beyond an approved primary inspection shift. Existing user fees are expected to generate approximately \$102 million. This will fund 7,680 food safety inspectors, an increase of 80 inspectors, and provide specialized training for the inspector workforce, increase microbiological testing and sampling, strengthen foreign surveillance programs, and increase public education efforts.

Regarding homeland security and agricultural protection programs, the budget includes nearly \$47 million in new funding to strengthen laboratory security measures, conduct research on emerging animal diseases, improve biosecurity, develop new vaccines, create new biosecurity database systems, and continue development of the unified Federal/State Diagnostic Network for identifying and responding to high-risk pathogens.

For the Animal and Plant Health Inspection Service, or APHIS, we are requesting increases of about \$30 million above our 2003 request for inspection services. This is to expand the availability of foot and mouth disease vaccines, provide additional protections against chronic wasting disease and poultry diseases, and expand diagnostic and other scientific technical services.

In addition, \$200 million is requested for the National Research Initiative, including funding for genomics.

The President's 2004 budget supports the continued implementation of the 2002 Farm Bill, which provides a consistent economic safety net for the next several years for our Nation's farmers and ranchers. We have continued to make good progress in implementing the Farm Bill. All of the Title I commodity programs have been implemented and producers have received payments of over \$7.7 billion since the bill was enacted. Signup for base and yield

adjustments formally ended on April 1st and our county offices are now working very hard to ensure producers have Direct and Countercyclical Program contracts in place by June 2nd.

On April 22nd, we announced the Conservation Reserve Program general signup which began May 5th and runs through May 30th. We also announced for fiscal year 2003 the allocation to States of \$1 billion in CCC funding for Farm Bill conservation programs and another \$800 million in discretionary funds to provide conservation assistance on working farmlands.

In February, the Department issued the proposed rule for the EQIP program for public comment. The comment period has closed and we are about ready to issue the final rule. Also in February, we issued an Advanced Notice of Proposed Rulemaking, or what is referred to as an ANPR, to receive public comment on how to proceed with the Conservation Security Program. That comment period closed on April 3rd.

We have an extremely heavy workload at USDA but we are making good progress. It should be remembered that we could not have done this without the tremendous efforts and hard work of our staff in Washington, in the field offices, and our county service centers all throughout the country.

In 2004, the primary focus will be on Farm Bill conservation programs. Total program level funding for Farm Bill conservation programs increases from about \$2.2 billion in 2001, when this administration took office, to almost \$3.9 billion in 2004. This includes \$3.5 billion for financial assistance and \$432 million for conservation technical assistance in 2004 in support of Farm Bill implementation, an overall increase of \$582 million over 2003. In total, this represents an unprecedented investment in conservation that will have significant and lasting environmental benefits.

The fiscal year 2004 budget reflects the Bush Administration's continued commitment to the nutrition safety net by including a record of \$44.2 billion for domestic food assistance programs, a \$2.4 billion increase over the requested level for fiscal year 2003. The President has often said this is a compassionate administration and our continued support for these programs demonstrates that continued commitment.

The budget supports an estimated 21.6 million food stamp participants. It supports a record level of 7.8 million low-income, nutritionally at-risk WIC participants. It supports an average of 29 million schoolchildren each day in the National School Lunch Program. With food stamps, WIC, and school lunch programs, we are reaching more Americans and helping educate more people about healthy eating and stressing the importance of balanced diets. This is part of the President's HealthierUS Initiative.

The budget also includes \$2 billion contingency reserve for food stamps and \$150 million contingency reserve for the WIC program to be available to cover unanticipated increases in participation in these programs.

A high priority of the Administration is reauthorization of the Child Nutrition Programs and WIC this year to ensure stable and adequate funding for the programs and to improve nutrient intakes of participants. In February, we unveiled some of the Administration's principals regarding reauthorization to include ensuring that

all of those eligible have access to these important programs, working to provide more incentives to schools to provide healthy choices and examining innovative approaches to do so, and ensuring continued program integrity.

The fiscal year 2004 budget continues a strong commitment to export promotion and foreign market development efforts by proposing \$6.2 billion in spending. Included in our trade budget is funding for USDA's market development programs including the Market Access and Cooperator Programs, which are increased by \$15 million. Since this Administration took office, funding for market development programs has experienced significant growth, a 37 percent increase since fiscal year 2001.

The budget requests a new centralized fund of \$6.6 million to support agencies' work in addressing important cross-cutting trade issues, compliance monitoring, dispute resolution, and biotechnology activities within the Department.

A program level of \$4.2 billion is provided for the Commodity Credit Corporation export credit guarantee activities. Nearly \$1.6 billion is requested for U.S. foreign food assistance activities, including \$50 million for the McGovern-Dole International Food for Education and Child Nutrition Program which builds upon the pilot Global Food for Education Program.

We have worked hard in this budget to provide funding to increase rural home ownership and to enhance the economic opportunities and the quality of life in rural America. The Administration proposes spending of \$11.9 billion for rural development programs. The budget supports the President's home ownership initiative with particular emphasis on minority family home ownership. The initiative provides for more than 40 percent increase for single-family housing. Nearly \$4.1 billion is requested for direct and guaranteed Section 502 single-family housing loans compared to an estimate of \$2.8 billion for fiscal year 2003.

The President's budget will provide 49,000 new home ownership opportunities for low—and moderate-income families in rural areas. In addition, the water and waste disposal program is being maintained at the requested 2003 level of \$1.5 billion.

The budget supports the Department's strategic plan and supports several management initiatives to better integrate computer systems and technology to provide the Department's constituents with enhanced ability to access records, to sign up for program benefits, to access USDA studies and economic information and to respond to USDA surveys.

These initiatives will also provide USDA employees with the necessary tools to officially operate and deliver services.

Our attention to financial management paid off with the first-ever clean opinion on the Department's fiscal year 2002 financial statements and a significant reduction in delinquent debt, something that we are very proud of.

We are providing greater focus on efforts to eliminate discrimination. Our budget requests \$800,000 to fund the new Office of the Assistant Secretary for Civil Rights. We appreciate the funding that was provided by the Congress in 2003 for this new office, and we appreciate the Senate confirming our new Assistant Secretary for Civil Rights, Mr. Vernon Parker. We are very excited to have

him as part of the team and I can tell you that he is already doing a very good job.

Finally, I want to give you a brief update on the \$3.1 billion disaster assistance that was included in the 2003 Omnibus Budget package that was signed by the President on February 20th. The same day that the President signed the legislation, I established a Disaster Assistance Working Group within USDA to begin work on the disaster assistance programs. Their charge is very clear, to make implementation of disaster assistance a farmer-friendly process and to make sure the program benefits reach producers as quickly as possible.

I am pleased to announce that the signup for the tobacco crop losses began on March 17th. Signup for the additional benefits associated with the Livestock Compensation Program began on April 1st. The Cottonseed Payment Program signup began on May 2nd. Signup for the Crop Disaster Program will begin on June 6th.

USDA has launched a disaster assistance implementation web site that contains basic program information, the announcements on program signup, questions and answers, as well as a comments and suggestions section to encourage interested parties to provide input to USDA on how best to move implementation forward in a timely and expeditious manner.

PREPARED STATEMENT

Mr. Chairman and members of the committee, that completes my overview of some of the key points in this budget, as well as an update on some important issues in the Department of Agriculture.

Again, I want to thank you for the opportunity to be here this morning. We look forward to working with the committee as we move forward on the fiscal year 2004 budget proposals, and our team at USDA is available in the coming months to provide details and information on all of these important issues.

Again, thank you Mr. Chairman and members of the committee and I will be happy to answer your questions.

[The statement follows:]

PREPARED STATEMENT OF ANN M. VENEMAN

Mr. Chairman, Members of the Committee, it is an honor for me to appear before you to discuss the fiscal year 2004 budget for the Department of Agriculture (USDA). I have with me today Deputy Secretary Jim Moseley, our Chief Economist, Keith Collins, and our Budget Officer, Steve Dewhurst.

I want to thank the Committee again this year for its support of USDA programs and for the long history of effective cooperation between this Committee and the Department in support of American agriculture. I look forward to working with you, Mr. Chairman, and all the Members of the Committee during the 2004 budget process.

As you know, the President's Budget was released on February 3rd. Total USDA outlays for 2004 are estimated to be \$74.1 billion. This is an increase of \$1.4 billion above the level requested in 2003. Departmentwide discretionary outlays are estimated at \$20.2 billion, about \$300 million below the 2003 requested level. The Department's request for discretionary budget authority before this committee is \$15.4 billion.

This year's budget is consistent with this Administration's policy book: Food and Agricultural Policy for the 21st Century and supports the Department's 5-year strategic plan. This plan outlines long-term goals and strategies for providing leadership in food, agriculture, resource and related issues, and the 2004 budget is designed to help accomplish USDA's strategic goals of: enhancing economic opportunities for agricultural producers; supporting increased economic opportunities and improving

quality of life in rural America; enhancing protection and safety of the Nation's agriculture and food supply; improving the Nation's nutrition and health; and protecting and enhancing the Nation's natural resource base and environment.

Because of fiscal realities, this budget is highly constrained. However, it maintains and enhances critical programs that supports the Department's strategic goals by:

For 2004, this budget supports the following key initiatives:

- Providing necessary funding for the continued implementation and administration of new and expanded programs enacted as part of the Farm Security and Rural Investment Act of 2002 (Farm Bill).
- Implementing the largest and most wide-reaching Farm Bill conservation title ever which represents an unprecedented investment in conservation that will have significant environmental benefits.
- Providing record funding to support record levels of participants in the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) and covers the anticipated increases in participation in the Food Stamp Program, including legal immigrants and others newly eligible for benefits under the 2002 Farm Bill.
- Providing record level funding to strengthen protection against harmful bacteria in meat and poultry products. The request funds additional food safety inspectors and supports continued implementation of a science-based food safety inspection system by providing specialized food safety training to inspectors and other food safety professionals, increasing microbiological testing, and enhancing the information available to inspectors for evaluating food safety hazards that threaten the food supply.
- Supporting the Department's strategic goal of expanding international marketing opportunities by providing over \$6.0 billion for the Department's international programs and activities.
- Protecting American agriculture from threats to plants and animals and transfers necessary inspection and research functions to support the new Department of Homeland Security (DHS).
- Providing continued support for fundamental and applied sciences in agriculture, including advancing research on agricultural genomics and on animal and plant pests and diseases.
- Providing over \$11 billion in loans, grants, and technical assistance for rural development needs, including electric and telecommunications systems, water and waste disposal systems, rural housing, and business and industry.
- Improving the management and delivery of the Department's programs.

With this as an overview, I would now like to discuss the details of our budget proposals for 2004.

HOMELAND SECURITY

The Department is transferring the border inspection functions of the Animal and Plant Health Inspection Service's (APHIS) Agricultural Quarantine Inspection (AQI) program and the Plum Island Animal Disease Center to the new DHS. The transfer involves \$247 million and nearly 2,700 staff years. A Memorandum of Understanding will ensure that USDA has access to AQI employees in the event of future outbreaks of plant and animal pests and diseases.

The budget requests an increase of nearly \$42 million over that for fiscal year 2003. It will support 7,680 food safety inspectors, an increase of 80 inspectors, and provide specialized training for the inspection workforce, increase microbiological testing and sampling, strengthen foreign surveillance programs and increase public education efforts. In addition, \$30 million will fund efforts by APHIS to expand inspection services, increase the availability of foot-and-mouth disease vaccines, provide protection against chronic wasting disease and poultry diseases, and expand diagnostic and other scientific/technical services. An increase of \$47 million will strengthen laboratory security measures, fund research on emerging animal diseases, develop new vaccines, create new bio-security database systems, and continue development of the unified Federal-State Diagnostic Network for identifying and responding to high risk pathogens.

The fiscal year 2002 Emergency Supplemental provided the Department with \$328 million for 2002 and 2003 to protect American agriculture and its food supplies from terrorism. The supplemental provided \$15 million to APHIS for moving laboratory operations from a strip mall in Ames, Iowa, to the main National Veterinary Services complex. It is under construction. The supplemental of \$50 million to ARS at Ames, Iowa, is being used as part of the \$124 million appropriated by Congress in recent years for modernization of the research facility. It is awaiting construction.

Another \$23 million was allocated to Plum Island, New York. It is being transferred to DHS for laboratory improvements. Funding of \$115 million was allocated to improve physical and operational security at USDA labs and facilities, undertake security related research, and improve cyber security. The planning for this effort is largely completed. The remaining \$125 million was allocated to improve security for food and agriculture by expanding pest detection and animal health monitoring, emergency preparedness training and exercises and strengthening the regional laboratory network. As of March 2003, \$143.7 million has been obligated with the remainder to be spent during 2003.

FARM AND FOREIGN AGRICULTURAL SERVICES

The farm sector in recent years has experienced lower market returns for several major commodities and recurring losses from various diseases, pests and other natural disaster-related causes. While the situation is showing signs of improvement, market returns in some areas of the farm economy are still low. The new Farm Bill enacted in 2002 provides additional financial support for the farm economy if market conditions weaken. The President's budget for 2004 reflects the new Farm Bill which added new countercyclical programs to the farm safety net, reformed other farm programs and substantially expanded the Department's conservation programs. In addition, the budget supports a strong crop insurance program and an aggressive international trade program that will be critical to improving the farm economy in the next few years.

Farm Program Delivery

Farm Service Agency (FSA) salaries and expenses are funded at \$1.3 billion in 2004. This would support staffing levels of about 5,900 Federal staff years and 10,800 county non-Federal staff years, including about 1,500 temporary staff years. Temporary staff will be reduced from the high level required in 2003 because of the heavy workload associated with the initial implementation of the new farm programs. However, we expect the workload for FSA to remain at significant levels in 2004, particularly because of Farm Bill requirements in the conservation area. Therefore, permanent county non-Federal staff levels are protected at current levels.

In order to help FSA meet its workload challenges, improve service to farmers, and enhance operating efficiency, the budget provides increased funding of \$41.9 million for FSA's information technology efforts related to the Service Center Modernization Initiative. This includes continued installation of geographic information systems (GIS) and other Common Computing Environment (CCE) initiatives to help move the delivery system into the e-Government era. The budget presents these funds as well as funds for the other Service Center agencies under the CCE appropriation to ensure that these activities are well coordinated.

Management initiatives to modernize farm credit program servicing activities and to streamline information technology and related administrative support for the Service Center activities of FSA, the Natural Resources Conservation Service (NRCS), and Rural Development (RD) will also be undertaken in an effort to improve our ability to provide services at less cost.

International Trade

One of the key objectives set forth in the Department's new strategic plan is the expansion of international marketing opportunities. As the strategic plan and our earlier review of the U.S. food and agricultural system in the 21st century make clear, expanding markets is critical to the long-term health and prosperity of American agriculture. With 96 percent of the world's population living outside the United States, future growth in demand for food and agricultural products will occur primarily in overseas markets.

The Department is moving ahead aggressively to achieve our trade expansion objectives. At the center of these efforts is negotiation of trade agreements that will reduce trade barriers and increase market access overseas. At the World Trade Organization, the United States has presented an ambitious proposal for reform of global agricultural trade that will eliminate export subsidies and reduce market access barriers and trade distorting domestic support. At the same time, the Department is actively engaged in efforts to establish regional free trade agreements with countries in Central America and southern Africa, as well as the Free Trade Area of the Americas. Work also has begun to reach comprehensive trade agreements with Australia and Morocco.

Our trade policy activities are not limited to negotiating new agreements, however. As these agreements are implemented, it is essential that we bolster our efforts to monitor compliance and ensure that U.S. rights are protected. These efforts are critical to preserving markets as evidenced by the Department's work over the

past year to resolve trade disputes, such as China's restrictions on soybean imports and Russia's ban on U.S. poultry imports.

The Foreign Agricultural Service (FAS) is the lead agency in the Department's international activities and plays a critical role in our efforts to expand and preserve overseas markets. To support its activities, the 2004 budget provides a program level of \$145 million for FAS. This is an increase of nearly \$10 million above the 2003 request level and supports a number of important trade-related activities. Among these is a trade capacity building initiative that will allow FAS to work with other countries in their implementation of the Cartagena Protocol on Biosafety. The Protocol is intended to provide uniform standards for ensuring the safe transport and use of products derived from biotechnology. Through a series of regional seminars, training sessions, scientific exchanges, and related activities, FAS will work to ensure that the Protocol's provisions are properly interpreted and applied. This is intended to facilitate the adoption of science-based, transparent, and non-discriminatory standards and, thereby, help to avoid potential disruptions in agricultural trade.

The FAS budget also includes funding for a USDA contribution to the Montreal Protocol Multilateral Fund. Established in 1991, the Fund assists developing countries switch from ozone-depleting substances to safer alternatives. Agricultural issues are expected to become increasingly important in the Montreal Protocol process, particularly as the scheduled phase-out date for the use of methyl bromide approaches. The USDA contribution will help to further U.S. agricultural interests in the Protocol implementation process.

Additional funding in support of FAS trade agreement negotiation, enforcement, and standards-setting activities will be made available from funds requested for the Office of the Secretary to conduct USDA cross-cutting trade negotiation and biotechnology activities. These funds also will be available to bolster efforts by FAS, APHIS, and other USDA agencies to address market access constraints related to biotechnology.

The Department's export promotion and market development programs are another key component in our efforts to expand international marketing opportunities. The 2002 Farm Bill increased funding for many of these programs in order to bolster our trade expansion efforts, and the President's budget fully reflects those increases.

For the Commodity Credit Corporation (CCC) export credit guarantee programs, the budget includes a program level of \$4.2 billion which continues the programs near their current level. For the Department's market development programs, including the Market Access Program and Cooperator Program, the budget increases funding to \$163 million in 2004. This includes \$2 million to continue the Technical Assistance for Specialty Crops Program authorized by the Farm Bill and implemented by FAS last year. The budget also includes \$57 million for the Dairy Export Incentive Program and \$28 million for the Export Enhancement Program.

The budget supports a total program level for U.S. foreign food assistance activities of nearly \$1.6 billion. Of that amount, just over \$1.3 billion is provided for the Public Law 480 Title I credit and Title II donation programs. It also includes a projected \$151 million for the CCC-funded Food for Progress programs which, based on current price projections, should support 400,000 metric tons of assistance as required by the Farm Bill. The budget also requests \$50 million in appropriated funding for the new McGovern-Dole International Food for Education and Child Nutrition Program. As the Committee is aware, the program is funded through CCC in 2003, but beginning in 2004 is to be funded through appropriations. This funding level will provide continuity to new program activities that will begin to be implemented in late 2003.

Farm Credit

The budget also supports a program level of about \$3.7 billion in farm credit programs to enhance opportunities for producers to obtain, when necessary, Federally-supported operating, ownership, and emergency credit. The program level is down slightly from last year due to higher subsidy costs for the direct loan programs. In addition, funding has been reallocated from guaranteed operating loans to the direct loan programs to better accommodate the actual demand in these programs. No additional funding is being requested for the emergency loan program. Based on current estimates, the budget assumes that carry-over funding in the emergency loan program will be sufficient to meet demand.

Crop Insurance

The budget also includes full funding for the crop insurance program. The budget includes "such sums as necessary" for the mandatory costs associated with program

delivery and the payment of indemnities. The program is delivered by private insurance companies, and the Federal Government reimburses the companies for their delivery costs. The companies may also receive underwriting gains on policies for which they retain the risk of loss.

In 2000, Congress substantially reformed the crop insurance program, in part, by providing for substantial increases in the premium subsidy available to producers, especially at higher levels of coverage. Producers have responded by purchasing higher levels of coverage. As a result, the premium earned per policy has increased from about \$1,500 to over \$2,300. However, the number of policies sold has remained virtually steady at about 1.3 million policies, indicating that most policies are renewal business which requires less sales effort than does the solicitation of new customers. In addition, technological advances mandated, in part, by the 2000 reforms have provided producers the opportunity to access information and to apply for crop insurance electronically.

The Administration recently announced that the 2004 book of business would be delivered under the Standard Reinsurance Agreement that has been in place for a number of years. However, the budget includes a proposal to cap the amount of delivery expense reimbursement the companies may receive at 20 percent of the premium. The existing cap of 24.5 percent has been in place since 1998. This proposal is expected to save about \$68 million in 2004. These savings are achievable because of improvements in the cost-effectiveness of the delivery system through the establishment of e-commerce procedures, higher premium dollar policies for insuring the same number of acres, and more business being done on a renewal basis.

MARKETING AND REGULATORY PROGRAMS

Marketing and Regulatory Program agencies provide the basic infrastructure to protect and improve agricultural market competitiveness for the benefit of both consumers and U.S. producers.

Pests and Diseases

Helping protect the health of animal and plant resources from inadvertent as well as intentional pest and disease threats has been a primary responsibility of APHIS. The Department is entering into a Memorandum of Understanding with the DHS regarding the transfer of the AQI border inspections program. In this regard, APHIS will retain responsibility for promulgating regulations to protect against agricultural pests and diseases. DHS will provide access to the AQI inspectors in the event of future outbreaks. USDA will retain the role of inspecting passengers and cargoes traveling from Hawaii and Puerto Rico to the mainland for compliance with specified regulations to protect the health of the agricultural sector on the mainland.

The 2004 budget proposes a program level of slightly more than \$800 million for salaries and expenses, an increase of about \$10 million from the current comparable 2003 estimate. Notable programmatic increases would double efforts against chronic wasting disease, increase the availability of foot-and-mouth disease vaccines to protect against a potential outbreak, fund a low-pathogenic avian influenza program, enhance the ability to track animals and animal products entering and leaving the country, and expand regulatory enforcement. Further, bio-security and physical and operational security efforts would be bolstered, as would veterinary biologic and diagnostic support for the livestock sector. About \$32 million is reduced from specific pest and disease management programs assuming an increase in cost-sharing for emergency pest and disease outbreaks by some cooperators. A proposed rule will be published for comment which will provide the criteria for cost-sharing for all cooperators.

Marketing

Another important proposal in the marketing and regulatory programs area involves the Grain Inspection, Packers and Stockyards Administration (GIPSA). The 2004 budget requests \$13 million to help ensure efficient market functioning. An increase of almost \$1 million would fund a new pilot program to audit the top four steer and heifer meatpackers. The audits are anticipated to result in substantially better financial protection to the regulated industries through heightened financial scrutiny. An additional \$500,000 would enhance compliance with the Packers and Stockyards Act and fund a review of the Act. GIPSA will implement a General Accounting Office recommendation to provide industry participants with clear information on agency views of competitive activities. The GIPSA budget also proposes user fees to recover the costs of establishing and amending U.S. Grain Standards, as well as license fees to recover costs of the Packers and Stockyards program.

For the Agricultural Marketing Service the budget proposes a program level of \$297 million of which over 65 percent will be funded through user fees with the re-

remainder funded through appropriations. An increase of \$1 million in appropriated funds for increased pay costs is included in order to maintain existing program operations in Marketing Services and Payments to States.

FOOD SAFETY

USDA plays a critical role in safeguarding the food supply and its policies have contributed to the recent decline in pathogenic contamination of meat and poultry products and the level of foodborne illness as reported by the Centers for Disease Control and Prevention. This Administration believes that continued investment in the food safety infrastructure is necessary to ensure that the appropriate personnel, tools, and information are available to address the emerging food safety hazards that threaten public health and the viability of our agricultural system.

For 2004, the budget for the Food Safety and Inspection Service (FSIS) provides a program level of \$899 million, an increase of nearly \$42 million over 2003. The budget includes increases for pay and inflation, the resources necessary to support approximately 7,680 meat and poultry inspectors, an increase of 80 inspectors from 2003. These inspectors are necessary to provide uninterrupted inspection services to the growing poultry industry. Increased funding for domestic inspection programs is also requested to take into account Virginia's decision to terminate its State inspection program and Maine's decision to implement a State inspection program.

The budget includes an increase of approximately \$16 million to support programmatic improvements aimed at achieving USDA's strategic objective to reduce the prevalence of foodborne hazards from farm-to-table. These program improvements will permit FSIS to continually assess and update food safety systems in order to ensure the highest level of safety possible. The following programmatic improvements will be supported by the budget.

The budget includes an increase of \$2 million to intensify the oversight of foreign inspection systems and inspection of the meat and poultry products which are exported to the United States. As more countries seek permission to export meat and poultry products to the United States, greater efforts will have to be made by inspection personnel to determine that their inspection systems ensure the level of safety that we expect here at home. With this funding, the number of countries being evaluated will increase from 33 to 40.

The budget also includes a programmatic increase of \$6 million to strengthen FSIS's microbiological testing program. First, consistent with recent directives issued by FSIS concerning the control of *E. coli* O157:H7 and *Listeria monocytogenes*, FSIS will significantly increase the level of testing of meat and poultry products for the presence of these pathogens. With this funding, the number of tests of ready-to-eat meat and poultry products samples for *Listeria* and *Salmonella* will increase by 50 percent; environmental sampling for *Listeria monocytogenes* in firms processing ready-to-eat meat and poultry products will be initiated; and samples of raw ground beef and ground beef products will more than double. This level of sampling will give consumers greater assurance that establishments are effectively controlling or eliminating the presence of pathogens in meat and poultry products.

In order to handle the increased level of testing and to develop the emergency surge capacity in the event of a bioterrorist incident, the budget includes funding to improve the agency's laboratory infrastructure and to increase the number of highly trained chemists and microbiologists. These improvements are necessary to provide FSIS the capability it needs to ensure the safety of the products on a daily basis and to respond effectively to national emergencies involving the products it regulates.

FSIS will also conduct nationwide microbiological baseline studies to provide the long-term data necessary to assess the ongoing risks presented by the products FSIS regulates. Improved risk assessments will make inspection decisions more science-based. Consistent with the Administration's policy on outsourcing, this laboratory testing would be conducted by outside laboratories.

The budget also provides a programmatic increase of \$6 million to improve the scientific and surveillance skills of FSIS workforce. This represents approximately a 33 percent increase in FSIS' training budget and a commitment to raising the base level of skill of the FSIS workforce. Training will be provided to in-plant inspectors to enhance the consistency and effectiveness of inspection. Inspectors highly trained in the latest food safety science and technology, including skills in assessing establishment Hazard Analysis and Critical Control Point systems and Sanitation Standard Operating Procedures, must be the backbone of our food safety infrastructure. In addition, training needs to be provided to food safety professionals, such as

microbiologists, toxicologists, and risk assessors, in order to improve the development and enforcement of more science-based regulations.

An increase of approximately \$2 million is requested to evaluate and design a mass media campaign aimed at improving the safe food handling practices of consumers. A well educated public is better prepared to understand and address the food safety hazards they face and, therefore, will be more confident in the food they buy and eat.

The 2004 budget also proposes legislation to collect an additional \$122 million in user fees annually by recovering 100 percent of the cost of providing inspection services beyond an approved primary shift. Recovering a greater portion of these funds through user fees would result in savings to the taxpayer. These fees will have a minimal impact on prices received by producers or prices paid at retail by consumers.

FOOD, NUTRITION, AND CONSUMER SERVICES

The budget includes \$44.2 billion for USDA's domestic nutrition assistance programs, the highest level ever requested. The budget will ensure access to food assistance for all eligible recipients, it will help improve nutritional intakes and reduce obesity, and it will provide support for those recipients working toward economic self-sufficiency.

The Special Supplemental Nutrition Program for Women, Infants and Children is budgeted at \$4.8 billion. This is a record high funding request, which funds record levels of at-risk, low-income participants. This request also includes additional funding for program initiatives, including State information systems, breastfeeding peer counselors, and childhood obesity prevention projects. WIC reauthorization is a priority and is assumed in the budget. Ensuring an appropriately funded WIC program with the best possible outcomes is a top Administration priority. Further, the budget includes \$20 million for the WIC Farmer's Market Nutrition Program and another \$15 million in CCC funds for the Senior Farmers' Market Nutrition Program.

The Food Stamp Program, which is the cornerstone of America's effort to ensure low-income people have access to an adequate diet, is funded at \$27.5 billion. This covers anticipated food cost inflation and participation growth of about 1 million participants, including legal immigrants and others newly eligible based on legislative changes in the 2002 Farm Bill. Included is a \$2 billion contingency reserve, \$1.4 billion for Nutrition Assistance for Puerto Rico, and funds to improve integrity and Electronic Benefit Transfer. Significant progress has been made in reducing over and under payment error in the program such that average State payment accuracy is now 91.34 percent, and overpayment error averages 6.37 percent of benefits. The budget maintains the emphasis on program integrity and seeks to reduce error further.

The Child Nutrition Programs would be funded at \$11.4 billion, also a record for these programs. Increases are provided for food cost inflation, growth in the number of meals served and program integrity. Reauthorization of the Child Nutrition Programs is a priority for this coming year, and the Administration believes the focus should be on:

- Ensuring stable and adequate funding for program benefits, especially for eligible meals served to low-income children who are eligible for free or reduced price meals;
- Ensuring access to meals for all children;
- Providing financial incentives to schools that serve meals consistent with the Dietary Guidelines; and
- Streamlining program administration, minimizing administrative burden, ensuring adequate resources for program oversight, reducing error and improving program outcomes, while reinvesting any savings in strengthening the programs.

The budget also includes a proposal specifically to explore policy changes to help ensure that all free and reduced price meal eligibles are correctly certified. USDA studies and national survey data suggest that a significant number of children approved for free and reduced price meals are from ineligible households. Correct certifications are a priority not only because they affect about \$7 billion in school meal funds, but also because a wide array of Federal, State, and local education resources, totaling considerably more than meal reimbursements, are targeted to low-income children and schools using the same data. More accurate certifications will help ensure that these resources are all targeted correctly. The Administration would fully reinvest any savings that result from improved payment accuracy to strengthen the programs.

NATURAL RESOURCES AND ENVIRONMENT

The 2002 Farm Bill contains many new conservation programs designed to protect and enhance the environment. The Department is now faced with the demanding task of implementing this Farm Bill which provides nearly \$17.1 billion in new conservation funding over the next 10 years. The 2004 budget request in the conservation area recognizes the importance of this task, as well as the need to continue to support underlying programs to address the full range of conservation issues at the national, State, local and farm level.

The 2004 budget request for NRCS includes \$1.2 billion in appropriated funding, and \$1.4 billion in mandatory CCC financial assistance funding for the Farm Bill conservation programs, including \$850 million for the Environmental Quality Incentive Program. The appropriated request includes \$577 million for conservation technical assistance for the base programs that support the Department's conservation partnership with State and local entities. One new element in the NRCS appropriated account structure, proposed initially in a 2003 budget amendment, is a new Farm Bill Technical Assistance Account that will provide all technical assistance associated with the implementation of all the Farm Bill conservation programs. In 2004, this new appropriated account is funded at \$432 million.

The 2004 budget for NRCS will also enable the agency to maintain support for important ongoing activities such as addressing the problems associated with polluted runoff from animal feeding operations and providing specialized technical assistance to land users on grazing lands. In addition, limited increases will be directed to other high priority activities such as addressing air quality problems in noncompliance areas, more fully implementing the Customer Service Toolkit, and establishing a more effective and meaningful monitoring and evaluation regimen to oversee the implementation of Farm Bill programs.

The budget also proposes certain other changes for the watershed programs. With emergency spending being so difficult to predict, the budget proposes to not seek appropriated funding for emergency work while partially restoring the ongoing watershed planning and Public Law 566 programs. This will help address the backlog of unmet community needs that these programs are designed to meet. Disaster funding will be addressed as emergencies arise.

The Department's 2004 budget request maintains funding for the 368 Resource Conservation and Development areas now authorized. The ongoing program will continue to improve State and local leadership capabilities in planning, developing and carrying out resource conservation programs.

RURAL DEVELOPMENT

Over 60 million people call rural America home and relatively few of them are farmers and ranchers. USDA must embrace this reality and commit to creating new economic opportunities and improving the quality of life for a diversified rural population. Rural America needs to share in the Nation's economic prosperity, in terms of good jobs and earning potential, homeownership and infrastructure for community services, including telecommunications to participate in a highly technological, global society.

The Administration is committed to bringing new ideas, new solutions and new approaches to rural America. The 2004 budget reflects this commitment. It includes new programs that are being implemented using the mandatory funding provided by the 2002 Farm Bill, and maintains the traditional loan, grant and technical assistance programs for rural development purposes at realistic levels of funding while offering new ways to operate these programs. For example, on January 29, 2003, USDA announced the availability of over \$1.4 billion in loans for broadband telecommunication. This initiative started as a pilot program in 2001 and is on the verge of becoming one of USDA's most important programs. It could make the same difference to rural America as the railroads did in the 19th century and the highway program did in the 20th century.

The 2004 budget proposes \$11.9 billion for USDA's rural development programs, including \$680 million for administrative expenses. This program level is estimated to cost the Government \$2.3 billion in budget authority, which compares to about \$2.6 billion in the President's 2003 budget. Because interest rates have declined, the subsidy costs for most direct loan programs are lower than those reflected in the 2003 budget. The 2004 budget maintains these programs at their 2003 levels, which results in a savings in budget authority.

The 2004 budget maintains the water and waste disposal program at an overall program level of \$1.5 billion. However, it proposes that the amount of grants included in this level be reduced from \$587 million to \$346 million. Because the subsidy rate is only about 3.33 percent for direct loans, compared to 100 percent for

grants, the shift toward more loans would maintain the same program level as the 2003 President's budget while achieving a substantial savings in budget authority. The lowest interest rates in a decade should allow more communities to repay loans rather than rely on grants. In addition, mandatory funding provided by the 2002 Farm Bill was used to fund a backlog of projects that needed a substantial portion of their funding through grants in order to be viable. Recent applications indicate that more projects can be funded through loans alone or with only a moderate grant.

Electric loans are maintained at a \$2.6 billion level. However, the amount available for direct loans at the 5 percent interest rate would be increased from \$121 million to \$240 million. This increase is intended to serve areas with low density and high consumer costs as well as other hardships. Further, USDA intends to ask electric borrowers, most of which qualified for eligibility based on service areas defined decades ago, to recertify that they are still serving rural areas, rather than urban or suburban areas.

Loans for broadband access were initiated as a pilot program in 2001. The 2002 Farm Bill provided the statutory authority and mandatory funding for this initiative. The 2004 budget provides for an increase in discretionary funding for broadband loans from \$80 million in the 2003 budget to \$196 million for 2004. This increase reflects the Administration's support for bringing internet and broadband services to rural areas, and its belief that this activity should compete for funding under the annual budget process. Therefore, the 2004 budget proposes rescinding the mandatory funding for broadband loans that the 2002 Farm Bill makes available for 2004. The mandatory funding relating to the January 29, 2003, announcement is reflected in the budget as being used in 2003. However, this funding remains available until expended.

The 2004 budget also includes \$2 million for broadband grants. As has been the policy since 2001 when the program was established, these grants will be used to assist a few small communities that lack the repayment capacity for loans.

With regard to the rest of the telecommunications programs, the budget includes \$495 million for telecommunication direct loans, and \$50 million in direct loans and \$25 million in grants for the distance learning and telemedicine program. These levels are the same as those requested for 2003. Further, the 2004 budget contains the Administration's prior proposal to stop funding the loan-making activities of the Rural Telephone Bank (RTB). The RTB is fully capable of obtaining funds to make loans through commercial channels as soon as it is privatized through the redemption of its Class A stock, which the Government holds.

The business and industry guaranteed loan program is funded at a program level of \$602 million, down from \$733 million in 2003. The decrease reflects an increase in subsidy costs due to both increased losses on guarantees made in prior years and technical adjustments.

Section 502 direct loans for single family housing would be increased from \$957 million in 2003 to almost \$1.4 billion in 2004. This increase would contribute to meeting the President's goal of increasing minority homeownership. In addition, the 2004 budget includes \$2.725 billion for Section 502 guaranteed loans, including \$225 million for refinancing. While there have been shortfalls in demand for these guarantees in prior years, the Administration recently lowered the fees to bring them more in line with what other Federal agencies charge. This change is expected to ensure a strong demand for the program through 2004. Section 502 direct and guaranteed loans are expected to provide about 49,000 homeownership opportunities in 2004.

Consistent with last year's budget proposal, the 2004 budget does not include funding for new construction of Section 515 rural rental housing projects. This proposal reflects concern about the long-term cost of the Government for maintaining the existing portfolio of 17,800 projects, and the need to find more cost-effective ways to provide housing support for rural residents with very low income. Many of these projects are over 20 years old and in need of repair or rehabilitation. They also require substantial amounts of rental assistance payments to remain viable. USDA has already initiated a review of alternatives for servicing the portfolio and developing options for making loans for new projects at less cost to the Government. Direct loans for repair, rehabilitation and preservation would continue to be made. The 2004 budget would support \$71 million for these purposes. Further, the 2004 budget provides \$740 million for rural rental assistance payments, which is sufficient to renew all expiring contracts and to support new construction of \$59 million of farm labor housing projects.

In addition, the 2004 budget includes an estimated savings of \$5 million for sales of loan assets. USDA's RD mission area, along with FSA, will be evaluating the potential for conducting such sales on a regular basis.

RESEARCH, EDUCATION, AND ECONOMICS

Publicly supported agricultural research has provided the foundation for modern agriculture and is an important component of virtually all of our strategic objectives. Research will lead to commercially feasible renewable energy and biobased products with benefits to the environment, national security, and farm income. Genetic and molecular biology hold promise to reduce plant and animal diseases that threaten U.S. agriculture as the movement of plants and animals increases and as bioterrorism becomes a matter of increasing concern. There are technology-based opportunities to make our food supply safer and more wholesome that need to be exploited to address serious human health-related problems.

The 2004 budget for the four Research, Education and Economics agencies is approximately \$2.3 billion, nearly the same as 2003 budget level. The 2004 budget follows the general pattern of the 2003 budget with reductions in earmarked programs and program increases in areas where needs and returns are the greatest. The budget also includes increases for pay costs, homeland security related activities, information technology and other infrastructure requirements.

The centerpiece of the 2003 budget was the proposal to move aggressively towards the full authorization level for the National Research Initiative (NRI). The proposal in the 2004 budget is based on the same underlying policy objective, but in a way that is consistent with the greater overall constraints of the 2004 budget. The proposal for \$200 million for the NRI will finance work that will have an immediate impact on such issues as emerging diseases of plants and animals, biosecurity, air quality, and food and nutrition. The NRI provides critical support for mapping and sequencing the genomes of organisms of importance to agriculture. These projects are carried out in the major Federal genome sequencing centers in cooperation with other agencies including the National Institutes of Health, the Department of Energy, and the National Science Foundation, where USDA funds are highly leveraged.

The 2004 budget for the Agricultural Research Service (ARS) calls for increases to support participation in genome mapping and sequencing projects and enhance the agency's bioinformatics capacity to transfer this information into research programs. There are increases for work on animal diseases and biosecurity to develop new vaccines, rapid diagnostic tests, and genome data on biosecurity threat agents. The research will lead to improved vaccines and therapeutics against foot and mouth disease and the newly emerging and most threatening swine disease, known as porcine reproductive respiratory syndrome or PRRS.

The budget includes funds to install security countermeasures in ARS laboratories. Security assessments and initial investments in countermeasures were funded through the 2002 emergency supplemental funding. Assessments of all ARS facilities are being completed and funds in the 2004 budget will be used for the highest priority projects. At this time, such security measures represent the highest priority for the Buildings and Facilities account. Congress has appropriated a total of \$124 million in recent years for implementation of the animal health facilities in Ames, Iowa. No funding is proposed in the 2004 budget as security of existing facilities is the higher priority for this year. The Administration will reconsider the full range of options for future modernization of these facilities and present recommendations in the fiscal year 2005 budget.

The 2004 budget for the Cooperative State Research, Education, and Extension Service (CSREES) includes funds to continue the formula programs for the 1862 institutions at current levels and increase formula payments to the 1890 institutions as a step towards funding these programs at the higher authorization levels established in the 2002 Farm Bill. There are also proposed increases in funds for the 1994 Tribal Land Grant schools and an increase in the CSREES graduate fellowship program that will allow more funding for fellowships at the masters degree level which is especially important for recruiting minority graduate students. Finally, there is an increase in the Outreach and Technical Assistance Program authorized under Section 2501 of the 1990 Farm Bill which is now being administered by CSREES. Our goals for the 2501 program are to encourage and assist socially disadvantaged farmers and ranchers own and operate farms and ranches and participate in USDA programs. With increased funding to \$4 million we will be making more awards, for longer periods of time, to a wide range of community-based entities.

The budget for the Economic Research Service (ERS) includes an increase for two initiatives. An increase of \$1 million for a Security Analysis System for U.S. agriculture (SAS-USA) to provide information critical for the mitigation of security threats and attacks to the Nation's agriculture and food supply. The system will integrate spatial and economic data with analysis functions to deliver security assess-

ments and recommendations to key decision makers within a short timeframe. An increase of \$1.1 million will allow ERS to investigate consumer behavior, particularly in U.S. export markets, towards foods modified by genomic and other agricultural biotechnology innovations.

The budget for the National Agricultural Statistics Service (NASS) includes an increase for three initiatives and a decrease of \$16.5 million for the Census of Agriculture, reflecting the decrease in staffing and activity levels to be realized in 2004 due to the cyclical nature of the 5-year census program.

An increase of \$4.8 million is requested to help restore and modernize NASS core survey and estimation program for U.S. agricultural commodities and other economic, environmental and rural data. These data are used by a variety of customers for business decisions, policy making, research, and other issues. They are also necessary for the calculation of national countercyclical payments rates provided under the 2002 Farm Bill.

An increase of \$1.6 million for NASS Locality-Based Agricultural County estimates program continues the improvements included in the 2003 budget request. These local estimates are one of the most requested data sets, and are especially important to the Risk Management Agency (RMA) for their risk rating process, (affecting premium levels paid by producers), and to FSA for calculating national loan deficiency payments.

Finally, an increase of \$3.25 million is requested to support NASS efforts as the lead agency for two of USDA's enterprise-wide e-Government initiatives, Survey Capability and Data Management. This funding will allow NASS to develop the infrastructure necessary for electronic data reporting for its surveys, thereby reducing the reporting burden on farmers and ranchers.

DEPARTMENTAL MANAGEMENT

The Departmental staff offices provide leadership, coordination and support for all administrative and policy functions of the Department. These offices' are vital to USDA's success in providing effective customer service and efficient program delivery. Salaries and benefits often comprise 90 percent or more of these offices' budgets, leaving them little flexibility to reduce other expenditures needed to continue their operations. The 2004 budget proposes funding required to ensure that these offices maintain the staffing levels needed to provide management leadership, oversight and coordination.

These offices also have key responsibilities related to the President's Management Agenda and other departmentwide and agency-specific management reforms, which are crucial to making the Department an efficient, effective and discrimination-free organization that delivers the best return on taxpayers-investments. The Department has made significant progress in improving management. Examples are:

- The Department has a new strategic plan which is being used to communicate and drive our programmatic, budget and management priorities.
 - The Department received its first-ever unqualified or "clean" opinion on the fiscal year 2002 financial statements, significantly reduced delinquent debt and all of the Department's agencies now use a single financial information system that meets Federal standards.
 - The Department's National Finance Center was one of four winners of a governmentwide competition to streamline payroll service providers. It also helps nearly 3 million Thrift Savings Plan participants manage and track their investments.
 - USDA's customers can increasingly conduct business with the Department online, saving them and the Department time and money over the long term.
- The fiscal year 2004 budget builds upon that progress by continuing funding levels for these offices and providing key funding increases in order to:
- Provide \$6.6 million to appropriate agencies, such as APHIS, FAS, and GIPSA, through the Office of the Secretary to address cross-cutting trade related challenges. Additional resources are needed for trade negotiations and enforcement actions, as well as in solving biotechnology issues related to market access and regulatory standards. This request will allow Secretarial level coordination, flexibility and resource sharing to target current trade issues.
 - Meet demands for Departmental coordination of homeland security efforts, including emergency planning and strengthened physical and cyber security in light of the September 11, 2001, attacks.
 - Continue efforts to modernize the Service Center agencies (FSA, NRCS, and RD) to improve efficiency and customer service. A key element in these plans is the maintenance of a CCE for the Service Center agencies and RMA accelera-

- tion of our efforts to acquire and use Geospatial Information Systems (GIS). The CCE and GIS are critical to providing electronic services to USDA customers.
- Continue renovations of the South Building to ensure that employees and customers have a safe and modern working environment.
 - Enable the new Assistant Secretary for Civil Rights to guide civil rights activities. The President nominated Vernon Parker as the Department's first Assistant Secretary for Civil Rights and he was confirmed by Senate on March 27.
 - Enhance outreach efforts to provide all of our customers with information about our programs.
 - Enable the Offices of the General Counsel and the Inspector General to provide needed services to the Department.

That concludes my statement. I look forward to working with the Committee on the 2004 budget so that we can better serve those who rely on USDA programs and services.

Senator BENNETT. Thank you very much, Madame Secretary.

As you have seen, as the vote has concluded, a number of members of the subcommittee have joined us. I want to particularly welcome Senator Kohl, who was chairman of the subcommittee and set a high standard of excellence for us all to try to follow.

Senator, if you have an opening statement, we will be happy to hear that and then I will begin the questioning in the normal round.

Senator KOHL. Go ahead.

BIOTECHNOLOGY TRADE-RELATED ACTIVITIES

Senator BENNETT. Thank you very much.

Madame Secretary, I noted that you requested an additional \$6.6 million in your own budget to fund cross-cutting trade relating and biotechnology programs throughout the Department. As we have talked to members of your staff, you plan to use this money for the Foreign Agricultural Service, the Animal Plant Health Inspection Service, and the Grain Inspection, Packers and Stockyards Administration.

Could you tell us how you arrived at this figure of \$6.6 million? And how much of this amount do you plan to give to each of these agencies? Why didn't the Department request that the increases be provided directly to these accounts instead of coming through your office? Do you have an established criteria for distribution of the funds?

We are just trying to get a better understanding of all of this. And if you do not have those specific members right at your fingertips, you can supply them for the record. But I would appreciate any comment that you would have on this general approach.

Secretary VENEMAN. Mr. Chairman, I appreciate that question. This is a new proposal, something that has not appeared in our budget before. As you know, there are a number of new developments with regard to biotechnology. We are encountering trade issues, as we have worked to open up markets in the European Union. That continues to be a very big issue, not only with the EU but with other countries as well.

As we worked through the budget, one of the things that was apparent was that a number of these agencies were requesting additional funds to work on issues related to biotechnology on the trade side and on the regulatory side as well. We have had issues come up over the course of the last year where we have had to deal with

the cleanup of an issue relating to Prodigy, for example. We also had to deal with the Starlink situation, in 2001.

So these are cross-cutting issues with regard to biotechnology. They are trade related. They are regulatory related. The concept is to have a fund under which we can really utilize the resources that we have in a coordinated manner, in a cross-cutting manner, and have some flexibility as these issues arise.

At this point, is not possible for me to give you the exact break down by agency. Some of that will continue to remain undetermined because we will need some flexibility in this account to address issues that we may not anticipate. But we will be happy to give you what detail we can on this particular proposal.

[The information follows:]

Funding for these activities will be allocated in a coordinated manner to address issues related to trade and biotechnology that are very fluid. It would be premature to make allocations at this time, though we would expect funding to be used to respond to World Trade Organization and regional and bilateral trade negotiation demands, as well as trade and regulatory issues associated with biotechnology. Examples of the types of activities to be funded include:

- work to minimize market constraints related to biotechnology;
- expand efforts to exchange information relating to the implications of implementing laws and regulations related to biotechnology;
- deal with issues that may disrupt trade;
- address increased trade negotiation workload associated with the World Trade Organization’s multilateral negotiations to reform world agricultural trade practices, as well as the negotiation of regional trade agreements, including the Free Trade Area of the Americas, and numerous bilateral free trade agreements; and
- ensure that introduced genetically-modified organisms, including those in field testing, do not pose a risk to American agriculture.

CRP/WRP TECHNICAL ASSISTANCE

Senator BENNETT. We would appreciate that.

In the 2003 supplemental, this subcommittee provided direction your Department regarding funding of technical assistance and clarifying the intent of Congress and an area. I understand there has been some confusion about that or at least some dispute about it.

Can you tell us how the Department interprets the language that this subcommittee included in the 2003 supplemental on that issue? And how much money will be required to fund technical assistance for the Conservation Reserve Program and Wetland Reserve Program in fiscal year 2004?

Secretary VENEMAN. Mr. Chairman, as you indicate, there was some dispute about how the technical assistance would be funded. Ultimately, there was a decision by the Justice Department as to how the law should be interpreted and we are bound by that decision.

There was \$333 million in the 2003 budget and we are asking for \$432 million in the 2004 budget for technical assistance for the conservation programs.

Senator BENNETT. Mr. Dewhurst.

Mr. DEWHURST. Senator, let me just add to the Secretary’s answer. As you said, in the Omnibus Bill that the Congress enacted, the Congress clarified the law with respect to technical assistance, and specified that funding from certain of those mandatory programs, provided for in the Farm Bill, should be used to provide technical assistance for the conservation programs, not with-

standing what we know as the Section 11 cap, which had been a problem in the past.

The approach that the Congress adopted in the Omnibus Bill is different from the approach that the Administration had recommended in its budget in the sense that the Administration had recommended the creation of a discretionary account to provide this money and the action of the Congress specifies the use of mandatory money for this purpose.

Senator BENNETT. That is why we asked the question.

Mr. DEWHURST. One of the things that happens here under the operation of that law is that four of the programs that are in the Farm Bill, the EQIP Program, the Farmland Protection Program, the Grasslands Program, and the Wildlife Habitat Incentives Program essentially are asked to provide the technical assistance money to support all of those programs. So you have some of these programs being used as a source of technical assistance money for other conservation programs, and that has become controversial.

The \$333 million that the Secretary talked about remains the amount of money that the Department thinks is needed in total to support these programs in the current fiscal year. That money, under the law, will come out of the mandatory programs, out of those four programs I mentioned. It will be used to provide the technical assistance to support all of the Farm Bill programs, including programs such as the Conservation Reserve Program.

So the Administration is continuing to recommend, in its 2004 budget, the creation of a discretionary account for this purpose and the issue resides in where you get the money from and whether or not you want the money from one program to, in effect, subsidize another program. It is quite a complicated and controversial issue.

Senator BENNETT. Thank you. That is a clear explanation of where we are and obviously the determination will have to be made by this subcommittee as to where we go.

Let me ask what might be a parochial question but I think it affects everyone, and then I will go to my colleagues and come back on a second round for my additional questions.

EMERGENCY WATERSHED PROTECTION PROGRAM

I say parochial because the situation occurred in Santaquin, Utah. A wildfire burned the hills in that rural area and Utahans were able to work with NRCS and receive funding through the Emergency Watershed Protection Program. The community was threatened with mud slides and funding helped to avert that potential disaster, and we are naturally very grateful.

The USDA budget now does not include any funding for the Emergency Watershed Protection Program. We may not be having mud slides this year because we are in the 5 year of the worst drought in history, and maybe we would like enough water to perhaps threaten us with a mud slide. But there is no funding for that particular program.

You state that "emergency assistance will be evaluated and addressed as disasters arise." The age-old question how do you address disasters if you have no prior funding, especially in the light of potential devastating fire season that we may have. The flip side

of being free from mud slides is that we are threatened with serious fires.

Unfortunately in the West right now we have the worst of all possible scenarios. We have had, as I say, the worst drought since they started keeping records. And then this spring it rained just enough to create a very significant sprout of grass. When the rain goes away and the grass is there, it is tinder, and then the rest of the landscape is tremendously dry.

So I am concerned, not just for my own state but for all states in the West where this situation exists. With your statement that emergency assistance will be evaluated and addressed as disasters arise, should we not consider putting some money in that fund in advance of the disaster to give you a faster response time to this particular kind of challenge?

Secretary VENEMAN. Mr. Chairman, let me first address the issues that you raise with regard to the West and the drought and fire danger. This has been something we have been following very closely, both because of the impacts of the drought on agriculture but also because of the impacts of the drought on firefighting, and our fire season.

Obviously, last year was one of the worst fire seasons we have ever had. We are continually, through our drought task force, not only implementing the drought assistance provisions but really following this issue of the drought. We are very concerned about what the fire year is going to look like. We are very thankful for the rain we have had but obviously this is a high priority, and also a very strong reason why the President has put forward his Healthy Forests Initiative. We will continue to work through the budget process to try to get that implemented.

Senator BENNETT. Senator Burns will address that in his subcommittee.

Secretary VENEMAN. I know, but I just wanted to remind everyone that that is a very high priority for us.

As far as this program, let me have Mr. Dewhurst address how we have typically used this in the past, in terms of the funding for the disasters.

Mr. DEWHURST. Senator, your question, of course, highlights one of the most difficult dilemmas we have when we put a budget together for the Department in areas such as firefighting and the emergency watershed conservation program that you mentioned. We also have an emergency conservation program in the Farm Service Agency.

In most years that we have emergencies, we are not very good at anticipating the true magnitude of those emergencies. Funding that we provide in advance counts against the discretionary budget targets for the Department.

So in most years that I have been here, most administrations have chosen, although we do provide money in advance for firefighting to some extent, not to budget the Emergency Watershed Program or the Emergency Conservation Program in advance.

What happens is that after we have emergencies, evaluations are done at the local level, and estimates of damages are provided to the Administration and to the Congress. These programs are al-

most always dealt with through supplemental funding after those evaluations are available.

It may or may not be the best way to do it, but it is in fact what has happened over many years.

Senator BENNETT. We may think about changing that. Thank you very much.

Senator Kohl, you have been very patient. We appreciate your support.

Senator KOHL. Thank you very much, Senator Bennett.

I would like to offer a very warm welcome to Senator Bennett as he assumes his responsibilities as chairman of this subcommittee. He is someone that I and other members of this committee have come to know, respect and admire for his fairness.

Senator Bennett, we will all be looking to you for leadership, advice, and counsel as the subcommittee proceeds.

DAIRY PRICE SUPPORT ACTIVITIES

Secretary Veneman, America's dairy farmers and those in my state of Wisconsin, which has more dairy farmers than any other state by far, are suffering hugely from low prices and a dairy pricing system that often works against the farmers best interests. In fact, if it were not for the new dairy program in the Farm Bill, then dairy farmers would be going out of business all across this country at a historical and therefore devastating rate.

We know that there is no single solution to the problems faced by dairy farmers, but as Secretary of Agriculture, you have a number of authorities which you can use to help these hard working men and women stay in business. Expanded dairy research, innovative marketing alternatives, enhanced risk management options, sound conservation practices, rural development strategies, and a strong voice in international trade policy are all necessary to support the dairy industry.

I have listed just a few of the tools that you can use to assist dairy farmers. Please share with us, if you would, how you can use these and other authorities to strengthen the dairy sector and help our struggling dairy farmers survive.

Secretary VENEMAN. Senator Kohl, I appreciate the difficult situation the dairy farmers are faced with regard to prices in recent times. It is something we have heard continuously about and I do appreciate your bringing up some of the various kinds of programs that we have that assist farmers across the board from research to marketing programs and international trade.

Obviously, all of these kinds of programs can be used to help a variety of farmers and rural communities throughout America and we continue to use them. We are working through our international trade negotiations to open up more markets for our farmers and ranchers. We have used some of our tremendous stocks of non-fat dry milk that we have in storage for humanitarian purposes.

You also mentioned the conservation programs, which are increased by about 80 percent in this Farm Bill. Much of that will be available for animal agriculture to help ranchers comply with some of the environmental regulations such as Consolidated Ani-

mal Feeding Operations (CAFOS). So we are using a number of these programs to assist dairy farmers and ranchers.

I will call upon our Chief Economist, Mr. Collins, to just give a quick overview of the situation with regard to the economics of the dairy industry, as well.

Mr. COLLINS. Thank you, Madame Secretary.

Senator Kohl, I agree with your comment about the economic distress dairy producers are in. April milk prices were the lowest since 1978, and that has caused the greatest concern in 25 years.

You outlined the key areas, I believe, where things can be done to help dairy producers. And, we have tools in all of those areas and we are doing some things that people may not know about and may even be surprised about.

If I were looking at how to help dairy producers, I would focus on trying to help them manage the risks they face, starting with the input they buy.

If you take the State of Wisconsin, for example, we have over 700,000 acres of corn that is used for silage for dairy producers. Unfortunately, only about 18,000 acres of that is insured. So we could do a lot better job on developing insurance tools for forage and pasture and silage-type of crops.

On the output side, we have the milk program, the Milk Income Loss Contract Program. We have paid about \$1.3 billion to dairy producers since that program began under the 2002 Farm Bill.

In addition to that, we have a couple of interesting programs that are now in operation that are helping small dairy producers. We have Whole Farm Insurance Programs and the Adjusted Gross Revenue Pilot Program which is available in a number of states. Unfortunately, it has a limit as to how much milk can be covered by that program. However, the State of Pennsylvania has a program called Adjusted Gross Revenue Lite, in which 100 percent of the income can come from milk on a farm and be covered. You have to have at least two commodities because it is a whole farm product. But most of it could be milk and could be covered under a Whole Farm Insurance product.

These are new things. These are new tools that are evolving. The Risk Management Agency at USDA is working on those programs, and they hold some potential for providing new crop insurance and risk management tools for dairy producers.

We also have a new product that has been submitted to the Federal Crop Insurance Corporation by a private insurance provider for a price insurance product for milk. So there are things going on that can help producers. But they do not happen overnight. They are taking time. But in the meantime, we have a price support program. We continue to support milk marketing orders. We also have DEIP, the Dairy Export Incentive Program, and we have the Milk Income Loss Contract Program, all providing a range of support to dairy producers.

STRENGTHENING DAIRY PRICE SUPPORT

Senator KOHL. I would like to ask one additional question, Madame Secretary.

The Dairy Price Support system requires that USDA purchase certain dairy products when the Class III price falls below \$9.90

per hundredweight. As has been said, since January 2003, the Class III price has remained at record lows and below that support level. In fact, we reached a low of \$9.11 per hundredweight in March.

What can you do to strengthen the price support program to prevent the market price from falling below the support level?

Mr. COLLINS. Senator Kohl, this is an interesting case. We have seen this happen before. This is not new this year. It has happened a number of times over the years, that the price has temporarily fallen below \$9.90 per hundredweight.

The law requires us to support the price of manufacturing grade milk at \$9.90. It can happen that for a particular class like Class III or Class IV, or for a particular region of the country, the milk price can fall below \$9.90.

As a whole, the manufacturing grade milk price in the United States has been running close to \$9.90. The April average price was, in fact, exactly \$9.90.

But the question you raise does point toward the price support program. There may be some things we can do there. There is concern when you see prices on exchanges fall well below \$9.90, or the product prices fall way below our purchase prices, for example, like the cheese price or the butter price.

One of the things that we are looking at is the extent to which there are unique costs borne by those who sell their products to us. For example, cheese. If you are talking about the Class III price, that is the price of the milk that goes into producing cheese. When we buy cheese, we impose certain requirements on those that supply cheese to us.

We are reviewing right now what cost those requirements are imposing on the suppliers. And to see whether we have properly accounted for those costs in establishing our purchase price for cheese.

To the extent that we have not properly accounted for those costs, then suppliers would in fact be selling cheese to us at a milk price less than \$9.90.

So we are reviewing that right now, trying to look at that dimension of the dairy price support issue you raised.

Senator KOHL. I thank you and I have additional questions, Mr. Chairman, but we will get back to that on the second round.

Senator BENNETT. We will go through a second round. Senator Burns.

CONSERVATION RESERVE PROGRAM

Senator BURNS. Thank you, Mr. Chairman. I have a couple questions regarding CRP. You just closed the applications for CRP; is that correct?

Secretary VENEMAN. No, sir. We just opened them on May 5th through the end of May.

Senator BURNS. Do you have any expectations whether or not you will hit the 39 million acre cap? Is it not capped at 39.3 million acres?

Secretary VENEMAN. It is capped at 39.2 million acres.

Senator BURNS. Do you think you will hit that cap?

Secretary VENEMAN. No, sir, not yet.

Mr. COLLINS. Senator Burns, we are a long way from that cap. Under the 1996 Farm Bill, the statutory cap was 36.4 million acres. We are still a couple of million acres away from that cap.

In addition to that, this fall we will have about 1.5 million acres that will expire. The contracts will expire and come out of the CRP or have to rebid to come in. So we will have a tremendous amount, something on the order of 7 million acres, of potential room under the 39.2 million acre cap.

For the purposes of our budget that has been presented, we estimated about 2.8 million acres would be enrolled in this signup. Now that is not a target. That is just a placeholder that we used to be able to project the budget costs for the CRP. We can go above that, we can go below that, depending on the quality of the bids.

CROP DISASTER PAYMENTS

Senator BURNS. The next question is, of course we went through the drought thing. And I know that you have had to do a lot of work in software and do a lot of things in your county offices in order to get that money out the door.

Give me an idea right now, if you have an idea, when producers can expect some sort of relief or receipt of some of those checks?

Mr. COLLINS. If you are referring to the crop disaster payments, the signup begins June 6th and payments can be expected within a couple of weeks after producers come in the door, provided they come in that first week.

Senator BURNS. It is going to be that quick?

Mr. COLLINS. Yes, sir.

Senator BURNS. Those are the questions I had. I have got some questions here that I would like to just relate to you if that is all right, in some areas. There is a couple of areas that I do not know what I am talking about. There are more than that, really, but two that I have identified this morning.

But they are programs that are ongoing. I will convey my questions to the people here and we will try and get that ironed out and get some answers because they are parochial and I know there are other folks here that are going to talk about overall budgets and programs. So I think we should move on to that.

I thank the chairman.

Senator BENNETT. Thank you very much.

HEALTHY FORESTS AND FOREST STEWARDSHIP

Senator BURNS. The fire situation, I will tell you, right now we are looking at a pretty normal year. We are getting rain in Montana. You guys have got to hold your mouth right. But you have to hold it right for 5 years. It is tough to do.

Right now, we are getting moisture in Montana and it is pretty good moisture. The old prairie is trying to green up a little bit.

We would hope, in all your planning, but that does not mean that there are not other areas out there that is a high risk.

As far as your USDA, the Forest Service is concerned, we sure need that money budgeted for Healthy Forest and forest stewardship, because what we are finding is you can have more moisture that we normally had in our forest, but they need thinning. The growth that is in these areas are just taking that moisture and

they are just sucking it out. So it takes more snow and more rainfall to sustain us through the season.

So I am particularly interested in that money as it goes to forest health and to our forest stewardship programs.

They are working, by the way. Those programs are really working, and I think will have an impact on our fire season and how we manage our forest.

Senator BENNETT. Thank you very much.

We appreciate the ranking member of the full committee, Senator Byrd, being with us. And I will go out of the early bird order to recognize Senator Byrd and thank him for his participation.

Senator BYRD. How is the PA system working?

I often comment, Mr. Chairman, that our country has been able to put a man on the moon and bring him back to Earth safely, but it has never been able to perfect a public address system.

But you know, Mr. Chairman, I think there is a postscript to that, if I might add. I am having great difficulty in opening milk cartons. I follow the instructions to open on one side, and I turn it around, and it says to press on both sides. And I cannot get the darn thing to open.

So I think our country needs to work hard on producing a milk carton that works.

Senator BURNS. Senator, I suggest you get a bigger hammer.

Senator BYRD. Mr. Chairman, you are very kind to call on me. I am an ex officio member, as you pointed out, but I want to wait my turn and let the regular members have their turn. I do appreciate your kindness. Thank you.

Senator BENNETT. Thank you, sir, for your courtesy. Senator Johnson.

Senator JOHNSON. Thank you, and I thank Senator Byrd, as well, for his leadership and guidance and his courtesy here.

Congratulations to Chairman Bennett, and also thank you to Senator Kohl for your leadership on this subcommittee. It has been extraordinary and something that I have valued a great deal.

Welcome, of course, to Secretary Veneman. The Secretary and I played some telephone tag here this past week and I apologize that somehow or another I was not able to quite get things squared away that way. But the Secretary has been very accessible and willing to sit down and work through issues, and I am very appreciative of that.

Let me just, at the outset, make more of a comment than a question. And that is as we review the President's fiscal 2004 budget proposal, I have to say that there are a number of areas where I feel some concern.

PROPOSED ELIMINATION OF CERTAIN FARM BILL PROGRAMS

One is that the USDA budget would zero out a great many of our rural development initiatives that Congress included in the Farm Bill. This is a point of great concern to me.

Frankly, this zeroing out, I think, has largely to do with making room for the President's massive tax cut which largely will be borrowed in order to compensate for the cost. but also will come out of the hide of other domestic programs.

Among those I am concerned about is the elimination of \$200 million from the water and sewer grants to small communities at a time when frankly, the backlog of communities at our doorstep looking for help on these water and sewer issues is just immense. These communities have virtually nowhere else to go.

PREPARED STATEMENT

Also the Value-added Development Grant Program, the Bio-energy Program, and the Renewal Energy Program all wind up zeroed out. And this is a source of great concern to me.

In my limited time, let me ask the chairman for consent to submit a full opening statement, that is more comprehensive and I want to expedite things by doing that.

Senator BENNETT. Your statement will be included in the record. [The statement follows:]

PREPARED STATEMENT OF SENATOR TIM JOHNSON

Thank you Chairman Bennett and Senator Kohl, I join you in welcoming Secretary Veneman to discuss the President's Budget request for agriculture in fiscal year 2004. Senator Bennett, congratulations on your appointment as Chair of the Agriculture Appropriations Subcommittee, I look forward to working with you. I want to briefly outline some concerns about the U.S. Department of Agriculture's (USDA) budget proposal for fiscal year 2004, then, discuss issues such as implementation of the farm bill and disaster aid.

I am concerned that in order to accommodate the President's proposed \$726 billion tax cut, the Administration has made significant cuts to critical programs that benefit farmers, ranchers, and all American citizens.

Of greatest concern, the proposed USDA budget would zero-out many rural development initiatives that Congress included in the farm bill. Overall, the Administration is seeking \$1.4 billion less for rural development programs than 1 year ago. The cuts would result in the following problems:

- \$200 million would be eliminated from water and sewer grants to small communities. These towns have nowhere else to go, and the cuts will leave them with inadequate or no water and sewer service;
- The Value-Added Development Grants program would be totally eliminated;
- \$50 million would be cut from the very successful Bio-Energy Program which pays new and existing renewable fuel refineries for purchasing corn, soybeans, and other biomass for renewable fuel production;
- Funding would be prohibited under the new Renewable Energy program in the farm bill.

Combining the cuts to the value-added program and the new energy title in the farm bill, the Administration is suggesting that renewable fuel production and other value-added agriculture development just aren't very important when the exact opposite is true. Finally, I am concerned that conservation programs would be reduced and a Rural Firefighters grant program would be eliminated.

Once again, I am disappointed by these cuts and by the Administration's priority for a \$726 billion tax cut that would not serve the interests of South Dakota and rural America, and I desire to help restore some of the severe cuts made by this budget proposal.

I want to congratulate Secretary Veneman and her fine staff, however, for a job well-done in implementing the new farm bill. I am particularly proud the Farm Service Agency staff in South Dakota virtually led the nation in farm bill sign-ups relative to updating producer information for bases and yields. As the June 2nd deadline for participation in the 2002 and 2003 direct and counter-cyclical program nears, and a new CRP sign-up begins, I anticipate producer concerns will arise and I encourage you to keep a watchful eye for these implementation issues.

I am disappointed with the lack of seriousness the Administration has taken with respect to the ongoing drought and its effect on producers across the country. Suggesting the President will veto a \$6 billion disaster package while at the same time pushing for billions of dollars in tax cuts for the very wealthy is irresponsible policy and sends the wrong message to hard working farmers and ranchers.

The \$3.1 billion of disaster relief included in the fiscal year 2003 omnibus appropriations bill, shortchanged nearly every producer who has suffered substantial

losses from the drought. Livestock producers in South Dakota, who received a minimal assistance in 2002, can expect little if any further assistance as they enter into the third year of severe drought. It is simply unrealistic to expect producers to recover from the losses they have endured without any real, comprehensive assistance.

On February 20, 2003, the President signed the Agricultural Assistance Act of 2003 into law. Yet, producers have received no indication from USDA when the \$250 million for the Livestock Assistance Program (LAP) will be made available to them. It is my hope that at the conclusion of today's hearing, I will have a commitment from you to release the \$250 million for LAP in the very immediate future.

Further, I'm troubled by the new feed assistance program you announced on April 8th, 2003 that excludes over three-fourths of the counties in South Dakota at the same time the drought continues and feed supplies have been nearly depleted. While it is true many parts of South Dakota have received timely rains in the last 2 months, it doesn't make up for a serious lack of meaningful precipitation in the last 2 years. These producers may need additional help to cope with the drought.

Finally, I want to comment on USDA's role to implement the mandatory country-of-origin labeling (COL) provision for meat, produce, fish, and peanuts contained in the farm bill. Madam Secretary, the livestock producers I represent believe passage of COL may be the most important law enacted since the adoption of the Packers and Stockyards Act of 1921 they want it to work.

Nevertheless, the Bush Administration and USDA have made it clear that you oppose the mandatory COL law that I and others successfully attached to the farm bill. I am very disappointed about the signals that USDA and others have been sending regarding COL. Recent testimony from USDA Undersecretary Hawks says, "the new labeling requirements will not have a positive effect overall and the potential impact on trade and the unintended consequences on producers could be significant." USDA issued cost estimates that were excessively high and have since been refuted. Documents from USDA indicate that you only consulted with three persons outside USDA to make the overblown cost estimates, and those persons were lobbyists for organizations that oppose labeling. Recently, you sent me a letter indicating it was not just three, but rather twenty-nine organizations that USDA consulted concerning COL costs I would like to know the twenty-nine groups to identify how many of them were consumer and/or producer groups supporting COL.

The negative statements about COL from the Administration cause me great concern with regard to the credibility and the agenda of USDA in the implementation process. I had a substantial part in writing the COL provision of the farm bill. We intend for consumers to be informed about where food comes from and for USDA to use existing programs to implement the program (i.e. USDA quality grading system, school lunch program, Certified Angus Beef program, current voluntary program for the California producer using a "Born and Raised in the USA" label, and HACCP among others).

None of those programs requires third party verification. Yet, in your voluntary guidelines for voluntary COL, USDA suggests that self verification is not sufficient, implying that an expensive third party verification system is required. I did not intend that result, there is no language in the law to support that interpretation, and none of the existing programs set forth as examples for your agency require it. I encourage USDA to re-examine the logic behind negating self-certification, I also hope USDA will analyze how to reduce costs of COL by tracking only imports of livestock.

Further, USDA has never recognized or studied the benefits of COL. However, a study by five university law professors and economists was released yesterday by the University of Florida saying that the benefits for selling beef alone were almost \$6 billion because consumers are willing to pay for labeling because they desire it so strongly. \$6 billion for beef alone! That does not include the consumer willingness to pay for labeling of pork, lamb, fruits, nuts, fish or vegetables.

The report also indicates USDA's suggestion that COL will cost \$2 billion is overblown and based upon errors in legal and economic assumptions. The University of Florida report estimates the cost of COL is more likely in a range between \$70 million and \$200 million, depending upon the implementation system employed. The economists writing the report believe USDA can implement COL at a cost of less than one cent per pound of food covered by the law. That is very inexpensive. Importantly, the report indicates consumers are willing to pay a premium for beef with a COL. That does not mean I believe COL will increase the cost of beef I am not sure it will.

The food industry currently keeps voluminous records on each and every unit of product in their supply chains. COL should not require an expensive new record keeping system for those involved in the process. The law professors and economists

in the Florida study also said that the most inexpensive means of implementing the labeling law was to recognize the on-the-ground fact that the vast majority of U.S. product is produced and processed in the United States and that the USDA should presume that all product comes from the United States while tracking existing marks of origin that are already on virtually all relevant food products coming in to the country.

I want to believe you will carry out the law as intended by Congress and that it is done so as to minimize cost, record keeping requirements, and other regulatory burdens. I have directed my office to work in good-faith with your staff and USDA to ensure the COL law is implemented in a common sense fashion. I have confidence in the staff at the Agricultural Marketing Service that they will write a reasonable final rule upon which to base COL implementation.

Thank you for holding the twelve COL listening sessions across the country and I appreciate the time that USDA will need to put into this law to make it work. I encourage USDA to review this thorough cost-benefit analysis from the University of Florida and use it as you develop the final rule to implement COL. I hope that USDA will be able to focus on the benefits of labeling, the fact that nearly thirty major trading partners already have COL, the fact that the United States has not issued a WTO challenge against another country's COL law, and that every major consumer and agriculture group in the United States supports COL.

Madam Secretary, I appreciate you taking the time to appear before this subcommittee. You have been quoted describing USDA's budget for fiscal year 2004 as "constrained," and I look forward to working together to reconstruct some of the important initiatives reduced or cut by the budget.

Mr. Chairman, thank you, I conclude my remarks and look forward to asking Secretary Veneman questions.

COUNTRY OF ORIGIN LABELING

Senator JOHNSON. Let me focus on one issue that is, I guess tangentially involved with the budget, at least, but a matter of great concern to me. And that, Madame Secretary, as you know there is a widely held and growing view across much of America that the Department of Agriculture is teaming up with the packers to sand-bag country of origin labeling for meat. There is a sense among many of my producers that USDA is consciously seeking out ways to complicate such a program and to cause it to be far more expensive than need be.

Now whether those views are legitimate or not, they are widely held. I appreciate the listening sessions that USDA has been having, and I know that people with greatly diverse views have shared their views with you. And I think those listening sessions no doubt will be of some value.

But it seems to me that a workable efficient country of origin labeling program for meat, and obviously the law applies to fruits and vegetables as well, is not rocket science. Many other countries already do this. It has been pointed out to me that under Article 9 of GATT, live cattle entering the United States can be marked as to the country of origin so long as the mark does not discriminate against, materially reduce the value of, or unreasonably increase the cost of the imported item.

Indeed, last year the United States imported 800,000 calves from Mexico and most of these calves were branded with an M to differentiate them from domestic cattle. The practice is in compliance with Article 9.

Several organizations have made a very compelling case to me that one way to reduce the implementation and tracking costs associated with country of origin is to have USDA require markings similar to what already is done with imports of Mexican cattle on

all imported livestock. The rationale is that tracking these markings on imports will reduce overall cost for implementation.

I believe the costs associated with tracking only imported animals for country of origin implementation is a common sense approach to pursue, which is permissible under the law, and which would reduce implementation costs because imported livestock are already marked as such.

The law that we passed forbids third party verification. And as you know, there are mailings going out as we speak from some of the packers raising questions and fears among livestock producers that what USDA is going to do is to require expensive record-keeping and alternative methods which would, in effect, destroy the credibility of the entire program.

And so my question to you is to what extent has USDA analyzed Article 9 to determine how to implement country of origin labeling? Does it have a position on using this as a rationale to track only imported animals? And do you agree that virtually all imported covered commodities are currently marked as to country of origin, and that such marks are specifically allowed under GATT and WTO?

In general terms, the United States only imports around 2 million head of live cattle but slaughters 28 million head. Obviously, obviously of most of the cattle we slaughter are of U.S. origin. It does it not make sense to the USDA that tracking the 2 million imported cattle would be less costly than keeping track of 28 million that are born and raised in the United States?

Secretary VENEMAN. Mr. Johnson, I appreciate your question because, as you indicate, this has been a very controversial provision in the Farm Bill, one that was controversial as it was discussed in the context of the Farm Bill, and one that the Administration did not support. But as it was passed in the Farm Bill, we have worked to implement what the law has required.

We announced the voluntary program last fall, as was provided in the law. That voluntary program then became the framework from which we have begun to discuss a proposed rule for the mandatory program that the law requires us to implement by 2004.

There is a lot of controversy surrounding this provision, particularly as you point out with regard to livestock, because the law does require that livestock be born and raised in the United States, and the retailers and the packers, to some extent, are concerned about how do they ensure that. So, we decided, as you mentioned, to have these listening sessions around the country. And I think, by all accounts, they have been very helpful in helping to identify some of the issues that have come up with trying to implement a Country of Origin Labeling program that will be workable for the long-term.

As we pointed out, this is not an easy program to implement. We pointed that out in our Statement of Administrative Action. We certainly want to get all of the information from these listening sessions and from the comments that we received on the voluntary rule, before we put forward the proposed rule.

But as we move forward, this program is something that has been difficult to implement and is of increasing concern to many of the producer groups. As I go around the country, I am hearing more and more from the meat producers themselves. They indicate

that they would like to see this remain as a voluntary program. But, we cannot do that without a Congressional change.

Senator JOHNSON. The reason you are hearing that is because they are scared to death of extraordinarily bureaucratic, red-tape filled, expensive recordkeeping requirements that the packers are telling them USDA is going to require. And so that is, I think, the resistance you are finding from the producers. I think they support the concept of country of origin labeling, that our consumers deserve to know the origins of the products they feed their families. But what they are worried about is this threat that USDA and the packers are going to team up on them and create a monumental red tape problem and recordkeeping problem.

What we need from you is assurances that you are not only going to implement this program, but that you are going to seek out ways which will minimize the cost and minimize the recordkeeping. One of the suggestions is to follow the model that we already do on imported livestock. But there may be some other things that you can do, as well. I think that is the thrust of what I hear from livestock producers around the country.

Secretary VENEMAN. We are doing everything we can within the law. The problem is that the law is very specific on country of origin labeling, in terms of what USDA can and cannot do. I have discussed this extensively with our legal counsel and I am told that the way we are looking at this and implementing it is in accordance with what the law requires.

Senator JOHNSON. And I would only conclude that among the things the law requires is that there not be third party verification requirements for every animal in the country.

Secretary VENEMAN. I understand that.

Senator JOHNSON. And that self-verification is indeed what we do in many other labeling circumstances, whether it is school lunch programs and all kinds of other things, Black Angus, you name it. There is nothing new about this. And that self-verification or some variation on that is indeed one of the opportunities that USDA has, would be within the law, in fact is required by the law.

So I thank you for sharing your thoughts with me on this and I know that there are other members here who want to go on.

If I may, I have a number of other questions on this and some other issues. And if you would be so kind, I would submit those to the Department in writing for your response.

Secretary VENEMAN. We would be happy to work with you on that.

Senator JOHNSON. Thank you very much, Madame Secretary.

Senator BENNETT. Senator Cochran, who is responsible for my being here. Happy to hear from you, sir.

Senator COCHRAN. Mr. Chairman, thank you very much.

Madame Secretary, welcome to the committee. We appreciate your presence but more especially your good assistance in the efforts to implement the Farm Bill and to assist us as we work to reauthorize the child nutrition programs.

FSA STAFFING LEVEL

One specific responsibility that we have is getting the Farm Service agencies staffed and carrying out their responsibilities to

conduct the signups. I wonder if you could give us a report on the status of that and whether or not this budget contains sufficient funding to staff these offices and give them the equipment and the other things they need to carry out the intent of the Congress as reflected in the Farm Bill?

Secretary VENEMAN. Senator, I appreciate the question and I appreciate your compliments on the Farm Bill implementation. I must say that our team has worked extraordinarily hard on implementing the Farm Bill with Keith Collins and Scott Steele and Hunt Shipman, before you stole him away. And we appreciate the working relationship that we have with your Committee on the work that we are doing on the reauthorization of the Child Nutrition Programs.

When the Farm Bill was passed, the Department asked for, I believe, \$110 million in implementation money. We received just over \$50 million. Additional money was provided in the 2003 appropriation, which gives us the ability to hire some additional staff.

But I have to say, we have done extraordinarily well under the circumstances with the staff we have. We have got over 90 percent of the signup completed. It is nearly complete. We are in the middle of the CRP signup in addition to the disaster assistance program and so forth.

The other things that we are trying to do is to incorporate more and more new technologies that will allow us to better serve our farmers and ranchers with online forms that are understandable and usable, and access to all of the maps. We are trying to get all of the maps, both for the Farm Service Agency and NRCS digitized and onto the computer, which, we believe, will make it much easier for both the delivery of programs as well as the utilization of them by farmers.

So as we move forward, I think it is important to recognize what an extraordinary job our Farm Service Agency people and, our NRCS people have done, as we have implemented this Farm Bill. And we will continue to work to make sure that we have the tools necessary to carry out these programs.

But we do believe that we have budgeted for an appropriate number of additional staff as we go forward because once we get beyond the initial signups, obviously the workload will change.

FOOD SAFETY TRAINING INITIATIVE

Senator COCHRAN. One of your other high priorities is food safety. You have taken steps to improve the food safety system. In your statement you suggest that inspectors are the backbone of our food safety system. Could you tell us about your training initiative and how this will improve the food inspection system?

Secretary VENEMAN. We feel very strongly that we need to continually find ways to enhance our training for our food safety inspectors. In the mid-1990s, the Department implemented HACCP. We want to make sure that we have the best possible training under this relatively new methodology. We are conducting food safety inspections to make sure that training is up to date and appropriate for our inspectors and that they fully understand how to inspect for and implement HACCP. So we have asked for additional money in our budget for food safety training.

I might add that this has been something that has been strongly supported by the industry groups, the processors themselves, consumer groups, as well as our Department. We want to work together to enhance the training programs that are available to our inspectors and we are working hard in FSIS to do that.

Senator COCHRAN. We noticed that a recent report from the National Academy of Sciences entitled Scientific Criteria to Ensure Safe Food concluded that the HACCP inspection system's progress in reducing food-borne illness is, and I quote, "decidedly favorable."

Do you agree with the findings in this report?

Secretary VENEMAN. We agree with much of what was in that report and there are things that we do not agree with. We are going to have a more formal response to the report. But there are findings that we certainly do agree with.

There were some questions in that report about whether or not we had legislative authority to enforce performance standards. We continue to use performance standards in our plants, and in our HACCP reviews. We are also using them to evaluate issues in plants to determine whether or not we need to do further inspections.

So that report does have a lot of very good information but we have not had a formal response to it as yet.

Senator COCHRAN. Mr. Chairman, thank you very much for your recognition.

Senator BENNETT. Thank you, and thank you for giving me this opportunity when you moved from this committee to the Homeland Security Committee.

We should take note, as the first hearing without Senator Cochran, of his service as both chairman and ranking member of this subcommittee for a number of years.

Senator Harkin.

Senator HARKIN. Thank you very much, Mr. Chairman. Madame Secretary, welcome again.

CONSERVATION SECURITY PROGRAM

I would like to, if I might in my limited time, I have two or three items. I hope to get through them in this round, if not maybe another round. But the most important thing I would like to discuss with you is the Conservation Security Program that was included in the 2002 Farm Bill.

As I have said before, this program is consistent with the goals that were spelled out in your farm policy book. When the President signed the Farm Bill into law, he specifically pointed to conservation as one of the major provisions of the Farm Bill.

There is strong nationwide interest in making sure that CSP is implemented soon and correctly. Congress set funding for CSP at \$3.773 billion in the Omnibus Bill, not at the \$2 billion level included in the President's budget. So there is no basis anywhere for the \$2 billion in any law ever passed by Congress.

So I am asking if you can commit that the Department will move ahead and issue regulations based on delivering the full \$3.773 billion to producers that was in the Omnibus Bill? Will that form the basis of your regulations? That figure, rather than \$2 billion?

Secretary VENEMAN. Currently, we are looking at the 4,500 comments that we received in response to the Advanced Noticed of Proposed Rulemaking in the formulation of this program. This has been an extraordinarily complicated program to implement with a number of questions that need to be answered.

One of the things you said is that we want to make sure that we do it correctly. We are absolutely in agreement that we want to do this program right because there was a lot of questions that we needed to have answered, so we went out with this request for comments. It is an extraordinary number of comments that we have gotten in.

The \$3.773 billion that was included in the fiscal year 2003 budget, I believe, is a number that authorizes up to that amount in terms of expenditures for this program. The President's budget does include a \$2 billion figure for 2004 and that number, of course, was proposed before the 2003 budget was enacted. We had an unusual situation this year, in that we developed the fiscal year 2004 budget without a 2003 appropriation.

I cannot commit to a number today, but I do recognize that the 2003 Omnibus does allow the program to spend up to \$3.773 billion. It does not mandate, as I understand it, the spending \$3.773 billion.

Senator HARKIN. Let me try it again.

I understand what you are saying about the budget came up before the Omnibus. I understand that. I am just saying that the law that we passed, signed by the President, allows funding for CSP at the \$3.773 billion level.

All I am asking, and I am going to get into the rules here in a little bit and the Advance Notice of Proposed Regulations. I am just asking that in your implementation, as we move ahead this year, because I hope we are going to be signing up people this year, will it be based upon the full \$3.773 billion? Or will it be based on \$2 billion or something else? What will it be based on?

Secretary VENEMAN. We are still working on the regulations and what they will ultimately be. But what we want these regulations to do is to be based on principle, not a level of funding. We want to get the principle and the program right.

It is going to be very difficult to develop a regulation that promises to spend an exact amount of money. We want to get the principles right so that they comply with the level of funding authorized for the program.

Senator HARKIN. Principles. Do you agree, Madame Secretary, that the principle that we are operating under for the Conservation Security Program, the principle is written in statute? That statute is the Farm Bill. And, as written, as a statute, it is a mandatory open-ended program. Do you agree with that? As written in statute.

Secretary VENEMAN. It is a complicated budget issue because there are certain budget scores that have been attached to it. So it has certainly been limited by what the Congress has specifically passed.

Senator HARKIN. I agree that there is a cap of \$3.773 billion. But the statute provides it as a mandatory open-ended program. It is just that the Omnibus Bill put a cap on it. I am talking about prin-

ciples now. The principle that we are operating under is an open-ended mandatory program. Is that right or not? That should be very straightforward.

Secretary VENEMAN. As far as I understand it, that is correct.

Senator HARKIN. Thank you.

So that, again, if farmers do the work, the conservation work, to earn up to the \$3.773 billion, then they should not be denied access to that money. That is how the law is written. At least that is how the law is written with the cap that we put on it. Now I am working to get the cap removed, as you know. But I am just talking about what you have to deal with right now.

Secretary VENEMAN. I would agree that the fiscal year 2003 law allows us to implement the program and use up to \$3.773 billion.

Senator HARKIN. Thank you.

I understand that you have got 700 letters that had up to 4,500 comments, but a lot of these comments were involved in the letters. And I understand that you did get a big response.

And again, I do want to say that in February I met with Secretary Moseley and Mr. Collins, Ms. Waters, and Mr. Knight. We had a very good meeting on this in the Capitol. I understand full well the problems of moving ahead with this. It is a new program. I was more than willing to overlook the fact that the Farm Bill stipulated 270 days for final rules. I understand that. Fine, we move on beyond that.

But what I want to ask now is you had 700 letters that came in. A lot of those came in early, so you have had at least a month or so to look at them. I am not certain that there is 700 different points of view. There are just 700 letters came in.

I think perhaps a lot of them have the same points of view on it. This does not mean you have to look at all the different ones.

I know that you have been working on this, but I want to know when can we expect that we are going to have the final rules promulgated? And will USDA meet its goal of having sign up this year, this fiscal year?

Secretary VENEMAN. We are doing everything we can to get these comments reviewed in order to put in place a proposed rule. We believe it is important to issue a proposed rule because of the complexity of this. As you know, there are a number of review processes that occur with these rules and we, in the Department, have worked very hard to get our Farm Bill rules out as quickly as possible. It also depends on external forces like how quickly things get through OMB, as well.

I believe that when the USDA representatives met with you, they did present you with a time line. We are still working under the time line that was presented to you.

Senator HARKIN. Correct me if I am wrong, Jim, but I think the time line was to try to get the final rule sometime towards the end of the summer so that we can have sign up before the end of the fiscal year.

Mr. MOSELEY. Yes, that is correct. When we met that was the discussion we had. And that would still be a reasonable time frame.

As the Secretary pointed out, though, when you get involved in these things, you find out there are more hoops to jump through

than you anticipated. If we could control everything, that would be reasonable. But, we cannot control everything. So we are moving along and trying to process this as quickly as we can.

As I stated to you that day, there is no, absolutely no intent on the part of USDA to slow down the adoption of CSP. We think, in principle, it has some things that farmers want. And so we are moving forward as quickly as we can.

At the same time, as the Secretary has pointed out, and you and I have discussed, this is a very complicated piece of legislation. There are a lot of views and opinions out there and I hear them all the time from farmers when I travel.

Trying to bring all of that information together and to say that this is the best way to proceed is not a simple process.

As I pointed out to you that day, the most important thing is to get it right. We would like to get it right soon and quick. But those two things, quick and right, may not necessarily be compatible.

I think the important thing and the message that I would share is that there is no intent on the part of USDA to slow this down at all. We are trying to keep this on track and get this out.

Senator HARKIN. As I said once before, I think, to the Secretary, I am not aiming at you. I am talking to you but I think the aim may be at something called OMB. I have detected that the Department is interested in this. You are moving ahead, but my senses pick up that there is some hanky-panky going on at OMB that are really, Mr. Chairman, trying to misinterpret the law as we wrote the statute. I do not think it is at the department level but I think it is at OMB.

So I might be pointing the questions at you but really I think my remarks are probably more applicable to OMB.

Thank you very much. Again, I appreciate your working with us. Senator Smith and I wrote you a letter, and I hope you will look at that because we took a lot of care and time in looking at how we had envisioned this program and how we brought it through the Farm Bill. So I hope you will take look at those.

Mr. MOSELEY. We will do that.

Senator HARKIN. Thank you. Thank you, Mr. Chairman.

Senator BENNETT. We have been joined by the chairman of the full committee. Senator Stevens, we appreciate your participation.

CONSERVATION SECURITY PROGRAM

Senator STEVENS. Thank you very much.

I am glad I came in during that discussion because, Madame Secretary, I do want to have a discussion with the Senator from Iowa and you about what the Senator from Iowa just said.

I do not envision the program he mentioned to be an entitlement that is unlimited. We did put a cap on it. As a matter of fact, I think we ought to have a review of that program. I know of no other program in the country where a landowner can make what he or she considers to be conservation improvements and automatically get totally repaid for the cost of those improvements without any limitation, without any kind of restriction at all.

I am opposed to entitlements in appropriations bills. I am opposed to the concept that we can have, named through the appro-

priations process, a type of program that we do not have the right to control or limit.

I want to put some limits on that and I want to know who is getting that money. Are people that have 10,000 acres getting it? Or is it a 160 acre limitation? What is it?

I think it needs some better definition. And it certainly does not amount to what the Senator from Iowa said, to a program where everybody is entitled to money without regard to the amount of money we put up. You have a limit, and I want to see that limited.

We are facing considerable opposition to a lot of the moneys which we should be appropriating for conservation programs in other areas. And to have an agricultural entitlement in an appropriations bill, I think, is wrong.

I would just make that statement. I am not here to have a debate. But I do want to go it in the future.

I am sure Senator Byrd is doing what I am doing. We have got several appropriation subcommittees meeting this morning and I would ask that the questions I do not have time to ask be submitted to the Secretary for a response.

Senator BENNETT. Without objection.

SALMON PRICES

Senator STEVENS. But I have two specific issues. One is very close to the heart of all of the people in the North Pacific. We have a problem with regard to salmon prices, primarily because of the enormous amount of imports now that are coming in from Chile and from other countries.

The questions I am filing are about the programs we have instituted, organic seafood and country of origin labeling. I would be happy to have your response to those.

But right now there is a half million cases of canned salmon in warehouses in Seattle. They are not owned by my constituents. They are owned by the people in Seattle. But the fact that they are there is an overhang on the market so that the prices for salmon this year are really endangered.

We specifically included language, at the request of the Senators from Washington and myself, to give the Department the authority to purchase surplus salmon products.

I was recently informed that your Department people have told us that there were not funds for those purchases. We thought there was money for purchase of surplus foods. This is the first time salmon has been included in that category. But you have enormous amounts of money to purchase surplus foods. Why can't you use that for the purchase of this salmon and make it available under the food program?

Secretary VENEMAN. Senator, we do have money for purchases of surplus foods. We have been purchasing surplus foods just in the last few weeks. And we do have salmon under active consideration, as I understand it.

Senator STEVENS. This is about the best buy in the country. Canned salmon is probably the most beneficial food that a woman can eat because when salmon is canned, the bones are calcified and it is the highest level of natural calcium in the world, in any food.

But as a practical matter, until that salmon is taken off the shelf, they are not going to buy any salmon this year. And it is a result of the recession and the economic conditions. But I would urge you to use your authority to remove that impediment to the purchase of salmon this year. If those cases stay there, there will not be any salmon canned this year. I would just make that request.

DISTANCE LEARNING GRANTS

Secondly, our committee included \$15 million for a distant learning account to help rural public television stations meet the Federally mandated deadline, which is this month, to convert from analog to digital broadcasting. The exact language is \$15 million in grants for public broadcasting systems to meet that goal of digital conversion.

Now, the House specifically agreed to that in conference. But I am now told that your staff has advised us that the Congressional intent is not clear. I do not know how much clearer we can have it. It is a very short statement.

It was the Senate committee who vote that provision and those grants are to public broadcasting stations to allow them to install the digital translators that are necessary to send digital broadcast signals to rural America. They have a deadline of this month. There are over 100 translators in Alaska alone. The money is not solely for Alaska, but it is for the country.

We hope we will get additional money in 2004. What this means is that some of the broadcasting systems will no longer get public funds if they do not meet the requirement of being able to specifically deliver the digital signal along with the analog.

We hope that they will all become digital soon but those that remain that have some analog capability must show that they have digital capability to continue to get assistance from the public broadcasting system. This money was to your department to help rural public television stations.

Could you tell me why you cannot proceed?

Secretary VENEMAN. Mr. Chairman, I will look into this issue for you. As I understand it, there may be some argument with the lawyers here. And I will commit to you to look into this and get back to you as quickly as possible.

Let me say this, though. We have been strong proponents of using our rural development programs and expanding them for technology advances for rural America. We think that is important. If rural America is going to compete in the 21st century, they cannot be left behind with regard to the technology infrastructure.

So I agree with you that these kinds of issues are very important as we move forward.

I will commit to you that we will get back to you as quickly as possible on what the potential issues may be with regard to this \$15 million. But I do understand your sense of urgency and we will work on this immediately.

Senator STEVENS. Just to make sure what happened, we started out with the \$15 million. The House did not have that. But in the conference we had \$42.813 million for distance learning and tele-

medicine grants and grants to broadcast digital signal for conversion.

So the \$15 million does not stand there all alone but is part of the larger sum. And we specifically, in the law, said it was for the digital signal conversion.

I hope that you will look at it and I hope you will recognize the deadline these people are under, which is the end of this month.

Secretary VENEMAN. I understand your concern and we will look at it immediately.

Senator STEVENS. I am sorry to come in so quickly and get out, but thank you very much. Mr. Chairman, I thank the committee for its courtesy.

Senator BENNETT. Thank you. Senator Byrd.

Senator BYRD. Thank you, Mr. Chairman.

I also want to thank my colleague, Senator Stevens, the chairman of the full committee, for his contribution today.

By the way, his charming daughter Lilly is going to receive a bachelor's degree in history from the University of Stanford within a short time. I know how proud Senator Stevens is of this fine young woman, and he has every reason to be. She is, likewise, so proud of him. He is the idol of her eye.

HUMANE SLAUGHTER INSPECTORS

Two years ago The Washington Post detailed the inhumane treatment of livestock in our Nation's slaughterhouses. The Humane Methods Slaughter Act of 1978 stipulates that cattle and hogs are to be stunned prior to their slaughter, rendering them senseless to the pain.

However, as the article revealed, many slaughterhouses do not abide by the humane practices outlined in the Federal law. Thus, unimaginable pain is forced upon these defenseless animals. They cannot speak. They cannot tell us to be merciful.

In the fiscal year 2003 Omnibus Appropriations Bill, \$5 million was secured for the hiring of at least 50 new humane slaughter inspectors within the Food Safety Inspection Service at the USDA. The report language in that bill instructed these new inspectors to work solely on the enforcement of the Humane Slaughter Act.

Prior to the \$1.25 million that I added to the fiscal year 2001 Supplemental Appropriations Bill for the hiring of 17 District Veterinary Medical Specialists at the Food Safety Inspection Service, there was not a single USDA inspector employed exclusively for the purpose of enforcing the Humane Slaughter Act. Not one.

In the book of Proverbs, it is written that a righteous man regardeth the life of his beast. We are stewards of God's creatures and, as stewards, we are called to treat all animals with kindness, empathy, and a merciful spirit. At least, our domesticated animals.

Despite the laws on the books, chronically weak enforcement and intense pressure to speed up slaughterhouse assembly lines reportedly have resulted in animals being skinned, dismembered, and boiled while they are still alive and conscious.

Due to the late date on which the fiscal year 2003 Omnibus Appropriations Bill was signed into law, language in the bill permitted the funding for inspectors to be used into fiscal year 2004. What is the intention, Madam Secretary, of the USDA with ref-

erence to the hiring of at least 50 new humane slaughter inspectors with the funds that were provided?

Secretary VENEMAN. Senator, I certainly appreciate your strong interest in this issue and share your concern for the humane slaughter of animals. As you indicated, we have, in the last couple of years, hired 17 new district veterinarians to work on these issues. I have recently talked with my staff in the Food Safety and Inspection Service about their implementation progress with regard to this \$5 million and the 50 humane slaughter inspectors.

We are in the process now of defining exactly how the position descriptions would be put together and how we would proceed with hiring additional people.

I had a question from Senator Cochran earlier, about our training initiative. We have in this 2004 budget, a training initiative for our food safety inspectors. As part of that training initiative, there will be additional training on humane slaughter for the personnel that are in the plants because it is important that they are cognizant of the humane slaughter practices in the plants. So we are working on this from a number of different perspectives.

I noted also that there was an L.A. Times article on this issue just about a week or two ago talking about the progress that has been made in humane slaughter. An independent consultant said that in 1996 just 36 percent, according to her studies of the beef plants, had effectively knocked out the cattle before slaughter. Last year her statistics showed that 94 percent of the plants were doing it properly.

This is an outside study that was reported in the press, but it is something I think shows some progress in this area on an issue that I know is of great concern to you, sir.

Senator BYRD. Madam Secretary, I am astonished. You did not answer my question. Let me repeat the question.

What is the intention of the USDA with regard to hiring at least 50 new humane slaughter inspectors with the funding it has been provided? That is a straightforward question, and I would hope that we would get a straightforward answer.

Secretary VENEMAN. Sir, I thought I did answer your question.

Senator BYRD. No, you did not. With all respect, I do not want to appear to be discourteous but I listened carefully. Why don't you answer that question?

Secretary VENEMAN. As I think I said, we are in the process of working on the position descriptions to comply with implementation of this particular provision in the 2003 bill. I will be glad to get you a more complete description of how we intend to carry this out. But this was a provision that was just recently passed. Our folks are working on the details of how we intend to implement this initiative and carry forward with the hiring. We will work to brief you or your staff on the specifics or get you written information on that.

Senator BYRD. We have talked about this before. And with all due respect, I heard you say that you recently met with your staff and discussed this.

We talked about this a year ago. I think we talked about it 2 years ago. Here is what the language says in the omnibus appropriations conference report, dated February 13, 2003.

The conference agreement includes \$5 million to remain available through fiscal year 2004 to hire no fewer than 50 FTEs for enforcement of the Humane Methods of Slaughter Act through full-time antemortem inspection, particular unloading, handling, stunning and killing of animals at slaughter plants.

Now how many do you have on board? How many of these inspectors do you have on board at this time?

Secretary VENEMAN. My understanding is none, sir. We are still in the process of developing these positions. Again, this has been a relatively short amount of time since this provision was implemented or signed into law but we are working to implement this provision of the 2003 Omnibus bill.

Senator BYRD. This is not something new, and the very distinguished Secretary knows that, because I added \$1.25 million to the fiscal year 2001 Supplemental Appropriations Bill. At that time, there was not a single USDA inspector employed exclusively for the purpose of enforcing the Humane Slaughter Act.

I am really surprised that we have to talk about this a second time. I was very, I thought, serious in my discussion of this last year with the Secretary. How many are on board at this time?

Secretary VENEMAN. We have the 17 on board that were hired previously. As I mentioned earlier, we do have 17 district veterinarians who are overseeing the issue of humane slaughter. The issue of the 50 new additional inspectors is still, as I indicated, being reviewed in our Department to determine the position descriptions. My understanding is that these are 50 FTEs for enforcement activities but are not necessarily veterinary personnel.

Senator BYRD. That is right.

Secretary VENEMAN. And so it is a different position description than the 17 that we have previously hired. We are in the process of developing this program to effectively carry it out as specified in the conference report.

Senator BYRD. How long does it take? The suffering of these animals is going on.

Let me read this conference report just a bit further. It mentions the 17 District Veterinary Medical Specialists. It says the conferees also support the ongoing activities of the 17 District Veterinary Medical Specialists and expect that their mission be limited to HMSA enforcement.

So aside from those, the conference report includes \$5 million to remain available through fiscal year 2004 to hire, no fewer than 50 FTEs for enforcement of the Humane Methods of Slaughter Act.

Do you not think that there is a responsibility to pursue the course set out by the Congress, through the workings of its two Appropriations committees in the Senate and the House, respectively, according to their instructions in the conference report that was issued in February? Do you not think that the Department has a responsibility to follow-up on this, and to do it quickly?

There is a manifest need, a great need, for these inspectors. I called attention to it last year and I have done it again today, most respectfully. I have called attention to *The Washington Post* articles.

Mr. Chairman, I ask unanimous consent to include in the record two articles here, one entitled, "An Outbreak Waiting to Happen," and the other entitled, "Big Mac's Big Voice in Meat Plants."

Senator BENNETT. Without objection, they will be included.
[The information follows:]

[From the Washington Post, April 10, 2001]

BIG MAC'S VOICE IN MEAT PLANTS

Never mind the bad old days, when slaughterhouses were dark places filled with blood and terror. As far as the world's No. 1 hamburger vendor is concerned, Happy Meals start with happy cows.

That was the message delivered in February by a coterie of McDonald's consultants to a group of 140 managers who oversee the slaughter of most of the cattle and pigs Americans will consume this year. From now on, McDonald's says, its suppliers will be judged not only on how cleanly they slaughter animals, but also on how well they manage the small details in the final minutes.

Starting with cheerful indoor lighting.

"Cows like indirect lighting," explained Temple Grandin, an animal science assistant professor at Colorado State University and McDonald's lead consultant on animal welfare. "Bright lights are a distraction."

And only indoor voices, please.

"We've got to get rid of the yelling and screaming coming out of people's mouths," Grandin scolded.

So much attention on atmosphere may seem misplaced, given that the beneficiaries are seconds away from death. But McDonald's, like much of the meat industry, is serious when it comes to convincing the public of its compassion for the cows, chickens and pigs that account for the bulk of its menu.

Bloodied in past scrapes with animal rights groups, McDonald's has been positioning itself in recent years as an ardent defender of farm animals. It announced last year it would no longer buy eggs from companies that permit the controversial practice of withholding food and water from hens to speed up egg production.

Now the company's headfirst plunge into slaughter policing is revolutionizing the way slaughterhouses do business, according to a wide range of industry experts and observers.

"In this business, you have a pre-McDonald's era and a post-McDonald's era," said Grandin, who has studied animal-handling practices for more than 20 years. "The difference is measured in light-years."

Others also have contributed to the improvement, including the American Meat Institute, which is drawing ever-larger crowds to its annual "humane-handling" seminars, such as the one in Kansas City. The AMI, working with Grandin, issued industry-wide guidelines in 1997 that spell out proper treatment of cows and pigs, from a calm and orderly delivery to the stockyards to a quick and painless end on the killing floor.

But the driving force for change is McDonald's, which decided in 1998 to conduct annual inspections at every plant that puts the beef into Big Macs. The chain's auditors observe how animals are treated at each stage of the process, keeping track of even minor problems such as excessive squealing or the overuse of cattle prods.

The members of McDonald's audit team say their job is made easier by scientific evidence that shows tangible economic benefits when animals are treated well. Meat from abused or frightened animals is often discolored and soft, and it spoils more quickly due to hormonal secretions in the final moments of life, industry experts say.

"Humane handling results in better finished products," AMI President J. Patrick Boyle said. "It also creates a safer workplace, because there's a potential for worker injuries when animals are mishandled."

Not everyone is convinced that slaughter practices have improved as much as McDonald's surveys suggest. Gail Eisnitz, investigator for the Humane Farming Association, notes that until the past few months, all McDonald's inspections were announced in advance.

"The industry's self-inspections are meaningless," Eisnitz said. "They're designed to lull Americans into a false sense of security about what goes on inside slaughterhouses."

But Jeff Rau, an animal scientist who attended the Kansas City seminar on behalf of the Humane Society of the United States, saw the increased attention to animal welfare as a hopeful step.

“The industry has recognized it has some work to do,” Rau said. “The next step is to convince consumers to be aware of what is happening to their food before it gets to the table. People should understand that their food dollars can carry some weight in persuading companies to improve.”

[From the Washington Post, April 9, 2001]

AN OUTBREAK WAITING TO HAPPEN

“Did your daughter eat meat that was pink or red?”

The nurse’s question puzzled Connie Kriefall. In an intensive care ward a few steps from where the young mother stood, doctors were struggling to save her only daughter, a 3-year-old with sapphire eyes and a mysterious disease.

In 6 days, tiny Brianna Kriefall had gone from a healthy preschooler with a tummy ache to a deathly sick child with advanced organ failure. Her kidneys had quit. Her heart was faltering. And now a nurse was asking: Could this be *E. coli*?

Kriefall’s mind raced back to dinner at a Sizzler restaurant the previous week. Brianna had chosen the children’s buffet, she remembered. Watermelon, cantaloupe, cheese. Nothing likely to carry *E. coli*. “That just couldn’t be possible,” she said.

But the outbreak that killed Brianna and sickened more than 500 others here in July was not only possible, it was foreseeable. A series of systemic failures by government and industry all but guaranteed that potentially deadly microbes would make their way into a kitchen somewhere in America. It was simply a question of when.

For decades, the familiar purple “USDA-inspected” stamp has given Americans confidence that their meat supply is safe. But for the Kriefalls, like thousands of other families stricken by meat-borne pathogens each year, this veneer of safety proved dangerously deceptive.

Wisconsin health investigators later concluded Brianna Kriefall died from eating watermelon that Sizzler workers had inadvertently splattered with juices from tainted sirloin tips. The meat came from a Colorado slaughterhouse where beef repeatedly had been contaminated with feces, *E. coli*’s favorite breeding ground. Federal inspectors had known of the problems at the plant and had documented them dozens of times. But ultimately they were unable to fix them.

Nearly a century after Upton Sinclair exposed the scandal of America’s slaughterhouses in his novel “The Jungle,” some of the nation’s largest meatpacking plants still fail to meet Federal inspection guidelines to produce meat free of disease-carrying filth, an investigation by The Washington Post and Dateline NBC has found.

U.S. Department of Agriculture inspectors who patrol the nation’s 6,000 meatpacking plants today are armed with more modern tools and tougher standards than ever. But the government’s watchdog agency often has lacked the legal muscle and political will to address serious safety threats. It cannot impose civil fines or recall meat even when its inspectors see problems that could lead to outbreaks.

In the Milwaukee case, one of the nation’s largest, most modern meatpacking plants—Excel Corp.’s Fort Morgan, Colo., facility—was cited 26 times over a 10-month period before Brianna Kriefall’s death for letting feces contaminate meat, documents show. Despite new government controls on bacteria launched 3 years ago, the plant shipped out beef tainted with *E. coli* on at least four occasions. The last shipment delivered the pathogens that ended up in the children’s buffet at the suburban Milwaukee Sizzler.

“It was like making Fords without brakes,” said Michael Schwochert, a veterinarian and retired Federal inspector who worked at the Excel plant. “We used to sit around the office and say, ‘They’re going to have to kill someone before anything gets done.’”

Excel officials said they were unable to talk about the Milwaukee outbreak, citing litigation. In a statement, Excel said it uses cutting-edge technology to prevent contamination, but food must be properly cooked and handled to ensure safety. “Excel is committed to providing safe food for people,” the company said.

A lawyer for the Sizzler franchise in suburban Milwaukee said the restaurant owners still did not know how the outbreak occurred, but had reached settlements with numerous sickened customers. “The owners have been devastated by this outbreak,” attorney Ron Pezze Jr. said.

Criticism of the USDA’s enforcement record comes as domestic *E. coli* outbreaks and epidemics of mad-cow and foot-and-mouth disease in Europe heighten concerns about America’s meat supply. Contamination similar to that found at Excel was documented at several other plants around the country in an internal agency report a month before the Milwaukee outbreak.

The USDA's inspector general, in a sharply critical review of the agency's inspection system, said the government's safety net for consumers was being compromised by confusing policies, blurred lines of authority and a lack of options for enforcement. At some plants, regulators frequently were finding tainted beef but doing nothing because they simply "were unaware of any actions to take," the report said.

"How long does it take for a 'bad' plant to be listed as bad? We can't tell you," USDA Inspector General Roger Viadero said in an interview, "because [the USDA] has not told the inspector what's bad."

USDA officials at the Excel plant were still searching for that line last June 14 when they sent the last in a series of warnings to the plant's management. Nine days later, records show, a package of contaminated meat left the factory and ended up at the Sizzler in Milwaukee.

"It was like a ticking time bomb by the time it got to the Sizzler restaurant," said William Cannon, attorney for the Kriefall family. "And unfortunately, this ticking time bomb killed Brianna Kriefall."

A Safer System

The internal struggle over beef quality at the Excel plant would likely have never attracted public attention were it not for two headline-generating events.

The first came in August 1999 with the chance discovery—in a USDA random survey—of *E. coli* in Excel beef at an Indiana grocery store.

The second was the Milwaukee *E. coli* outbreak last summer. In one of the worst such incidents in state history, more than 500 people got sick, 62 with confirmed *E. coli* infections.

What happened between the two incidents starkly illustrates how problems at modern meat plants test the limits of the USDA's new inspection and meat safety system.

Located on a dry plain 80 miles northeast of Denver, the Excel factory is an imposing agglomeration of smokestacks and aircraft hangar-sized buildings covering 2 million square feet. The only outward sign that the plant produces beef is the line of trucks delivering cattle to the stockyard. That, and the ubiquitous smell—cow manure with a hint of decaying meat.

Inside, much of the butchering is done the old-fashioned way, by workers using various sorts of knives. At the front of the line is the "knocker," who uses a pistol-like device to drive a metal bolt into the steer's head—the law requires that animals be rendered insensible to pain before slaughtering. Another worker slits the animal's throat to drain the blood. Others in turn remove limbs, hide and organs.

At line speeds of more than 300 cattle per hour, things frequently go wrong. Organs tear and spill their contents. Fecal matter is smeared and splattered.

The presence of fecal matter greatly increases the risk of pathogens, which is why USDA inspectors enforce a "zero-tolerance" policy for fecal contamination on meat carcasses. Meat smeared with fecal matter is supposed to be pulled off the line and cleaned by trimming. But there is no law that requires raw meat to be free of pathogens; the exception is for ground beef. Thus, raw meat must carry a label that specifies it must be properly cooked.

In 1993, the Jack in the Box food poisonings on the West Coast killed four children and awakened Americans to *E. coli* 0157, a mutant bacterial strain that lurked in undercooked ground beef. Three years later, the Clinton administration officially scrapped a century-old system that relied on the eyes and noses of Federal inspectors—called "poke and sniff"—in favor of a preventative system of controls developed by the industry with federal supervision.

That system, supported by food safety experts and many consumer groups, was called the Hazard Analysis and Critical Control Point system, or HACCP (pronounced hass-ip). Under HACCP, companies create their own plans for addressing safety threats—a "hazard analysis"—and their own methods of dealing with threats—"control points." The theory is that hazards arise at many points in the production process, and steps can be taken to minimize risks from pathogens. The measures can range from lowering room temperatures to dousing meat with a chlorine rinse to kill germs.

In a nod to consumer groups, HACCP introduced mandatory testing for microbes for the first time. Plants would be subjected to testing for salmonella and a benign form of *E. coli*, but not the deadly *E. coli* 0157:H7.

Three years into HACCP implementation, the reviews are decidedly mixed. The rate for deadly *E. coli* illness remains steady, with 73,000 people stricken and 61 killed a year, according to the U.S. Centers for Disease Control and Prevention.

But a steady decline in disease rates for salmonella and several other pathogens since 1996 has prompted USDA officials and many consumer groups to declare HACCP a major success.

“The nation’s food supply is safer than ever,” Thomas J. Billy, administrator of the Food Safety Inspection Service, said in a statement in response to questions about HACCP’s performance. “Our data shows the level of harmful bacteria has been markedly reduced.”

But pathogens remain a major concern. The USDA estimates that salmonella is present in 35 percent of turkeys, 11 percent of chickens and 6 percent of ground beef. Each year, food-borne pathogens cause 76 million illnesses and 5,000 deaths, according to the CDC.

According to critics, gaps in HACCP still allow too many pathogens to slip through.

The report by the USDA’s inspector general last summer said meat companies were manipulating the new system to limit interference from inspectors. For example, by their placement of control points, plants can effectively dictate which parts of the process inspectors can fully monitor.

Viadero said the agency was “uncertain of its authorities” and had “reduced its oversight short of what is prudent and necessary for the protection of the consumer.”

“After what I’ve seen,” Viadero said in an interview, “if my hamburgers don’t look like hockey pucks, I don’t eat them.”

Meat inspectors and consumer groups like HACCP’s microbe-testing requirements, but some argue the new system is an “industry-honor system” that puts consumers at greater risk. Under the old system, meat with fecal matter on it was trimmed to remove pathogens. Now, inspectors say, chemical rinses can wash off visible traces of fecal matter without removing all the pathogens.

“It’s the biggest disaster I’ve seen,” said Delmer Jones, president of the National Joint Council of Food Inspection Locals, which represents most of the government’s 7,600 meat inspectors. “We’re vulnerable to more deaths and no one seems to care.”

Last fall, two Washington watchdog groups, the Government Accountability Project and Public Citizen, released results of an unscientific poll of 451 inspectors. While a majority approved of HACCP in concept, more than three-fourths said their ability to enforce the law had declined.

One inspector scribbled these words:

“HACCP ties our hands and limits what we can do. If this is the best the government has to offer, I will instruct my family and friends to turn vegetarian.”

Schwochert, formerly the night shift inspector-in-charge at Excel’s Fort Morgan Plant, worked 15 years in private business before joining the USDA. He prided himself on his ability to work with industry, but he felt that HACCP made his job even tougher.

“I’ve never seen anything so slow to respond,” he said.

“Nothing in my professional training or life gave me the tools for dealing with what was going on. It was a calamity of errors. If it weren’t so serious, it would be funny.”

Showdown at Excel

By the late summer and fall of 1999, Schwochert was accustomed to tussling with Excel’s managers over problems ranging from filthy, urine-soaked employee washrooms to occasional findings of fecal matter on carcasses. But the skirmishes intensified dramatically on Sept. 13, after the USDA found *E. coli* 0157 in a package of Excel beef at the Indiana grocery store.

The discovery, part of a routine survey of grocery stores and meatpacking plants, triggered a series of reviews of the Excel plant’s food-safety practices.

The measures began with 2 weeks of *E. coli* testing. Inspectors found *E. coli*—not once but twice, in the first 3 days of testing. The USDA ordered the contaminated meat seized, but it was too late. Some of the meat had been loaded onto a delivery truck.

“Not only were those samples positive, but that meat had left the plant,” Schwochert said. Excel tracked down the truck and returned the meat to the plant.

USDA documents show the combination of *E. coli* positives and the improper shipment of the contaminated beef prompted the government to impose its harshest sanction: A district supervisor “withheld inspection” from the plant, forcing Excel to shut down for 3 days. On Sept. 28, the plant reopened under the threat of another suspension if new violations occurred.

They did, but no suspension followed. By Sept. 29, inspectors were finding so much fecal contamination on carcasses that Schwochert said he tried to close the plant again, even though he felt he lacked the authority to do so. At the last minute, the plant’s top supervisor agreed to shutter the factory voluntarily for the rest of the day, Schwochert said.

Excel promised to retrain its workers and fine-tune its carcass-dressing system, although details of its plan are considered proprietary information. But more contaminated carcasses turned up 2 days later, and regularly after that, agency records show:

Oct. 1: "Fecal contamination observed . . . sample failed to meet zero-tolerance requirements."

Oct. 2: "Identifiable fecal deficiencies on two carcasses (out of 11)."

Oct. 4: "Fecal contamination splotted in an area 1 inch by 4 inches . . . carcasses retained."

Oct. 9: "Deficiencies were observed on six carcasses (out of 11)."

In company memos, Excel responded that the inspectors were focusing on "unrelated" and "isolated" incidents. But USDA district supervisors took a different view. One USDA letter called the company's explanations "incredible, frivolous and capricious." Another specifically suggested Excel was putting its customers at risk.

"In the light of recent E. coli positives, I would think that food safety and preventive dressing procedures would be of utmost importance on your corporate agenda," Dale Hansen, the FSIS's circuit supervisor in Greeley, Colo., wrote on Nov. 29 to Marsha Kreegar, Excel's regulatory affairs superintendent.

USDA's enforcement records contain no response to that letter. Excel has declined to make officials at the Fort Morgan plant available for interviews.

For 5 months, the USDA chose not to impose new sanctions, despite 14 additional citations for fecal contamination and a host of other problems. Government records also describe mice infestation, grease and rainwater leaking onto meat; unsanitary knives; equipment sullied with day-old meat and fat scraps; and carcasses being dragged across floors.

USDA inspectors asked their supervisors for guidance. How many violations before the plant is suspended again? Three? Five?

"The question was asked by myself or in my presence at least 10 times," Schwochert said, "and we never got a clear answer."

On May 23, the USDA threatened another suspension. "Recent repetitive fecal findings on product produced by your firm demonstrates that the HACCP plan at your facility is not being effectively implemented to control food safety hazards," USDA District Manager Ronald Jones wrote to Excel General Manager Mike Chabot.

Excel was given 3 days to make changes—then a 3-day extension, after Excel's initial proposals proved less than convincing.

Finally, on June 14, based on Excel's promise to improve its process, USDA withdrew its threat with an additional warning. "Your firm will be required to consistently demonstrate that your slaughter process is under control, meeting food-safety standards," the agency wrote.

On June 23, a sealed package of sirloin tips contaminated with E. coli was loaded into an Excel truck bound for Milwaukee.

A Family's Ordeal

The Sizzler restaurant on South Milwaukee's Layton Avenue was one of Brianna's favorite places, even if she could never quite remember its name. To her 3-year-old mind it was just the restaurant "up the hill."

"We used to pass it all the time, and she'd have a fit if we didn't go there," her father, Doug Kriefall, recalled.

On the night of July 17, her parents were happy to oblige. It was the end of a harried workday for a young family juggling two careers and two kids, and the lure of a quick and inexpensive night out was irresistible. As a bonus, Sizzler offered an adult menu as well as a special salad bar stocked with kids' favorites: macaroni and cheese, fresh fruit, dinosaur-shaped chicken nuggets.

Emotionally, the family was still in shock from the loss of a baby girl just 7 weeks earlier. The girl the family calls Haley was stillborn. The loss reopened old wounds: Connie Kriefall had lost six fetuses in 8 years before finally giving birth to Brianna in May 1997.

"She was my miracle baby," the mother said. "It was the best Mother's Day present any mom could ever get."

The couple's difficulty in having children made Connie Kriefall an exceptionally careful mother. She knew improperly cooked meat can carry E. coli, a microbe sometimes fatal to young children. So at Sizzler, the Kriefalls' buffet choices reflected caution: watermelon, cantaloupe, cheese, ham cubes, a meatball or two.

But on that night, the bacteria was hidden not in meat but in watermelon, an investigation concluded. A state health task force would determine that E. coli entered the restaurant in sealed packages of sirloin tips.

The USDA inspection stamp on the package read “XL Est. 86R”—the code assigned to the Fort Morgan plant. Unopened packages of Excel beef in the restaurant’s cooler would test positive for the same genetic strain of *E. coli* 0157 found in the bodies of Brianna Kriefall and other restaurant patrons.

Once loose in the restaurant’s cramped kitchen, the task force found, the bacteria easily made the jump from raw meat to raw fruit. Health officials discovered that kitchen workers had violated the restaurant’s rules by preparing watermelon and meat on the same counter top. A meat grinder used to convert steak trimmings into hamburger was located inches from the same counter, close enough to splatter juices on other foods.

The recycling of salad bar items over several days eventually exposed hundreds of people to the bacteria. The first symptoms surfaced on July 14, three days before the Kriefalls’ dinner. By July 24, Milwaukee health officials were tracking an epidemic. Twenty-three victims were hospitalized. The intensive care unit at Milwaukee’s Children’s Hospital was already jammed with sufferers before medical investigators confirmed the cause of the illness and its source.

“I knew it was bad. I just didn’t know how bad,” recalled Judy Fortier, a Milwaukee mother whose oldest daughter, Carly, was among the most seriously ill. For days, Carly, 8, suffered painful bouts of bloody diarrhea so severe her intravenous line was moved to the bathroom so she could nap during the brief lulls between attacks. “She would lean against me,” Fortier said, “and that’s how she slept.”

Like many other parents, Connie Kriefall assumed her children had picked up a summer virus when both came down with stomachaches on a Wednesday evening, 2 days after their meal at Sizzler.

By Friday, Chad had recovered, but Brianna’s condition had taken a frightful turn. Severely dehydrated from diarrhea, she was admitted to the hospital the next morning.

For her parents, the next 7 days unfolded with deepening horror. On Sunday, the family learned Brianna had developed a life-threatening complication. By Tuesday, doctors had begun dialysis to prop up the girl’s failing kidneys. The normally bright, playful child had become nearly unresponsive, uttering only a single, mournful phrase for hours at a time.

“It was just ‘Ow-wee, Mama, Ow-wee, Mama,’” Connie Kriefall recalled. “And those eyes. I’ll never forget how she looked at me.”

The crying would end abruptly. On Wednesday morning, Brianna was placed on a respirator after her heart briefly stopped beating. Finally, on Thursday, she suffered a catastrophic stroke and lapsed into a coma.

With all medical options exhausted, the Kriefalls decided to allow the doctors to disconnect Brianna’s life support.

“Thursday night we both stayed up with her, and took turns crawling in bed with her, telling her how much we loved her and reading her stories,” her mother said. “I couldn’t hold her, and I wanted to hold her so bad. And her heart was racing all night—her heart rate was so high.”

On Friday, just before 7 a.m., Brianna’s heart stopped.

Forward

The months since the Sizzler outbreak inevitably brought investigations and lawsuits, as both victims and governments tried to parcel out blame. An early casualty was the Sizzler restaurant on Layton Avenue, which was permanently closed.

Excel lawyers have maintained in court documents that the corporation was not at fault, since it had no control over Sizzler’s food-handling practices.

“Excel is continuously seeking ways to eliminate or reduce food hazards,” the statement said. “For the benefits of those efforts to reach the consumer, it is essential for food preparers to follow safe handling practices.”

Pezze, the lawyer for the Sizzler franchise, said he had seen the USDA documents from the Excel plant and found the reports of fecal contamination surprising. “Obviously, if suppliers and producers could nip this problem in the bud, we wouldn’t need to rely purely on preparers.”

Industry trade groups and the USDA also argue that it is impossible to make meat germ-free, so consumers bear responsibility for using proper preparation techniques and fully cooking their food.

It’s an argument that William Cannon, the Kriefalls’ attorney, finds especially galling. The Kriefalls have joined other victims in a lawsuit that names Sizzler and Excel.

“They have blamed other people for not catching their mistakes, but the blame starts with them,” Cannon said of Excel. “They knew or should have known they were sending out meat that contained this bacteria. And that there was a substantial risk that somebody, somewhere, in America would end up eating this meat.”

But others find more disturbing the government's ineffectiveness in responding to chronic lapses at plants such as Excel's. It's a problem nearly as old as meat inspection itself, said Carol Tucker Foreman, the assistant secretary for food and consumer services in the Carter administration.

"There is almost no notion of shutting down a plant for failing to meet standards," said Foreman, now a distinguished senior fellow at the Washington-based Food Policy Institute. "The regulations help ensure that plants stay just above the level that requires sanctions."

USDA officials are promising change. After devoting 3 years to implementing HACCP, the agency is beginning an extensive review to determine how the system can be improved.

Congressional supporters of stronger food safety protections say they will press again this year for a law giving meat inspectors more effective enforcement tools, including the power to impose civil fines and order mandatory meat recalls. But after similar legislation failed in the last three sessions, backers acknowledge their prospects are far from certain.

"The American people would be shocked," said Sen. Tom Harkin, an Iowa Democrat and sponsor of several previous bills, "to learn that the USDA does not have the fundamental authority to protect public health."

Anger and Grief

The memorial card for Brianna Kriefall is a collage of things the little girl liked best: Barney and Barbies, dancing and Dr. Seuss, the little watering can that was Brianna's delight on summer days when the flowers were in bloom. The card's verse is written in a child's words.

"Mom and Dad, don't cry that I didn't stay," it begins. "I know you'll be lonesome for me for a while, but time heals all wounds and again you will smile."

For now, though, the promise of healing seems a hollow one. At the Kriefalls' neatly kept home in middle-class South Milwaukee, every day brings searing reminders. Pictures of Brianna adorn almost every wall. The little girl's room and toys remain just as she left them. Their son Chad, now 2½, asks about his sister and sometimes loses patience with his parents' explanations. "Nana come home—now!" he wails.

For Connie Kriefall, just knowing that Brianna's ordeal might have been prevented fires emotions too intense for words. Like her son's, the mother's grief is tinged with an anger she suspects is beyond healing.

"They need to be aware that this has completely destroyed our lives," she says in a whisper. "Our daughter was a miracle child we waited 8 years for. And now she's gone, and we'll never get her back."

Senator BYRD. These 17 veterinary inspectors do not count toward the 50. Now, I take it from your answers to my questions that you do not have any of the 50, aside from the 17 veterinary inspectors?

Secretary VENEMAN. That is correct, sir. We have not begun the hiring process on the 50 new inspectors. But I respectfully disagree with your statement that we do not intend to carry out this provision.

Senator BYRD. I do not think that I said you did not intend it. I asked you what the intention was of your department.

Secretary VENEMAN. We are in the process of implementing this provision by putting together the specifications for the 50 FTEs. It has been a relatively short amount of time since the passage of the 2003 Omnibus Appropriation. It was not passed last September, as normally we would see these.

And so I will commit to you that I will work with our Food Safety and Inspection Service to get this implemented as quickly as we possibly can.

Senator BYRD. I appreciate what you said.

Mr. Chairman, I think we ought to write it into the bill. The language has been in the report. It is there for all to see. And reports are important. If the courts carry out the legislative intent of this bill, or that bill, or some other bill, and there is a suit, the courts

resort many times to the committee reports, as well as, to the legislative history on the Senate floor and House floor, to determine, or to construe the intent of the Legislative Branch. It is right here in plain language.

Secretary VENEMAN. I do not think, sir, that we have a dispute on the intent.

Senator BYRD. Very well.

Let us carry out that commitment, and I think that we may as well put it into the bill. If the report does not speak loudly enough, we can put it into the bill. And the Department can pursue the carrying out of the purposes of the bill. We should not have to meet a third time on this matter, and I am sorry we have had to talk about it today.

Mr. Chairman, I do not want to impose on the committee. I have one more question, if I may.

This question has to do with outsourcing.

Senator BENNETT. Senator, Senator Dorgan has not gone a first round. Could we hear from Senator Dorgan and then to your question?

Senator BYRD. Absolutely. I would like to hear from Senator Dorgan, also.

Senator DORGAN. Mr. Chairman, thank you.

I was interested in the questions Senator Byrd has been asking. Let me just ask a couple of brief questions.

FAS TRADE WITH CHINA

I would like to ask a couple of questions about trade, FAS trade with China. First of all, is the Foreign Agricultural Service at USDA a part of the Trade Policy Review Group? I believe it is. Does anybody know that?

Secretary VENEMAN. USDA is part of the Trade Policy Review Group. It is not necessarily just the Foreign Agricultural Service, but the Undersecretary's office as well.

Basically, the way that the trade interagency process works is that, at the principles level, you have the USTR and the cabinet secretaries that are involved in trade, which would include USDA. Then you have the Trade Policy Review Group and then the Trade Policy Subcommittees. Through FAS, we are thoroughly involved in that process.

Senator DORGAN. Let me tell you why I asked the question. On March 17th, a USTR official in charge of agricultural trade with China, this was the week this person left the employ of the United States. He had been in charge of agricultural trade at USTR.

He stated that the United States would be well justified in filing a WTO case in China for failing to live up to its commitments on wheat trade. The official said that the evidence of unfair trade by the Chinese was "undeniable" and that the Chinese themselves privately acknowledge that they are cheating on agricultural trade.

He then said that the Interagency Trade Policy Review Group has given USTR the green light to march forward with a WTO case against China. But this official said the administration was reluctant to do that because the Chinese might be offended. The administration was worried that a WTO case would be seen as an "in

your face” thing to do to China so soon after China joined the WTO.

Let me tell you why I believe he says that it is undeniable that the Chinese are cheating with respect to wheat trade. When we did the bilateral trade agreement with China, China agreed that it would set tariff rate quotas for imported wheat at 8.5 million metric tons. That means 8.5 million metric tons a week could enter China at very low tariffs.

According to the CRS, China’s imports were less than 8 percent of that from the United States. The Chinese decided that they would issue licenses for imports, but most all of the licenses, over 90 percent, were retained by the Chinese government. Less than 10 percent were given to private interests. And for that reason we have sold very little wheat to China.

So if the Chinese government decides it does not want American wheat, then it retains these licenses in the government and does not import the wheat.

So we have a USTR official, and the USTR of course is part of the Trade Policy Review Group, saying that there ought to have been a WTO case. And what he said is there was a green light given by the Trade Policy Review Group to take action against China.

Would that have been the position of USDA, as well, as a part of the Trade Policy Review Group? Who serves on that group for USDA?

Secretary VENEMAN. It depends on the issue. That is why I say that the USDA is part of the Trade Policy Review Group, and it would depend on the issue as to who attended the meeting on behalf of USDA because we have various specialties.

I have to say, I am not familiar with those remarks of the USTR official, but we will be happy to get back to you on it.

As you know, China entered the WTO as a result of the Doha meeting in November 2001, which provides tremendous market potential for the United States, as you point out. We have had a continuing number of issues with China as they seek to implement their agreements with regard to agriculture and the WTO.

I was in China just the summer. We discussed a whole range of these issues, including the licensing arrangements, with Chinese officials and we talked about the importance of making sure that they had transparent trading systems if they are going to be credible members of the WTO.

We are continuing to press the Chinese officials very hard on a wide range of issues, including wheat. Obviously, options will be considered if we do not make progress.

INTERAGENCY TRADE POLICY REVIEW GROUP

Senator DORGAN. Madam Secretary, we have been pushing on the Chinese for years. They now have a \$103 billion trade surplus with us. We agreed to a bilateral trade agreement with them. We agreed to a bilateral trade agreement with the Chinese a couple of years ago. On that basis they were able to enter the WTO.

The fact is an official in USTR, the week before he left, said publicly it is undeniable they are cheating. And he also said that the Trade Policy Review Group, a group that is made up of USDA as

one member, had given the green light to take a WTO case against China.

I had intended to try to get to you about this so that I could give you some warning. Can we find out whether that is the case? This is an administration official speaking on the record, so he is saying it is the case.

When did that happen, the Interagency Trade Policy Review Group? And if it did happen, if that group signaled somehow that they believe that a WTO case was brought against China on the issue of wheat, it seems to me there are plenty of other areas that we can use to bring actions against China. Because China—you make the point that this is a great opportunity for us. But there is no opportunity in China if China will not buy our products. There is no opportunity.

Secretary VENEMAN. That is correct, although I must say that they have become about a billion dollar soybean market for us, and that is a relatively recent development in our trade with China. They have been a very good purchaser of soybeans, although we have had some difficulties with some regulations.

Senator DORGAN. How big is that market?

Secretary VENEMAN. It is about \$1 billion.

Senator DORGAN. You look at trade with China, and I will not talk about Mexico and Canada and Europe and Japan. But just look at China today. \$103 billion and in virtually every single area, when you look at the promise of the bilateral 2 years ago, you find out that the promises were never kept.

The agriculture minister of China went to South China to Guang Zhou, and in the South Asian Post was quoted as saying yes, we have this 8.5 million metric tons but that does not mean we are going to buy that from the United States.

And now what we have discovered 2 years later is they are not buying wheat from us because the Chinese government does not want to, despite the fact they have this huge surplus. And if someone inside the administration, officially a Trade Policy Review Group, has decided that we should take action, officially take action and pursue a WTO case, should we not do that? And should we not do that immediately?

Secretary VENEMAN. Again, I am unfamiliar with the remarks that you are referencing. We will look into that and get back to you. I just had not seen that particular report.

Just to correct the record, we did not enter into a bilateral agreement, per se. We entered into various agreements with China as part of their accession to the WTO, as opposed to a bilateral free trade agreement.

Senator DORGAN. But we got those agreements bilaterally from China?

Secretary VENEMAN. Right. They were bilateral discussions with regard to the accession to the WTO.

However, we continue to have a number of issues, wheat being one of them, with China that we are having trade difficulties with. USTR officials were scheduled, along with USDA officials, to go to China and discuss some of these issues but unfortunately, a lot of the recent travel to China has been postponed because of the SARS issue.

But we do take these and other trade issues very seriously and we are having a number of discussions regarding trade issues, as you point out, around the world, whether it is Mexico or Canada or other countries.

China, again, has been an area that we are watching very closely because they did commit, in their WTO accession negotiations, to certain things. We want to make sure those are implemented properly. And obviously, we will work with you on this wheat issue.

Senator DORGAN. But Madam Secretary, we already know they are not implemented properly. We already know that the Chinese are cheating.

And with respect to these trade negotiators, I must say, for Democratic administrations and Republican administrations, I have seen them get on airplanes for 20 years and move off. And frankly, you can put them all in a barrel and roll it down a hill, you are always going to have a lower on top.

The fact is they cannot, within 1 week, fail to lose a trade association. They come to us with these negotiations, in this case the Chinese bilateral, and they say look what this is going to do for our country. And then 2 years later we discover we are moving backwards.

This is not your fault, but I am asking the question about the policy review group. If, in fact, we have a group now that says we ought to be taking action against China on trade from wheat purposes only, then let us do that. Let us decide to have a backbone, a spine, some stiffness of spirit here, and stand up for the wheat producers in this country.

It is more for USTR and Commerce than it is for you, Madame Secretary, but I am just asking having a vote or a membership on the Trade Policy Review Group, I hope that you go in there and start swinging, to say on behalf of American farmers, by God, we have the right to demand fair trade, whether it is with China, Japan, Europe, Canada. We have a right to demand it.

Secretary VENEMAN. I agree with you and, as I said, I will definitely look into the comments that you have attributed to this USTR official and determine, if there was some kind of decision made, what that decision was and where it has gone since then.

Senator DORGAN. Would you get back with me?

Secretary VENEMAN. I will get back to you.

[The information follows:]

USDA is part of the interagency Trade Policy Review Group (TPRG), which also includes the USTR, State, Commerce, Treasury, NSC, and several other agencies. USDA's representative's at these meetings can vary depending on the topic, but generally includes high-level representation from either the Office of the Secretary, the Office of the Under Secretary for Farm and Foreign Agricultural Services, or the Foreign Agricultural Service.

At the TPRG meeting that preceded the February high-level dialog talks, USDA expressed support, absent a timely resolution of outstanding concerns, for pursuing a WTO case against China over its overall administration of its tariff-rate quota (TRQ) system. The TPRG deferred a decision to initiate a WTO case, pending the outcome of further discussions with the Chinese to resolve the issues. Ambassador Zoellick and Ambassador Johnson raised our concerns at the highest levels during their subsequent visit to Beijing in February. A follow-up meeting, which was delayed by the SARS situation, is expected to occur in the very near future. Absent a satisfactory outcome, it is expected that the TPRG would reconvene to revisit the issue of initiating a WTO case. Wheat is one of the nine agricultural commodities covered by China's TRQ system and USDA believes that improvements in China's

TRQ system would lead to greater market access for U.S. wheat and other commodities.

Senator DORGAN. Thank you, Madam Secretary.

Senator BENNETT. We have been joined by two other members of the Subcommittee. We will go to Senator Specter, then Senator Durbin, and Senator Byrd will follow up.

Senator SPECTER. Thank you, Mr. Chairman. I regret being here so late but we had a meeting of the Judiciary Committee. I was about to compliment all my colleagues for not being members of the Judiciary Committee until I saw Senator Durbin walk in. He is a member of the Judiciary Committee. We have just been wrangling for a long time and we are going to do so for a lot longer. Senator Byrd used to be member of the Judiciary Committee.

Madam Secretary, just a couple of questions. A letter was written to you on April 8th by about a dozen Senators inquiring about the requirements of the Agriculture Marketing Agreement Act which specifies taking into consideration regional costs of feed, feed availability, and other specific economic factors. The price of Class I fluid milk has dropped precipitously. I would very much appreciate—I am not going to take the time now—if you would review that letter and respond to it.

DAIRY COMPACTS

Also when you—you were nice enough to call me in advance of the hearing and I raised the issue of dairy compacts. I would like a response for the record on the proposals to have a dairy compact. I am on the verge of introducing legislation on it. We had one for the Northeast and we tried to expand it to a number of other States including Pennsylvania. It has been represented that it would provide stability, not be a cost to the taxpayer. I would like to have your position on that in writing.

[The information follows:]

There are a number of concerns with attempting to implement a dairy compact at this time. A first concern with starting a new program is that considerable Federal support is already being provided to the dairy industry. We are now beginning to see milk production slow down and expect to see farm milk prices increase as we move through the rest of this year. The Dairy Price Support Program (DPSP) is supporting prices through the purchase of manufactured dairy products. In addition, the Dairy Export Incentive Program (DEIP) has supported substantial exports of manufactured dairy products. This fiscal year, the DPSP and DEIP will remove from the market an estimated 35 million pounds of butter, 50 million pounds of cheese and 730 million pounds of nonfat dry milk. Federal Milk Marketing Orders continue to help assure orderly marketing and equity in returns among producers. And, the Milk Income Loss Contract program will provide an estimated \$2.5 billion to dairy producers in income support payments this fiscal year. We are also making substantial efforts to distribute surplus nonfat dry milk through humanitarian assistance and domestic drought assistance programs.

A second concern relates to the effects of a compact as revealed through the experience of the Northeast Compact and analysis of proposed regional compacts. The 1996 Farm Bill gave the Secretary authority to approve the Northeast Compact, a regional pricing plan intended to increase milk returns for Northeast dairy farmers, maintain local milk supplies, and reduce the decline in the number of dairy producers. Six New England states, accounting for 3 percent of U.S. milk production and 3 percent of dairy farms, implemented the Northeast Compact on July 1, 1997. Authority for the Northeast Compact expired on September 30, 2001. Compacts, such as the Northeast Compact, establish minimum prices fluid handlers must pay for milk. Our review of the economic effects of compacts shows that farm milk prices and dairy farm income increased in compact states, when the Federal order minimum price is below the compact-established price. There appears to be no evidence

that the Northeast Compact reduced the decline in the number of small and medium-sized dairies in New England. Milk production increases above what it would otherwise be in compact states as dairy farmers react to higher prices by expanding their dairy herds and increasing feeding rates both of which lead to higher milk production.

The Northeast Compact experience provides strong evidence that handlers of fluid milk pass along the higher prices imposed by a compact to consumers. Immediately following implementation of the Northeast Compact, the retail price of fluid milk increased by about \$0.20 per gallon in New England, while retail prices fell nationally. Higher retail prices for fluid milk cause consumers to reduce fluid milk consumption in a compact region. Farm milk prices and income decline outside of compact states because higher milk production and lower fluid milk consumption in the compact states results in more milk available for processing into manufactured dairy products, leading to lower prices for milk and manufactured dairy products in non-compact states. This is the reason producers in the Upper Midwest opposed the Northeast Compact. The Northeast Compact regulations required reimbursement of WIC state agencies for increased program costs, and the Northeast Compact adopted provisions to reimburse schools for increases in the cost of fluid milk caused by regulation. Other low-income households, however, were not compensated for higher fluid milk prices resulting from the Northeast Compact.

The administration does not have a position on any future legislative efforts to establish dairy compacts at this time. However, there are numerous programs already in operation to support dairy farmers and the Administration is concerned that compacts stimulate milk production, adversely affect consumer milk prices and retail demand for fluid milk, have disparate regional effects on farm income and reduce the effectiveness of the Federal dairy programs already directed by Congress. Legislation authorizing compacts should address such concerns.

Senator SPECTER. Thank you, Mr. Chairman.

Senator BENNETT. Thank you very much.

Senator Durbin.

Senator DURBIN. Mr. Chairman, it is a pleasure to be here with you again in your new capacity. I hope you will enjoy this committee. It is an assignment I had in the House and in the Senate and I think it is an excellent opportunity.

Madam Secretary, Mr. Dewhurst, Mr. Collins, Mr. Moseley, thank you for being here today. I am going to just ask one area of questioning very briefly. I have my statement that I would like to submit for the record and my questions.

FOOD SAFETY IN THE SCHOOL LUNCH PROGRAM

But I would like to speak to you for a moment and ask your thoughts on the question of the safety of the food in the school lunch programs of America. Since 1990 there have been more than 100 reported outbreaks of foodborne illness in schools that have sickened more than 6,000 children across our Nation. The Centers for Disease Control and Prevention tell us that 10,000 more kids were sickened in school-related food outbreaks during that time, although these kids never learned what food or pathogen made them sick. Those numbers are, I am afraid, just a fraction of the true amount, since foodborne illness in schools is seriously under-reported across America.

Recently the Chicago Tribune reported that countless Illinois schoolchildren were served ammonia-contaminated chicken, hamburgers, and potatoes over the course of several months; contaminated food that apparently both Federal and State officials knew about but allowed to be served. In one Illinois elementary school, 42 kids and teachers became so ill after eating chicken with ammonia levels 133 times the acceptable amount that they were rushed to the hospital.

I understand that your agency has worked to improve the safety of food in schools, but when our schoolchildren are being sent to the hospital after eating the food that we provide, inspect, and regulate then obviously more needs to be done.

MANDATORY RECALL OF UNSAFE FOOD

I would like to ask you a few specific questions. Currently, recalls of unsafe food in the school lunch program are performed on a voluntary basis. Let me repeat that. Recalls of unsafe food in the school lunch program are performed on a voluntary basis. Complicating the recalls is the fact that schools do not know the identity of the producers who supply the food due to the complicated chain leading up to the school door. In the Illinois case, it appears some of the food was pulled from cafeterias. Several schools were not even notified they were serving potentially dangerous food until it was too late. In any event, the process in place now failed to protect our kids.

First question. Are there any reasons recalls of contaminated food served in the school lunch program should not be made mandatory if a voluntary recall effort fails?

Secretary VENEMAN. Senator, I appreciate your concerns about the school lunch food safety. It has been something that we have been concerned about as well. In fact, let me just give you a little bit of background on some of the things that we are doing in the Department.

We basically have three agencies involved in the school lunch program. We have the Food and Nutrition Service, the Agricultural Marketing Service, who purchases a lot of the products, and we have the Food Safety and Inspection Service when it comes to the safety of meat and poultry. We have started, within the Department, an interagency dialogue on all of these food safety issues so that the minute we have any issue that involves food safety, we know whether or not there were products that went into the school lunch program. That is part of our notice now.

That is something that was not done before. I just bring this up to tell you that I share your concern.

With regard to the case you cited that happened recently in Illinois, my understanding is that there were specific disposal orders that went out that were not followed by the school district. In fact, there are school district officials who have been indicted in this case.

Senator DURBIN. That is true.

Secretary VENEMAN. So while we need to be looking at that case as an example of where we can do better, I do not think the fault lies with the Federal agencies since they issued the disposal orders and they were not followed through on by the school district.

Now what does that mean for us in the future? It means that we are going to go back the next time and make sure that officials do what they say they are going to do.

Senator DURBIN. I would just say, you know that my passion is food safety.

Secretary VENEMAN. It is one of mine as well.

Senator DURBIN. I know that there are a dozen Federal agencies in charge of food safety, and 35 different laws, and 25 different

committees on Capitol Hill. It is madness. The only people that I can get to support a single food safety agency to try to consolidate this are people who have not been appointed Secretary of Agriculture or those who were former Secretaries of Agriculture. I cannot get any incumbent Secretary of Agriculture to agree with it until they leave office and then they think it is a great idea. Secretary Glickman fought me all the way, and now he is with me all the way.

I do not know what it takes, but there is something about going into that building that leaves you in a state of mind that you cannot think in terms of consolidating food safety. But what I just heard you say was, you are starting to realize you have to. You are bringing together within your own agency groups that were not talking to one another.

But what about the basic question? Should we have mandatory recall of contaminated food in the school lunch program rather than voluntary?

Secretary VENEMAN. We have not, to my knowledge, had difficulty getting firms to recall any product when necessary because, as you know, the U.S. Department of Agriculture, through the Food Safety and Inspection Service, has the ability to shut down a plant if they do not put forward a recall order as we recommend.

In addition, I would also note that the Department of Agriculture itself, through our Food and Nutrition Service, has used recall authority when necessary. We are able to do that as the customer.

So the issue of whether or not we need additional legislative authority I think is one that is, in our view, not necessary. We believe we have the legal authorities necessary to carry out recalls, if needed, and we have never had an instance where we were unable to get a recall carried out.

Senator DURBIN. I ask you, please do not rule out the possibility until we can talk about it a little more, because I think it may give you some authority that will protect some children.

SUPPLIER DISCLOSURE

I would also like to suggest to you, and this will be my last question, Mr. Chairman, we have had recommendations from the General Accounting Office that we need to give school districts and school authorities who are purchasing food, more information about food suppliers.

In other words, if you have gathered information, USDA FDA, that suggest that some suppliers to the school lunch program have had a questionable history of providing safe food, I would think it obvious that school authorities should have that information so that when they contract with these same people they have the benefit of this Federal information, and that they can purchase the safest foods for the school lunch program.

I have some legislation along this line and I would like to bring it to you in the same context if I can.

Secretary VENEMAN. If I might also make one comment, just last week we released our new Agricultural Marketing Service standards for the purchase of ground beef. Those are much stricter standards. They are standards which are consistent with those that the fast food restaurants use. So we now have a much stricter

standard that we just released last week with regard to purchases of ground beef for the school lunch program.

Senator DURBIN. Good. Thank you. Thanks, Mr. Chairman.

Senator BENNETT. Thank you very much, Senator.

Senator Byrd, you have been very patient. Appreciate your participation. Glad to give you a second round.

Senator BYRD. Mr. Chairman, you have been very patient. My experience over my 45 years on this committee is that the Chairman is usually left to the last. He is constrained to give other members of the committee an opportunity, and he usually waits until everybody else has a chance. So, I respect your situation, and I will be perfectly happy to wait until you have an opportunity to ask some questions.

Senator BENNETT. Go ahead.

HUMANE SLAUGHTER INSPECTORS

Senator BYRD. Thank you, Mr. Chairman.

A brief follow-up on the subject that I was pursuing earlier. In order to ensure that adequate funding is available to maintain no less than 50 humane slaughter inspectors throughout fiscal year 2004, the future funding needs must be determined. Given that the \$5 million provided in the fiscal year 2003 omnibus appropriations bill for no less than 50 new humane slaughter inspectors has been made available through fiscal year 2004, Madam Secretary, will any additional funding be needed to fulfill and maintain this requirement in fiscal year 2004?

Secretary VENEMAN. We do not anticipate that we will need additional funding for the period of time through fiscal year 2004. That should be adequate funds according to our budget analysis that has been done.

Senator BYRD. Very well. I thank you. I will be pursuing this with interest, and I hope that the Department will proceed expeditiously to get the 50 new humane slaughter inspectors on board. I will be back later if you need additional funds.

In the meantime, I would appreciate it if you let me know if you are having any problems.

Secretary VENEMAN. We will do that, sir. We will keep in touch with you.

COMPETITIVE OUTSOURCING

Senator BYRD. Now as to outsourcing, the OMB scores agencies on how well they comply with the President's management agenda. Agencies are encouraged to submit management plans to the OMB which incorporates the competitive sourcing quotas outlined in the President's budget. I understand that agencies within the Department of Agriculture are currently studying their workforces to find places where it would be appropriate for private contractors to take over agency functions. One example relates to potential outsourcing of technical specialists, such as soil scientists and other conservation specialists of the Natural Resources Conservation Service. These are the people who are responsible for transferring public conservation policy to private landholders through what has been one of the most successful public/private partnerships in history.

Another example, which many of my constituents are concerned about, is the privatization effort within the U.S. Forest Service. I believe that this is an important issue for every agency in your Department. Regardless of the agency or the activity, the uncertainty at the employee level as to how agency outsourcing will evolve is having a horrific effect on morale. Given the loss of experienced agency personnel that will occur as a large number of employees reach retirement, we should be thinking of ways to retain experienced workers, not engage in practices that will erode their trust in personnel management.

It is my understanding from OMB that these competitive sourcing plans, once they are submitted to the OMB for approval can be released to the public at the discretion of the agency heads. If the Congress is to appropriate substantial funding for private sector employment opportunities, will you first provide Congress, and in particular this committee, with a copy of any management plan or a competitive sourcing proposal that the Department of Agriculture submits to the OMB?

Secretary VENEMAN. Senator, first let me just say that I have served in Government a long time and I have a great respect for career civil servants and the job that they do. It is certainly not a philosophical position on my part to reduce the career workforce.

I think, though, that you do bring up a very good example of where competitive sourcing is appropriate, and that is in the technical assistance area through the NRCS for some of the conservation issues in the Farm Bill that was specifically authorized by the Congress. We recognize the fact that we are going to need substantial new resources in technical assistance. It is not going to take away current jobs, we do not believe, in the NRCS, but recognize that we should have the opportunity for the private sector or the non-profit sector to compete with regard to technical assistance.

This has been something that has been very well received both on the side of the provider community as well as by the farmers themselves having the opportunity to work with a variety of sources in terms of this kind of technical assistance. We are working with OMB on where the appropriate areas are to potentially look at outsourcing, and we will consult with this Committee as we move forward.

But I do think that the technical assistance issue with regard to the NRCS is a very important one because it was specifically authorized by the Congress. And, it has been very well accepted in the agricultural community. It is one that we have done in conjunction with a lot of public input and public meetings to best see how to do this.

Another area where we do a lot of outsourcing, and it has been very effective, is in the whole area of technology and technology development. It is very difficult to get the kind of technology expertise in-house in the Government. We need the expertise of various providers, whether it is in GIS mapping or in some of our computer systems. But these are the kinds of things that I think are appropriate as we move forward and looking at the kinds of things that would be appropriate outsourcing in our Department.

Senator BYRD. You did not exactly answer my question. Let me ask a different question.

When do you expect to submit a management plan to the OMB? And, how soon can you make that plan available to this committee, if it requests such?

Secretary VENEMAN. We are working with OMB. I do not know that we have a specific timetable for submission of a management plan but we will certainly work with this Committee as we move forward on any specific plans with regard to the outsourcing provisions.

Senator BYRD. Do I understand you to say that you will provide this committee, if it requests such, a copy of any management plan or competitive outsourcing proposal that the Department of Agriculture submits to the OMB?

Secretary VENEMAN. Yes, we would provide this Committee with any plans to restructure the kinds of activities that we were proposing.

Senator BYRD. Very well.

Mr. Chairman, I thank you for your courtesy and your patience. And I thank you, Madam Secretary, and Mr. Dewhurst, and Secretary Moseley, and Mr. Collins. Thank you very much.

Secretary VENEMAN. Thank you, sir.

Senator BENNETT. Thank you, Senator.

Senator Harkin, do you want a second round?

Senator HARKIN. If you had some—

Senator BENNETT. I am going to submit some of mine in writing. I will say, the Secretary has a lunch appointment with the President of Spain as I understand it. So I am going to submit mine in writing so that she can meet her appointment. She and I talk perhaps more often than some of the others of you, so go ahead, sir.

Senator HARKIN. I will keep mine real short. I just want to know, is he buying or selling?

If he is buying, I will be real short.

AMES, IOWA ANIMAL RESEARCH FACILITY

You are very nice, Madam Secretary. You have been very patient. Mr. Chairman, you have been very patient and I appreciate that. I just have three very short ones. One has to do with the Ames Animal Research Facility. In 2001, USDA came to the conclusion that modernizing the Ames facilities was essential. You have visited the facilities. Three Secretaries of Agriculture have come to the same conclusion. As I read your testimony I am concerned that there may be some going back and reevaluating USDA's carefully developed plans to rehabilitate and renovate these facilities. Delay means increased costs and leaves our Nation without the facilities it needs to respond to future natural or terrorist threats to our meat supply.

I understand that construction will start this fall on the large animal holding facility and I just want to know, should we be concerned about any delay in moving forward with this project? Should we be concerned about any delay?

Secretary VENEMAN. We are absolutely committed to moving forward with the Ames modernization program. The question is funds. As you point out, if we delay and do this in increments, it could substantially increase the cost of the program.

Senator HARKIN. Could increase it.

Secretary VENEMAN. So, at this point, we intend to stay on the accelerated program. We received some additional monies in the 2003 omnibus bill, and that is certainly helpful. We are, as you say, going to begin construction on the one portion of it this fall.

Senator BENNETT. Senator Harkin is responsible for your giving additional monies.

Secretary VENEMAN. Thank you, sir.

Senator HARKIN. I do not know about that. We all worked together on that, I think, to get that done.

Mr. Chairman, as you know, you have been in business. They are building—everyone is committed to getting this thing rebuilt. There is a large animal facility. Then there is another biocontainment facility, then a small animal facility. The contractors and constructors will be there this fall starting on the large animal facility. If they can then continue to build the others, they have got all the equipment there, they have got the people there. But if they have to close that down, go away, then come back, the costs just escalate. That is what we are trying to get to in terms of getting the funds out there. Once the contractor is there, finish the job and get it done. That is what my comments went to.

FARM BILL ENERGY PROVISIONS

On energy, Madam Secretary, you along with your staff and the President have stated your support for farm-based renewable energy including the landmark energy provisions in 2002 farm bill. Yet the Administration in the budget has proposed to cut or eliminate funding for some of these very popular initiatives. The 2004 budget of the President effectively zeros out funding for the renewable energy and energy efficiency program. That is Section 9006, which provides cost-share assistance to farmers and rural small businesses for renewable energy systems like wind turbines, methane digesters, and to make valuable energy efficiency improvements to their own operations to save money. Your budget also reduces funding for the critically important bioenergy program under the Commodity Credit Corporation which assists our ethanol and biodiesel producers. Again, these programs were funded in the Farm Bill.

So can you—again, if you cannot now, if you want to respond in writing, that is fine. I know you have got to get to your lunch, but I am just interested in where you are headed with this and whether or not we are going to get the funds necessary for the cost-share programs and for the bioenergy programs.

Secretary VENEMAN. Senator, you and I have talked a lot about programs for rural America and for renewable sources of energy. Obviously, we are very supportive of moving ahead with new markets for our agricultural producers.

One of the issues that came up with regard to the Farm Bill is that there were funds that were provided for some of these programs, and we will get some of the specifics to you in writing as you indicate, but some of these programs were funded for the first year of the Farm Bill with mandatory funds and then it was left to discretionary funds in the outyears. We are limited in terms of the amount of discretionary funds we have to put toward new programs, which made it difficult to make some of these choices. I un-

derstand that the Farm Bill authorized these programs but they were funded initially with mandatory funds and we have had difficulty coming up with discretionary funds to continue some of the funding.

The other thing I would like to point out is that some of these programs were funded with mandatory funds in fiscal year 2002 with program funds that would go into fiscal year 2003. So some of the funds that were provided as mandatory funds are continuing funds that can be used for these programs to allow them to proceed into the outyears.

Senator HARKIN. Please check with your staff. I think the two programs I mentioned, 9006 and the bioenergy program are both mandatory. Those do not rely upon discretionary funds.

Mr. COLLINS. Senator Harkin, that is correct, they are both mandatory. What happened with the CCC bioenergy program, the Administration did propose capping that at \$100 million. The authorization is for \$150 million a year. However, it is funded at 77 percent of \$150 million, or \$115.5 million by the appropriations bill. We just announced the final rule on that program this week. We are operating that program with \$115.5 million for fiscal year 2003 and at \$150 million in future years. That is the operating regime we are under.

With respect to the other program you mentioned, the renewable energy systems and energy efficiency program, that program was funded at \$23 million in mandatory funds.

Senator HARKIN. That is that cost-share program.

Mr. COLLINS. Correct, that is a cost-share program. It was funded at \$23 million a year in mandatory spending for each year of the life of the Farm Bill. The Administration is implementing that program at the \$23 million level for fiscal year 2003. It was proposed at \$18 million in fiscal year 2003 but it is being implemented at \$23 million.

Senator HARKIN. I thought it was zeroed out.

Mr. COLLINS. In the future, in fiscal year 2004 it is proposed to be shifted to discretionary funding. If I am not mistaken, I think the discretionary funding level is \$3 million a year. That was simply a function of the tight budget environment and very tough trade-offs in trying to make a difficult decision about where to focus the money.

Senator HARKIN. So it goes from 23 down to three.

Mr. COLLINS. Correct.

Senator HARKIN. And shifted from a mandatory program to a discretionary.

Mr. COLLINS. Correct.

Senator HARKIN. Can you do that?

Mr. COLLINS. No, you have to do that.

Senator HARKIN. That is what I thought.

Mr. COLLINS. We can only propose that.

Senator HARKIN. That is what I thought. You cannot do that. So you are proposing to do that.

Mr. COLLINS. Yes, sir.

Senator HARKIN. Mr. Chairman, I would say, I hope we do not do that. That is why it was written into the bill that way, was to

keep it on that level and keep it moving as a mandatory program. If I remember right in the farm bill, that had pretty broad support.

Senator BENNETT. Do we do that or does the authorizing committee do that?

Senator HARKIN. I do not know.

Senator BENNETT. If you do not know, I certainly do not know.

Senator HARKIN. It would have to be that the authorizing committee. The appropriations can only do on the funding, but to change it, to shift the nature of it would have to be done by the authorizing committee.

Senator BENNETT. That would be my thought.

Senator HARKIN. The authorizing committee would have to approve of that. So again, I hope Appropriations Committee will—but how can they do that? You have requested us to do it, but I do not think we can do that. I am told by my staff they can do it through limitations and obligations. And we would oppose that, obviously.

Senator BENNETT. That was redundant.

Senator HARKIN. That statement did not have to be made. That was all I really had, and I do not want to delay you. I know you have got to go to lunch.

Technical assistance, I will write you a letter on that because I think some things were said here. We specifically undid the Section 11 cap, specifically in the omnibus bill, specifically. I have got it here. I can read it to you. So I do not know why we are having so many problems with that because we specifically we wrote it out in the omnibus bill. So I do not know why we are having problems on the technical assistance.

Lastly, Mr. Chairman, it seems I do have some work to do and I will have to talk with Senator Stevens about the CSP to clear up some misperceptions. As we all know, it is not an uncapped entitlement. There are rigid caps in there.

Secondly, it is not rely an entitlement. There are things you have to do in order to qualify for it. It is just that it is open to all. But you still have to meet certain things and it is very strongly capped. So I will have to talk with him about that.

ADDITIONAL COMMITTEE QUESTIONS

Thank you all very much. Thank you, Mr. Chairman, for your kind patience.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR ROBERT F. BENNETT

BIOTECHNOLOGY

Question. Madam Secretary, I noted that you have requested an additional \$6.604 million in your own budget to fund cross-cutting trade-related and biotechnology programs throughout the Department. According to your staff, these funds will eventually be distributed to the Foreign Agriculture Service, the Animal and Plant Health Inspection Service, and the Grain Inspection, Packers and Stockyards Administration.

How did you arrive at this figure? How much of this amount do you expect will be made available to each of these agencies? Why didn't the Department request that the increases be provided directly to those accounts?

Answer. This figure was arrived at by considering the priority needs for these activities and overall budget constraints. We request appropriations for the Office of

the Secretary so funding may be allocated in a coordinated manner to address issues related to trade and biotechnology that are very fluid. It would be premature to make allocations at this time, though we would expect funding to be used to respond to World Trade Organization and regional and bilateral trade negotiation demands, as well as trade and regulatory issues associated with biotechnology.

Question. What are the established criteria for distribution of these funds? What are the established procedures to seek Congressional approval for these transfers?

Answer. Funds would be used for high-priority Departmental needs related to trade and biotechnology, such as World Trade Organization and regional trade negotiation demands and trade and regulatory issues associated with biotechnology. Authority to transfer the funds is included in proposed appropriation language that was submitted with the President's budget.

REVIEW OF RURAL DEVELOPMENT OFFICES

Question. I understand Rural Development is performing a review of all of its offices nationwide. Could you please share your expectations of this review with us, the reasons behind it, and the status?

Answer. Rural Development went through several reorganizations during the 1990's that resulted in a variety of different organizational structures, positions and titles in the States. While there is great diversity in geography and needs among the States, the variety of field structures has resulted in confusion to our customers, especially those who work with more one State office, and to the national office staff as it works to implement national programs. An advisory committee composed of 10 Rural Development State Directors reviewed the various organizations and recommended two organizational models, one of which could be adopted in all States. The committee also made several recommendations related to responsibilities, titles, and the minimum size of staff at an office location to ensure quality customer service is provided. Each Rural Development State Director has developed a plan for achieving the recommendations of the advisory committee's report and those state plans are currently being reviewed. Implementation of those plans will result in greater consistency in the delivery of our programs and improved efficiency and effectiveness in the delivery of our programs.

IMPLEMENTATION OF AGRICULTURE EMERGENCY ASSISTANCE ACT OF 2003

Question. What is the status of the implementation of the Agriculture Emergency Assistance Act of 2003? When do you expect the Livestock Assistance Program signup to begin? When do you expect payments to begin?

Answer. The implementation status is as follows:

- 2001/2002 Crop Disaster Program.*—Signup begins June 6, with payments to begin by the end of the month.
 - Livestock Compensation Program (LCP).*—2,149 counties in 42 States were already eligible for LCP under the original program announced September 19, 2002 (LCP-I). An additional 779 counties in 30 States have become eligible under the Agricultural Assistance Act of 2003 (LCP-II). Signup began April 1 and will continue through early June. Payments began in early May.
 - Hurricane Loss Assistance for Sugarcane Growers and Cooperatives and Sugar Beet Disaster Program.*—Signup will begin for both programs once the program provisions have been finalized.
 - Tobacco Payment Program.*—Signup is under way March 17 through May 16, with payments to be completed by the end of May.
 - Cottonseed Payment Program.*—Signup began May 2 and will continue through May 23. Payments will be issued in early June.
- Signup is expected to begin in August and continue through the end of October. Because the program is limited to \$250 million, signup must end and a payment factor be determined before payments can be issued. Once the factor is determined, payments should begin within 2 weeks.

FOOD STAMP PAYMENT ACCURACY ACTIVITY

Question. In your testimony, you mention funds to improve the integrity and accuracy of nutrition programs. According to your testimony, the current average State payment accuracy is now 91.34 percent. How does the Department expect to improve on that number and improve the integrity of nutrition programs?

Answer. The Food and Nutrition Service (FNS) implemented a priority project plan beginning in fiscal year 2001 to reduce eligibility errors and assure program integrity in the Food Stamp Program. The intended outcome was to initially achieve, for fiscal year 2001, a payment accuracy rate of at least 90.8 percent. As noted above, the agency exceeded its payment accuracy goal, by achieving an accu-

racy rate of 91.34 percent in fiscal year 2001. Preliminary quality control data for fiscal year 2002 suggest there has been even further improvement in this fiscal year. These rates will be released in June 2003.

FNS continues to employ a variety of strategies and activities to improve payment accuracy and assure program integrity. For the past several years, the agency has received \$1.9 million in funding per year to augment its staffing and efforts to increase payment accuracy nationwide. FNS also allocates nearly \$400,000 annually to support State travel to conferences, workshops, and other meetings between States, to facilitate the sharing of best practices of effective and efficient program management techniques.

Fiscal year 2003–2004 current and planned activities include:

- Creating and maintaining a national team of experts to monitor and evaluate payment accuracy progress, analyze error rate data, and exchange information on payment accuracy best practices and program improvement strategies.
- Targeting high issuance/high error rate states for enhanced Federal intervention and technical support. This is accomplished by establishing a tier methodology for states (based on error rate performance) to support effective and consistent deployment of limited FNS resources for intervention and technical assistance.
- Continuing the exchange of best practices information through the State Exchange Program, and the publication of a Best Practice Guide.
- Further facilitating the commitment, involvement and collaboration among State partners and leadership at all levels through the utilization of a web-based environment dedicated to the exchange of information and discussion forums on error reduction issues and strategies.
- Continuing to work with States to optimize analysis based on quality control data in an effort to develop and monitor corrective action.

WIC PARTICIPATION ESTIMATION PROCESS

Question. The Administration's budget supports a record level of funding for the Women, Infants and Children Program (WIC) to cover anticipated increases in participation. What process is used by the Department of Agriculture to determine the additional participation? Also, will the Department make another participation estimate prior to Committee action on the fiscal year 2004 Agriculture Appropriations bill?

Answer. USDA tracks WIC participation throughout the fiscal year and makes projections for the following fiscal year based on anticipated demand for services. Based on current and projected fiscal year 2003 participation levels, we consider it unlikely that we will revise our participation estimate prior to Committee action on the fiscal year 2004 Agriculture Appropriations bill.

FOOD SAFETY EDUCATION

Question. The Department recently launched a campaign to educate and reinforce to consumers the importance of food safety. A food safety mobile actually travels the country to educate the public. According to your testimony, an increase of approximately \$2 million is requested for a mass media campaign aimed at improving the safe food handling practices of consumers. What other resources are available through USDA to educate the public when it comes to food safety?

Answer. One of the key public health missions for FSIS is to educate the public about the hazards of foodborne illness, as well as to teach safe food handling techniques to ensure the safety of meat, poultry, and egg products. The \$1.5 million requested in the budget will be used to evaluate and develop effective strategies for a comprehensive and sustainable mass media food safety education campaign.

FSIS has already started to develop this campaign with the new USDA Food Safety Mobile. The Food Safety Mobile is traveling the country to educate the public about the importance of food safety, but at the same time, we are learning important lessons about the best way to get our message across in order to reach the most people through events and the media. We will use the information that we learn from this new campaign to determine how to best utilize our resources, meet our food safety education goals and communicate our food safety message with all segments of the population.

Other USDA agencies such as the Food and Nutrition Service (FNS) and the Cooperative State Research Education and Extension Service (CSREES), also offer programs to promote food safety and make educational materials available. Trying to share food safety messages with all segments of the population, such as consumers, food preparers, educators, children, physicians, public health officials, and industry, is a formidable task. However, partnerships between USDA agencies, other State

and Federal entities, as well as private and public organizations facilitates a wider dissemination of life-saving public health information about food safety.

REIMBURSEMENT RATE FOR CROP INSURANCE COMPANIES

Question. In the Risk Management Agency portion of the Administration's budget, the reimbursement rate for crop insurance companies is reduced from the current level of 24.5 percent to 20 percent. Recently, one crop insurance company failed and others have commented on the thin profit margins due to 2 years of drought conditions. If this proposal is enacted, do you expect participation in the crop insurance program to lower due to this change?

Answer. The number of companies participating in the Crop Insurance program has been on a steady decline due to a variety of reasons. As recently as 1993 there were 24 companies in the program compared to 18 today. It is likely that market dynamics will further reduce that number. To protect the integrity of the delivery system, each new company will need to satisfy a higher minimum standard of operating and financial condition to be admitted into, and remain in, the program.

A reduction in the reimbursement rate will increase the financial pressure upon the companies to adjust their operating approach. Each company will strive for increased efficiencies without sacrificing service. This of course is a healthy exercise. However, if the company is not successful in driving down cost and generating sufficient returns to satisfy shareholders, consolidation or departures will be the result.

CROP INSURANCE FRAUD AND ABUSE

Question. It is my understanding that crop insurance fraud and abuse is a concern for both the Department of Agriculture and crop insurance companies. A number of individuals are experimenting with various methods that could be used to combat fraud and abuse. Does the Risk Management Agency have additional ideas on how to increase the awareness or combat program fraud and abuse?

Answer. The Risk Management Agency (RMA) continues to regard technology, visibility and preemptive actions as a major element of our program to improve the way we address fraud and abuse. This approach takes advantage of the advanced tools that are becoming available through various USDA initiatives such as data mining, remote imagery, and geographical information systems (GIS) technology. We have only started to explore and use the possibilities of leveraging the use of GIS technology and data mining to identify potential program abuse and increase the cost/benefit for the funds currently dedicated to compliance activities. In particular, GIS capabilities will be expanded in concert with the Farm Service Agency to benefit program compliance with other farm programs in addition to crop insurance. RMA also benefits from FSA field office spot checks in priority areas and from continual review and revision of product structures and program design to preempt and prevent abuse. Regarding program awareness, RMA continues to publicize high profile cases to make farmers aware of the penalties associated with program abuse. Future RMA reviews will also include more field visits with producers to promote compliance program objectives.

QUESTIONS SUBMITTED BY SENATOR TED STEVENS

ORGANIC STANDARDS FOR WILD SEAFOOD

Question. In the fiscal year 2003 Supplemental Congress just approved, a provision was included directing you to permit wild seafood to be labeled "organic". Under prior law, seafood could not be labeled organic because it was not grown on a farm. What are the plans for implementing this new law, and when can we expect new regulations to be in place?

Answer. Our plans at the present are to begin a public dialogue on standards for seafood later this fiscal year. We will publish information on the National Organic Program web site seeking comments and input from interested parties to determine the scope of work involving the development of organic standards for seafood.

COUNTRY OF ORIGIN LABELING

Question. In the 2002 Farm Bill, Congress passed a provision directing the USDA to develop a country of origin labeling program for several commodities, including salmon. You recently announced that your department would hold listening sessions in several communities. My colleague Lisa Murkowski and I wrote you a letter requesting that you schedule a session in Alaska. What are your plans for listening sessions in our State?

Answer. We are pleased to inform you that we have been in contact with representatives of the Alaska seafood industry and will join them in Kodiak, Alaska, on June 12, 2003, to hear their views and concerns on country of origin labeling.

Question. Because of the importance of this program in Alaska and in the lower 38, I would like to know what the timeline is for implementation of this program?

Answer. The law required USDA to issue guidelines for voluntary country of origin labeling by September 30, 2002, which USDA published on October 11, 2002. To meet the law's deadline for implementation no later than September 30, 2004, we expect to promulgate the rules for the mandatory country of origin labeling program in early 2004.

QUESTIONS SUBMITTED BY SENATOR CHRISTOPHER S. BOND

COMPETITIVE SOURCING

Question. With respect to the A-76 process, please outline in detail a comprehensive description of the status of all affected USDA employees in Missouri, including but not limited to the following information: how many employees are on the inventory; a description of their duties; how they were determined and by whom to not be considered "inherently governmental"; how many employees on the job are already privatized/contracted out and what they do and what they cost; any available analysis suggesting that service is not compromised and that the cost to the Federal Government is reduced; what the plans are for the future; and how functions placed on the inventory before enactment of fiscal year 2003 appropriations are in compliance with language included in Senate Report 107-41 noted below.

"The Committee expects that none of the funds provided for Rural Development, Salaries and Expenses should be used to enter into or renew a contract for any activity that is best suited as an inherent function of Government, without prior approval from the Committees on Appropriations of the House and Senate. Such activities may include, but are not limited to, any function that affects eligibility determination, disbursement, collection or accounting for Government subsidies provided under any of the direct or guaranteed loan programs of the Rural Development mission area or the Farm Service Agency. Further, the Secretary shall provide a report to the Committees on Appropriations of the House and Senate by March 1, 2002, on all plans by the Department to enter into contracts to carry out any of the previously stated activities."

How many total FTEs at Rural Development currently exist relative to levels 10 years ago?

Answer. The Rural Development Mission Area FTE ceiling is 7,024 for fiscal year 2003. In 1993, our records show that the precursor agencies that now constitute Rural Development had the following staff year ceilings.

[The information follows:]

AGENCY	1993 STAFF YEARS
Rural Utilities Service, formerly Rural Electrification Administration	890
Rural Housing Service, formerly Rural Housing and Community Service	8,144
Rural Business-Cooperative Service, formerly Rural Business and Cooperative Development Service	435
TOTAL	9,469

This represents a reduction of 2,435 staff years from the staff year ceiling over the 10-year period.

Question. How many contract employees at Rural Development currently exist relative to levels 10 years ago?

Answer. Due to the temporary nature of contracts and contract employees, Rural Development does not track this information.

Question. Federal Programs at USDA to provide loans to the rural poor were authorized by Congress because private lending institutions were not willing to expose themselves to the significant financial risk. It is my understanding that those bidding under A-76 to take over the public loan program functions carried out by the USDA are large multi-national banks. Do you think it is appropriate to turn over lending programs to those who have already elected not to serve these poor citizens?

Answer. The Rural Development mission area has not identified any public loan program functions in its competitive sourcing plan approved by the Department in May 2002.

Question. Do you believe it is a good Federal policy to have big private banks conducting activities such as determining eligibility, disbursement, collection or accounting for Government subsidies provided under any of the direct or guaranteed loan programs of the Rural Development area or the Farm Service agency?

Answer. The Rural Development mission area has not identified for competitive sourcing, any function related to the determining of eligibility, disbursement, collection or accounting for Government subsidies functions under any of its direct or guaranteed loan programs.

FOOD SAFETY ASSESSMENT PROCESS FOR BIOTECHNOLOGY

Question. Under current law, it is clear that there is latitude to administratively establish an early food safety assessment process for biotechnology derived food and feed products, which is often referred to as the Adventitious Presence issue. It is also clear that USDA would have a lead role to play in coordinating this process with EPA and FDA. Could you elaborate upon the progress that the three agencies have made to move forward on the OSTP notice, which was issued in the summer of 2002?

Answer. The expansion of biotechnology-derived crops is expected to result in net benefits to producers, consumers, and the environment. The Federal regulatory agencies—the USDA Animal and Plant Health Inspection Service (APHIS), the Food and Drug Administration (FDA), and the Environmental Protection Agency (EPA)—must maintain appropriate regulatory oversight, adjusting its requirements based on scientific developments and industry trends.

The Office of Science and Technology Policy has requested public comment on proposed Federal actions. In anticipation of the expansion of the development and commercialization of agricultural biotechnology, these proposed Federal actions would establish a coordinated regulatory approach to update field testing requirements of biotechnology-derived plants and to establish early food assessments for new proteins produced by plants intended for food and feed use. The comments received in response to the proposal are still under review and the agencies continue close coordination.

EARLY FOOD SAFETY ASSESSMENTS

Question. Expanding agricultural exports is critical to the viability of the American farmer and to a robust economy. It appears to me that it is critical to establish an early food safety assessment process in a timely manner to leverage greater access for U.S. agricultural products in international markets while simultaneously protecting our credibility with trading partners. I would appreciate your view on this and what plans the Agencies have to address this issue in international markets.

Answer. Regarding the value of an early food safety assessment for products of modern agricultural biotechnology, USDA coordinates closely with the Food and Drug Administration and the Environmental Protection Agency under the U.S. Government's Coordinated Framework for Biotechnology to address these types of important issues. In addition, USDA operates a host of activities and participates in many others to promote the development, responsible regulation and use of agricultural biotechnology around the world in order to preserve market access for U.S. agricultural products.

BIO-BASED PRODUCTS

Question. Secretary Veneman, I appreciate the enormous task you and your staff at USDA have had last year in implementing the 2002 Farm Bill. I commend you for your diligence and hard work in getting these critical programs up and running for our nation's farmers and rural citizens. However, there is one area that has lagged behind in implementation and that is Section 9002 of the Farm Bill. This section gives USDA the central role in leading the Federal Government's use of bio-based products. I would like to know the status of the proposed regulations.

Answer. Currently, the draft proposed regulation is in final clearance. We expect to have the proposed regulation published by autumn. A 60-day public comment period will follow, to give stakeholders and the public an opportunity for comment. The draft regulations have taken longer than anticipated for several reasons:

The program is complex, with many issues to be resolved, ranging from the types of renewable materials that can be used in bio-based products that qualify for procurement, to how a labeling program would work, to how bio-based content is measured. As bio-based products are such a new field, there is no obvious blueprint to follow.

Addressing the range of responsibilities the statute gives the Secretary is especially challenging. Before qualifying items for procurement, the Secretary must consider the availability of the items and the economic and technological feasibility of using the items, including the life-cycle costs. Moreover, the statutes also require that the Secretary provide information as to the availability, relative price, performance, environmental and public health benefits, and—where appropriate—a recommended level of bio-based material contained in the items to be procured. To meet these criteria, we have been working to identify the appropriate testing and evaluation procedures to be used and how to ensure the integrity of test results.

Another necessary complication is that the statute requires consultation with a number of Federal agencies, and that takes time because of differing views.

Question. I would also like to encourage USDA's own internal use of bio-based products. I feel USDA can and should be leading this government-wide effort. Bio-based products help develop new markets for our agriculture products and should be fully utilized by USDA. Please let me know the status of USDA's activities in this area.

Answer. USDA has been an enthusiastic user of bio-based products, as well as a leader in spearheading new bio-based research and applications.

Our Beltsville Agricultural Research Center (BARC) has been at the forefront of this effort. In fact, BARC won the prestigious White House Closing the Circle (CTC) Award for environmental achievement in 2001, in recognition of the Center's innovative utilization of bio-based products. The 2001 CTC Award specifically lauded the BARC Biodiesel Demonstration, the permanent fuel program of the Center in which all 150 diesel-powered vehicles at BARC use a blend of 20 percent biodiesel and 80 percent diesel fuel referred to as B20. The Center has worked closely with the Defense Energy Supply Center, to purchase large quantities of pre-blended B20, which reduced costs and made it easier for Defense and civilian agencies to purchase the fuel. BARC is now demonstrating the use of B20 in back-up generators at the facility, and is using another, B5, blend in its boiler plants in an effort to reduce use of #2 home heating oil.

In addition to biodiesel, the Center utilizes a variety of bio-based products on a regular basis. In fact, the use of these products as part of an innovative Environmental Management System helped BARC win the CTC award for 2002 as well. Specific examples of bio-based products utilized include: soy-backed carpet; bio-based 2-cycle oil; gear lubricant; hydraulic fluids; lithium grease; anti-wear hydraulic oil; chainsaw bar and chain lubricant; oil cutter; penetrating fluid; power steering fluid; and engine oil. All shops utilize bio-based hand cleaners, parts cleaners, and metal cleaners. A recently-implemented BARC janitorial contract requires the use of bio-based and/or environmentally preferable cleaning materials, restroom hand soaps, and other products on a daily use basis in all the Center's facilities.

Across the Department, other activities are ongoing to expand our internal usage of bio-based products. USDA is committed to using alternative domestic biofuels in our fleet vehicles, and has an internal Departmental education and promotion strategy in place to annually increase the level of usage of these fuels, especially biodiesel and ethanol. In fiscal year 2000, USDA fleets used 66,550 gallons of alternative fuels and by fiscal year 2002 the fleets were using over 133,000 annually. For fiscal year 2003, we expect an estimated 8 percent increase over fiscal year 2002 usage levels. Also, we expect to soon initiate a biodiesel fuel educational outreach grant program, as directed by the 2002 Farm Bill's Section 9004. In another product area, this past spring, USDA purchased carpet for various Departmental offices that utilizes soy-based carpet backing.

Finally, we are involved in government-wide projects to create markets for bio-based products. In addition to the aforementioned Federal bio-based preferred procurement program of the Farm Bill's Section 9002 that we are leading, we are actively participating in the "Buy Bio" inter-governmental working group, developing additional strategies for government-wide procurement and promotion of bio-based products.

VALUE-ADDED DEVELOPMENT GRANT PROGRAM

Question. On another note, the Administration's proposed budget eliminated funding for the value-added development grant program, which was authorized in the last farm bill. Many Missouri farmer groups are utilizing this program to jump start value-added ventures, which are desperately needed to rejuvenate rural economies and create jobs. While Missouri producers were successful last year in securing some funding to assist their projects, many projects are still seeking assistance. With the proposed elimination of funding, how does USDA intend to assist producer

groups who are seeking to help themselves and their communities through value-added agriculture?

Answer. USDA provides support to producer groups for value-added activities through a number of its programs. One means is through technical assistance. Rural Development's Cooperative Services program has many years of experience in working with producers to organize cooperatives, many of which involve value-added activities. There are cooperative development specialists assigned to the National Office, as well as to many of the State Rural Development offices. Rural Development also offers other funding programs to assist producers who wish to enter value-added activities. These include the Business and Industry Loan Guarantee Program, the Cooperative Stock Purchase Program, and the Rural Business Enterprise Grant Program.

QUESTIONS SUBMITTED BY SENATOR CONRAD BURNS

UPDATE ON LIVESTOCK FEED PROGRAM

Question. Much of the State is still in extreme drought conditions. Your announcement on it was last month—can you provide an update on how the program is running, and whom it affects?

Answer. The Secretary will add seven counties in southeastern Idaho and an additional four counties in northwestern Utah, under the 2003 Livestock Assistance Nonfat Dry Milk Program to those experiencing continuing drought. This makes livestock producers in a total of 130 counties in 11 States eligible to apply for surplus stocks of nonfat dry (NDM) milk. These surplus stocks cannot be used for human consumption.

This program was designed to be dynamic and adjust as conditions change to help meet the needs of America's foundation livestock owners experiencing the worst conditions.

Other States already included in NDMFP are Arizona, Colorado, Kansas, Montana, Nebraska, New Mexico, South Dakota, Utah and Wyoming. These stocks are provided at a minimal cost to the States and Tribal Governments who are responsible for providing distribution points for the eligible producers. The Commodity Credit Corporation will bear the expense of and be responsible for transporting the NDM to distribution points.

The program uses USDA's surplus NDM stocks that are out of condition. The allocation of NDM for a county is based on a renewable, 30-day supply equivalent to 2 pounds of NDM per day for beef cattle and buffalo, and ½ pound of NDM per day for sheep and goats. Eligible livestock include foundation herds of beef cattle, buffalo, sheep and goats. National Agricultural Statistics Service (NASS) data is used to determine the number of eligible livestock in each county. Eligibility is determined based on the U.S. Drought Monitor found on the Web at <http://www.drought.unl.edu/dm/monitor.html>.

The addition of 11 counties required an obligation of 12 million pounds of NDM. A total of 232 million pounds of NDM is now obligated to producers in the States that have been hardest hit by the ongoing drought.

Question. When will checks for Crop Disaster (CDP) be going out?

Answer. Signup started on June 6 and the issuance of payments began on June 30.

Question. What are the views on the Ewe replacement program?

Answer. The Lamb Meat Adjustment Assistance Program including the ewe lamb expansion payment program is scheduled to expire July 31, 2003. The overall program has provided some much needed assistance and sheep producer returns have improved since the initiation of the program in 1999. In general, the program seems to have fulfilled its objective. Ewe lamb payments have been made on over 1.3 million ewe lambs to increase the quality and size of U.S. flocks. However, serious drought conditions have discouraged expansion in many areas. We will reevaluate the overall condition of the sheep industry as we consider proposals to extend the program.

HARD WHITE WHEAT INCENTIVE

Question. How will USDA handle this program?

Answer. The final rule for the Hard White Wheat Incentive Program (HWWIP) is published in the Federal Register. Key components of the HWWIP include:

—Signup for 2003 HWWIP began March 3, 2003, and will continue through the marketing year.

- Both hard white winter wheat and hard white spring wheat are eligible for payment.
- A production incentive in the amount of \$0.20 per bushel is provided for a minimum of #2 or better hard white wheat, as established by the Federal Grain Inspection Service.
- Payment can be earned on a maximum of 60 bushels for each planted acre.
- An additional incentive in the amount of \$2.00 per acre is provided for each acre planted to certified seed.
- Producers are eligible to earn both the production incentive and the certified seed incentive in the same year.
- Total Commodity Credit Corporation outlay for the 3 years is to be based on not more than 2 million acres or equivalent volume of production.
- Settlement sheets must be provided to FSA upon disposal of the production certified on the application, to be eligible to earn the production incentive.
- The end use of the hard white wheat may not be for feed.

Question. When can producers expect to get paid for their certified seed tags?

Answer. The certified seed incentive payment and the production incentive payments will be issued, as applicable, as soon as payments software development and testing is complete.

As you are aware, the HWWIP provisions were included in the 2002 Farm Bill. Due to the massive resources required to implement the Direct and Counter-Cyclical Program, livestock assistance programs, other programs included in the 2002 Farm Bill, and the programs included in the Agricultural Assistance Act of 2003, program delivery and implementation was prioritized according to the potential numbers of affected producers, as well as other determining factors.

All available resources are currently being utilized and a certain portion allotted to final development of the HWWIP, so that payments may be timely issued. We are anticipating that we will be able to begin issuing payments as soon as possible during the summer of 2003.

QUESTIONS SUBMITTED BY SENATOR HERB KOHL

FARM BILL IMPLEMENTATION

Question. The new farm bill expanded program crops to include soybeans as an eligible commodity to receive direct and counter-cyclical payments. I have heard from constituents that this has had the unintended effect of restricting the ability of growers to produce anything other than program crops once their acreage becomes "program" acreage and they are thereby prohibited from producing commodities such as fruits and vegetables. I do recognize that the Department has attempted to address this problem administratively.

Are there additional authorities at your disposal to address this problem, or does a remedy require legislation?

Answer. The 1996 Act established base acres for wheat, feed grains, cotton, and rice. Nationally, base acres equal 212 million acres. Because producers of these crops can update their bases and bases may be established for oilseeds for the first time under the 2002 Farm Bill, total base acres could increase by 50 to 75 million acres. These additional base acres potentially reduce the "pool" of acres available for fruit and vegetable plantings.

The provisions that allow owners to update base acres and establish base acres for oilseeds is statutory; the Administration has no discretion when it comes to implementing these provisions.

However, the 2002 Farm Bill allows producers to opt out of the program for any year and be allowed to plant unlimited acres of fruits and vegetables on that farm. The producer will not receive any direct and counter-cyclical payments for that farm; however, the farm may be enrolled in the in succeeding years and receive full program benefits.

We have heard compelling arguments from those who think the fruit and vegetable restrictions and penalties are too severe and from those who think the opposite. The Secretary has used any discretionary tools available to her to strike a balance between opposing viewpoints. We believe in the principle of planting flexibility; however, we are concerned about how small increases in fruit and vegetable acreage can be devastating to the traditional growers of these crops, especially if the increase is a result of government programs.

After listening carefully to all sides of the arguments, we have a rule that implements the statutory provisions of the 2002 Farm Bill and minimizes the government's role in influencing a producer's decision to plant fruits and vegetables. The

rule gives the industry the ability to attract new acres if market conditions warrant, without giving the program participant an unfair advantage in being able to receive both government payments and fruit and vegetable income on the same acres.

HOMELAND SECURITY/OFFICE OF HOMELAND SECURITY

Question. What are the responsibilities of the Department's Office of Homeland Security?

Answer. The Department does not have an Office of Homeland Security. The Department established a Homeland Security Council and a Homeland Security Support Staff. The Council is chaired by the Deputy Secretary and includes all of the Under and Assistant Secretaries, the Inspector General, select staff office directors, and the communications director. This Council is responsible for protecting the food supply and agricultural production, protecting USDA facilities and other infrastructure, and protecting USDA staff and managing emergency preparedness.

USDA's Homeland Security Staff is delegated authority for the following primary functions of:

- coordination with mission areas for policy formulation, response plans, reporting and action assignments to meet acute and major threats to the food and agricultural system, and key USDA assets;
- activating the USDA incident management system and the Federal Response Plan responsibilities in the event of a major incident;
- oversight of USDA nationwide policies and procedures related to homeland security;
- coordination with the White House Homeland Security Council, Department of Homeland Security, other Federal agencies, and public and private organizations, as necessary;
- collaboration with the National Security Council, the Homeland Security Council, the Office of Management and Budget, USDA mission areas, the Office of Budget and Program Analysis, and the USDA Homeland Security Council on the development and submission of a coordinated budget request for homeland security; and
- staff support to the USDA Homeland Security Council.

TRANSFERS TO PLUM ISLAND

Question. The President's budget proposes to transfer \$7.8 million in fiscal year 2004 to the Department of Homeland Security (DHS) for research and diagnostic activities currently funded through ARS and APHIS respectively at the Plum Island Animal Disease Center at Greenport, NY.

What assurances do you have that once this funding is transferred to DHS, research and diagnostic priorities will continue to support the animal health issues as they have in the past and as anticipated by the livestock sector?

Answer. The fiscal year 2004 Budget provided funding for Plum Island activities to both USDA and DHS. We are working with our partners at DHS to create a research and diagnostic program that reflects the priorities of both departments. Communications between USDA and DHS, in relation to the DHS fiscal year 2004 budget, reveal that they share a strong interest in rapid detection of pathogens and vaccine development. These two areas of ongoing research by USDA are designed to meet the need of the livestock industry and the American public.

Question. Please summarize any communications you have had with the livestock sector in regard to concerns they may have that responsibilities for these activities may fall out of the jurisdiction of USDA.

Answer. USDA personnel have visited with various stakeholder and consumer groups representing the livestock sector during which the transition at Plum Island has been discussed. Within these groups there is a broad array of opinions as to how the changeover is perceived. Some groups express apprehension that their priorities will not be reflected in research programs conducted by DHS and are further concerned about how the changes in funding will impact current USDA research. Others, however, see it as an opportunity to bring new resources into agriculture to meet high priority needs.

HOMELAND SECURITY UNOBLIGATED BALANCES

Question. You state in your written testimony that of the \$328 million provided to USDA for Homeland Security purposes, \$184.3 million remains to be obligated. Documents from the Administration indicate that USDA is one of the Departments to have obligated the smallest percentage of Homeland Security-related appropriations since the terrorist attacks of September 11, 2001.

Please explain why USDA has taken longer than most Departments to obligate these funds and provide specific information on how and when the \$184.3 million which remains will be obligated.

Answer. I wanted to make sure the Department took the time necessary to intensively review our needs and direct the funds where critical security gaps were identified.

Many of the activities being funded through the Homeland Security supplemental require significant levels of planning prior to the obligation of funds. In the case of laboratory enhancements, which represent 27 percent of the funds provided, significant planning and design work must precede construction. Additionally, we have allocated funds to cover salary and benefit costs for new employees. Although we have made good progress in recruiting and filling these positions, obligations will appear incrementally as salary payments are made.

The Department plans on obligating the majority of the remaining funds by the end of fiscal year 2003. However, certain funds, including those for construction and those awaiting the results of security assessments are expected to be obligated in 2004. Additionally, approximately \$30.8 million of the \$328 million is being transferred to the Department of Homeland Security for the laboratory at Plum Island.

EXTENSION DISASTER EDUCATION NETWORK

Question. It has been noted that the USDA Extension Service, with its state and county network, can provide substantial contributions to Homeland Security in the nature of a first-responder in rural areas. In fact, the Extension Disaster Education Network (EDEN) is in place to serve in this capacity.

Does USDA intend to utilize the EDEN system as a Homeland Security tool, and if so, in what manner?

Answer. USDA is currently utilizing the EDEN system as a Homeland Security tool and intends to support efforts to increase that utilization in the future. The EDEN system is an internet based tool for providing relevant information on disaster preparedness, mitigation and recovery to Extension educators throughout the Nation. USDA is using the system to provide relevant information on homeland security to Extension educators who can use it for training and educating farmers, ranchers and others who are likely to be first responders in rural areas.

Question. What level of funding is in the President's fiscal year 2004 budget for the EDEN system?

Answer. Approximately \$500,000 of the \$16,000,000 in the Homeland Security Program line of Integrated Activities in the CSREES fiscal year 2004 President's Budget will be used to support EDEN homeland security efforts.

Question. Has the EDEN system, or any other USDA program, been used to improve Homeland Security preparations at the farm level? What evidence is there that individual farmers are taking steps to improve homeland security? Please describe funds in the President's fiscal year 2004 budget to help individual farmers be better prepared in the area of Homeland Security.

Answer. EDEN system based information has been used to educate farmers and farm advisors on the identification and appropriate responses to suspected introductions of plant and animal diseases. This is being done through linking EDEN with the Plant and Animal Disease Diagnostic Networks and with APHIS information systems. EDEN is being used to survey Extension educators on their use of EDEN based information in their farmer and rancher education programs. In addition to the direct funding for EDEN, education programs will be developed through funding of integrated activities in the National Research Initiative (NRI). \$500,000 in fiscal year 2003 NRI funds are being used for a National Training Program for Agricultural Homeland Security. More funds could be allocated for this purpose in fiscal year 2004 depending on the fiscal year 2004 appropriation language, and if the number and quality of proposals indicate it would be a good investment.

FOOD SAFETY

Question. The President's budget request includes an increase of nearly \$5 million, in part, to develop the laboratory capability to respond to chemical terrorism. This increase will include the construction and equipping of a Biosafety Level 3 (BL-3) facility within FSIS's Microbiological Outbreaks and Special Projects Unit in Athens, GA.

Has construction on this lab already started? When will it be completed?

Answer. In order to protect laboratory staff and to minimize the probability that the laboratory complex will become contaminated, FSIS will renovate existing laboratory space at the Russell Research Center in Athens, Georgia. Renovation of this

facility began in March of 2003, and is expected to be completed in February of 2004.

Question. What will the total cost for lab construction and equipment be? Will additional increases be requested in the future? Please provide the planned timeline and budget for completion and equipment of this laboratory.

Answer. The total cost for renovating existing space to construct the Biosafety Level-3 facility is \$2.1 million. The President's 2004 Budget does not request additional funding for this laboratory. The planned timeline and budget for completion and equipment of laboratory are as follows:

Dates	Performance milestones	Budget
Mar 2002	Purchase lab equipment	\$117,000
Jun 2002	Purchase lab equipment	66,000
Aug 2002	Purchase lab equipment	68,000
Sep 2002	Construction Contract to bring to BL-3 level	1,660,000
Feb 2004	Other Costs	140,000
	Construction Completed.	
Total Costs .....	.....	2,051,000

Question. What, specifically, will the laboratory be used for?

Answer. In the event that there is a major threat condition, the BL-3 laboratory will be a critical resource that will allow FSIS to handle and screen large numbers of food samples for the presence of biological, chemical, and radiological agents. It will also give FSIS the capability to handle samples potentially contaminated with unknown and mixed agents. This facility will also protect staff and minimize the probability that the entire laboratory complex will become contaminated during the analysis of agents that would mostly be used to contaminate the food supply.

FSIS REORGANIZATION

Question. The January, 2003 FSIS report on the Food Security Initiatives currently being undertaken by FSIS mentions the Food Biosecurity Action Team, and states that "a planned reorganization of FSIS is underway that includes a new homeland security office that will serve as a center for this team's functions." However, I see no specific mention of this Team or any planned reorganization in the President's budget request.

Is a reorganization being planned for FSIS? If so, please provide information on when will it take effect and what is being planned.

Answer. FSIS has developed a reorganization plan, which is currently under review.

Question. Will Congress receive prior notification of any reorganization?

Answer. Congress will be notified as required by the 2003 Appropriations Act.

Question. Will this reorganization result in the need to reprogram any of the funds requested in the President's budget?

Answer. The reorganization plan is under review. Therefore, we have not determined if there will be a need to reprogram any of the funds requested in the President's budget.

FOOT AND MOUTH DISEASE

Question. Please contrast the level and type of preparations the United States now has to contain an outbreak of Foot and Mouth Disease from those which the British had available at the time of the outbreak in the United Kingdom in 2001. How have the British modified their level of preparation since then? What actions have the United States taken since then?

Answer. Since the British experience with foot-and-mouth disease (FMD) and the terrorist attacks of September 11, 2001, USDA has strengthened its guard against FMD and other animal health threats. USDA has bolstered the Emergency Management System (EMS), a joint Federal-State-industry effort to improve the ability of the United States to deal successfully with animal health emergencies ranging from natural disasters to introductions of foreign animal diseases. In March 2001, APHIS announced the availability of fiscal year 2001 funds for a grant program for the National Animal Health Emergency Management System to increase the level of animal health emergency preparedness for the entire United States. Of the 67 grant applications received, APHIS was able to award 38 of them, totaling \$1.8 million.

During the FMD outbreak in the United Kingdom, the United States responded to the United Kingdom's request for assistance on disease diagnosis and carcass re-

removal. More than 200 veterinarians from State agencies, private practice, universities, and other organizations from the United States took part in the control efforts. Another 125 Federal veterinarians from several agencies also participated, and the U.S. Environmental Protection Agency provided support for carcass disposal and burial. ARS scientists visited the main UK reference laboratory at Pirbright and assessed sampling protocols and diagnostic tools utilized throughout the outbreak. This experience, as well as the practice USDA gained in coordinating such a diverse group, will be beneficial in the event of future emergencies.

In fiscal year 2002, APHIS distributed approximately \$18.5 million in cooperative agreements to the States and Tribal Lands to help bolster foreign animal disease (FAD) surveillance and preparedness. Currently, APHIS is working on distributing additional funds to the States and Tribal Lands to be used to help further bolster their FAD surveillance programs.

Additionally, APHIS developed and participated in many State level test exercises to increase the confidence and capability of the first responders to an animal health emergency in the United States. APHIS also participated in the development and implementation of an international animal health test exercise in Australia. In fiscal year 2002, APHIS offered FAD awareness and incident command system training to State veterinarians.

APHIS and the Cooperative State Research Education and Extension Service initiated a cohesive and coordinated national animal health laboratory network (NAHLN) in fiscal year 2002 with Homeland Security Supplemental funds. The network emulates a national strategy to meld the Nation's Federal, State, and local resources in order to respond to any type of animal health emergency, including bioterrorist events, newly emerging diseases, and FAD agents that threaten the Nation's food supply and public health. During fiscal year 2002, APHIS provided a total of \$15.25 million in Homeland Security funding to 12 State diagnostic laboratories for activities such as improving biosecurity of facilities, communication of results, equipment, standardization of methods, and quality assurance.

Question. Please provide the USDA position on the need to make available a rapid test to detect the presence of Foot and Mouth Disease and the need to stockpile vaccines.

Answer. The availability of a rapid test to detect the presence of foot-and-mouth disease (FMD) would greatly help contain an outbreak should one ever occur here. ARS Scientists at Plum Island have developed and bench validated a rapid detection assay. The assay will be further validated by APHIS. In addition, two other rapid detection assays for FMD (one developed by the California Animal Health Diagnostic Laboratory System in conjunction with the Lawrence Livermore National Laboratory and one commercial assay developed by Dupont) will also be validated by APHIS.

Stockpiling is already occurring through the North American FMD Vaccine Bank, which stores FMD antigens that keep indefinitely and may be formulated into vaccine rapidly should an FMD outbreak occur. Given the many subtypes of the FMD virus, APHIS continues to add antigens to the Bank for needed subtypes.

Question. Does such a rapid test exist, and if so, why is it not deployed? If it does not exist, what is USDA doing to develop one?

Answer. ARS Scientists at Plum Island have developed and bench validated a rapid detection assay for foot-and-mouth Disease (FMD). This assay has been taken to the field and tested on samples from clinical cases of the disease, but more data and testing is required before these tests can be accepted as fully validated. The assay will be further validated by APHIS, via testing on samples of positive and negative controls. In addition, two other rapid detection assays for FMD (one developed by the California Animal Health Diagnostic Laboratory System in conjunction with the Lawrence Livermore National Laboratory and one commercial assay developed by Dupont) will also be validated by APHIS.

Question. To what extent are vaccines available? If there was a reported outbreak, how quickly could vaccines reach the effected herds?

Answer. Presently, our contributions, along with contributions from Mexico and Canada, assure the availability of 14.5 million doses of four strains of FMD vaccine. During fiscal year 2003, APHIS expects to add additional strains and bring the total number of available doses to 19.5 million. In the fiscal year 2004 President's budget, APHIS proposes to increase the availability of doses to 20.75 million at a cost of \$560,000.

Once the North American FMD Vaccine Bank is supplied with the serotype of the outbreak, and the vaccine is available, the North American FMD Vaccine Bank will be able to supply approximately 300,000 vaccines to the affected areas within 3 days. If however, the North American FMD Vaccine Bank does not have a stockpile

of the needed vaccine, it could take as long as a month to produce the needed vaccines.

EXOTIC NEWCASTLE DISEASE

Question. It is my understanding that USDA developed a rapid test for Exotic Newcastle Disease more than 2 years ago, but has failed to speed the validation or deployment of this test in spite of admonishments from Congress. The recent outbreak of this disease indicates that USDA efforts at containment are badly inadequate.

Is not Exotic Newcastle Disease a virus that has been identified as a potential biological weapon agent?

Answer. I disagree that the USDA efforts at containment are badly inadequate. While the exotic Newcastle disease virus has been identified as a potential biological weapon agent, there is no evidence that this incident is the result of an intentional introduction.

Question. Why has USDA not validated and made available this test?

Answer. The United States Department of Agriculture, along with the California diagnostic laboratory system, has validated the rapid test for exotic Newcastle disease. Samples were used from the recent outbreak in California to validate the test. Presently, both the State of California and USDA's National Veterinary Services Laboratories are using the rapid test to sample commercial and backyard flocks. USDA officials have also offered the test to neighboring State diagnostic laboratories and to laboratories participating in the National Animal Health Laboratory Network. Training has been completed and once the laboratories pass a proficiency test, they will begin using the rapid test in national surveillance.

Question. To what extent does USDA believe the outbreak of Exotic Newcastle Disease is intentional or does USDA believe, as has been reported, that it was introduced by the illegal transportation of fighting birds? If the latter is the case, what is USDA doing to step up enforcement of bird fighting laws to prevent similar introductions in the future?

Answer. While USDA's investigation into the exotic Newcastle disease outbreak in Southern California has not provided a source of infection, the virus strain is genetically similar to a strain confirmed in Mexico in 2000. USDA does not believe the virus was introduced intentionally. There is no conclusive evidence to support the claims in the press that the disease was introduced by the illegal transportation of fighting birds. However, the movement of poultry species such as fighting birds does contribute to the spread of disease. USDA commonly intercepts illegally transported pet birds from Mexico and previous exotic Newcastle disease outbreaks have been attributed to birds from Mexico. In February 2003, USDA conducted a 30-day operation on the Mexican Border in Southern California to intercept birds and other prohibited items. During the operation, program officials intercepted three shipments of smuggled birds and two shipments of fighting cock spurs, resulting in the confiscation of six birds. All seized birds tested negative for END. Regulations in the new Farm Bill and legislation pending in California should help support improved enforcement of laws prohibiting the movement of fighting birds.

SECURITY ANALYSIS SYSTEM/UNITED STATES AGRICULTURE SYSTEM

Question. You are requesting additional funding for the SAS/USA system. The Agency received \$1.7 million from Homeland Security Funds last fiscal year. With the large balance left in that fund, why is a separate line-item request needed?

Answer. ERS plans to obligate all of this \$1.7 million before the end of fiscal year 2003. Currently, ERS is focusing on integrating many new databases to strengthen the fundamentals of the SAS/USA system to have information readily available for analysis for a variety of agriculture-related emergency situations. ERS has made substantial progress in gathering and incorporating data in the areas of transportation, agriculture production, and the locations of food processing facilities. Within the next 6 months, ERS will also be developing a very complex food contamination scenario that uses data to describe the flow of food material from production through processing and distribution channels to consumers. This scenario will concentrate on ground meat, ready-to-eat food, poultry, milk, and eggs.

For fiscal year 2004, ERS will use the \$1 million in additional requested funding to finalize the food contamination scenario and construct a foot-and-mouth scenario, as well as to incorporate a more finely-defined spatial dimension (at the county level instead of the current State level) and economic dimension (about 500 business sectors instead of the current 132) into the system. ERS also plans to develop a more sophisticated economic model that includes feedback to project consumer reactions.

The Homeland Security funds have all been allocated to high priority efforts, and all such funds are expected to be obligated the end of fiscal year 2003.

COMPETITIVE SOURCING

Question. I am concerned that Administration directives on the subject of USDA Competitive Sourcing will result in substantial harm to employee morale and serious erosion of long-held public/private partnerships in the area of conservation and other mission areas important to Rural America.

Please provide a listing of all USDA activities that are being considered for competitive sourcing and the timetables for actions on this subject with a brief description of their current workload, responsibility, grade, ethnicity, gender and include persons with disabilities.

Answer. Currently USDA is considering approximately 6,600 positions for study under Competitive Sourcing guidelines during fiscal year 2003. These positions include functions such as Human Resources, Internet Technology, Debt Collection, Loan Operations, Program Reporting, Maintenance, Clerical, Geological analysis, Cartography, Soil conservation, Civil Engineering and Laboratory Technicians. About two thirds of the individuals filling these positions have been identified as male and about a third female, with an ethnicity of 8 percent African-American, 2.6 percent Hispanic, 1 percent Asian, 1 percent American Indian and less than 1 percent identified as disabled. The grades of these individuals range from GS-3 to GS-14. I will provide the listing you requested for the record.

[The information follows.]

Agency Responsible	Type of Work Load	Study Start Date	Expected Completion Date	
FSA	Human Resources	6/1/2002	9/30/2003	
	Information Technology	6/1/2002	9/30/2003	
	Debt Collections	6/1/2002	9/30/2003	
	Loan Operations	6/1/2002	9/30/2003	
	Program Reporting	6/1/2002	9/30/2003	
FAS	Data Collection	10/1/2002	9/30/2003	
RMA	Administrative Support	8/1/2003	9/30/2003	
FS	Information Technology Infrastructure	2/3/2003	2/15/2004	
	Maintenance	2003	9/30/2003	
	(various start dates)			
	Job Corp Center	4/3/2003	9/30/2003	
	Information Technology Help Desk	10/15/2002	12/2/2003	
	Content Analysis	TBD	TBD	
NRCS	Administrative Support	12/1/2002	9/30/2003	
	Geological Analysis	1/1/2003	9/30/2003	
	Supply Warehouse and Distribution	12/1/2002	9/30/2003	
	Cartography	1/1/2003	9/1/2004	
	Soil Conservation Operations	12/1/2002	9/30/2003	
	Soil Conservation Evaluation	12/1/2002	9/30/2003	
	Civil Engineering and Analysis	12/18/2002	4/1/2004	
RD	Centralized Service Center	10/8/2002	9/18/2003	
	Operations and Service (Accounting)	10/8/2002	9/18/2003	
	Human Resources (Training Support)	10/8/2002	9/18/2003	
	Program Support	10/8/2002	9/18/2003	
FNS	Administrative Support	9/30/2002	9/30/2003	
AMS	Cotton Grading	8/1/2003	8/30/2003	
APHIS	Laboratory Technicians	2/1/2003	9/30/2003	
	Administrative Support	1/1/2002	6/1/2002	
	Aircraft Pilot	2/1/2003	9/30/2003	
	Tree Climbers	2/1/2003	9/30/2003	
	Clerical Support	2/1/2002	9/30/2002	
	Information Technology	9/1/2002	9/30/2003	
	Laboratory Technicians	2/1/2003	9/30/2003	
	Maintenance	2/1/2003	9/30/2003	
	Medfly Production Workers	2/1/2003	9/30/2003	
	Training	9/1/2002	TBD	
	REE	Facilities Operations & Maintenance Farm Services ..	5/1/2003	12/1/2004
		Facilities Operations & Maintenance Research Farming Service.	5/1/2003	12/1/2004
	NFC	E-Payroll operations	10/1/2002	1/1/2003

Agency Responsible	Type of Work Load	Study Start Date	Expected Completion Date
	Information Graphics	7/1/2003	9/30/2003
	Printing and Reproduction	7/1/2003	9/30/2003
	Records Management	7/1/2003	9/30/2003
	Microfilming	7/1/2003	9/30/2003
	Nursing	7/1/2003	9/30/2003
	Internal Audit	7/1/2004	9/30/2003
	Claims Processing	7/1/2003	9/30/2003
	Telephone Management	7/1/2003	9/30/2003
	Cyber Security	7/1/2003	9/30/2003

Question. Please explain how you intend to consider the “competitive” value of the historical experience and cooperation with the private sector that Federal agencies currently possess?

Answer. USDA contracts extensively with the private sector. As contracts expire, USDA will continue to compete the work according to the Federal Acquisition Regulation to ensure full and open competition through the use of competitive procedures.

Question. Please explain how the Administration intends to ensure that any private entity that succeeds in a competitive bid over a current USDA agency will maintain, at least, current services over a prolonged period of time?

Answer. The Federal Acquisition Regulations that the Department and other Federal agencies follow provide a number of mechanisms to ensure that private entities provide services under contract to the government. During the evaluation of the contract bid proposals, the past performance of the vendor is considered when judging the ability of a private entity to perform at the required level. In addition, the contracting officer makes a determination to ensure that a private entity is making a responsible offer; this assessment includes possessing such items as: adequate resources, necessary organization and experience, accounting and operational controls, and a satisfactory performance record. Once a contract is awarded, the Department provides technical direction and guidance to the contractor to ensure satisfactory performance and timely delivery.

Question. For what period of time will private entities be expected to maintain a current level of services in order to be “competitive” in this process?

Answer. Typically, a contract will include a base year and four option years. Options will be exercised based on contract performance.

Question. Will there be liquidated damages assessed against any private entity that defaults in their contractual responsibilities over a period of time? If not, what means will be used to ensure long-term viability of Federal programs once they are no longer under the control of Federal employees?

Answer. The Federal Acquisition Regulation (FAR) provides for several remedies, depending upon the circumstances, should a contractor default in their contractual responsibilities. One such remedy is to terminate the contract. There are also various steps the government takes to notify contractors of unsatisfactory performance and to permit them to correct the situation, prior to engaging in the termination process. Should the contractor be terminated for default, the government may hold it liable for any additional costs resulting from reprocurement. Generally, sound contract administration practices should result in satisfactory performance by most contractors. Use of positive and negative financial incentives, in conjunction with the use of a performance-based work statement, will also assist in ensuring quality contractor performance.

Question. The Centralized Servicing Center’s bankruptcy division is an example of potential out-sourcing. If the government wins this competition, as I understand, a contract will have to estimate the number of bankruptcies that would be completed for a year. As the year proceeds, if the number is less, the Agency will have to modify the contract down. If the numbers come in higher as the year proceeds, the Agency will have to modify once again and provide additional resources including FTEs. In addition, if by chance there is a surge in foreclosures, the Agency would be prevented from transferring some of this work from the bankruptcy division to the foreclosure division to temporarily handle the backlog. With the uncertainties in the economy and an ever changing housing market, does this make sense to reach efficiencies and provide good service to the customers? Why was the CSC even considered?

Answer. Estimated workload requirements are included as part of the Performance Work Statement (PWS) in the solicitation. These estimates take into account workload variations. Additionally, the solicitation states, “The actual specific work-

load that the Provider will experience during the performance period is subject to annual review and may vary from the estimated workloads shown in the PWS by as much as 10 percent.” Both government and potential industry offerors are aware that their staffing approach must be flexible enough to accommodate the fluctuations in workload.

Upon completion of the study, the Centralized Service Center (CSC) will continue to be flexible in meeting the needs of their customers. Further, we believe that the organization will actually have improved control and management capability through its performance measures and quality assurance procedures.

Since the CSC performs mortgage loan servicing functions that are similar to loan servicing functions performed in the private mortgage industry, this similarity makes the Center a good candidate.

Question. I also understand the correspondence unit in the national office for Rural Development will be contracted out, even though the overall competitive sourcing evaluations are not complete. A large percentage of these letters are from Congress. The Federal managers of the contract will have to ensure the complex policy, program and political issues are dealt with appropriately. How will an outside source with no historical knowledge of the internal workings of the Department, relationships with the programs and Congress provide savings and not simply add another layer of oversight?

Answer. The Rural Development Correspondence Unit does its work by obtaining input on policy, program and political matters from Rural Development policy officials and staff. The unit itself does not have the expertise to address such matters. Its functions are primarily administrative, such as keeping track of correspondence, using previously approved responses for handling routine correspondence and drafting appropriate responses based on the input it receives from other sources including National, State and local office staff. Such functions do not require a great deal of historical knowledge. Rather, they require only basic skills in communications and organization, which are readily available in the private sector work force.

Question. It is my understanding that the direct conversion provisions of the A-76 are directed to functions with 10 or fewer employees. These groups are not afforded the ability to compete. What is the percentage of minorities and persons with disabilities that could be impacted by this allowance?

Answer. For Rural Development, the number of FTEs impacted is 18, 12 of these individuals have been placed in other positions in the agency. Fifty percent (9) were minorities, and three of them were placed within the agency. Five have disabilities and three of them were placed within the agency.

Question. Since Thursday, January 23, 2003, 13 employees in the Rural Development Washington, D.C. office were given “Certificates of Expected Separation” under the Direct Conversion of the A-76. What is the Civil Rights Impact analysis of those employees, and have any Civil Rights Impact Analysis been conducted on any other potential A-76 RIF candidate?

Answer. I understand that Rural Development has performed a Civil Rights Impact Analysis on all potential impacted employees in the mission area. This analysis indicated that competitive sourcing in the Washington DC area will impact less than 2 percent of Rural Development’s employees.

Question. I understand the same contractor, operating out of the same Headquarters Office in Virginia, is performing both the Performance Work Statement (PWS) and the Most Efficient Organization (MEO) on this A-76 study. Do you have concerns that this could result in a conflict of interest, and if so, can it be defended?

Answer. In accordance with OMB Circular A-76 and applicable Federal Acquisition Regulations, firewalls are required within the competitive sourcing process to ensure the government maintains the integrity of the process by preventing the occurrence of actual or perceived conflicts of interest. Rural Development has established written firewall procedures based on the most current OMB guidance, and requires compliance with that guidance by its contractors.

The Agriculture Appropriations Report, S. Rept. 107-41, stated as follows: “The Committee expects that none of the funds provided for Rural Development, Salaries and Expenses should be used to enter into or renew a contract for any activity that is best suited as an inherent function of government, without prior approval from the Committees on Appropriations of the House and Senate. Such activities many include, but are not limited to, any functions that affects eligibility determination, disbursement, collection or accounting for Government Subsidies provided under any of the direct or guaranteed loan programs of the Rural Development mission area or the Farm Service Agency. Further, the Secretary shall provide a report to the Committees on Appropriations of the House and Senate by March 1, 2002, and all plans by the Department to enter into contracts to carry out any of the previously stated activities.”

Clearly it is the intent of Congress that any function that affects eligibility determination, disbursement, collection or accounting for government subsidies provided under any of the direct or guaranteed loan programs of the Rural Development mission area is inherently governmental and should not be subjected to either competition or direct diversion to the private sector.

Pursuant to the above, was a report provided to the Committees of the House and Senate on plans to enter into contracts to carry out any of these activities. The answer on March 6, 2002, from Deputy Under Secretary Neruda stated: "Rural Development contracting officers have not entered into any contract for inherently governmental services and do not plan to do so."

Question. Don't some, if not all, of the services, contained in the aforementioned fiscal year 2003 Competitive Sourcing plan for Rural Development affect eligibility determination, disbursement, collection of accounting for Government subsidies provided under any of the direct or guaranteed loan programs of the Rural Development mission area?

Answer. Rural Development's competitive sourcing plan does not include any of the aforementioned functions.

Question. It is my understanding that in its fiscal year 2000 Fair Act Inventory, Rural Development listed some 929 FTEs as commercial, with the remaining approximate 6,000 FTEs in Rural Development considered being inherently governmental. Of the 929 FTEs listed as commercial in fiscal year 2000, approximated 139 were coded "Reason A specifically exempted by the agency from OMB Circular A-76 cost comparisons as core functions," and 788 were coded "Reason B subject to cost comparison or direct conversion requirements." Then in its fiscal year 2001 FAIR Act Inventory Rural Development listed a total of only 183 FTEs as commercial activities on its FAIR Act inventory of its approximately 7,000 employees which seems more in line with the intent of Congress as expressed in the fiscal year 2002 Agriculture Appropriations report language. Of these approximately 58 were listed with Reason Code A, and 125 with Reason Code B. The fiscal year 2002 FAIR Act Inventory was posted on the OCFO website on or about February 11, 2003. It now lists ALL of Rural Development activities and employees as commercial. Can you explain the fluctuations in what is being considered as inherently governmental vs. what is being considered as commercial activities?

Answer. The FAIR Act inventory requirements have changed over time. The fiscal year 2000 FAIR Act inventory required only "Commercial" functions. Rural Development identified only Headquarters functions in that inventory; Field Offices were not reported and no inherently governmental functions were identified. OMB did not approve Rural Development's fiscal year 2001 FAIR Act Inventory. Rural Development's fiscal year 2002 FAIR Act inventory reflects 20 percent of its total FTEs (7,020) as commercial.

Question. Have you considered the cost of Federal oversight as a factor in the cost of outsourcing?

Answer. Yes, the cost of oversight is routinely included in the study process.

UNAUTHORIZED USER FEES

Question. The President's fiscal year 2004 budget request includes assumed revenues of \$159 million from unauthorized user fees among the following programs: \$8 million in connection with the Animal and Plant Health Inspection Service, \$29 million in connection with the Grain Inspection Packers and Stockyards Administration, and \$122 million in connection with the Food Safety Inspection Service. The jurisdiction for authorizing such fees does not lie with this Committee.

Notwithstanding the fact that the Budget Appendix for the President's fiscal year 2003 Budget submission indicates appropriation levels based on current law, Table S-8 on page 318 of the President's Budget indicates the total discretionary spending amount for this subcommittee is \$16.9 billion, which does include assumptions that the total \$159 million in assumed revenues from these fees will be available. It is from this table that the subcommittee's allocation will be based.

Section 723 of Division A of Public Law 108-7 requires information in regard to reductions in the President's budget that must occur in the event such user fees are not timely authorized. Please provide that information.

Answer. If the user fee proposals were not enacted, appropriations would need to be provided to adequately support FSIS programs. We respectfully defer to the appropriations and authorizing committees to determine the outcome of these proposals.

Question. Have the Congressional authorizing committees received your proposed legislation in regard to these fees, and if not, when will they receive it?

Answer. The Department has not submitted the proposed legislation to Congress. We expect to forward a package by the end of June.

Question. Since the President assumes the \$159 million in revenues from these fees will be available, would you similarly have no objections if we also assume that the authorizing committees will provide you the authority to collect these fees? Therefore, do you have no objection if we, consistent with the President's S-8 Table, appropriate what the President wants us to appropriate as suggested by Table S-8, and provide you with the ability, subject to authorization, to collect these fees? Do you have any objection to working with the authorizing committees in this fashion?

Answer. We will be glad to work with both the appropriations and authorizing committees to give the Department the ability to collect and retain the user fees.

EEOC REVIEW

Question. The March 10th article in the Washington Post on USDA Civil Rights refers to an EEOC review that was very critical of the Department's entire civil rights process.

When will this division come into compliance with time frames, tracking, proper oversight, etc.?

Answer. Vernon Parker, USDA's first Assistant Secretary for Civil Rights, was sworn in on April 1, 2003, and is exploring aggressive actions to improve civil rights at USDA.

Parker is developing a plan with a number of initiatives that will dovetail with the United States Equal Employment Opportunity Commission's (EEOC's) recommendations. The initiatives will address timeliness, data tracking and oversight responsibilities. USDA plans to fully comply with all the recommendations in EEOC's report and has begun implementing and tracking the actions required to comply with the recommendations.

FAIR HOUSING

Question. In 2001 and 2002, the Rural Housing Service conducted Fair Housing testing on management companies, banks, and USDA employees. I understand that some results have indicated violation in the tested areas.

When will the results of this data be made available to Congress and have you taken any steps against violators including USDA employees?

Answer. All of the Rural Development testing projects are scheduled for completion, with the Contractor's final reports issued, by September 2003. Once the final reports are issued, corrective action plans are developed and our summaries analysis completed I will be in a position to provide you with a final report. We anticipate this being completed by November 2003.

Question. In light of the President's initiative on increasing minority housing, do you think this activity should continue, and if so, will you provide funding within the Rural Development S&E budget?

Answer. Yes, testing should continue as part of the President's initiative. We feel this is a tool to evaluate Rural Development's program administration and better direct appropriate funding to various programs. Funding for this activity is included within Rural Development's S&E account for 2003 and the 2004 Budget.

Question. What are your plans for complying with the President's Housing Initiative including Fair Housing?

Answer. Based upon the 2000 Census, Rural America is comprised of 13 percent minorities; however, over 20 percent of USDA's homeownership programs benefit rural minority families. While USDA has an excellent track record at assisting minority families, we feel we can do more. At the White House Conference on Increasing Minority Homeownership on October 15, 2002, both USDA Secretary Ann Veneman and Housing and Urban Development (HUD) Secretary Mel Martinez announced their individual plans to increase minority homeownership. USDA's Five Star Commitment includes (1) lowering fees to reduce barriers to minority homeownership; (2) doubling the number of self-help housing participants by 2010; (3) increasing participation by minority lenders through outreach; (4) promoting credit counseling and homeownership education; and (5) monitoring lending activities to ensure a 10 percent increase.

Benchmarks and performance goals have been issued to each State, and each State has developed their own plans to meet the Department's Minority Homeownership goals by the decade. In addition, USDA agreed to submit reports to the White House on the progress made by HUD, VA and USDA in meeting the President's initiative.

Question. I understand that the Department of Justice's Office of Legal Counsel has indicated the HUD Fair Housing Division can't prosecute USDA employees that violate the Fair Housing Act. What steps are you taking to ensure USDA employees comply with the Fair Housing Act and what steps will you take or have taken against violators?

Answer. Rural Development has in place appropriate regulations that can be used when Rural Development employees violate civil rights laws especially the Fair Housing Act. Rural Development Instruction 1901-E, the Table of Disciplinary Penalties and employee evaluations are the tools Rural Development will use to ensure accountability to violations of civil rights laws.

The Rural Development Civil Rights Staff (CRS), in conjunction with Program Area Divisions, conduct annual field reviews, Management Control Reviews, State Internal Reviews, as well as Civil Rights Compliance Reviews. These different types of reviews are all part of regulations and the CRS is working toward providing training to all Rural Development employees in the area of civil rights and program reviews. Rural Development's Civil Rights Instruction require that one third of its portfolio is to be reviewed by trained civil rights compliance persons each year. Additionally, Rural Development has collateral and full time State Civil Right Coordinator/Managers in each State office.

Question. In the last administration, HUD and USDA entered into a memorandum of understanding on Fair Housing. Is this still in place and has it been altered?

Answer. Yes, the Memorandum of Understanding is still in place and it has not been altered.

WORKING CAPITAL FUND

Question. The fiscal year 2003 enacted bill provided \$12,000,000 for acquisition of remote mirroring backup technology and requires a feasibility study to be submitted to both the House and Senate Appropriation Committees.

Can you give us an estimate of when you would complete this study?

Answer. The study should be completed by August 2003.

Question. Will it include various locations, including existing USDA Federal facilities sites?

Answer. The National Finance Center is in the process of gathering information required for a feasibility study. The study will look at appropriate locations. However, until the study is completed, we will not know whether a solution will involve one or more locations, or the use of existing Federal facilities sites.

Question. Do you anticipate competition for one finance center for the entire Federal Government in the future?

Answer. The Office of Management and Budget (OMB) and the Office of Personnel Management (OPM) may look at this issue in the future. Earlier this year, OPM conducted an internal competition to consolidate 22 Federal payroll providers and recommended that two payroll partnerships be formed. USDA's National Finance Center and the Department of Interior will form one partnership and the Department of Defense will partner with the General Services Administration. OMB and OPM expect this consolidation to save the Federal Government an estimated \$1.2 billion over the next decade.

OUTREACH TO SOCIALLY DISADVANTAGED FARMERS

Question. What is the status of the funding for the 2501 program with funds made available in 2002 and 2003 combined?

Answer. A request for applications was released November 6, 2002 to begin the solicitation process. The deadline for proposals to be submitted was January 31, 2003. We received 85 proposals with the following types of organizations represented in the applications: 25 percent from 1890 institutions; 35 percent from community based organizations; 15 percent from 1994 institutions and tribal organizations; 25 percent from other higher education institutions. Applications came from the following regions: Western region 35 percent; Southern 38 percent; Northeast 9 percent; North Central 18 percent and 4 percent were multi-state applications. The peer review panel has been convened and awards have been recommended. We anticipate that the grants will be announced in early summer once the award process is completed.

Question. Will you establish performance measures in this program?

Answer. Yes. The following two performance measures are under development:

—*Level of Participation.*—There will be an increase in participation in USDA farm assistance programs among socially disadvantaged farmers and ranchers.

—*Minority Participation.*—There will be an increase in the number of minorities involved in CSREES-funded education programs (African Americans, Native Americans, Alaskan Natives, Hispanics, Asians, and Pacific Islanders).

CHRONIC WASTING DISEASE/ASSISTANCE TO WISCONSIN

Question. Last year, the sudden presence of chronic wasting disease in Wisconsin deer populations caused serious concern among the state's livestock and natural resource sectors. I want to thank you for the assistance you provided to Wisconsin. As is the case with many State governments, budget shortfalls in Wisconsin have made it very difficult for the State to direct the resources needed to contain and eradicate this disease. Last year, we appropriated \$14.9 million to combat chronic wasting disease of which Wisconsin received only \$800,000—far below the State's needs. I understand other States have similar shortfalls.

Can you explain how the \$14.9 million was allocated and what additional resources you plan to make available to Wisconsin in fiscal year 2003?

Answer. Slightly more than half (about \$7.6 million) of the available fiscal year 2003 appropriations was directed to deal with CWD in wild herds, of which \$4 million was for cooperative agreements with States. To deal with the disease in wild herds, APHIS worked with the International Association of Fish and Wildlife Agencies in determining the formulas for distributing these funds. Level-1 States, including Wisconsin, are eligible to receive \$93,750 for surveillance activities and \$125,000 for management activities. Final funding amounts are based on the State's risk level and the needs outlined in the surveillance and management plan accompanying each State's application for funding.

In addition to the \$4 million reserved for State management and surveillance assistance, APHIS also provides support for the diagnostic testing of samples collected during the 2002–2003 hunting season. Funding for diagnostic testing was based on the initial number of samples projected in a given State's approved surveillance plan. APHIS estimates that the allocation for the testing of Wisconsin samples will be \$232,000 given greater-than-expected testing efficiencies; this amount will cover the 41,000 samples collected in the State during the 2002–2003 hunting season. Payments will be directed to the certified laboratories that are conducting the tests. APHIS has already provided the State laboratory of Wisconsin with \$100,000 for the reagents used to conduct the diagnostic testing.

We estimate that APHIS' total funding to Wisconsin in fiscal year 2003 to address CWD in free-ranging cervids will reach approximately \$550,750. We will make a final allocation of funds after all surveillance and management plans submitted by State wildlife agencies have been reviewed. Should funds remain after we meet all approved requests, we will consider additional allocations. Such allocations would focus on level-1 States like Wisconsin. Also we will consider emergency developments such as CWD detection in wild cervids that occurred in Wisconsin last year.

A sizable portion of the resources devoted to the captive cervid program will support the program in Wisconsin. APHIS will be covering testing, indemnity, and disposal costs associated with the depopulation of CWD-positive and CWD-exposed captive cervid herds. In addition, APHIS hired a veterinary medical officer (VMO) in September 2002 who is stationed in Madison, Wisconsin. The Wisconsin VMO is responsible for coordinating indemnity and disposal activities in the region.

Question. I and other members of the Wisconsin Congressional delegation recently sent you a letter on ways you can release more funds to Wisconsin. Please respond on that issue.

Answer. APHIS appreciates the support we have received from the Wisconsin Congressional delegation in our efforts to monitor and control the spread of CWD in captive and wild cervid herds. Before finalizing the fiscal year 2003 CWD allocation, we are waiting to receive about 20 more State applications for wildlife surveillance and management funds, for which we have set aside \$4 million. After we have received and reviewed all applications and have allocated funds based on these submissions, we will work with the International Association of Fish and Wildlife Agencies to redistribute any remaining funds to high-risk States. We recognize the need for funding in Wisconsin, and we will take these needs into account when redistributing any unallocated funds.

Question. The State of Wisconsin has requested \$5.5 million in Federal funds for CWD activities in fiscal year 2004. Will the President's budget request provide Wisconsin with the necessary resources to meet this need?

Answer. During fiscal year 2004, we anticipate distributing CWD funds to States based on their level of risk, as we are doing in fiscal year 2003. Wisconsin is among those States that rank in the highest risk category.

During fiscal year 2003, we project that we will provide approximately \$550,750 to Wisconsin for CWD management, surveillance, and testing of wild cervids. We may also be providing additional resources to the State if unallocated funds remain from the \$4 million we set aside for wildlife surveillance and management. In addition, APHIS will be covering testing, indemnity, and disposal costs associated with the depopulation of CWD-positive and CWD-exposed captive cervid herds in the State. We have also stationed a permanent CWD VMO in Madison, Wisconsin, to carry out program activities.

Given that Congress provided a level of funding in fiscal year 2003 that was nearly equal to the amount asked for in the President's fiscal year 2004 budget request, a significant increase in any one State's level of funding in fiscal year 2004 would require other States to accept significant decreases. Barring any unforeseen emergencies, we anticipate CWD funding levels in fiscal year 2004 will correspond closely to the amounts we are providing to the States during fiscal year 2003.

ANIMAL CARE

Question. Please provide information regarding the number of investigation and enforcement actions undertaken in fiscal year 2002, and estimated for fiscal years 2003 and 2004, in regard to the Animal Welfare Act.

Answer. APHIS conducted 12,174 AWA inspections and 143 formal investigations of potential AWA violations in fiscal year 2002. The investigations resulted in 137 official warnings, 97 stipulated agreements, 85 formal decisions by administrative law judges, \$586,577 in civil penalties, and 22 license suspensions and revocations. As of May 2003, the number of inspections for fiscal year 2003 has increased by 16 percent over the fiscal year 2002 inspection level. Based on this increase, we estimate that we will conduct 14,121 inspections in fiscal year 2003. With level funding, the number would remain roughly the same in fiscal year 2004.

Question. Please describe how USDA has used the increases for Animal Welfare Act-related activities in fiscal year 2002, and estimated for fiscal year 2003, above the President's requested levels.

Answer. In fiscal year 2002, APHIS hired 17 new inspectors, increasing the AWA inspection force to 99, and increased the number of inspections by 2 percent over fiscal year 2001. We also increased outreach efforts by conducting canine care workshops for licensed dog dealers in seven locations. In fiscal year 2003, we are increasing the inspection force to 100. With the newly-trained inspectors that were hired in fiscal year 2002, we are increasing inspections by 16 percent this fiscal year. To increase the effectiveness of the inspection and enforcement process, we have upgraded our database and the equipment used by inspectors. We are also continuing to conduct canine care seminars for dog dealers and have created a seminar on caring for large, exotic and wild cats. Additionally, program officials have participated in training sessions for Institutional Animal Care and Use Committees at registered research facilities and conducted a seminar in conjunction with the Animal Welfare Information Center on searching for alternatives to animal testing for researchers. We are working to formalize these types of outreach efforts.

Question. To what extent have the additional funds for Animal Welfare investigations increased the demand for additional resources for enforcement activities?

Answer. The inspectors hired in fiscal year 2002 are now fully trained and inspections are up 16 percent for fiscal year 2003. We estimate that the number of formal investigations and enforcement actions required will increase as well. As of May 2003, we have already conducted 132 formal investigations into potential Animal Welfare violations compared to the 143 conducted during all of fiscal year 2002.

Question. Please explain actions taken by USDA to enforce violations of bird and animal fighting statutes. Do you support directing enforcement of these statutes through the Office of Inspector General or through the enforcement programs of APHIS?

Answer. We believe that animal fighting statutes must be enforced primarily through the Office of Inspector General (OIG), USDA's law enforcement arm, with the assistance of APHIS investigators. Most animal fighting ventures are accompanied by other illegal activity, such as sales of illegal drugs and firearms. Investigations into these types of violations are inherently dangerous and require the expertise of trained and equipped law enforcement personnel and the participation of State and local law enforcement agencies. OIG frequently cooperates with these agencies and can more effectively and safely lead such investigations.

Since January 2003, OIG has assisted in three Federal prosecutions for the smuggling of fighting cocks and two investigations of domestic fighting cock operations. Because the three prosecutions involved smuggling, the U.S. attorney was able to charge the defendants with felonies. In the two domestic fighting cock investiga-

tions, over 1,500 fighting cocks were seized. Additionally, APHIS is reviewing epidemiological evidence to determine whether the exotic Newcastle disease outbreak in California and other nearby States resulted from the movement of fighting birds.

MOLTING RESEARCH

Question. It has been reported that the egg production industry has invested in research to maintain levels of production without the practice of “molting” their flocks. Do you have any information regarding research in this area, is USDA engaged in any such research, and is there any reason there should not be a prohibition to this practice?

Answer. The egg production industry is funding research directed at assessing non-feed versus feed withdrawal methods to induce molting, which contrasts greatly from maintaining production without the practice of molting. The United Egg Producers is funding research at three different universities: the University of Illinois, the University of Nebraska, and North Carolina State University. The U.S. Poultry and Egg Association’s website (www.poultryegg.org) reveals funding for three proposals for this year, two at North Carolina State University and one at Virginia Polytechnic Institute and State University. Additionally, ARS is conducting both physiological and behavioral research in the area of alternatives to induce molting through feed withdrawal. The Department is currently in the process of responding to a Congressional directive, Senate Report 107–41, which discusses current practices and molting alternatives as well as the use and consequences of molting as a management tool.

Question. While there has been significant publicity to problems regarding humane handling of livestock during slaughter operations, there is a growing concern among the American people in regard to the treatment of livestock during the production phase. Since the Animal Welfare Act does not apply to poultry or livestock, would you support a study to provide recommendations on humane treatment of farm animals?

Answer. Since USDA has no authority to regulate humane handling of poultry or livestock, such a report would have to address authorities to implement any recommendations.

WILDLIFE SERVICES

Question. Please describe progress in adapting additional non-lethal methods of animal control through the Wildlife Services programs.

Answer. APHIS Wildlife Services has made progress in the following areas:

Having developed an effective non-lethal Radio-Activated Guard (RAG), APHIS is working on reducing the relatively high costs of the device.

Substantial efforts have been made towards the development and evaluation of an effective non-lethal Movement-Activated Guard (MAG) system to protect livestock from various large predators, including wolves, black bears, and eagles. MAG systems are more flexible in their application than RAG systems although they have a smaller, effective range. The cost of these systems is likely to be less than the cost of RAG units, making them more practical for routine livestock protection.

NWRC scientists are now in the process of testing a new breakaway snare design with great promise as an effective remote collaring system for both coyotes and wolves.

Substantial efforts continue to develop new and effective capture technologies, including establishment of a temporary duty assignment for APHIS wildlife specialists to work with National Wildlife Research Center (NWRC) scientists to test and to improve cable restraint devices that could serve as practical alternatives to foothold traps under some circumstances. Additionally, in cooperation with APHIS operational personnel in Arizona and New Mexico, the U.S. Fish and Wildlife Service, Defenders of Wildlife, and the Arizona and New Mexico wildlife agencies, NWRC is planning to investigate sustainable livestock grazing regimes that could minimize predation opportunities by Mexican wolves. As part of these studies and investigations elsewhere, NWRC scientists are developing alert systems to warn ranchers when predators are in the vicinity of livestock.

APHIS has established cooperative agreements with two universities and a private research firm to foster collaborative research on reproductive inhibitions, economics of non-lethal management strategies, and the development of baiting systems to deliver wildlife pharmaceuticals.

APHIS has applied commercially available repellents and fencing to protect forest resources from beaver damage.

APHIS has documented the effectiveness of vulture effigies and low-powered lasers as dispersal methods at vulture roosting sites.

Question. Please provide information in regard to losses to production agriculture and other costs (such as costs related to traffic accidents, costs to communities, etc.) from wildlife whose control is under the jurisdiction of Wildlife Services.

Answer. According to *Resolving Human-Wildlife Conflicts* by Michael Conover, 2001, wildlife causes an estimated \$23.3 billion in damages to the United States annually. Damage to agricultural producers is approximately \$4.5 billion annually; more than half of all farmers and ranchers experience some kind of wildlife damage each year. APHIS' efforts to protect agricultural resources include managing wildlife predation to livestock and wildlife damage to a variety of crops (e.g., rice, sunflowers). In addition, APHIS conducts beaver management activities to reduce loss to the timber industry, which is approximately \$3.4 billion annually.

APHIS works to reduce deer populations in heavily populated areas in order to increase public safety. Damage from deer-automobile collisions is approximately \$1.6 billion annually and results in approximately 29,000 human injuries each year. Damage from bird-aircraft collisions is about \$300 million annually, while also posing a serious safety hazard to flight crews and passengers.

Other wildlife damage includes damage to metropolitan households (approximately \$8.3 billion annually) and damage to rural households (approximately \$4.2 billion). APHIS provides technical assistance and frequently loans equipment to resolve wildlife damage to residential property.

The power interruptions caused by Brown Tree Snakes (BTS) on Guam cause a multitude of problems that have been valued at over \$1 million, ranging from food spoilage to computer failures. BTS frequently invade poultry houses, homes, and yards to consume domestic poultry, eggs, pet birds, and small mammals associated with residential areas. APHIS has a BTS control program in Guam and conducts activities to prevent the introduction of BTS into Hawaii through aircraft and cargo transport.

Question. Please provide information in regard to control of wolves in the Upper Midwest.

Answer. As the Eastern timber wolf population continues to increase in Minnesota, Michigan, and Wisconsin, so have the requests for assistance with wolf predation. The U.S. Fish and Wildlife Service (FWS) estimates the number of wolves to be over 2,600 in Minnesota, 325 in Michigan, and 360 in Wisconsin. In Minnesota alone, APHIS responded to 218 requests for assistance with wolf predation on livestock and other domestic animals during fiscal year 2002. APHIS also hired a wolf damage management specialist to assist with management activities related to the increasing wolf population within the State of Michigan. There has been an increase in the wolf population in Wisconsin at a rate of approximately 20 percent per year, and the public is increasingly intolerant of wolf conflicts.

In fiscal year 2002, we continued to coordinate wolf depredation control activities with the Wisconsin Department of Natural Resources (WDNR) and the FWS. APHIS received 80 wolf depredation complaints in fiscal year 2002 and verified 20 of these conflicts as either probable or confirmed wolf depredation. The WDNR requested APHIS conduct control operations, which resulted in APHIS capturing and relocating 18 wolves to resolve livestock depredations. With the additional funding Congress provided in fiscal year 2003, we are in the process of hiring wildlife specialists and procuring necessary equipment and supplies to enhance response to wolf depredation in the Upper Midwest.

COMPREHENSIVE FARMERS' MARKET PROGRAM

Question. In the fiscal year 2003 conference report, language was included that encouraged research on creating a broad Farmers' Market Program, that would take into account all of the activities currently provided in the Senior and WIC Farmers' Market Nutrition Programs, as well as the recently authorized Farmers' Market Promotion Program. A report was requested by March 1, 2003. What is the status of this report? Please summarize its contents.

Answer. On May 15, 2003, a letter reporting on this subject was sent to the House and Senate Appropriations Committees. The letter recommends that responsibilities for administration of the affected programs remain unchanged at this time. This recommendation is based on the relationship of the farmers' market programs in terms of target populations served, administration of the programs at the State level, current infrastructure at the Food and Nutrition Service and Agriculture Marketing Service in terms of Federal oversight and monitoring, and the lack of appropriated funding available for the Farmers' Market Promotion Program. A copy of the letter is attached for the record.

[The information follows:]

U.S DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, DC, May 15, 2003.

Hon. TED STEVENS,
Chairman, Committee on Appropriations, U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: Public Law 108-7, enacted February 20, 2003, directs the Under Secretary for Marketing and Regulatory Programs to work with the Under Secretary for Food, Nutrition, and Consumer Services to study the potential for a broad Farmers' Market Program within the Agricultural Marketing Service (AMS). Such a program would provide funding for the WIC Farmers' Market Nutrition Program (FMNP), the Senior Farmers' Market Nutrition Program (SFMNP), and the recently authorized Farmers' Market Promotion Program (FMPP). Public Law 108-7 requires that a report on this subject be provided to the House and Senate Committees on Appropriations by March 1, 2003.

As a result of our consultation, we are pleased to report our recommendations. As you are aware, both the FMNP and SFMNP are intended to enhance the health of their target populations by providing coupons directly to recipients that can be exchanged at farmers' markets, roadsides stands, and in the SFMNP community supported agriculture programs for the purchase of fresh fruits and vegetables. In many cases, the same office that operates the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) administers the FMNP and SFMNP. Only State-level governmental agencies and Federally recognized Indian tribal organizations can receive grant funds to administer the FMNP or SFMNP.

The Food and Nutrition Service (FNS) has successfully administered the FMNP and SFMNP since their inception. FNS' infrastructure includes seven regional offices that effectively provide oversight, technical assistance and monitoring of the programs. The FNS cost estimate associated with the administration of the FMNP and the SFMNP is \$554,600 per fiscal year.

AMS facilitates cooperation and collaboration among agencies and organizations that promotes direct marketing and help agricultural producers benefit from the growing consumer interest in direct marketing, including promoting the development and operation of farmer's markets. As such, staff from AMS works closely with FNS staff to provide technical guidance and expertise on market developments aspects of the FMNP and SFMNP. Over the years, AMS has significantly increased its farmers direct marketing activities. Evidence of our success is the phenomenal growth in the number of farmer's markets nationwide.

The Farmers' Market Promotion Program is intended to support the development of farmers' markets and direct marketing opportunities for agricultural producers by providing funds directly to agricultural cooperatives; local governments; nonprofit corporations; public benefit corporations; economic development corporations; regional farmers' market authorities; or other entities as the Secretary may designate. Currently, no funding has been appropriated for this program.

Given the relationship of the farmer's market programs in terms of target populations served, administration at the State level, current infrastructure at FNS and AMS in terms of Federal oversight and monitoring, and no appropriated funding for the FMPP, we recommend that responsibilities for administration of the affected programs remain unchanged at this time.

Sincerely,

WILLIAM HAWKS,
Under Secretary, Marketing and Regulatory Programs.
ERIC M. BOST,
Under Secretary, Food, Nutrition and Consumer Services.

FOODS DONATED TO FOOD BANKS

Question. Please describe any authorities USDA has to assist public or private organizations with activities to collect donated crops or food from farms, restaurants and other entities and deliver this food to local food banks.

Answer. Under the Emergency Food Assistance Act, State and local agencies can use Emergency Food Assistance Program (TEFAP) administrative funds to pay costs associated with the transportation, processing, and packaging of foods obtained through gleaning and food recovery initiatives. Such activities complement our efforts to engage community-based organizations, including faith-based organizations, in providing nutrition assistance to those in need. In corresponding with State and local agencies, we continue to emphasize the excellent opportunity to increase the volume of fresh produce available to TEFAP recipients by using TEFAP administrative funds to support gleaning initiatives. The recovery and distribution of foods from restaurants and other congregate meal service sites are governed by State and

local Health Department regulations, and require an intensively organized local effort. While USDA does not play a significant role in these initiatives, we continue to remind State and local agencies that TEFAP administrative funds can be used to support them.

AGRICULTURAL MARKETING SERVICE

Question. There have been several recent reports of children becoming ill after eating school lunches. As the agency who purchases commodities for the school lunch program, please explain how you ensure that all commodities you purchase are safe for consumption, and what authorities you have to notify school districts if a problem is discovered. What information is AMS required to provide school districts regarding the commodities they are receiving? Is AMS considering any additional means to ensure that contaminated foods are not delivered to school districts, and if so, what is being considered? Further, what are the responsibilities of the individual school districts in relation to AMS? If a problem is discovered at the local level, are school districts required to notify AMS or another USDA agency?

Answer. The Agricultural Marketing Service (AMS) purchases commodities based on strict specifications that assure high standards of quality as well as safety. AMS purchase specifications rely on FSIS and FDA food safety safeguards, explicitly require monitoring beyond FSIS or FDA requirements of those safeguards, and require additional testing to meet food safety standards as deemed appropriate.

Because USDA donated products are produced under contract and certified by AMS employees as meeting these product specifications, AMS attempts to ensure that only products that meet the required processing sanitation or safety requirements are delivered to schools.

Further, when a plant that sells products to AMS becomes associated with a food safety issue, such as a recall of products in commercial trade, FSIS communicates such information about these problems to both AMS and FNS. If the products produced under contract to AMS are suspected to also be associated with the food safety problem, AMS provides the product destinations to FNS for them to notify the State Distributing Agencies so that suspected products are removed from the system.

However, as noted in a number of independent reports, many of the food safety issues that occur in the school lunch program associated with USDA donated products are ultimately found to have resulted from improper food handling within the school itself through cross-contamination or improper preparation and are not due to unwholesomeness of the USDA donated product as it was delivered to the school.

AMS provides item descriptions to FNS, which in turn provides the information to recipients. AMS also puts all of the specifications for the commodities it purchases on its website.

All of the involved agencies within USDA—AMS, FNS, FSIS, and FSA—are working to improve information systems used to assure that recipients as well as State Distributing Agencies are always immediately notified of suspected food safety issues involving foods purchased for the school lunch program.

AMS is an integral part of the Department's Commodity Hold and Recall Process which requires schools to report potential problems to FNS. By being a part of this process, AMS learns of problems associated with the products it procures so that corrective action can be taken in a timely manner.

If schools suspect a food safety issue, they are to immediately contact their local or State health department and FNS through its commodity hotline.

AMS IT CONSOLIDATION

Question. What is the total funding "saved" through IT consolidation? How was this number formulated?

Answer. The Department's total funding "saved" through IT consolidation is \$16 million. These savings will be realized across the Department, through consolidated hardware and software procurements, as well as the reengineering of paper-based processes, such as data collection.

NON-FAT DRY MILK DONATION PILOT

Question. Please provide an update on the pilot project between USDA and the Milwaukee Hunger Task Force regarding the donation of non-fat dry milk.

Answer. We have worked with the Wisconsin Department of Health and Family Services, the Hunger Task Force of Milwaukee, and Alto Dairy to develop agreements under which non-fat dry milk will be made available for processing into mozzarella cheese for distribution through the Emergency Food Assistance Program. For purposes of this pilot, the agreements reflect a substantial reduction in reporting

and recordkeeping requirements traditionally imposed under processing agreements. We anticipate receiving information necessary for USDA to approve the agreement between the Hunger Task Force of Milwaukee and Alto Dairy in the very near future. Once the agreement is approved, USDA will arrange to have the non-fat dry milk shipped directly to Alto Dairy.

AGRICULTURAL MARKETING SERVICE

Question. What is the most updated estimate on the level of funds AMS plans on spending in fiscal year 2004 on surplus commodities that will be donated to food pantries, including the type and amount of commodities?

Answer. Consistent with statutory requirements, fiscal year 2004 surplus removal levels will depend on a number of factors for each possible commodity, including market demand, inventory levels, and production yields. The Food and Nutrition Service will consider program needs across the various Federal food and nutrition programs in determining the appropriate outlets for each commodity purchased. Beyond the commodities otherwise purchased through appropriations specific to food pantries and other programs, recent history would suggest a significant level of commodity donations for food pantries in fiscal year 2004.

COUNTRY OF ORIGIN LABELING—RECORDKEEPING COSTS

Question. Please provide an updated cost estimate on record-keeping costs associated with implementation of the voluntary Country of Origin Labeling measures.

Answer. Thus far, no retailer has chosen to implement the voluntary country of origin labeling guidelines, so there is no basis for updating the cost estimate for recordkeeping costs.

SECTION 32

Question. During fiscal year 2003, Section 32 funds were released for a livestock compensation program in a manner not suggested in the submission of the President's 2003 budget request or accompanying budget materials. This Committee was not provided prior notice of this action and, in fact, learned of it as it was announced publicly through a USDA broadcast.

Can you assure this Committee prior notification of any such future actions in regard to Section 32 funds or other program authorities?

Answer. We will keep the Committee informed of future major uses of Section 32 funds not included in the annual budget submission or that otherwise fall outside the normal use of these funds.

Question. Please provide information for estimates of fiscal year 2003 and 2004 Section 32 purchases of specialty crops as a means to comply with Farm Bill requirements.

Answer. For fiscal year 2003 through May 22, 2003, \$135.9 million has been authorized for Section 32 purchases of fruits and vegetables. Actual, total Section 32 purchases for fruits and vegetables through May 22, 2003 are \$69.2 million. We do not anticipate a problem in meeting the Farm Bill requirement for fruit and vegetable purchases in either fiscal year 2003 or 2004.

Question. Please provide current estimates for all Section 32 activities for fiscal years 2003 and 2004.

Answer. The Department expects to spend a total of \$1,432.4 million of Section 32 funds in fiscal year 2003. This includes \$897.0 million provided for drought relief through the Livestock Compensation Program and \$25.6 million for AMS administrative expenses. The balance will primarily be available for commodity purchases. For fiscal year 2004, AMS anticipates expenditures of \$821.6 million for commodity purchases.

GRAIN INSPECTION, PACKERS AND STOCKYARDS PROGRAM STUDIES

Question. Can you estimate the time frame for the \$4.5 million packer concentration study?

Answer. GIPSA is committed to completing the study as quickly as possible consistent with the need to produce technically sound findings. This is a complex, data-intensive project. It is difficult to anticipate time requirements accurately before plans for the scope of the study have been finalized and without knowing what specific methodology and data needs will be proposed by potential contractors.

Major milestones include receiving public comments on plans for the study; finalizing the plans; establishing a 5- to 7-member academic peer review team; soliciting offers and awarding contracts; consolidating data needs of the contractors and developing data collection plans; obtaining Office of Management and Budget clearances

for data collection; collecting and analyzing data and preparing contractors' draft reports; reviewing contractors draft reports; finalizing contractors' reports; and preparing GIPSA's summary reports.

Question. Is a \$500,000 study needed to review the Packers and Stockyards Act? Couldn't this be accomplished by the Department's staff without the additional cost?

Answer. The Packers and Stockyards Act of 1921 has not undergone any significant review since its enactment, despite the substantial and controversial structural changes experienced by the regulated industries. The request for an additional \$500,000 to review the Packers and Stockyards Act primarily addresses the need for additional staff with expertise not currently residing within the Agency for a comprehensive review of the P&S Act. Use of existing staff to handle issues associated with the review of the P&S Act and regulations would also divert resources away from ongoing monitoring and compliance programs.

WAREHOUSE LICENSING

Question. Section 770 of Division A of Public Law 108-7 (the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2003) established certain limitations in regard to the licensing of grain warehouses. Please provide information in regard to this section and the current status protections for farmers in regard to licensed warehouses.

Answer. On August 5, 2002, the Department of Agriculture (USDA) published its final rule implementing the U.S. Warehouse Act of 2000 which clarified, for the first time, that Federal warehouse operators cannot be required by State government to be dually licensed or comply with State warehousing, grain dealer laws or regulations. The final rule asserted, publicly, USDA's long-held view that it has exclusive jurisdiction to regulate the merchandising and other activities of Federally licensed warehouses. The final rule reflected existing case law dating back more than 60 years and made transparent what USDA has conveyed when asked.

State Departments of Agriculture with grain merchandising licensing programs disagreed with USDA's position. Several States issued strongly worded statements in response to USDA's position, noting the impact it could have on the continued willingness of Federally licensed warehouses to comply with State grain dealer laws or to submit elevator proceeds to State grain indemnity funds.

The issue has caused both USDA and State governments to examine levels of protection currently provided to producers under warehouse programs. USDA cooperated with the National Association of State Departments of Agriculture, as well as farm and industry representatives, to explore ways to improve warehouse regulations in order to protect producers and depositors.

As a result of its meetings with stakeholder groups, USDA announced changes on February 5, 2003, to the Federal license requirements for grain warehouse operators. These changes would improve depositor protection requirements already in place for storage obligations and expand coverage to producer contractual obligations.

USDA is changing the requirements for Federally licensed warehouse operators to improve producer protection already in place for producers who own and store grain with such warehouse operators and will extend protection to producers who only sell grain to such an operator. USDA is making the following changes to existing requirements for Federal licenses:

- Increase the basic net worth requirements a warehouse operator must have to qualify for a license;
- Increase the level of auditing required of the warehouse operator's financial statements by a third-party auditing firm; and
- Provide additional coverage for producers who only sell grain to a Federally licensed warehouse.

The increased producer protection will be funded through liquidation proceeds, a \$5 million assessment on the Federal licensee community, and a \$10 million umbrella insurance policy.

USDA planned to have its grain warehousing plan in place for the start of the 2003 marketing year that begins May 1, 2003. The plan included an opportunity for Federally licensed warehouse operators to review the new program requirements before executing the new grain licensing agreements. The new grain licensing agreements were scheduled to be available by March 1, 2003.

This implementation plan changed based on the language in Section 770 of Division A of Public Law 108-7. This section requires a 180 day moratorium during which no funds could be used to: (1) amend licensing agreements for grain (excluding rice) under the United States Warehouse Act; or (2) to issue Federal licenses

to grain warehouse operators (excluding rice) that are not currently Federally licensed; or (3) to implement any changes that were not in effect on January 1, 2003.

All actions with respect to implementation of these changes initially ceased during this 180-day period. On March 27, 2003, at the urging of the stakeholders, USDA re-initiated its efforts to develop and implement the grain licensing changes. USDA is working to implement the announced changes at the end of the moratorium.

A stakeholder group composed of representatives from producer and industry groups, and State Departments of Agriculture have met twice to develop their own plan for improving producer protection in Federally licensed grain warehouses. Joe Pearson from the Indiana Department of Agriculture and Randy Gordon with the National Grain and Feed Association serve as co-chairs for the warehouse task force.

USDA has provided requested background information and made available staff to answer questions at both meetings. The warehouse task force has requested information on the costs associated with USDA's program. USDA has provided all information that has been developed; however, some cost information has not been provided either because it is unknown at this time or will require resources to develop. The cost of the insurance policy is still unknown though USDA is working quickly to obtain a contract for the insurance policy.

FSIS SYSTEMS REVIEW

Question. The Secretary was directed in the 2002 Farm Bill to review State meat and poultry inspection systems and report the findings to Congress in FSIS's annual report to Congress, including guidance on possible changes if the statutory prohibition on interstate shipment of State-inspected product is removed.

Please provide an update on the status of this report, including when it, and FSIS's annual report, will be available.

Answer. At the 2002 National Advisory Committee on Meat and Poultry Inspection (NACMPI) meeting, discussions were held in response to the Farm Bill report language concerning interstate shipment. Committee members recommended that FSIS assess all completed State comprehensive reviews back to 2000, and complete reviews of the remaining States by March 2003, before starting the more comprehensive reviews called for in the Farm Bill report language. FSIS has completed all the audits through March 2003, as recommended by NACMPI and is now beginning the more comprehensive review of State MPI programs. Preliminary results of the intensified comprehensive reviews should be available in late fall 2003.

Question. Further, no specific funding for this report is requested in the fiscal year 2003 President's budget. How is this survey being funded, and how much will it cost?

Answer. Existing resources within FSIS have been utilized to prepare for the more comprehensive reviews of State inspection programs. Under the current FSIS plan for these reviews, the more intensive portion of the reviews will not occur until next year. Available FSIS resources would in large part dictate the number of States that could be reviewed next year.

FSIS USER FEES

Question. The President's budget request for FSIS for fiscal year 2004 is \$797,140,000 in total. However, this number includes \$122 million that is to be collected in proposed user fees paid for by industry for the cost of mandatory, Federal inspections services beyond 8 hours per day. Therefore, the true President's budget request for appropriated funds is \$675,149,000. This is a decrease of \$79,672,000 from last year's appropriated level, unless the proposed user fees are authorized and collected.

Do you agree with this summary?

Answer. Yes, however, under current law, the budget requests \$797,149,000 million, which is the level of funding necessary to ensure that America has the safest food supply in the world.

Question. If the appropriations committee provides FSIS with the President's request for appropriated funds, \$675 million, and the user fees are not authorized, please describe in detail the effect this will have on the FSIS budget and activities. Specifically, how will this cut in funding be absorbed by FSIS, and how will it affect the number of inspectors and inspections performed?

Answer. FSIS will not be able to conduct inspection operations throughout the year, which would result in a disruption to industry operations.

Question. Did USDA consult with industry or food-safety consumer groups when preparing this user-fee proposal?

Answer. USDA did not consult with industry or food safety consumer groups when preparing the user fee proposal.

Question. Did USDA consult with Congress before preparing this user-fee proposal to ensure that there would be adequate support to get it enacted?

Answer. USDA did not consult with Congress before preparing the user fee proposal.

STATE MEAT AND POULTRY INSPECTION PROGRAMS

Question. In fiscal year 2003, both Maine and Virginia terminated their State food inspection programs. Therefore, FSIS has assumed these costs in its fiscal year 2004 budget request. In the current fiscal environment, it is not unlikely that in the future, more States may consider terminating their State food inspection programs and leaving the responsibility with FSIS.

Does USDA believe this is a viable possibility, and has this possibility been budgeted for in the Administration's fiscal year 2004 request?

Answer. FSIS is in constant contact with States to determine what actions they will take with respect to their inspection programs. If FSIS is aware of any plans by a State to either terminate or initiate its program, FSIS will take it into account when preparing its budget.

Question. If this has not been budgeted for, how has FSIS planned for these potential situations?

Answer. It is difficult to plan because many States are on a different legislative and budget calendar than the Federal Government. FSIS will address any potential funding problems related to the change in status of State inspection programs as they arise.

TECHNOLOGY AND TRAINING

Question. The overall FSIS budget includes a total decrease of \$1.5 million for "savings associated with centralization and improvement of information technology." How specifically was this number, and amount of savings, determined?

Answer. The estimate of Department-wide savings resulting from consolidating enterprise architecture and infrastructure procurement is \$16 million. FSIS' share of this is \$1,356,000. The savings to the agency will be realized through consolidated hardware and software procurements, as well as the reengineering of paper-based processes, such as data collection.

Question. I was pleased to see an increase of more than \$5 million to improve the scientific and surveillance skills of the workforce, which appears to be essentially for increased training. While FSIS has long declared that their employees need additional training, will this training eventually qualify these employees for higher grade levels and promotions? What type of payroll and benefit increases does FSIS anticipate as a result of this training?

Answer. FSIS has recently created a Consumer Safety Officer (CSO) position that requires greater scientific training and experience, as well as a higher grade level. Employees qualifying for these positions would receive increased compensation. Other employees that receive training to conduct their duties as assigned will not automatically be qualified for a higher grade level or promotion. Employees that move into higher graded positions would receive increased compensation.

EXPANDED FOOD SAFETY AUTHORITIES

Question. I am pleased to hear that USDA is now reconsidering its position on the need for additional food safety authorities. When the Secretary spoke to the Food Safety Summit and Expo on March 19th, she stated that USDA was considering asking Congress for additional authorities, including, and I quote "mandatory notification to USDA when a Federally inspected establishment has reason to believe that meat or poultry has been adulterated or misbranded; authority to impose civil penalties after notice in writing and continued lack of compliance; and cease and desist orders and potential suspensions at earlier phases and on an expedited basis arising from HACCP violations."

What were the reasons that USDA decided to seek additional regulatory authorities, and what is the status of these requests?

Answer. We are always assessing our authorities to determine if they need to be strengthened. I have asked for a complete review of our authorities to determine if they allow us to do our job and I am awaiting assessments on what options USDA should consider pursuing in the future.

Question. If additional authority is requested and granted, will you have additional costs that were not included in the fiscal year 2004 budget? If so, how much do you anticipate additional authorities will cost?

Answer. We are still evaluating our legislative authorities. Until that evaluation is completed, we will not know what the potential budget impact of those authorities will be.

Question. Are there any other additional authorities that the Department is considering, such as mandatory recall authority?

Answer. At this time, we have not determined if we require any additional authorities.

Question. If, in fact, you believe that your enforcement authorities are relatively sufficient, then why are you continuing to be sued by meat companies when your agencies try to enforce regulations that the courts do not necessarily hold to have a legal basis, as reported just yesterday in the Omaha World Herald? I realize you can't discuss pending litigation, but this incident does seem to be more evidence that sufficient authorities are lacking.

Answer. The Federal Meat Inspection Act and the Poultry Products Inspection Act provide the authority needed to close plants that fail to comply with FSIS regulatory requirements. Under these existing laws, FSIS maintains the authority to initiate a withholding, suspension, or withdrawal action based on sanitation or HACCP violations, including: failure to collect and analyze samples for the presence of generic *E. coli*; failure to develop or implement sanitation standard operating procedures; or failure to develop or implement a required HACCP plan. FSIS may also initiate a withholding, suspension, or withdrawal action for other violations, such as inhumane slaughter or unsanitary conditions. Even though FSIS cannot act solely on an establishment's failure of the *Salmonella* performance standard, an establishment's failure to meet *Salmonella* performance standards will trigger an immediate review of the establishment's entire food safety system. Establishments that do not meet food safety requirements are subject to enforcement actions.

Question. I have received a request to include language that would make bison an amenable species for purposes of the Meat Inspection Act. Please provide a cost estimate for FSIS if this language is included in the fiscal year 2004 bill.

Answer. It would cost approximately \$1 million to start up a mandatory bison inspection program.

HUMANE METHODS OF SLAUGHTER ACT

Question. The Committee, in fiscal year 2003, provided FSIS with \$5 million to be used to hire no fewer than 50 FTEs for enforcement of the Humane Methods of Slaughter Act. The Secretary stated at her May 8th hearing before the Committee that none of the FTEs had been hired, but that FSIS was working on the position descriptions.

How many total people does FSIS plan to hire during fiscal year 2003 and fiscal year 2004 with these funds? How many people will be hired in fiscal year 2003, and how many will be hired (not carried over from fiscal year 2003) in fiscal year 2004?

Answer. FSIS continues to increase agency efforts to ensure that all field personnel understand their authorities and rigorously enforce the Humane Methods of Slaughter Act. FSIS has recently hired 215 new line inspectors trained in humane handling methods and at this time, the systemwide FSIS effort devoted to humane handling and slaughter inspection is equal to 63 FTEs. In fiscal year 2002, the comparable level of effort equaled 25 FTEs carrying out humane handling and slaughter inspection, so the agency has added 38 FTEs in fiscal year 2003. The agency expects that this number will continue to rise through fiscal year 2004 to meet and even exceed the requirement outlined in the fiscal year 2003 Omnibus Appropriations bill.

Question. Has FSIS been working with the GAO on the HMSA report required in the fiscal year 2003 Conference report? If so, how?

Answer. FSIS has met with General Accounting Office (GAO) auditors regarding the GAO report. FSIS has provided GAO a variety of humane handling related materials. Several FSIS representatives have met with GAO auditors to discuss humane handling issues. Additional meetings are being planned.

IMPORTED FOOD

Question. In the fiscal year 2003 bill, the Committee included report language emphasizing the importance of USDA enhancing its inspections of overseas plants, making sure any plant that fails to meet U.S. standards is audited frequently, and not allowed to ship its product into this country until it meets our standards. So, I am pleased to see an increase of \$1.7 million to increase the number of trips overseas by FSIS inspectors in order to ensure that foreign plants shipping product to the United States meet the U.S. standard for safety. The budget states that this funding will increase the number of countries being evaluated from 33 to 40.

What, exactly, will this \$1.7 million increase buy, and how will it improve our food safety system? Will additional inspectors be provided to countries that have historically struggled to meet our safety standards?

Answer. Funds are included in this request to hire seven additional auditors to conduct reviews of foreign country inspection systems. These new auditors will enhance FSIS' review of foreign meat and poultry inspection systems and exporting plants to assure they operate at standards equivalent to the U.S. system. The additional auditors will ensure that each country approved to export meat and poultry products to the United States will be audited at least annually, and more frequently, if needed.

FSIS currently allocates more resources to those countries that have historically struggled to meet our safety standards and will continue to do so.

Question. How many countries import meat into the United States? Are there any countries that USDA inspectors do not physically visit and evaluate, and if not, why?

Answer. At this time 33 countries have been approved to export meat and poultry products to the United States.

All countries exporting meat and poultry products to the United States are audited through a physical visit at least once a year.

Question. The language in the Senate report last year was due to a concern about the safety of meat imported into this country. Although I received several assurances from FSIS officials that this was not a safety issue, and the USDA system was not flawed, there was a USDA internal inspector general report released in February which stated that from 1999 to 2001, USDA allowed more than 800,000 pounds of meat from foreign plants that might have been prohibited, and 66,000 of that was from processors that were not approved to ship product to the United States. Generally, the report concluded that USDA has not been sufficiently guarding the food supply from potentially unsafe imported meat. This report was released after the President's budget request was formulated. Please explain the discrepancy between the assurance I received about the safety of imported meat, and the information included in the USDA Inspector General's report. Further, what steps is USDA taking to address the findings in this report? Will the increase requested in the budget take care of the safety issues outlined, or is further funding necessary?

Answer. The Office of the Inspector General (OIG) questioned the entry of about 800,000 pounds of meat from foreign plants, including 66,000 pounds of meat from plants not eligible to export to the United States. The discrepancy resulted from a disagreement between FSIS and the OIG over how countries provided annual certifications of eligible establishments to FSIS. FSIS is confident that establishments are properly certified, and has made procedural changes to address the concerns of the OIG. FSIS pointed out that, at the time this product was presented for reinspection by FSIS, each shipment was accompanied by a certificate issued by the inspection service of the foreign country attesting that it was produced according to U.S. standards and in a plant eligible to export to the United States.

The Automated Import Information System (AIIS) has been re-programmed and updated to address all concerns raised by the OIG regarding the entry of shipments. The changes will be made with existing and requested resources.

FARM ASSISTANCE PROGRAMS

Question. The salaries and expense request eliminates 2,807 non-Federal staff years, 2,657 temporary positions, and 150 permanent positions. At the same time, the Agency received \$70 million in supplemental funding in the fiscal year 2003 appropriations bill, Division N of Public Law 108-7.

How will the supplemental funds be allocated?

Answer. The \$70 million will support approximately an additional 1,200 temporary staff years for county field offices during fiscal year 2003 and fiscal year 2004. In addition, funding will be used for IT/ADP software development and support, and increased operating costs such as postage, supplies, and materials. Even though the fiscal year 2004 Budget reflects a precipitous drop of 2,692 non-Federal temporary and other staff years from the fiscal year 2003 level, FSA is working to even out fiscal year 2003 to fiscal year 2004 temporary staffing levels. We are able to do this by spreading the use of the \$70 million additional funding over a 2-year period.

Question. Will any be used for IT purposes and how much?

Answer. Yes, approximately \$14 million of the funds provided for Farm Bill implementation will be used for IT/ADP software development and support.

Question. With the continued demand from new Farm Bill programs, many still to be implemented, is there a need for additional permanent Federal full-time staff?

Answer. No, at the present time, FSA does not feel there is a critical need for additional permanent Federal full-time staff. The initial impacts of Farm-Bill-related implementation workload increases are similar to those of a disaster in that they are temporary and do not easily lend themselves to support of permanent staff. Through the dedication of our employees we have been able to sign up over 90 percent of the landowners that have made base and yield selections. Some offices were stretched more than others, and we did our best to provide additional temporary staffing resources to fill the gaps. Temporary staffing is being used to assist with administrative activities, allowing time for permanent staff with the needed technical knowledge to conduct signup activities.

FSA does not yet know the full impact of permanent, ongoing maintenance of new Farm Bill programs. However, every effort will be made to continue the high standard of service provided to our customers while analyzing these impacts.

Question. In the inventory property area, what is the racial and ethnic breakdown, including women, of purchasers who have acquired property through FSA lending programs in the latest data available? Please include the average loan and size of farm.

Answer. FSA does not track the gender of purchasers when an inventory property is sold. FSA lending programs do not finance acquisition of inventory property except for beginning farmers. Rather, the property is sold at auction to the highest bidder.

The following table displays fiscal year 2002 inventory property purchasers by race, average size of farm and total acreage:

INVENTORY PROPERTY PURCHASERS, FISCAL YEAR 2002

Race/Ethnicity	Number of Purchasers	Average Size of Farm (Acres)	Total Acreage
Asian/Pacific Islander	1	10	10
Black	6	84	505
Hispanic	4	31	123
Native American	2	281	561
White	174	148	25,679
Tax-Exempt ¹	4	267	1,066
Total	191	146	27,944

¹This category reflects corporations that have status as a race or ethnic group. Purchases made by these entities are not tracked by any other group designation.

Question. In the Beginning Farmer Program, what is the racial and ethnic breakdown, including women, of purchasers who have acquired a farm or ranch? Please include the average loan and size of farm. The 2002 Farm Bill enacted a similar provision on data analysis but which applied to Farm Loans rather than housing loans. Will this report be submitted to the Committee?

Answer. There were 402 Beginning Farmer Farm Ownership Loans made to females during fiscal year 2002. Because women are also counted in the racial and ethnic categories, the number of women per racial category was not separately identified during 2002. FSA does not track the average size of farm by racial category for beginning farmers. This information is only captured for inventory property.

[The information follows:]

	Direct FO	Average Loan	Guaranteed FO	Average Loan
White	1,000	\$118,947	731	\$252,300
Black	15	106,060	4	253,850
Asian	10	140,450	61	457,374
American Indian	53	122,623	32	271,047
Hispanic	19	102,726	11	214,313
Other—Not coded	0	0	1	200,000
Total Participants	1,097	118,864	840	267,354

We assume the 2002 Farm Bill provision you are referring to is Section 10708, "Transparency and Accountability for Socially Disadvantaged Farmers and Ranchers; Public Disclosure Requirements for County Committee Elections." That provision is much broader than just the farm loan programs. That provision requires an annual report on the participation rate of "socially disadvantaged farmers and ranchers according to race, ethnicity, and gender" for "each program of the Depart-

ment of Agriculture established for farmers and ranchers,” and; the composition of county, area or local committees established under the Soil Conservation and Domestic Allotment Act. In addition, Section 10708 requires a report to Congress after the completion of each Census of Agriculture on the rate of change in participation by socially disadvantaged groups since the previous census. We would be happy to provide both the annual reports and the post-census report to Congress when they become available.

RISK MANAGEMENT

Question. The President’s budget proposes reducing the administrative expense reimbursement rate from 24.5 to 20 percent, which is expected to produce a savings of \$67.8 million. Given the drought and other natural disasters that have occurred in the farming sector over the past several years, in developing this proposal, have you worked with the individual crop insurance companies to ensure that this limitation will in no way impair those companies’ abilities to continue providing coverage to our Nation’s farmers? If so, what were their comments? If not, please explain why.

Answer. On an ongoing basis, RMA works closely with the companies to address a wide range of issues. It is clear that a reduction of the A&O reimbursement rate is a cause of significant concern to them. It should be noted that the general rate of 24 percent is not the actual rate paid to companies. Because the rate is based upon the type of policy purchased, the companies receive an average closer to 21 percent.

A reduction in the reimbursement rate will increase the financial pressure upon the companies to adjust their operating approach. Each company will strive for increased efficiencies without sacrificing service. This of course is a healthy exercise. However, if the company is not successful in driving down cost and generating sufficient returns to satisfy shareholders, consolidations or departures will be the result.

INFORMATION TECHNOLOGY INVESTMENTS

Question. The President’s budget proposes a \$5.5 million increase for a new, updated information technology system. What are the specific spending plans for this funding? Will all of the \$5.5 million be spent in fiscal year 2004? If not, how and when will each portion of the funding be spent?

Answer. The spending plan for the funding is as follows:

Information Technology Investments	Dollars in thousands
Financial Management System	\$512
Corporate Insurance Information System	2,713
Compliance Support & Pattern Recognition System	725
Standard Reinsurance Agreement Analysis	1,550
Total	5,500

These funds are scheduled to be used within the fiscal year. The funds will be scheduled within the 5-year plan, which is currently being developed, and will be completed and implemented prior to the beginning of fiscal year 2004.

CROP AND LIVESTOCK INSURANCE

Question. Recently, I have heard from farmers in Wisconsin regarding crop and livestock insurance. Specifically, they are in favor of both, but believe that crop insurance while beneficial, can be complicated and difficult for small farmers to understand and feel comfortable participating in, and are concerned that any livestock insurance program may have the same problems. How does RMA attempt to reach out to small or part-time farmers to educate them on crop insurance? Are there any products currently produced by RMA to educate farmers about crop insurance that are easily accessible and easy to understand? If not, how much additional funding would RMA need in order to produce and distribute this information?

Answer. RMA operates two major education programs, as mandated and funded under the Federal Crop Insurance Act (FCIA sections 522(d)(3)(F) and 524(a)(2)). These two programs are (1) partnerships for risk management education, with priority for producers of certain crops; and (2) crop insurance education and information in States that have been historically underserved by crop insurance. In addition, the Cooperative State Research, Education, and Extension Service operates a

national program of grants for risk management education through four regional centers based at Land Grant universities in accordance with FCIA, section 524(a)(3).

RMA operates its educational programs to reach small farmers and ranchers through local education partners. Funding to conduct these local programs is awarded competitively through cooperative agreements to educational partners that have substantial influence with local farmers and farm groups. RMA's educational partners include State departments of agriculture, universities, grower groups, and other public and private organizations.

RMA recognizes the ongoing need for clear, understandable, and timely information about crop insurance so that farmers can make an informed decision. To accomplish this, RMA's regional offices work closely with local education partners to tailor educational curricula and training materials to the commodities and growing practices unique to each area. Informational materials are also available on RMA's web site (www.rma.usda.gov) and on the RMA-sponsored Ag Risk Education Library web site (www.agrisk.umn.edu). RMA works with its educational partners to ensure that, as far as possible, farmers are informed about local educational opportunities.

Much is being done to reach the legislatively-mandated underserved groups and regions with crop insurance education. Given the acceleration in crop insurance development and expansion, however, RMA's educational resources are continuously challenged to keep pace. The increased use of information technology holds out the best promise of meeting this challenge. Additional funding of \$3 million per year would allow RMA to substantially enhance its set of internet information and distance learning tools, especially those dealing with newer products such as livestock. With such tools, RMA could reach a much larger number of small farmers than it can with current resources.

USDA DROUGHT OUTLOOK

Question. What does USDA forecast for drought outlook this coming year, and if natural disaster-related crop and livestock losses reach or exceed the levels of the last 2 years, will you recommend to the President to work with the Congress to enact disaster assistance?

Answer. We are monitoring drought conditions carefully, however, it is too early to make any reliable predictions on the outlook for the coming year. According to the U.S. Drought Monitor, conditions have generally been improving throughout the U.S. since early March. However, severe drought persists in the West particularly from the 4-Corners Region north to Southern Idaho. Current projections are that this area will remain under drought conditions for at least the near future. While we do not anticipate drought related losses to reach the levels seen in 2002, we would expect to work with Congress should the need arise.

DAIRY PRICE SUPPORT PROGRAM

Question. The Dairy Price Support system requires that USDA purchase certain dairy products when the class III price falls below \$9.90 per hundredweight. Since January 2003 the class III price has remained below that support level—in fact we reached a low of \$9.11 per hundredweight for March. It has been suggested that USDA specifications for the purchase of these products created additional costs, and results in prices to producers falling below the safety-net established by Congress.

Since January of 2000, the weekly average block cheddar cheese price on the Chicago Mercantile Exchange has been below the \$1.1314 per pound CCC purchase price about one-fourth of the time. At one point, during the week ending February 28, 2002, the price averaged as low as 12.3 cents below the CCC purchase price. In other words, sellers on the CME are choosing to sell product at levels far below the standing offer of the CCC. The effect of this is to undermine the integrity of the price support program, causing prices to producers to fall far below the \$9.90 per hundredweight support price established by Congress. In fact, during the period of January 2000 through April of 2003, the Class III price; was below support for 14 of 39 months.

In order to make the price support program function more effectively, and to more closely meet the intent of Congress with regard to a price support level of \$9.90 per hundredweight, some in the industry have suggested that the CCC should be an active trader of dairy products on the Chicago Mercantile Exchange. Instead of acting as a passive purchaser of surplus products whenever manufacturers choose to sell, it is argued that CCC should step in and purchase product, particularly cheese, whenever it is offered on the CME at prices that match or fall below the established CCC purchase price.

How do you plan to strengthen the price support program to prevent the market price from falling below the support level?

Answer. The Farm Security and Rural Investment Act of 2002 states that the Milk Price Support Program (MPSP) purchase prices shall be sufficient to enable plants of average efficiency to pay producers, on average, a price not less than \$9.90 per hundredweight (cwt) for milk containing 3.67-percent butterfat. The Class III price calculated by the Agricultural Marketing Service (AMS) is a minimum price for milk containing 3.5-percent butterfat. Actual prices producers received are typically greater than the minimum, and prices for 3.67-percent milk are about \$0.20 per cwt higher when butter is near its support price of \$1.05.

CCC has historically interpreted "on average" to mean an annual average over all cheese and butter/nonfat dry milk (NDM) plants (Class III and Class IV milk). Weighted average prices, based on utilization, of milk used for cheese making (Class III) and milk used for butter/NDM making (Class IV) have exceeded \$10.00 per cwt for the past 3 years. Annual average manufacturing milk prices in the National Agricultural Statistics Service (NASS) reports and the manufactured milk value calculated for the Dairy Interagency Commodity Estimates Committee have also exceeded \$10.00 per cwt.

AMS began publishing a minimum monthly price for Class III milk and a separate minimum monthly price for Class IV milk in January 2000 with implementation of Federal Milk Market Order reform. CCC is considering whether in light of these published prices it should revise its interpretation of "on average."

Payment of an allowance to cover additional costs incurred to sell cheese to CCC is being considered. This payment would be designed to lessen the difference between Class III and Class IV prices when dairy product prices are near CCC purchase prices for cheese, butter and NDM.

Question. Are you aware of the effect USDA specifications have on the final level of support received by dairy farmers, and will you consider either changing the specifications or being a more active purchaser of products, such as on the Chicago Mercantile Exchange, in order to make certain dairy farmers receive a price support level as directed in the Farm Bill?

Answer. We are aware of USDA specification impacts on support received by dairy farmers. Revisions to USDA specifications are in draft form and are currently being reviewed. However, CCC storage of product requires more expensive packaging. Also, resale or donation of product from CCC inventory requires grading that is not typically required for cheese going for immediate processing uses in the commercial market.

Question. Does the CCC have the authority to be an active trader of dairy products on the CME, or would separate legislation from Congress be required to enable such action?

Answer. CCC has been an active trader on futures exchanges (Chicago Board of Trade) and CCC has the authority to be an active dairy products trader on the CME spot cash market.

Question. If the CCC does have this authority, please comment on why it has not been used, in light of how often cheese prices have fallen below support over the last several years?

Answer. In discussions with CME officials it was found that even though CME product specifications match USDA's specifications, they are not enforced for CME commercial trades. If CCC offered to buy product on CME, CCC would not necessarily receive product meeting CCC specifications. CME is uncomfortable with CCC's proposal to actively sell inventory on the CME when market prices are above purchase prices because this would tend to narrow the CME trading range and allow CCC to break market rallies. CCC could purchase cheese on the CME at its purchase price provided CCC specifications were fulfilled, but total acquisition costs would be higher. CME brokerage fees, immediate payment and \$25 per trade transaction fees would add expenses to CCC purchases. Also, CCC requires grading paid for by the seller while CME does not require grading unless requested by the buyer, and if requested, grading costs must be paid by the buyer.

Question. Will you provide me an analysis of the relationship between an increase in the purchase CCC price of dairy products and dairy income received by farmers?

Answer. A one cent increase in the CCC purchase price for cheese should raise Class III milk price about 10 cents per cwt when purchases are being made and cause a slight decrease in Class IV price. Class III (milk used for cheese making) used 44 percent of total milk marketings in 2002 so the price impact would affect at least 44 percent of milk production. If Class III is the price mover, Class I price would also increase, affecting another 37 percent of milk production. Impact on the all milk price will vary from 4 cents to 8 cents per cwt depending on the month. When purchases are taking place throughout the year and Class III is seldom the Class I price mover, a 5 cent per cwt average milk price increase for the year would yield an \$85 million (half of 1 percent) dairy farm income increase (an average of

about \$925 per farm). In years with few cheese purchases and Class III prices never being the mover, the impact would be less than 1 cent per cwt average increase, yielding a \$12 million total income increase (\$130 per farm).

Question. To what extent will use surplus stocks of non-fat dry milk for food aid, drought relief, or other purposes?

Answer. Disposition of CCC NDM inventory for fiscal year 2003 has been about 400 million pounds through April 30. Export donations have been about 100 million pounds and drought relief about 250 million pounds. Domestic donations and sales have each been about 25 million pounds. Additional export donations of 100 to 200 million pounds are expected. Additional drought aid is beginning to be distributed and use may reach 200 to 400 million pounds by the end of the fiscal year.

CONSERVATION

Question. What input did USDA have in the Justice Department determination that conservation technical assistance for Farm Bill conservation programs would be subject to the section 11 cap, making necessary the President's request to provide such assistance through discretionary spending?

Answer. The Justice Department determination that conservation technical assistance for Farm Bill conservation programs would be subject to the section 11 cap reflects its own independent evaluation of the law, legislative history, and relevant precedents. USDA supplied the Justice Department with relevant legal materials, as requested.

CONSERVATION SECURITY PROGRAM

Question. Do you intend to implement the Conservation Security Program in a manner similar to an entitlement until enrollments reach the current statutory spending cap? If not, how would such alteration be consistent with the Farm Bill?

Answer. USDA estimates that there is a potential applicant pool of over two million farms and ranches covering some 900 million potentially eligible acres. A primary implementation concern that was raised in our published Advanced Notice of Proposed Rulemaking (ANPR) is the scope of the CSP program. In order for this program to accomplish the Administration's goal of maximizing the conservation and improvement of natural resources, it will be necessary to focus CSP assistance on farms and ranches that maintain the highest level of natural resource protection.

STATUS OF CONSERVATION PROJECTS

Question. Please provide the status of conservation projects listed in the Conservation Operations and Watershed Flood Prevention Operations accounts of the Senate, House, and Conference Report Statement of Managers to accompany the fiscal year 2003 appropriations bill.

Answer. All of the fiscal year 2003 conservation projects listed in the Conservation Operations account of the Senate, House, and Conference Report Statement of Managers have been funded and allocations made to the States within the last few months. State Conservationists are in the process of implementing the projects and accomplishments will be available at the end of the fiscal year.

Appropriated funds for Watershed Flood Prevention Operations were not sufficient to cover the estimated installation cost of all projects listed in the appropriation language. As a result, each 2003 project allocation was reduced by approximately 20 percent. The following table summarizes the fund allocations that were made during mid April:

WATERSHED PROTECTION AND FLOOD PREVENTION

State	Project	Status of Funds
Alabama	Upper Cahaba	No funds allocated, not an authorized Watershed Protection and Flood Prevention project
Alabama	Pine Barren WS Ext.	\$1,184,000 allocated to project
Arkansas	Little Red River	\$545,000 allocated to project
Arkansas	Poinsett	\$744,000 allocated to project
Arkansas	Big Slough	\$125,000 allocated to project
California	Beardsley	\$5,646,000 allocated to project
Florida	WF-Four Pilot Projects in North FL	\$1,452,000 allocated to project
Florida	Big Cypress	\$186,000 allocated for FL project planning, including Big Cypress
Illinois	DuPage County	\$25,000 allocated to project

WATERSHED PROTECTION AND FLOOD PREVENTION—Continued

State	Project	Status of Funds
Kansas	Whitewater East	\$1,429,000 allocated to project
Kansas	Whitewater West	\$971,000 allocated to project
Louisiana	Bayou Bourbeux	\$7,815,000 allocated to project
Missouri	Big Creek & Hurricane Creek	\$1,341,000 allocated to project
Missouri	E. Fork of Grand	\$477,000 allocated to project
Missouri	E. Locust Cr.	\$477,000 allocated to project
New York	Cayuga Lake	Not an authorized Watershed Protection and Flood Prevention Project. Other programs are being utilized.
North Carolina	Swan Quarter	\$2,851,000 allocated to project
North Dakota	Devil's Lake Basin	Not an authorized Watershed Protection and Flood Prevention Project
Oklahoma	Sugar Creek	\$3,512,000 allocated to project
Pennsylvania	Mill Creek	\$507,000 allocated to project
Pennsylvania	Little Toby	\$347,000 allocated to project
South Carolina	Flood mitigation Projects	Not an authorized Watershed Protection and Flood Prevention Project
South Dakota	Little Minnesota River/Big Stone Lake	\$67,000 allocated to project
Texas	Elm Cr. Site #34	\$1,615,000 allocated to project
Texas	Big Sandy Cr	\$1,277,000 allocated to project
Texas	Lake Waco Watershed	\$437,000 allocated to project
Virginia	Southwest VA Waterways in Clinch Powell ...	Not an authorized Watershed Protection and Flood Prevention Project. \$105,400 allocated through the Emergency Watershed Program.
Virginia	Holston, Pound, & Bluestone R.	Not an authorized Watershed Protection and Flood Prevention Project. \$105,000 allocated through the Emergency Watershed Program.
Virginia	Marrowbone Cr.	\$18,000 Watershed Rehabilitation Planning provided, in addition to fiscal year 2002 fund carryover.
West Virginia	Upper Tygart Valley WTSH	\$12,131,000 allocated to the project
West Virginia	Little Whitestick Cranberry	\$3,570,000 allocated to the project
West Virginia	Potomac Headwaters Land Treatment	\$460,000 allocated to the project

WATERSHED REHABILITATION PROGRAM

Question. Please provide information in regard to expenditures in fiscal years 2003 and 2004 under the Watershed Rehabilitation Program. What criteria is USDA using to determine which rehabilitation projects to fund? At the rate of funding for this program as requested by the President, how many years will it take before those structures in danger of failure will be rehabilitated? Is it likely that some structures will fail before such time, and to what degree is this likely?

Answer. The following is a summary of the allocations made for fiscal year 2003. (To date, the fiscal year 2004 appropriations and subsequent allocations have not been made):

STATE	TOTAL
Alabama	\$30,000
Alaska	0
Arizona	320,000
Arkansas	1,055,000
California	10,000
Colorado	0
Connecticut	0
Delaware	0
Florida	0
Georgia	5,125,000
Hawaii	0
Idaho	0
Illinois	40,000
Indiana	125,000

STATE	TOTAL
Iowa	1,126,000
Kansas	845,000
Kentucky	165,000
Louisiana	44,000
Maine	0
Maryland	0
Massachusetts	125,000
Michigan	19,000
Minnesota	0
Mississippi	530,000
Missouri	660,000
Montana	160,000
Nebraska	1,466,000
Nevada	0
New Hampshire	0
New Jersey	50,000
New Mexico	740,000
New York	275,000
North Carolina	54,000
North Dakota	470,000
Ohio	300,000
Oklahoma	6,451,000
Oregon	0
Pennsylvania	230,000
Rhode Island	0
South Carolina	40,000
South Dakota	15,000
Tennessee	975,000
Texas	5,304,000
Utah	150,000
Vermont	73,000
Virginia	328,000
Washington	0
West Virginia	220,000
Wisconsin	150,000
Wyoming	36,000
Puerto Rico	25,000
Total	27,731,000

The Watershed Rehabilitation amendment to Public Law 566 requires that a priority ranking system be prepared. A standardized priority ranking procedure was developed and is contained in NRCS policy. The priority ranking process computes a "risk index" for each dam which includes the following components:

- Potential for failure of the dam—based on existing conditions and design features of the dam.
 - Consequences of failure of the dam—based on number of lives and property at risk if the dam should fail.
 - Input from the State Dam Safety Agency.
- Priority was placed on dams with:
- The highest risk to loss of life and where the dams were in the poorest condition.
 - Legal obligations through Federal contracts or projects agreements where local contracts will encumber funds.
 - Commitments for planning and application were made (i.e. completion of plans, designs, and construction contracts).

At \$10 million per year, an estimated 10 projects annually will be rehabilitated. We do not have estimates of the number of dams that are currently in danger of failure to respond to your request for information on the possibility of future failures under current and proposed program funding levels. We expect to have 250 risk assessments completed by September 30, 2003 which will shed some light on this question.

RD FIELD STRUCTURE CONSISTENCY PLAN

Question. I understand that the Under Secretary (Rural Development) will issue a Consistency Plan for the field structure of RD. I also understand that in the pre-

vious reorganization, States were allowed flexibility to set up the structures to meet specific State needs. This new plan, as I understand, will close most two-person offices and allow States to develop a 2 or 3 tier system. States would also be limited to the number of program chiefs. I assume this will require a shifting of employees, functions and grade level changes.

How will these changes impact delivery and costs to the Agency?

Answer. The purpose of the Consistency Planning effort is to improve the field structure across the country to better serve the public, ensure that a basic level of service is available in all offices, and to improve the delivery of services to customers. It provides two possible field structures, which are very compatible to each other on a national level, but allow for differences among the States in geography, population density, program demand, and staffing levels. Having a basic requirement nationally that there be at least 3 people in each office improves the chances that someone will always be there to help customers in need of assistance rather than having to close an office when employees are sick, on leave, or working away from the office in order to make or service loans or provide technical assistance. There will be some initial costs of relocating a few employees and renting new space. There may be some savings in the long-term of reduced rent due to the consolidation of a few offices.

Question. How will the savings or increase in cost be reflected in your 2005 or 2006 budget?

Answer. These costs will be paid from, and any savings as a result of improved efficiency, will accrue to the Salaries and Expenses account.

RD COUNTY FIELD OFFICE CLOSURES

Question. What is the status of the 2003 requests by OMB to close 200 county base field offices?

Answer. The Secretary's Task Force, in the very near future, will be transmitting to the State Leadership of the Farm Service Agency, the Natural Resources Conservation Service, and Rural Development instructions for evaluating offices for consolidation. The Task Force anticipates the evaluation will be completed this summer.

Question. Is the criteria used for the Secretary's office closing, to comply with the OMB request, and RD's plan similar, please explain?

Answer. The criteria are similar in that both efforts seek to ensure customers are served effectively and efficiently. Rural Development's consistency planning effort focuses on how the agency can most effectively deliver its services with the resources available. While the consistency plans are being reviewed, Rural Development is also working closely with the Secretary's staff identifying inefficient offices. The Rural Development State Directors will receive and utilize the same evaluation criteria and instructions as the NRCS State Conservationist, and the FSA State Executive Director and any inconsistency between the Rural Development consistency plan and the Secretary's evaluations will be reconciled following the completion of the evaluations. Any Rural Development offices identified as inefficient will be addressed in the implementation phase of each State's consistency plan.

Question. Is there different criteria used in the two plans?

Answer. The criteria for the two initiatives are tailored to meet the specific purposes of each initiative. However, the two effects are being closely coordinated. Rural Development offices meeting the evaluation criteria being used by the Secretary's Task Force will be reviewed by the Rural Development State Director during their consistency evaluation and appropriate action taken, based on the overall needs and resources of the State.

Question. Are both groups using underserved minority populations, substandard housing, rent overburden, and unemployment as factors for office locations?

Answer. Rural Development did not provide specific criteria for the States to use in determining the location of its offices during the consistency planning process and each Rural Development State Director is determining, with the assistance of their staff, where the offices should be located utilizing such factors as geography, roads, location of trade centers, existing office locations, and impact on employees. The Secretary's Task Force has included diversity of the customer base as a criterion that is being used in the evaluation of offices, including those of Rural Development.

Question. Is the National Office reviewing factors of historic need prior to final approval of State plans, including the factors used to allocate resources to the States in the 1940-L regulation?

Answer. The National Office review of each State's implementation plan does not include an assessment of the proposed office locations. Each State Director established a working group of employees to assist them in the development of their plan.

The location of proposed offices is part of that effort. The employees in the State are far more knowledgeable of the State and its needs than is the staff of the National Office and it would be presumptuous, in most cases, of the National Office staff to question the recommendations of the State employees as to the location of their worksites.

THE OFFICE OF COMMUNITY DEVELOPMENT

Question. The Office of Community Development will be redirected from assisting EZ/EC and other communities to create and monitor performance measures, training field staff and strategic planning (18 people). Do you need this entire staff devoted for these purposes?

Answer. The Office of Community Development (OCD) will continue to provide national-level oversight of the Empowerment Zone/Enterprise Community (EZ/EC) program, along with the Champion Communities and the Rural Economic Area Partnership (REAP) Zones. These programs were designed so that direct assistance to the supported communities would be conducted by the Rural Development State and area office staff. As part of a comprehensive plan to strengthen the field structure and give State offices more responsibility for the outcome of programs in their jurisdictions, OCD will provide State offices and staff additional training on the implementation of the EZ/EC programs. In addition to these responsibilities, OCD will be coordinating the effort within Rural Development to formulate sound strategic plans, develop appropriate goals to implement them, and devise sound performance measurements to determine the effectiveness of Rural Development's programs. It will also continue to develop and provide Rural Development National and State office staff with web-based measurement, mapping and reporting tools, along with other database management systems, to achieve Rural Development's mission. Given this workload, the staff of 18 FTEs is fully employed meeting these responsibilities.

ROUND 2 AND 3 EZ/EC COMMUNITIES

Question. Proper oversight and technical assistance were issues when Round I of the EZ/EC communities were funded and there are still many outstanding issues for these communities. What will happen to the Round 2 and in the future round 3 EZ/EC communities with the proper oversight and assistance to ensure these funds are adequately administered?

Answer. Clearly, the Round I program constituted a learning experience for both the urban and rural EZ/EC programs. There are still outstanding issues with the oversight and assistance for the EZ/EC program and they are constantly being addressed. Our Benchmark Management System actively shows communities in all three Rounds are making progress in the implementation of their strategic plans, for example achieving an average leveraging ratio of over 16:1 with the Federal funds provided them.

RURAL HOUSING SERVICE/MULTI-FAMILY HOUSING

Question. In recent years, RHS has offered little in the way of incentives for section 515 owners to maintain long-term use. This lack of action and funding has prompted both the courts and—the Congress to consider the provisions of the law that regulates section 515 and provides incentives. All section 515 tenants are low-income—with average incomes of approximately \$8,000 and two-thirds are elderly or disabled households.

What is RHS doing to resolve this issue, so that owners are compensated consistent with the law and tenants are not displaced?

Answer. The 2004 Budget includes funding for equity loans to encourage owners to remain in the program. Additionally, RHS will implement administrative changes to include: (1) encouraging and expanding the use of third-party funds by establishing industry relationships and continuing to subordinate our debt to secure preservation funding; (2) re-directing existing Section 515 funds and Section 521 rental assistance to resolve preservation cases; (3) expanding the eligibility of non-profits and streamlining the transfer of ownership process; (4) exploring contracting for processing; and (5) concentrating MFH program and borrower training on preservation issues.

Question. If Congress, or the courts, lifted the restrictions in the 87 Housing Act, what is the Agency's estimate of the number of units that would be lost and the number of households that are likely to be displaced?

Answer. Our estimates are consistent with those reflected in last May's GAO report that stated 3,872 projects representing approximately 100,000 units/households

could be eligible to prepay in the next several years if restrictions on prepayment are lifted.

MULTI-FAMILY HOUSING PORTFOLIO NEEDS ASSESSMENT

Question. What is the status of the Committee's recommendation to provide the Department \$1,000,000 to conduct a capital needs assessment as outlined in the GAO report, GAO-02-397?

Answer. The Committee's recommendation was included in the Senate Appropriation Report, however, it did not reach the Conference Report; and it was not funded by a separate line item in the USDA fiscal year 2003 budget. The Agency, however, has accepted the Committee's recommendation to conduct a capital needs assessment of the Multi-Family Housing Portfolio as outlined in the GAO report, GAO-02-397 and has begun the study. To date, the structure of the Request for Proposal (RFP) has been decided. A Multi-Family Advisory Board has been formed, which consists of National Office staff, State Directors, and Program Directors who will execute and closely monitor the progress of the study. Portions of the study will be contracted out. Affordable housing industry stakeholders have been identified to consult with the Multi-Family Advisory Board during the study. Our target date for completion of the study is early in 2004.

COMPREHENSIVE PROPERTY ASSESSMENT

Question. I see that the 515 program has no new construction funds for 2004. What are the specific rehabilitation and preservation needs for the entire portfolio and will you contract out for this purpose?

Answer. The Rural Housing Service has initiated an effort to determine the condition of the portfolio from several perspectives. The Comprehensive Property Assessment (CPA) has several objectives, all of which are designed to provide an all-encompassing evaluation of the State of the portfolio. These objectives include: (1) assessment of property's physical condition; (2) assessment of property's financial condition; (3) assessment of property's position in the real estate rental market; (4) determination of continuing need for this rental housing; (5) assessment of needed capital improvements and cost; (6) assessment of future capital reserves needs; (7) analysis of prepayment potential; and (8) analysis of prepayment incentive costs to retain properties/use restrictions.

These objectives will be met using a combination of in-house expertise and private contracts.

HUD OMHAR STRATEGIC PLAN

Question. The HUD OMHAR Strategic Plan indicates HUD will provide assistance to the Department of Agriculture with restructuring the Section 515 Program. What assistance are they providing and are there any plans to allow HUD to perform preservation or other activities for RHS? Is this delaying your Rural Housing Study?

Answer. The HUD OMHAR Strategic Plan referenced is a draft plan that indicates that OMHAR would have the capacity to assist RHS as OMHAR's activities sunset in 2004. At this point, there have been no discussions with HUD as to how OMHAR could assist. However, we plan to meet with HUD to see if OMHAR's underwriting capabilities can be used to assist in meeting the preservation needs of RHS.

SECTION 515 HOUSING PROGRAM

Question. The Committee provided additional funding above the President's request for new construction and rental assistance for the 515 programs. How much funding will be allocated to new construction and please include the associated rental assistance cost and units?

Answer. Of the amount Congress appropriated for fiscal year 2003 for Section 515, the agency allocated a total of \$29,252,541 for new construction. As of June 6, 2003, we have funded 41 new construction properties containing 984 units for a total funding of \$23,616,151. Rental Assistance was provided to 545 of those units totaling \$5,990,998 or 55 percent.

MULTI-FAMILY HOUSING STUDY

Question. The RFP for the \$2,000,000 study on multi-family housing has never been issued. This is the second year you have not requested new construction funds while awaiting for this study to be completed. What have you learned and when will you be in a position to request new construction funds or legislation to change or replace the 515 programs?

Answer. The study is underway and the RFP is to be issued for portions of the study that will be contracted out in fiscal year 2003. We expect the study to be concluded in the first quarter of fiscal year 2004.

In recent years, RHS has offered little in the way of incentives for Section 515 owners to maintain long-term use. This lack of action and funding has prompted both the courts and—the Congress to consider the provisions of the law that regulates section 515 and provides incentives. All section 515 tenants are low-income—with average incomes of approximately \$8,000 and two-thirds are elderly or disabled households.

Question. What is RHS doing to resolve this issue, so that owners are compensated consistent with the law and tenants are not displaced?

Answer. The 2004 Budget includes funding for equity loans to encourage owners to remain in the program. Additionally, RHS will implement administrative changes to include: (1) encouraging and expanding the use of third-party funds by establishing industry relationships and continuing to subordinate our debt to secure preservation funding; (2) re-directing existing Section 515 funds and Section 521 rental assistance to resolve preservation cases; (3) expanding the eligibility of non-profits and streamlining the transfer of ownership process; (4) exploring contracting for processing; and (5) concentrating MFH program and borrower training on preservation issues.

Question. If Congress, or the courts, lifted the restrictions in the 87 Housing Act, what is the Agency's estimate of the number of units that would be lost and the number of households that are likely to be displaced?

Answer. Our estimates are consistent with those reflected in last May's GAO report that stated 3,872 projects representing approximately 100,000 units/households could be eligible to prepay in the next several years if restrictions on prepayment are lifted.

RURAL HOUSING SERVICE/RENTAL ASSISTANCE

Question. The Section 521 Rental Assistance Program is the largest line item in the entire Rural Development request. On December 18, 2002, I requested the GAO to look into processes of the 521 Rental Assistance Program including the administration of this program and models used to anticipate recurring and future needs to formulate your appropriation request. It is my understanding that the Agency is moving to automate this process for the first time. Preliminary discussions with GAO indicate this program appears to have large levels of unliquidated balances for many reasons. The previous model was flawed in estimating recurring and future costs as reflected in the Department's appropriation requests.

The Secretary's testimony before this Committee on May 8, 2003, insisted that outsourcing is needed specifically for advanced technological needs.

Wouldn't it be prudent to contract with an outside source to help the Agency construct an accurate and efficient program to track and estimate the needs for this program?

Answer. The Agency has developed a working group consisting of staff from the Department's IT Systems Services Division, the Financial Management Division, national office and field staff, and private contractors from Unisys, IBM and Rose International. This team is developing a model based on relevant information elements using several software applications that will provide a mechanism for providing improved information for making budgetary decisions.

Question. This has obviously been a problem for many years. Are you using outside expertise to create or test a new model?

Answer. Early in the rental assistance program, which started in 1978, there was a tendency to overestimate rental assistance needs, mostly due to newness of the program and a lack of history on assistance usage. Our recent analysis of the accuracy of rental assistance projections in the last 6 to 7 years has revealed that the current estimating methods used have been more accurate than in the past. We have acquired a team of professionals from inside and outside of government to create the Rental Assistance Forecasting tool.

Question. Are you using the same staff to provide input that created the previous model?

Answer. Predicting the use of rental assistance has taken many forms over the last 25 years and various methods and staff persons were used to determine obligation amounts. We believe the recent methods of projecting rental assistance usage contain valid parameters for determining future needs, and it is critical to the development of the forecasting tool to include persons most familiar with that process. These staff members provide valuable input, historical knowledge and a keen under-

standing of the variables associated with designing such an estimating tool. A combination of experience and skill to assist in this effort is required.

Question. Have you considered modifying existing systems, such as DLOS, which USDA has spent millions of dollars to modify for RHS needs.

Answer. The Dedicated Loan Origination and Servicing System (DLOS) is underpinned by a commercial-off-the-shelf package that currently does not support the business processes applicable to the making and servicing of Multi-Family Housing loans and the management of projects and rental assistance. It was determined more cost effective and efficient to pursue those systems already in place that support the Multi-Family Housing loan program. These already contain much of the data and have automated processes already in place that would support the development and the integration of the new Rental Assistance Forecasting software. This will reduce the cost of design, development, and deployment as well as more effectively support existing business processes supported by these systems.

RURAL HOUSING SERVICE/HOME OWNERSHIP COUNSELING

Question. The Section 525 technical assistance program for homeownership counseling with a historical level of approximately \$1 million has been eliminated with a justification that other sources, including HUD, will provide this service. The President's Budget also eliminates the Office of Rural Housing at HUD to provide technical assistance and build capacity. HUD has been inadequate with the FHA programs in penetrating rural America. In addition, the President and the Secretaries of USDA and HUD have announced changes to increase minority participation in Homeownership. One change required this Committee to transfer \$11,000,000 in the 502 guaranteed program to make up for a shortfall during conference.

Do you have a commitment from HUD or others that would ensure our rural areas are not left behind?

Answer. We work with many agencies, including HUD, State housing finance agencies, local housing authorities and local non-profit housing groups to ensure that rural areas receive a fair share of housing assistance, including homeownership counseling. Homeownership counseling is also provided by our Section 523 Grantees to those families who participate in the Mutual Self-Help Housing Program. A Memorandum of Understanding is being developed between the Rural Housing Service (RHS) and the Federal Deposit Insurance Corporation (FDIC) to make available training for potential rural homeowners using the Money Smart financial literacy program. Our field staffs have received training and are already using this program as another tool in providing homeownership counseling.

Question. Does this Administration believe homeownership counseling is an intricate part of the success of homeownership and wouldn't this small investment add value; especially when you are reaching out to historically undeserved minority communities and individuals?

Answer. We believe homeownership counseling is a critical factor in becoming a successful homeowner. However, funding for homebuyer education programs is available through numerous other Federal, State, and local government and non-governmental sources. For example, in 2002, HUD awarded more than \$18 million for its Housing Counseling Programs in urban and rural areas across the country.

RURAL HOUSING SERVICE/SELF-HELP HOUSING

Question. In fiscal year 2003, the Rural Housing Service had a large percentage of carryover-appropriated funds for the Self Help Housing Grant fund.

What is the actual need to meet obligations in 2004?

Answer. We anticipate the actual need in fiscal year 2004 to be \$34,000,000. About \$24,000,000 of this amount would be used to refund 75 existing grantees. The rest would be awarded to new grantees brought to meet contract needs.

RURAL HOUSING SERVICE/FARM LABOR HOUSING

Question. In the Secretary's testimony for the May 8, 2003 Appropriation hearing, she indicated that the rental assistance request is enough for all renewals including supporting new construction of \$59 million for farm labor housing projects. In a recent briefing with the Committee staff, the Department indicated that only 170 units of rental assistance would be used for farm labor. Additionally, these projects require a large percentage (around 80 percent) of rental assistance for each facility, which averages around 40 units.

How will you utilize \$59 million to construct farm labor housing with only enough rental assistance for 4 or 5 projects?

Answer. We have projected to fund 984 farm labor housing (FLH) new construction units from the \$59,167,000 appropriations. Of that number we will provide Rental Assistance for 859 units or 87.3 percent of FLH new construction units, which will allow us to continue to operate a viable FLH program. The percentage in prior years was 85 percent in 2002 and 79.5 percent in 2003.

Question. This is a program has low-rehab needs. What will you do with the balance for the loan and grant programs in farm labor?

Answer. For fiscal year 2004, we anticipate to use all of the \$59 million in loan and grant funds in FLH. The funds will be made available for new construction of off-farm housing and rehabilitation of properties in the portfolio. The balance of the funds will be used for on-farm new construction and Technical Assistance grants.

Question. Will you make adjustments to this request?

Answer. We do not plan to make adjustments to this request.

BENEFICIARIES REPORT

Question. In 2001 the Department sent to the Congress a report, Rural Housing Service Program Beneficiaries, which analyzed demographically who was getting Rural Housing Service funds.

When will the Department provide another such report; a report that is required annually by the Fair Housing Act?

Answer. This report will be completed within this fiscal year and will cover the period from the last report.

Question. How many units of housing will the Rural Housing Service finance with the budget authority requested in the fiscal year 2004 budget? How does this relate to the need?

Answer. For the Single Family Housing Direct loan and grant programs, RHS will finance the construction or purchase of approximately 17,900 homes with Section 502 Direct Loan funds, 17,000 with Section 502 Guaranteed funds and make more affordable over 2,500 units of refinanced housing, and the repair/rehabilitation of approximately 12,000 homes with the Section 504 Loan and Grant funds. The demand for these programs remains very strong.

For the Multi-Family Housing programs, the fiscal year 2004 President's Budget column reflects what will be financed with the budget authority provided.

[The information follows:]

PROGRAM (MULTI-FAMILY HOUSING)	Fiscal year 2004 President's Budget
Total Number of units funded for new construction (fiscal year)	3,143
Sec. 515	0
Sec. 514/516	741
Sec. 514/516 Natural Disaster	0
Sec. 538	2,402
Total Number of units funded for rehabilitation (fiscal year)	9,243
Sec. 515	5,888
Sec. 514/516	978
Sec. 533	2,377
Total	24,772

These figures, which are consistent with prior years, indicate that the Rural Housing Service is making a significant contribution toward meeting the housing needs of Rural America.

I believe these analyses, judging from the one submitted for the Rural Housing Service in 2001, Rural Housing Service Program Beneficiaries, are tools for the Congress, the Department, and the agencies in Rural Development and the Farm Services Agency to monitor civil rights, as well as, programmatic performance. This type of report can tell you who received the funds, what county they are in, what their racial and ethnic background is, and who was successful in obtaining USDA funds. The report also compares the beneficiaries to those eligible for the program, so you can see if you are reaching all eligible populations around the country.

Question. I know we have had a difficult time getting data and analysis from the Department on these programs, wouldn't you agree that this type of analysis would help you respond to us in the Congress as well as to self-monitor your own programs?

Answer. Yes, this type of analysis would help respond to Congress and Rural Development is working to improve data collection.

Rural Development has evaluated all of its program data and reformatted the data to better address the requirement of FHA and other Civil Rights Laws. Additional racial and ethnic data collection has been adopted to the new categories as required by the Office of Management and Budget.

Question. Does the Department have the personnel to perform such analysis?

Answer. Rural Development's report was prepared by a private contractor. Similar reports for other USDA program areas would likely also have to be done by contractor.

I know the Assistant Secretary for Civil Rights' was just established and may have difficulty providing studies such as the one submitted in 2001, so I don't believe we can look there for action. I know the report, Rural Housing Service Program Beneficiaries, was produced by a private group under contract from Rural Development.

Question. Are you prepared, as Rural Development did, to seek non-Federal entities to perform the analysis and write these reports required by law?

Answer. We believe such reports can be effectively done in-house or by private contractors. It is important that they meet the specific needs for ethnic data for specific program areas.

ASSET SALES

Question. What programs do you consider for the asset sale and how will you assure that agencies don't repeat 1987 loan asset sales conducted by the former Farmers Home Administration when they sold only seasoned loans for approximately 55 cents on the dollar?

Answer. All farm loan programs, both performing and non-performing loans, will potentially be considered for the loan asset sale. However, FSA will participate with RD in a study to determine whether or not there is any market for the loans and whether or not there would be any net savings to the Government after factoring in the cost of the sale. If it is determined that there will be no net savings, it is not likely that the farm loans will be considered for an asset sale.

As noted above, FSA will conduct a study to determine whether or not there will be a net savings to the government before farm loans are considered for an asset sale.

Question. Will these assets also be heavily discounted and if so isn't this the same as reducing a portion of the debt to the borrowers and allowing them to refinance with the private sector?

Answer. If it is determined that the farm loans will not yield any net savings to the Government, it is not likely that they will be considered for an asset sale.

RURAL BUSINESS SERVICE

Question. The Rural Business Investment Program (RBIP, Sec. 6029) is currently required to use another Federal agency to carryout the program. Is this arrangement adequate, or should the Department have the authority to contract with non-Federal groups or deliver this program in-house?

Answer. Rural Development and SBA have jointly identified certain impediments with the current legislation. While we are continuing to work toward resolving these impediments, we may find it necessary to propose some legislative changes.

Question. How does the agency protect a property acquired by a Rural Enterprise grant from allowing the recipient to take an equity loan on a facility or selling the equipment? Is any instrument filed by the Government at the courthouse to protect the Government's interest?

Answer. Rural Business Enterprise Grants are governed by Section 3019.37 of 7 C.F.R., which provides that Federal agencies may require recipients of grants to record liens or other appropriate notices of record to indicate that personal or real property has been acquired or improved with Federal funds, and that use and disposition conditions apply to the property. These requirements are spelled out in the Grant Agreement and/or Letter of Conditions that is signed by the Agency and Grantee.

Question. A recent news report referred to a Business and Industry loan provided to a company that was found to have violated other Federal requirements and was forced to pay penalties to the Federal Government. The report indicated that proceeds from the B&I loan went to pay these fines. Is this allowed under the current regulations and, if so, is this good policy? Can you please explain in detail how this loan was approved?

Answer. We are not familiar with the news report to which you refer. Not knowing the specifics of the project, it is hard to provide more than a general answer. Program regulations do not specifically prohibit the payment of fines, but prudent

lending decisions would dictate the proper action. Most guaranteed loans are approved at the State Office level. It would be up to the approval official to evaluate each individual application on its own merits, assess the causes of any fines or penalties, and evaluate any adverse affect on repayment ability. We do not know the amount or purpose of the fines. It is possible that a business owner purchased property with existing environmental problems of which he was unaware. It is possible that the lender and borrower did not make the Agency aware of the fines, nor that B&I funds were used to pay the fines.

RURAL ECONOMIC DEVELOPMENT LOAN AND GRANT PROGRAM

Question. The Farm Security and Rural Investment Act of 2002 (Farm Bill), which was signed into law by President Bush last May, included a new provision providing for private sector funding for the Rural Economic Development Loan and Grant (REDLEG) program. The REDLEG program provides zero-interest loans and grants for projects such as business expansion and start-up, community facilities, schools and hospitals, emergency vehicles, and other essential community infrastructure projects in rural America. In Wisconsin alone, this program has provided 59 grants/loans totaling nearly \$13 million while leveraging an additional \$59 million and creating over 1,800 jobs. This new source of private funding for REDLEG is provided through fees assessed on qualified private lenders receiving a guarantee under Section 313 A of the Farm Bill. The authorizing language is very straightforward on this matter and incorporates specific and strong protections to the government to ensure the safety and soundness of the program. In fact, the Farm Bill Conference Report notes that this new provision “effectively places the lender between the RUS and the borrower minimizing the risks to the government.” It is clearly stated in the Farm Bill that the Secretary has 180 days from the date of enactment to issue regulations and 240 days to implement the program. Both deadlines has come and gone and not even draft regulations have been issued. I am concerned that by the time regulations are issued with the appropriate following public comment period and then final program implementation, USDA may well be into the next fiscal year and lose the \$1 billion guarantee program level Congress appropriated for this fiscal year.

What steps are you taking to expedite this process and will you have something published this fiscal year?

Answer. The Rural Utilities Service is in the process of addressing the issues that came about through the normal review process within the Administration. The regulation should be published in the near future.

Question. Does this Committee need to do anything else to assist the Department in this effort?

Answer. No, the Committee does not need to do anything else.

COMMUNITY FACILITIES

Question. The Rural Community Development Initiative (RCDI) imposes a one-to-one match requirement. Is this a problem serving low-income communities that lack capacity compared to, for example, national organizations?

Answer. The point system used for ranking RCDI applications gives priority to small, low-income rural communities. We have no way of determining if some organizations are discouraged from applying by the requirement for matching funds. However, there have been more loan applications than could be funded in recent years.

Question. What lead to the change to allow the Federal match and are we funding other USDA entities like Extension Service and is this good policy?

Answer. The matching funds requirement is mandated by Congress. The Extension Service and other USDA agencies are not eligible to receive RCDI funding.

*Community Facilities (CF) Direct Loan—*The CF direct program has never had a negative subsidy. This program has had a generally flat program level of \$250,000,000 for years. Additionally, the Agency adjusts the interest rates to the customers on a quarterly basis on the 11th bond buyer's index. On the 3 week at the end of the quarter, the Agency averages the bond buyer's index for the previous three months and sets a new interest rate for the next quarter.

Question. The current rates to the borrowers are as follow: Poverty, 4.5 percent; Intermediary, 4.78 percent; Market, 5 percent. Without any budget authority, is the Agency exposed as we move through the appropriation process with higher anticipated interest rates? Wouldn't a slight rise in the interest rates have a tremendous impact on this program and the end customers? What are the factors that lead to a negative subsidy rate for the first time?

Answer. All direct loan programs are exposed to risk related to a rise in interest rates as we go through the appropriation process. That is a part of credit reform budgeting for direct loans. Subsidy costs tend to increase when interest rates go up and to decrease when interest rates go down. Other factors that determine the subsidy rate include disbursement rates, average loan terms, percentage of program level obligated at each interest rate, grace period for principal, repayment schedule, and recovery of payments that are behind schedule. The primary factor that has changed creating the negative subsidy factor is the overall cost of money to the Federal Government.

RURAL UTILITIES SERVICE/WATER AND WASTEWATER PROGRAM

Question. The 2002 Farm Bill provided mandatory funds to meet the requirements of a portion of the backlog for water and wastewater applications. The fiscal year 2002 request dramatically reduces the portion of grant funds available for this program. I understand that you have applications in a pre-application stage, applications that have been approved for funding and are expected to be funded with available dollars, and applications which have been approved for funding but for which resources are not available.

What level of applications which had been approved for funding were still unfunded after the Farm Bill mandatory funds were made available?

Answer. At the end of fiscal 2002 there were 762 complete loan applications on hand totaling \$1,363,369,609 and 561 complete grant applications on hand totaling \$706,527,731.

Question. How many applications were funded with the Farm Bill mandatory funds and how many additional applications approved for funding were unfunded?

Answer. A total of 393 projects were funded with the Farm Bill mandatory funds and a total of 786 additional applications were unfunded at the end of fiscal year 2002.

Question. As of May 1, 2003, how many applications are approved and waiting for funding but are not expected to be funded in fiscal year 2003, and what is the cost of funding these applications?

Answer. It is estimated that approximately 500 complete applications will not be funded in fiscal year 2003. It is estimated that the cost of funding these applications is approximately \$1.0 billion.

Question. As of May 1, 2003, how many applications have been submitted that are in the pre-application stage, and what is the expected cost of funding these applications if they are all approved.

Answer. There are a total of 820 incomplete applications on hand. The total cost of funding these incomplete applications is estimated to be \$1.5 billion.

Question. Of the applications approved for funding, what is the total of grant necessary to fund these applications?

Answer. The total amount of grant needed to fund the complete applications on hand is estimated to be \$763,852,491.

Question. How many applications will not be funded in fiscal year 2004 due to the Administration's reduction in grant funds since those applications need a higher rate of grant funds to cash flow, and from what States are those applications generated?

Answer. Nationally, the applications remaining in the backlog indicate an increasing demand for loan funds, which could mean that there would be no change in the number of applications funded and unfunded. It is anticipated that fiscal year 2004 will be no different than any other fiscal year in that a number of applications will be unfunded in each State.

Question. Will the Administration's proposal to reduce grant levels mean that it is intended to pass on a higher portion of the project cost to lower income Americans or does it mean that it is intended that this program shall be more targeted to more affluent communities?

Answer. It is believed that neither one of these is the case. The program remains committed to directing loan and grant funds to the smallest communities with the lowest incomes, while providing financial assistance that results in reasonable costs for rural residents, rural businesses, and other rural users. The substantial reduction in interest rates that has occurred over the past 10 years has made projects funded through loans more affordable.

Question. Will the customer historic rates for water and sewer increase for the States as a result of debt serving a larger portion of the projects with loans funds instead of a higher grant infusion and have you conducted any analysis on the impact to low and very low-income communities?

Answer. It is believed that the customer's historic rates for water and sewer will not increase at this time. Matching loan and grant funds to meet the needs of local communities is always challenging. A project's financial feasibility is determined based on its ability to repay a loan and at the same time maintain reasonable user rates. With the additional funding from the Farm Bill, we were able to fund a significant number of applications that needed grant funds to develop a feasible project. The loan-grant mix on the 393 Farm Bill projects was 50/50. Fortunately, we were able to reach many projects that needed significant grant support. This resulted in a reduction in the backlog particularly in projects with a heavy grant demand. Nationally, the applications remaining in the backlog indicate an increasing demand for loan funds.

A formal analysis has not been conducted on the impact to low and very low-income communities.

PUBLIC TELEVISION

Question. Public television stations are facing a Federal mandate to convert all of their analog transmission equipment to digital. The deadline for public television stations to make this conversion recently passed on May 1, 2003. 195 stations have filed with the FCC for extensions of the deadline. Of the stations that cited financial hardship as reason for a waiver, 70 percent of them serve predominantly rural areas.

Last year, members of this committee recognized that public stations serving rural areas would experience financial hardship as one of the obstacles to meeting the Federally mandated deadline. To assist these stations, the committee included \$15 million in the Distance Learning and Telemedicine program specifically to address these needs.

Committee staffs have recently met with both budget officers and attorneys in your department about funding for this purpose. Further, I understand that your agency has neglected to develop a plan for awarding these funds. It is my understanding that the reason for the delay in awarding these funds is because your department does not feel that there is significant congressional direction to implement this program for public television. I have read both the Senate report language as well as the Omnibus report language and I think that Congress was explicit in their intent to award these funds. I might add that we put those funds in there for this specific purpose—to provide funding for rural public television stations.

Please explain why you are choosing to ignore a directive from this committee?

Answer. Rural Development is aggressively seeking the implementation of a Notice of Funds Availability (NOFA) that would make this funding available this summer. The NOFA will outline funding parameters and set forth eligibility requirements to allow for the most equitable distribution of this grant funding.

WIC CONTINGENCY FUND USE IN 2003

Question. Does USDA currently anticipate the need to use any of the contingency funds provided in fiscal year 2003 in order to maintain full WIC participation in fiscal year 2003.

Answer. Based on our current assessment of State agency funding requirements, we do not anticipate using contingency funds in fiscal year 2003 in order to maintain WIC participation. Any projected shortfalls by individual States will be managed through conventional reallocations.

2003 WIC FARMERS' MARKET GRANTS

Question. Please provide an update on funds provided in fiscal year 2003 for the WIC Farmers' Market Program, including the amount of funds obligated to date, and information regarding the specific grants. Further, please include the total number and total amount of requests received for the WIC Farmers' Market Program.

Answer. A total of 44 State agencies requested and received to date, \$23,619,504 in funds as reflected in the attached chart. We have advised State agencies of the opportunity to request additional funding, given that \$1,380,496 remains available from the \$25 million appropriated for the program. Some State agencies have expressed an interest in receiving additional funds. Therefore, we are collecting this information and expect to allocate additional funds by July 2003. The grant allocations through May 22, 2003 are provided for the record.

[The information follows:]

WIC FARMERS' MARKET NUTRITION PROGRAM

State Agency	Fiscal Year 2003 Program Grant ¹
ALABAMA	\$239,850
ALASKA	290,029
ARIZONA	303,333
ARKANSAS	245,000
CALIFORNIA	3,097,875
CHICKASAW, OK	40,000
CONNECTICUT	409,879
D.C.	339,276
5 SANDOVAL	6,337
FLORIDA	366,543
GEORGIA	309,243
GUAM	123,457
ILLINOIS	322,166
INDIANA	284,696
IOWA	641,320
KENTUCKY	230,000
MAINE	85,000
MARYLAND	624,843
MASSACHUSETTS	607,229
MICHIGAN	515,490
MINNESOTA	396,667
MISSISSIPPI	86,766
MISSOURI	257,137
MS. CHOCTAWS	14,500
MONTANA	70,000
NEW HAMPSHIRE	129,047
NEW JERSEY	1,118,411
NEW MEXICO	392,891
NEW YORK	4,083,332
NORTH CAROLINA	365,470
OHIO	329,446
OREGON	363,067
OSAGE TRIBAL COUNCIL	31,325
PENNSYLVANIA	2,312,386
PUEBLO OF SAN FELIPE	8,666
PUERTO RICO	1,301,308
RHODE ISLAND	198,313
SOUTH CAROLINA	132,530
TENNESSEE	96,000
TEXAS	1,650,000
VERMONT	75,676
WASHINGTON	308,000
WEST VIRGINIA	70,000
WISCONSIN	747,000
TOTAL	23,619,504
Fiscal year 2003 Available Funds	25,000,000
Total Funds Allocated	23,619,504
Remaining Available Funds	1,380,496

¹ Funds Allocated Thru May 22, 2003.

WIC VENDOR PRACTICES EVALUATION

Question. Please provide an update on the evaluation of WIC vendor practices, for which \$2 million was provided in fiscal year 2003. When will the evaluation be complete, and does USDA anticipate any changes in WIC guidelines as a result of this evaluation?

Answer. We anticipate that an evaluation contractor will be selected and a contract awarded by September 30, 2003. Data collection will occur in 2004 with a final report expected in 2005. This will be the first study of WIC vendor management

practices since the WIC Food Delivery Systems final rule, which was published on December 29, 2000. WIC State agencies were required to implement the rule by October 1, 2002. We expect that an examination of the efficacy of existing State high-risk vendor identification systems will result in additional guidance to help States to target more effectively their limited investigative resources toward vendors that are most likely to overcharge on food instruments or commit other serious violations.

ROUNDING-UP FOR WIC FORMULA

Question. The Senate included report language last year regarding the amount of infant formula issued to WIC participants each month and the variety of infant formula can sizes. Has FNS taken any action in regard to this report language? Please provide an update.

Answer. The Department has a proposed rule in the initial stages of clearance that would, as drafted, allow WIC State agencies to round up to the next whole can size of WIC formula (infant formula, exempt infant formula, or WIC-eligible medical food) so that participants can receive the full amount of formula authorized in WIC regulations. We intend to publish the proposed rule by September 2003.

WIC MANDATORY FUNDING

Question. Has USDA taken any position on any proposals to modify the WIC program from a discretionary program to a mandatory program during the reauthorization of the Child Nutrition Act, or at any other time? If so, what is the position of USDA?

Answer. As stated in Food and Agriculture Policy: Taking Stock for the New Century of particular urgency is ensuring dependable funding for WIC. There may be advantages, programmatically as well as from a budget formulation perspective, in redefining WIC as a mandatory spending program. There has been no formal proposal and the Administration has taken no formal position on any proposals to modify the WIC program from a discretionary program to a mandatory program. In the current budget environment, the Administration is likely to be wary of putting more spending on the mandatory side of the budget.

WIC STUDIES AND EVALUATIONS

Question. The President's budget requests an increase of \$5 million for studies and evaluations. Please provide more detailed information on the type of studies planned with this increased funding, and the information that will be obtained through these studies.

Answer. This increase will be used for a comprehensive study to evaluate the effectiveness of the WIC program.

While studies by FNS and other entities have long shown that WIC is cost-effective in improving health and nutritional outcomes for specific populations, a comprehensive evaluation has not been recently completed. The program faces a range of emerging issues and challenges, including changes in the demographics of WIC recipients, the need for better coordination with other programs, staff development and retention, and the use of new technologies to improve customer service and maintain program integrity. Detailed research plans are under development within USDA. We will be happy to share this with the Committee once they are finalized.

WIC MANAGEMENT INFORMATION SYSTEM REQUEST

Question. The President's budget requests an increase of \$30 million for State Management Information Systems, to replace old and antiquated WIC systems. What are the specific spending plans for this funding? Will all of the \$30 million be spent in fiscal year 2004? If not, how and when will each portion of the funding be spent? Is this \$30 million increase a one-time request for fiscal year 2004, or do you anticipate requesting another increase in fiscal year 2005 and beyond?

Answer. We intend to fully obligate the funds in fiscal year 2004 for planning activities and system design and development work. Funding decisions will be made in accordance with a Capital Planning and Investment Plan we are preparing in conjunction with OMB. Funds obligated in fiscal year 2004 will ultimately be contingent upon State agency progress in forming consortiums, determining State agency needs, and actual award of procurement contracts as specified in our Plan.

The requested \$30 million is part of a multi-year plan for WIC system development that should be completed no later than fiscal year 2008.

BREASTFEEDING PEER COUNSELING REQUEST

Question. How will the \$20 million increase for breastfeeding peer counseling, in the President's budget, be distributed? Will there be any evaluation of this effort to increase the number of women who choose to breastfeed?

Answer. These funds would be awarded on a competitive grant basis to the WIC State agencies. Restricting the use of these funds to breastfeeding peer counselor programs would ensure that peer counselors are available at a majority of the WIC agencies nationwide. The selection criteria for awarding grant funds to the WIC State agencies is still under consideration. However, we expect the components of a successful peer counselor program to provide education and support to WIC clients through: (1) repetitive contacts throughout the prenatal period in the WIC clinic; (2) postpartum hospital visits; (3) home visits, (4) follow-up phone calls; (5) addressing barriers and encouraging family support; and (6) culturally sensitive breastfeeding management and education within the context of limited financial and social resources.

Prior to developing our budget request, we examined the research on use of breastfeeding peer counselors. The research indicated that use of breastfeeding peer counselors has proven to be an effective method of increasing breastfeeding duration rates among the WIC target population. To ensure that WIC breastfeeding peer counseling is effectively implemented, we plan to monitor and evaluate the effectiveness of breastfeeding peer counseling on WIC breastfeeding initiation and duration rates, but no formal evaluation is planned.

WIC FOOD PACKAGE REVISION STATUS

Question. I recently received a letter from Secretary Veneman, dated March 11, stating that the updated WIC food package is expected to be published in early summer. Please provide a specific date by which this is expected to occur.

Answer. The letter you refer to, dated March 11, 2002, outlined the Department's plans to publish a proposed rule to amend the WIC food packages by early summer 2002. Since that time, in light of emerging nutrition-related health issues and the new research-based Dietary Reference Intakes, the Department instead plans to publish an Advanced Notice of Proposed Rulemaking (ANPRM) on the WIC food packages in late summer 2003. Also, a Statement of Work has recently been submitted to the Institute of Medicine's (IOM) Food and Nutrition Board requesting that it undertake a review of the research on nutrients lacking in the WIC population's diet and the WIC food packages. We are asking the IOM to make recommendations for possible changes to the WIC food packages, based on the best available science. They will also consider recommendations from the National WIC Association and comments received in response to the ANPRM. IOM recommendations and the Department's proposed decisions on how to implement them will be submitted for public review and comment through a Notice of Proposed Rulemaking. We have developed an accelerated timeline to ensure publication of a final rule before the close of fiscal year 2005.

WIC OBESITY PREVENTION EFFORTS

Question. The President's budget requests an increase of \$5 million for obesity prevention projects to be carried out in WIC clinics, including evaluations of those projects. Does USDA intend to try and replicate successful projects throughout the country when reasonable? Further, does USDA anticipate additional funding needs for obesity prevention within the WIC program in the near future?

Answer. FNS plans to use these funds to implement and rigorously evaluate a series of interventions in multiple WIC clinics to prevent childhood obesity. FNS will encourage States and local WIC agencies to implement any cost-effective approaches identified through the evaluation.

FNS will use the results of the evaluation to determine the need for additional funding. If cost effective approaches to preventing childhood obesity are identified, FNS may request additional funding to assist State and local WIC agencies in implementing these approaches.

FREE AND REDUCED PRICE LUNCH CERTIFICATION

Question. The President's budget includes an increase of \$6 million for activities to explore policy changes to help ensure that all children receiving free and reduced price meals are eligible for them. According to the budget, some of the ways in which USDA seeks to improve the accuracy of eligibility decisions include mandating the use of Food Stamp and TANF records to directly certify eligibility of children already participating, or to use a "combination of third-party wage data" and

other expanded requirements for up-front documentation for children not currently receiving free or reduced price school lunches.

Does USDA believe that these increased certification requirements will not only identify ineligible children who are currently receiving benefits, but also children who are currently receiving reduced price lunches but are in fact eligible for free lunches?

Answer. Yes. We expect that using Food Stamp records to directly certify children for free meals, and other program improvements, will help to identify more children who are eligible for free breakfast and lunch, but currently pay for school meals at reduced or full price, and certify them for free meals.

We also intend to address this issue through our \$6 million budget request to explore methods to enhance the targeting accuracy of the free and reduced price eligibility determination system.

USDA has identified two fundamental problems in the current system. First, there is a substantial number of children approved for free and reduced price meal benefits on the basis of an application that are not income-eligible for the benefit level they are receiving. These children are over-certified. FNS believes that the vast majority of over-certified children are approved on the basis of an application provided to their school district, while there are very few over-certified children approved on the basis of direct certification.

Second, there are a significant number of income-eligible children that are not approved for the level of benefits associated with their income-level. For example, some households eligible for free or reduced price meal benefits are not approved for either level of benefits. When these children receive an NSLP lunch, they must pay full price. Likewise, there are some households eligible for free meal benefits but who are approved for reduced price meal benefits. Funds requested are designed to consider methods to address both fundamental problems.

SCHOOL LUNCH CERTIFICATION ACCURACY

Question. Please explain the proposals listed in the budget a little more fully, specifically the “combination of third-party wage data and other expanded requirements.” If USDA has updated their proposals, please explain the most current ones.

Answer. Through the President’s Budget request and the reauthorization of the Child Nutrition Programs, USDA will seek to improve the accuracy of program eligibility determinations, while ensuring access to program benefits for all eligible children, and reinvesting program savings to support program outcomes. Our current recommendations to improve integrity include:

- Requiring direct certification for free meals through the Food Stamp Program, to increase access among low-income families, reduce the application burden for their families and schools, and improve certification accuracy.
- Enhancing verification of paper-based applications by drawing verification samples early in the school year, expanding the verification sample; and including an error-prone and random sample.
- Minimizing barriers for eligible children who wish to remain in the program by requiring a robust, consistent effort in every school to follow-up with those who do not respond to verification requests.
- Initiating a series of comprehensive demonstration projects to test alternative mechanisms for certifying and verifying applicant information, including use of wage data matching that identifies eligible and ineligible households.
- Planning for a nationally representative study of overcertification errors and the number of dollars lost to program error.

IMPROVING CERTIFICATION ACCURACY

Question. How does USDA intend to make sure that increased certification requirements do not drive away any child who is eligible for a free or reduced-price school lunch, regardless of whether or not they are currently participating?

Answer. The Administration is committed to maintaining and improving access to low-income children who rely on free or reduced-price school meals. We have had a continuing dialogue with the Congress, the school food service community, and program advocates, and have been working to develop and test policy changes that improve accuracy but do not deter eligible children from participation in the program and do not impose undue burdens on local program administrators. Recommendations we support include:

- Requiring direct certification for free meals through the Food Stamp Program. As provided for in the Child Nutrition reauthorization, this would increase access among low-income children and reduce the application burden for their

- families. Current evidence suggests that while direct certification is much more accurate than the standard application process it is not yet widely used.
- Requiring school districts to follow up and make contact with households that do not respond to verification requests, in writing and by telephone.
 - Streamlining the process for those who must still submit paper applications by requiring a single application for each household.
 - Providing for year-long certifications in both paper-based applications and direct certifications, eliminating the need to report income changes during the year.

USE OF SAVINGS FROM CERTIFICATION ACCURACY

Question. Secretary Veneman's testimony stated that the Administration would fully reinvest any savings that result from improved payment accuracy to strengthen the programs. How specifically will those savings be reinvested?

Answer. The Administration's decision to fully reinvest any savings back into the programs is an essential aspect of our commitment to improving program integrity and program access.

A majority of the savings will be reinvested to promote access to the programs for all those eligible for them. Some specific proposals in this area include increasing the regular free and reduced-price school breakfast rates to the severe need rate, to encourage additional schools to deliver the School Breakfast Program, and to exclude military housing allowances from income, expanding eligibility and improving access for families serving in America's armed forces.

Savings will also be used to encourage children to make positive choices about what they eat, how much they eat, and how active they are. This could include proposals such as providing expanded funding to support the delivery of nutrition education messages and materials in schools and conducting a large-scale demonstration project and evaluation to test the impact of a healthy school nutrition environment on student's nutrition and well-being in schools across the Nation.

IRRADIATED MEAT IN SCHOOL LUNCHES

Question. Please provide an update on any plans by USDA to introduce irradiated meat into the school lunch program.

Answer. Product specifications will be released May 29, 2003 and schools will have the option to order irradiated beef beginning January 2004. This allows ample time for schools to educate parents and the community so that informed decisions can be made. Should schools decide to order product, this also allows schools ample time to notify parents. In addition, irradiated beef manufacturers will have the opportunity to study and implement the specifications prior to orders from schools in January. The decision to order and serve irradiated ground beef will be left to each school food authority.

Farm Bill conference report language indicates that USDA should consider "the acceptability by recipients of products purchased" by USDA for commodity distribution. Therefore, before irradiated ground beef products are made available for order by schools, USDA will make every effort to encourage schools to educate food service personnel, parents, and the community concerning irradiated ground beef products. Shortly after the release of specifications, FNS will provide all school districts with an informational package to help them to decide whether to order irradiated beef products beginning January 2004. The package will be mailed in June 2003 and will include a letter from Under Secretary Bost strongly encouraging schools to notify parents, students, and the community if they are planning to order irradiated beef. In addition, the package will include a brochure with answers to commonly asked questions about irradiation. This letter will also include Web site addresses for the brochure as well as the site for the U.S. Food and Drug Administration (FDA) irradiation consumer information. The letter will give information regarding the community educational materials currently under development by the State of Minnesota that will be available to schools in the fall of 2003.

FRUIT AND VEGETABLE PILOT

Question. The pilot programs that have provided free fruits and vegetables to students have been deemed extremely successful, and the USDA has stated that it would like to expand these pilot programs. Has USDA taken any specific steps to try and expand these programs in the most cost-effective manner?

Answer. Public Law 108-30, enacted May 29, 2003, extends the ability of schools participating in the Fruit and Vegetable Pilot Program, which was authorized in the Farm Bill, to use any remaining funds to continue the pilot in the 2003-2004 school year. Schools were unable to expend the funds completely this past school year because the grants were not made until the middle of October and schools then needed

time to implement the pilot. We will continue to work closely with participating schools, providing support and technical assistance, through next school year. We stand ready to provide technical assistance to Congress, upon request, on this issue. An evaluation of the pilots, submitted by USDA to Congress in May 2002, demonstrated great popularity among participating schools; however, empirical evidence was not available to allow us to evaluate the impact of the pilots on dietary or health outcomes.

SCHOOL MEALS AND CHILDHOOD OBESITY

Question. There have been many reports of the drastic increase in childhood obesity, and questions have been raised about the role of school meals in this trend. What actions are USDA taking to ensure that meals provided to children during school hours are nutritious and do not contribute to childhood obesity?

Answer. Currently, the Richard B. Russell National School Lunch Act requires schools to offer program meals that meet USDA's nutritional standards. In a recent report, the General Accounting Office (GAO), citing USDA studies, found that schools have made measurable progress nationwide, in meeting USDA nutrition requirements and other guidelines. GAO noted that additional improvement is needed not only in meeting the nutrition requirements, but also in encouraging students to eat more healthfully.

FNS is currently working on updating guidance and providing training to assist States in providing schools with the technical assistance needed to bring all meals up to the nutrition requirements identified in program regulations. The more difficult problem is teaching children to eat more healthfully. Most schools secure additional revenues by offering children "other foods" a la carte during times of meal service, in school stores, in vending machines, and in other venues that compete with the school meals in the cafeteria. There are no nutritional standards for these "other foods", except that when sold in the cafeteria during meal service periods they cannot be "foods of minimal nutritional value."

GAO noted that FNS has several major school nutrition initiatives—Team Nutrition, Changing the Scene, and Eat Smart.Play Hard.TM—that play an important role in encouraging schools to serve nutritious foods and encouraging children to eat well. FNS is also working with the Centers for Disease Control, the Department of Health and Human Services, and the Department of Education to support the Administration's HealthierUS initiative. However, not all schools participate in these initiatives.

FOOD PROGRAM PARTICIPATION IN WISCONSIN

Question. There were recently two articles in the Milwaukee Journal Sentinel regarding Wisconsin's difficulty in getting Federal food aid to hungry people within the State. While some of these problems are due to complicated Federal regulations, other difficulties are due to the complex State applications people are required to fill out, and a lack of outreach to eligible participants. Do you currently have, or are you pursuing through Child Nutrition reauthorization, any programs that will provide outreach and assistance to States such as Wisconsin to help them increase the numbers of people they are serving?

Answer. While we are aware of problems in certain areas of the State, it is important to note that Wisconsin's Food Stamp Program (FSP) participation has substantially increased in recent years. For instance, between February 2001 and 2003, Food Stamp participation increased by 39 percent in Wisconsin, compared to 22 percent nationally. Furthermore, the FSP has several outreach activities underway to help States like Wisconsin increase the number of eligible people that they are serving. One is a web-based pre-screening tool that will be launched this Summer to allow interested persons to learn quickly if they might be eligible for FSP benefits and the approximate benefit amount they might receive. Another is a bilingual toll-free number allowing callers to receive educational materials about the FSP and how to apply.

Regarding the Child Nutrition Programs, the Administration believes that ensuring access to program benefits for all eligible children should be one of the guiding principles of the Child Nutrition reauthorization. To advance this principle, we would support using savings from an improved eligibility certification process for the National School Lunch Program for proposals such as:

- Streamlining the school meal programs by fostering common program rules and policies, supporting program operators in improving access to the programs.
- Increasing the regular free and reduced-price breakfast rates to the severe need rate for all schools participating in the School Breakfast Program, to encourage more schools to participate in the program.

- Mandating direct certification for free meals through the FSP, which would add low-income children to the program while reducing the application burden on their families.
- Expanding the 14 State Summer Food Service Program Pilots (“Lugar” pilots) to all States, thus eliminating cost accounting for reimbursement in the Summer Food Service Program (SFSP).
- Expanding permanent authority for proprietary child care centers with 25 percent of their enrollment at free and reduced-price to all States who participate in the Child and Adult Care Food Program. Currently, only 3 States have this authority.

WISCONSIN SCHOOL BREAKFAST PROGRAM PARTICIPATION

Question. Wisconsin ranks last in getting school breakfast to needy children. Morning meals were served in only 44 percent of Wisconsin schools that also serve lunch, compared with 78 percent nationally. It seems to me that we should be able to turn this situation around. As I understand, with the combination of start-up grants we have provided in the last three Appropriations bills—and that we hope to make a national program by next year—and State and Federal subsidies, a Wisconsin school district can run a breakfast program at minimal to no cost to the district. Given the great benefits to the students of a school breakfast program, I have to believe that many Wisconsin school districts aren’t offering breakfast because they simply do not understand how easy it would be to set up and run the program.

Can USDA commit to me that they will work with my office to develop a plan to “sell” the school breakfast program to Wisconsin school systems?

Answer. We share your concern regarding the low participation rate of Wisconsin schools in the School Breakfast Program (SBP). In fiscal year 2003, the Food and Nutrition Service (FNS) has made promotion of this program a national priority. In reviewing the level of school participation in Wisconsin, we find the number of schools participating in the SBP has increased from 858 (fiscal year 2000) to 1,127 (fiscal year 2003), a 31 percent increase. Prior to the grant activity (fiscal year 2000), only 35 percent of the schools with the National School Lunch Program also participated in the breakfast program; this has grown to 45 percent in fiscal year 2003. This growth is encouraging and likely represents the Wisconsin Department of Public Instruction’s (DPI) efforts to “sell” the program.

In addition to schools not understanding how easy it would be to set up and run the SBP, a number of other factors that are not within the control of the State agency or school food service may affect a school’s decision to participate in the SBP; e.g., logistics resulting from bussing or scheduling. As a result, it is not clear what level of participation we can hope to expect from Wisconsin schools.

In addition to the School Breakfast Start-up grants which may be used for administrative costs related to program outreach and expansion, DPI receives State Administrative Expense Funds to administer the Child Nutrition Programs. These funds may also be used to promote the breakfast program to schools. USDA will continue to work closely with Wisconsin, as we do with all State agencies, to provide technical assistance. We will also continue to work with our partners in the advocacy community, the Food Research and Action Center and the American School Food Service Association, to generate interest in the program across the country.

WISCONSIN SCHOOL BREAKFAST PROGRAM EXPANSION

Question. Will such a commitment include people and time dedicated to helping these districts understand and design new school breakfast programs?

Answer. The Department of Public Instruction (DPI) is the State agency charged with administering the breakfast program in Wisconsin. In addition to the School Breakfast Start-up grants to be used for administrative costs related to program outreach and expansion, DPI receives State Administrative Expense Funds to administer and promote the Child Nutrition Programs, including the School Breakfast Program.

USDA will continue to work closely with Wisconsin, as we do with all State agencies, to provide technical assistance, as needed. We will also continue to work with our partners in the advocacy community, the Food Research and Action Center and the American School Food Service Association, to generate interest in the program nationwide.

FOOD STAMP REINVESTMENT

Question. Several States, including my State of Wisconsin, have paid several million dollars in penalties in recent years due to misadministration of the Food Stamp Program within the State. However, USDA does allow these States to “reinvest”

those funds in order to try and improve their programs. How are these funds “reinvested”? Are there specific guidelines? Does USDA provide any assistance to States as they are attempting to improve their program?

Answer. USDA’s Food and Nutrition Service (FNS) encourages States to settle liabilities incurred due to misadministration of the Food Stamp Program by reinvesting in mutually agreed-upon error reduction activities and management improvements to improve payment accuracy. In recognition that no single approach or set of initiatives work for all areas, reinvestment strategies vary from State to State and reflect each State’s unique problems and circumstances. In the past States have reinvested funds in activities such as enhanced training of eligibility workers, computer cross matching to check client data, on-line policy manuals, client education on reporting responsibilities, intensive case reviews, and centralized change reporting functions.

While there is a broad spectrum of potential strategies for reinvestment, there are specific criteria that must be met in determining whether or not a specific activity is allowable. These include a determination that the activity is directly related to error reduction in the State’s ongoing Food Stamp Program and has specific objectives regarding the amount of error reduction and type of errors that will be reduced. The activity must also be in addition to the minimum program administration required by law for State agency administration and represent a new or increased expenditure that is entirely funded by State money, without any matching Federal funds until the entire reinvestment amount is expended.

FNS works with States to develop allowable reinvestment strategies and routinely assists them as they attempt to improve their programs. As part of this effort, FNS allocates State Exchange funds to support travel to conferences, workshops, and other meetings between States to facilitate the sharing of effective and efficient program management techniques. FNS Regional Offices also work with States to analyze error data and provide technical assistance in support of corrective action and payment accuracy efforts. These efforts are supplemented by national efforts to monitor and evaluate payment accuracy progress, analyze error rate data and exchange information on payment accuracy best practices and program improvement strategies.

BISON MEAT PURCHASES

Question. The Committee provided \$3 million in fiscal year 2003 for the purchase of bison meat for the food stamp program. How much of that funding has been expended? Does the Department anticipate spending the full amount? If additional funding were provided, would USDA encounter any difficulty in expending the funds?

Answer. To date, the Department has spent \$789,689 of the \$3 million provided to purchase bison meat for the Food Distribution Program on Indian Reservations in fiscal year 2003. The Department anticipates fully expending the remaining funds. Should the same amount or a lesser amount be appropriated under the same terms for this purpose for fiscal year 2004, we believe that it could be fully utilized.

FOOD STAMP PRIVATIZATION WAIVERS

Question. Are there currently any pending or requested waivers of section 11(e)(6)(B) of the Food Stamp Act? Please provide an update of the waiver granted in fiscal year 2002. Is it still in effect, and what have the results been.

Answer. There are no pending waivers of the merit personnel provisions under section 11(e)(6)(B).

In December 2002, the State of Florida requested a modification of its approved fiscal year 2002 food stamp privatization waiver. The expanded request would include all food stamp households in the six demonstration sites, increasing the number of food stamp households participating in the demonstration from approximately 3 percent to approximately 22 percent of the State’s food stamp caseload. The Food and Nutrition Service (FNS) denied this expansion request. However, because the State indicated its intention to request the same waiver for the Medicaid caseload, FNS advised the State in April 2003 that we would reconsider the merits of the expanded waiver when the Center for Medicaid and Medicare Services (CMS) at the Department of Health and Human Services reviews the Medicaid waiver. We believe this will ensure the greatest program consistency among the Federal programs. As of this date, the State of Florida has not submitted its waiver request to CMS. In the meantime, we continue to work with the State in its development of a Request for Proposals for the independent evaluator of the demonstration as originally approved.

COMMODITY SUPPLEMENTAL FOOD PROGRAM FUNDING REQUEST

Question. The President's budget requests \$94.991 million for the Commodity Supplemental Food Program. This is the same level as requested last year. However, the Congress provided \$114.5 million for CSFP in fiscal year 2003, so the net result is a requested decrease of nearly \$19 million for this important program for senior citizens and others.

In Dane County, in my State of Wisconsin, food pantry participation has increased 14 percent in the previous year. At the same time, donations are down, so pantries are trying to feed more people with less food. Similar statistics are seen throughout the State, and with the current unemployment rate, relief doesn't seem to be coming any time soon.

With all this information in mind, why wasn't an increase in funding requested for CSFP over the fiscal year 2003 President's request level?

Answer. The President's Budget request for fiscal year 2004 was submitted before the fiscal year 2003 appropriation was enacted on February 20, 2003 and was identical to the fiscal year 2003 request. The fiscal year 2003 appropriation of approximately \$114 million significantly exceeded the President's request for \$94,991,000.

FUNDING AND CSFP PARTICIPANTS

Question. How many participants does the Administration believe will have to be turned away from this program, if the President's budget request is agreed to by Congress?

Answer. We do not believe that any participants will be turned away from the Commodity Supplemental Food Program (CSFP). Because fiscal year 2003 appropriations increased so significantly over the previous year, and because they were enacted so late in the fiscal year, we anticipate that States will not be able to fill a significant portion of their allocated caseload. Therefore, we anticipate carryover into fiscal year 2004 of about \$12 million. Based on the fiscal year 2004 budget request, the anticipated availability of bonus commodities for the CSFP, projected participation levels at the close of the current fiscal year, and unspent funds carried over from fiscal year 2003, we anticipate being able to support a caseload of 530,000. A monthly average participation of 482,000 is projected. It is important to point out that the Food Stamp Program is America's first line of defense against hunger and poor diet quality for people of all ages, and CSFP participants are typically eligible for food stamps.

COORDINATION OF CSFP FUNDING

Question. Was the CSFP request taken into consideration when formulating the budget for other Federal feeding programs such as WIC and the Elderly Feeding Programs?

Answer. The Commodity Supplemental Food Program (CSFP) funding request for fiscal year 2004 was developed independently from the requests for other nutrition assistance programs such as WIC or the Elderly Feeding Program. The other programs cited do not have a direct connection to the level of activity or resource needs of CSFP. The WIC component of CSFP is a small and declining portion of the program and is not significantly influenced by the activity in the WIC Program. The Elderly Feeding Program, now known as the Nutrition Services Incentive Program (NSIP), is no longer a part of the USDA budget request. The program was transferred to the Department of Health and Human Services in fiscal year 2003.

Question. What suggestions and resources does USDA have for people who are turned away from CSFP?

Answer. The Department does not anticipate that eligible applicants will be turned away in fiscal year 2004. It should be noted that the CSFP is not a nationwide program. Currently, it operates in 32 States, on 2 Indian reservations and the District of Columbia. Also, only in a few States is the program administered Statewide. Individuals in need of nutrition assistance that do not have access to CSFP can apply to participate in the Food Stamp Program, which is the Nation's primary nutrition assistance program. In addition, individuals may also be eligible for The Emergency Food Assistance Program, the Women, Infants and Children Program and /or the Nutrition Services Incentive Program which are all administered nationwide.

THE EMERGENCY FOOD ASSISTANCE PROGRAM ADMINISTRATIVE FUNDING

Question. Congress provided the Secretary with the authority to transfer up to \$10 million from TEFAP commodity purchases to administration, if the Secretary

deemed it necessary. Have any funds been transferred to date? If so, how much, and if not, does USDA anticipate transferring funding for this purpose?

Answer. On March 27, 2003, State agencies administering the Emergency Food Assistance Program (TEFAP) were notified of their fair shares of the \$10 million being made available from TEFAP commodity purchases for program administration. The funds were released to the States in early April.

TEFAP ADMINISTRATIVE FUNDING USE FOR FOOD

Question. Currently, within the TEFAP Program, does USDA have the authority to allow a State to use any of its storage and distribution funds to purchase additional commodities, if feasible for that State? If not, what additional authorities, if any, are needed, and would USDA support such a proposal?

Answer. No. The Emergency Food Assistance Act currently prohibits State and local agencies from using TEFAP administrative funds to make direct purchases of additional commodities. However, in recent years, excluding fiscal year 2003, States were granted authority under Appropriations Acts to convert any portion of their TEFAP administrative funds to food funds for use by the Department to purchase additional commodities on behalf of the States for distribution through TEFAP. To ensure that States are granted this authority on a permanent basis, an amendment to the Emergency Food Assistance Act would be necessary. Since States are in the best position to target available resources to ensure that the nutritional needs of households are met, the Department would support such an amendment.

The Department would not, however, support an amendment to permit States to make direct purchases of additional commodities since, in most instances; States cannot purchase commodities as economically as the Department. Although State and local agencies cannot directly buy food with TEFAP administrative funds, they can use these funds to pay costs associated with the transportation, storage, packaging, and distribution of non-USDA commodities. The Department encourages using TEFAP funds to support gleaning and food recovery initiatives, and the distribution of commodities donated by other sources, because this practice can substantially increase the amount of commodities available for distribution through TEFAP.

SENIORS FARMERS' MARKET NUTRITION PROGRAM

Question. What was the total number of requests received by USDA for the Seniors Farmers' Market Nutrition Program for fiscal year 2003?

Answer. A total of 48 grant applications were received by USDA's Food and Nutrition Service to operate the Seniors Farmers' Market Nutrition Program (SFMNP) for fiscal year 2003. All 36 SFMNP grantees from fiscal year 2002 requested funding to continue their programs. In addition, 12 new State agencies submitted applications to operate the program.

FUNDING FOR SENIORS FARMERS' MARKET

Question. What was the total funding level requested for fiscal year 2003 by the States, and how many and what level of grants were funded?

Answer. The total funding level requested for the Seniors Farmers' Market Nutrition Program (SFMNP) grants for fiscal year 2003 was just under \$30 million. The total amount of grants awarded was \$16.8 million. The attached chart reflects the individual grant amounts for the 40 State or tribal agencies that received SFMNP grant awards for the fiscal year 2003 market season. The SFMNP grant allocations for fiscal year 2003 are provided for the record.

[The information follows:]

SFMNP STATE AGENCIES	GRANT AWARD FISCAL YEAR 2003
Alabama	\$757,760
Alaska	52,221
Arkansas	96,335
California	791,800
Chickasaw	144,845
Connecticut	91,148
District of Columbia	143,080
Florida	96,604
Grand Traverse	96,440
Hawaii	575,246

SFMNP STATE AGENCIES	GRANT AWARD FISCAL YEAR 2003
Illinois	814,352
Indiana	42,297
Iowa	467,997
Kansas ¹	182,439
Kentucky ¹	750,000
Louisiana	284,644
Maine	893,220
Maryland	135,000
Massachusetts	56,900
Minnesota	77,280
Missouri	238,888
Montana	43,313
Nebraska	205,885
Nevada ¹	200,010
New Hampshire	86,000
New Jersey	560,734
New York	1,457,900
North Carolina	54,000
Ohio	1,309,052
Oregon	882,249
Osage Tribal	22,720
Pennsylvania	1,500,000
Puerto Rico ¹	1,000,000
South Carolina	570,925
Tennessee	472,980
Vermont	64,660
Virginia	493,707
Washington	123,720
West Virginia	737,973
Wisconsin	299,579
Total	16,783,903

¹ Indicates New State Agencies for fiscal year 2003.

NUTRITION SERVICES INCENTIVE PROGRAM TRANSFER TO DHHS

Question. Please provide an update or summary on the transfer of the Nutrition Services Incentive Program from USDA to DHHS.

Answer. Before the passage of the fiscal year 2003 Appropriations Act, USDA was still operating the Nutrition Services Incentive Program (NSIP). For the fiscal period prior to the passage of the fiscal year 2003 Appropriations Act, the States obligated a total of \$58,114,849. USDA is closing out all financial operations for the current fiscal year for funds provided to the program during the Continuing Resolutions. The Administration on Aging within the Department of Health and Human Services has taken the lead in developing two memoranda of agreement with input from the USDA's Food and Nutrition Service. The first memorandum established roles and procedures for program operations during this transitional year and the second addresses fiscal year 2004 and beyond.

NUTRITION SERVICES INCENTIVE PROGRAM TRANSFER

Question. Was service to any participants interrupted at all during the NSIP transfer?

Answer. Service to participants has not been interrupted during the NSIP transfer. States continue to order and receive commodities for the current program year. Cash has also been provided to States in a timely manner.

NUTRITION SERVICES INCENTIVE PROGRAM FUND ALLOCATION

Question. Were all aspects of NSIP maintained that were specifically mentioned by the Congress? These include ensuring that NSIP funds are allocated on the basis of the number of meals served in a State in the previous year, excluding NSIP from being subject to transfer of administrative or match requirements, and ensuring that States continue to have the option to receive benefits in the form of cash or commodities.

Answer. While the program operated under Continuing Resolutions at USDA, all aspects of the program remained unchanged. All States were provided the opportunity to receive benefits in the form of cash and/or commodities, and all NSIP funds were allocated on the basis of the number of meals served in the previous year. The Department of Health and Human Services, Administration on Aging, has maintained program administration and operation as specified by Congress including the exclusion of NSIP from being subject to transfer of administrative or match requirements.

CHILD NUTRITION PROGRAMS INTEGRITY REQUEST

Question. The President's budget requests a \$6 million increase under the Child Nutrition Programs account for "enhanced program integrity in the Child Nutrition Programs." An increase of \$1 million is also requested for "enhanced program integrity in the Child Nutrition Programs" under the Nutrition Programs Administration account. What specific activities will be carried out with these two requests and will there be any overlap? Why were these funds requested in two different accounts to apparently carry out the same activities?

Answer. The requests are in separate accounts to support different kinds of activities—analytical program assessment versus State agency oversight—each of which is intended to contribute to enhanced Child Nutrition Program integrity.

The \$6 million request under the Child Nutrition Programs account will allow FNS to expand its assessment of free and reduced price meal certification procedures in the National School Lunch and School Breakfast Programs. The agency has been testing a number of potential policy and program changes to improve certification accuracy. The requested funding will build on these efforts, and provide important data needed to inform policy decisions in this area. Specific projects will be selected based on the outcome of work already underway; high priorities include a study of the feasibility, cost, and operational implications of data matching as an additional source of eligibility information, and collecting information that will improve the accuracy of our estimates of the level of error in the program. This activity will help us to comply with the Improper Payments Information Act.

The \$1 million increase in the Nutrition Programs Administration account will fund 13 additional staff years to support increased oversight of State agencies and their efforts at improving local level eligibility determinations for the National School Lunch Program.

FNS STUDIES AND EVALUATIONS

Question. Congress provided an increase of \$3.195 million in fiscal year 2003 to the Food and Nutrition Service for studies and evaluations, and requested a comprehensive list of planned studies, including the intent and funding level of each study, and the time frame during which each study will be carried out. Please provide the most up-to-date information on all planned studies to be carried out with this increase.

Answer. The Food and Nutrition Service provided the requested list of planned studies to the Committee on April 24. I will provide a copy for the record.

[The information follows:]

NUTRITION ASSISTANCE STUDY AND EVALUATION PLAN FOOD AND NUTRITION SERVICE FISCAL YEAR 2003

America's nutrition assistance programs form a nationwide nutrition safety net to help low-income families and individuals improve their nutritional levels. Together, these programs touch the lives of one in five Americans over the course of a year and, with an expected investment of nearly \$42 billion in fiscal year 2003, account for almost 40 percent of USDA's annual budget. Operational assessments that respond directly to the needs of program policy makers and managers are essential to ensure that these programs achieve their mission effectively.

As indicated in House Rpt. 108-010, the Consolidated Appropriations Resolution, 2003, provided the Food and Nutrition Service (FNS) a \$3,195,000 increase (for a total of \$6,195,000) in the Food Program Administration account for studies and evaluations of the nutrition assistance programs. The conferees directed the Department to report to the Committees on Appropriations on the studies and evaluations to be carried out, including a comprehensive list of planned studies, the intent and funding level of each study, and the time frame during which each study will be carried out. The study and evaluation agenda described here responds to this directive.

The conference agreement also provided \$2,000,000 in the account for the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) for an

evaluation of WIC vendor practices. Finally, not less than \$7,500,000 of the Food Program Administration account is available to improve integrity in the Food Stamp and Child Nutrition programs, a portion of which is used to provide support for related studies. This report consolidates the Agency's spending plans for funds provided from all of these sources.

The study and evaluation agenda described here addresses four key program priorities:

- Improve access to Federal nutrition assistance programs, to ensure that all those eligible for these programs are able to participate. USDA is targeting special efforts in three underutilized programs—Food Stamps, School Breakfast, and Summer Food Service.
- Improve program integrity, to strengthen their operations and maximize their ability to serve eligible children and low-income people while safeguarding the taxpayer's investment in nutrition assistance.
- Build a HealthierUS by better integrating nutrition education into the nutrition assistance programs and promoting healthier lifestyles among those eligible for nutrition assistance.
- Address the emerging epidemic of obesity, especially among America's youth, by improving the programs' ability to promote healthy eating and physical activity.

Improve Program Access

Measuring Program Access, Trends, and Impacts.—This project supports several key analytic tools (including microsimulation) to address program participation trends and impacts. It provides annual estimates of the percentage of eligible individuals who receive food stamps, for the Nation as a whole and for individual States, providing a key measure of the program's effectiveness in reaching its target population. The project also generates annual reports on the characteristics of food stamp participants. In addition, the project provides the primary mechanism through which FNS estimates the caseload and budgetary impact of actual and proposed policy changes. The project is structured to support these activities through fiscal year 2008.

Evaluation of Grants to Improve Food Stamp Participation.—FNS awarded 19 grants to State and local organizations in 2002 to explore innovative approaches to improve food stamp access and increase program participation. Grantees are responsible for evaluating the impact of their approach. This project will provide technical assistance to help ensure that their evaluations meet national technical standards and will synthesize findings across all grants to help inform policy makers about the effectiveness of different approaches. The final report is anticipated in 2005.

National Work Support Center Demonstration.—The rate of receipt of the full package of financial work supports available to low-wage workers is quite low even though it can fundamentally change the return on low-wage work, raising a family well above the poverty level. This project will support a multi-year demonstration to put in place new systems and procedures that make it easier for low-wage workers to access the full range of financial work supports—including food stamps. Funds would be provided to the U.S. Department of Labor, which would serve as the lead Federal agency in a consortium of public and private funders. Initial funding will support the development and implementation of an integrated work support demonstration in selected sites in 2003 and 2004.

Feeding Practices of Low-Income Households When School is Out.—Federal summer feeding programs reach only one in five of the 15 million children who receive free or reduced price school lunches on a typical day during the regular school year. This qualitative study will examine the family dynamics and food security of low-income households with school-aged children during the summer months in an effort to gain a better understanding why low-income families are not participating in the Summer Food Service Program. The final report is expected in 2005.

Improve Program Integrity

NSLP Payment Error Rate Methodology Study.—There is growing recognition that inaccurate certification of eligibility for school meals is a significant problem. The precise size of the problem, however, remains difficult to quantify. This project would explore survey methods for accurate classification of households eligible for free and reduced price meals and examine the cost and burden implications of various methods to estimate the payment error rate in the National School Lunch Program. The final report is anticipated in 2004.

Evaluation of NSLP Application and Verification Pilot Projects.—This evaluation is examining the effect of new school meal application and verification processes on the accuracy of free and reduced price meal eligibility determinations, the difficulty that eligible households have in obtaining benefits for their children, and the addi-

tional workload imposed on school food service staff. Fiscal year 2003 funds will be used to fund remaining tasks of a contract awarded in fiscal year 2002. The final report is expected in 2003.

Case Study of Metropolitan Area Verification Outcomes.—The current pilot tests of alternative free and reduced price eligibility determination systems for school meals does not include any of the largest metropolitan school districts. This study will help fill this gap by collecting application verification results from a number of large metropolitan areas and conducting household interviews with a sample of those who fail to respond to a request for documentation to assess their eligibility for free and reduced price meals. The results will be used to inform discussions related to school meal certification and verification. The final report is expected in 2003.

Feasibility of Data Matching.—This project would assess current State infrastructure and capability to conduct data matching as an additional source of eligibility information in the school meals certification process. An initial census of all States would be followed by feasibility testing in selected States. Fiscal year 2003 funds would be used to fund the initial census and to design the feasibility test. The results will be used to improve the process for determination and verification of student eligibility for school meals. The final report is anticipated in 2005.

WIC Vendor Practices.—This Congressionally-mandated study will examine the extent to which vendors comply with program rules and ensure that proper foods are purchased from retail stores. This would be the first study of WIC vendor management practices since the new vendor management regulations were issued. It will also build on State high-risk vendor identification systems to identify and evaluate the efficacy of high-risk indicators that would allow States to target their limited investigation resources toward vendors that are most likely to be overcharging on food instruments. The final report is anticipated in 2005.

Build a HealthierUS

Assessment of Nutrition Education in the Food Stamp Program.—A key mission area initiative is to improve the nutrition status and behavior of those served by USDA's food assistance programs through integrated cross-program nutrition education. Nutrition education funded through the Food Stamp Program can be a powerful tool to promote healthy food choices among low-income families and individuals. This project will help realize this potential by collecting systematic information needed for effective policy oversight and planning. This information will include measures of the extent of integration of community efforts to promote healthy food choices and physical activity; the content, structure and funding of nutrition education and promotion activities; and consistency with FNS policy objectives. The project will also develop a model assessment tool that can be used to assess the quality of food stamp nutrition education in a community. Project results are anticipated to be available in 2005.

Feasibility of Monitoring Impact of Competitive Food Policy.—Although there has been an increased emphasis on nutritional improvement in school meals, the increased prevalence of childhood obesity underscores the need to consider further efforts to promote healthy eating throughout the school environment. Schools typically sell foods and beverages that compete with the Federally supported school meals, both in cafeterias and through vending machines, school stores and other venues. This feasibility study will explore data availability and reliability, and analytic methods to monitor the impact of changes in competitive food policies on the nutritional profile of foods available in the school environment. The final report is anticipated in 2003.

Integrated Study of School Meal Programs.—The school meals programs have changed considerably since the last national studies of student diets and meal costs were completed in the 1990's. As part of the Agency's periodic assessment of the nutritional effects of school meals, this integrated study would update information on five domains of great interest to policy makers: (1) characteristics of the school environment and school food service operations; (2) nutritional quality of meals offered and served in the school meal programs; (3) costs and revenues of providing school meals; (4) student participation, participant characteristics, satisfaction, and related attitudes toward the school lunch and breakfast program; and (5) student dietary intakes and the contribution of school meals to these dietary intakes. Fiscal year 2003 funds would be used to develop the sampling frame and recruit school districts to participate in this large national study. The final report is expected in 2006.

Food and Nutrition Information Center.—These funds will support the Food and Nutrition Information Center (FNIC) within the National Agriculture Library to systematically store and disseminate information on USDA's food assistance programs, nutrition education, and related nutrition topics.

Address Obesity

Overweight and Obesity Initiative Pilot Project.—As part of mission area's Breaking the Barriers initiative, the Center for Nutrition Policy and Promotion has launched a pilot project to help consumers aim for and maintain a healthy weight. The pilot will develop and test appropriate messages and delivery mechanisms targeted to 20 to 40 year old women, especially those with low income. These funds will support creative development and consumer research of material prototypes, a small-scale implementation in selected cities to evaluate effectiveness and measure consumer awareness, and development and testing of enhanced graphics and educational information for the Interactive Healthy Eating Index. The final report is expected in 2005.

Poverty, Food Assistance, and Obesity.—Recent observers, noting the prevalence of obesity among low-income recipients of food assistance, have speculated that there is a relationship between program participation and obesity. The research evidence on this question is sparse, scattered, and inconsistent. This project will assemble an expert panel of leading researchers to conduct a critical review, evaluation, and synthesis of the scientific literature and suggest avenues for additional work to determine how food assistance programs can best address overweight and obesity among participants. The final report is expected in 2004.

FNS & ERS STUDIES AND EVALUATIONS

Question. I understand that the fiscal year 2004 budget was formulated and sent to Congress prior to the passage of the fiscal year 2003 appropriations bill. In light of this, is it USDA's opinion that the studies and evaluations funding, which was transferred from the Economic Research Service to the Food and Nutrition Service in fiscal year 2003, should remain in FNS in fiscal year 2004 or should be transferred back to ERS?

Answer. Objective studies and evaluations are a critical need for effective program management of the Nation's nutrition assistance programs. To keep the budget request to a minimum required difficult decisions about funding levels for studies and evaluations, and which organization should have primary responsibility. Funding should be provided as requested, although it would seem appropriate to anticipate continuation of a certain level of flexibility, as plans solidify around program needs.

UPDATING THE DIETARY GUIDELINES FOR AMERICANS

Question. The President's budget requested an increase of \$150,000 for development for the Year 2005 Dietary Guidelines for Americans, in conjunction with DHHS. Will there be additional increases requested for these efforts in the future? Please provide a breakout of the total cost, including funding provided by USDA and funding provided by DHHS.

Answer. Although USDA and HHS jointly manage the effort to develop and publish the Dietary Guidelines for Americans, each is responsible for funding different aspects of the process. The responsibility to charter and fund the operation of the Dietary Guidelines Advisory Committee rotates between the two departments—HHS bears that responsibility for the 2005 Committee. The HHS costs for Committee operations have been estimated to be \$116,300. The \$150,000 requested by CNPP for fiscal year 2004 is for development and testing the sixth edition of the consumer bulletin Nutrition and Your Health: Dietary Guidelines for Americans.

After release of the new Guidelines, development and dissemination of a variety of actionable materials for targeted consumer audiences will allow the messages to reach and influence consumer behaviors.

UPDATING THE FOOD GUIDE PYRAMID

Question. There has been an increased focus on decreasing obesity and improving eating habits in America recently, and much publicity has been given to a Harvard study published in the American Journal of Clinical Nutrition in December 2003 that suggests the USDA Food Guide Pyramid is outdated and actually contributes to obesity. The President's budget request includes a \$670,000 increase to promote the "Reassessed and Updated Food Guide Pyramid". What is the status of updating the Food Guide Pyramid? Will there be an update on the nutritional recommendations included in the Food Guide Pyramid, or will this be a newer packaging and presentation of the same material? Has or will the December 2003 study be taken into consideration? When does USDA plan on having the update complete, and do you anticipate another requested budget increase?

Answer. The Food Guide Pyramid reassessment and updating process includes three phases. The first phase consists of gathering information through technical re-

search, stakeholder input, and consumer research. The second phase involves updating of the Pyramid food patterns and the third involves developing new or revised graphic and educational materials for consumers.

Phase two technical analysis is currently underway to revise Pyramid food patterns so that they meet current nutritional standards and reflect changes in food choices among Americans. Pyramid food patterns consist of the types and amounts of foods to eat and are specific to consumers' gender and life stage. Any changes in the food patterns will be examined in consultation with Department of Health and Human Service staff and potentially with other experts in the field. Proposed modifications will also be made available for stakeholder and public comment through the Federal Register before they are finalized.

New or revised consumer materials will be developed and tested in the third phase of the revision process. The major goal of this phase is to create a graphical representation and materials that communicate the Pyramid's advice in ways that consumers can understand and act on it. All proposed changes to the Pyramid's graphic presentation will be tested with consumers and available for stakeholder and public comment through the Federal Register before they are finalized.

As described above, there will be an update of the nutritional recommendations included in the Food Guide Pyramid as well as the packaging and presentation. The nutritional goals for the Pyramid are set according to current nutritional standards, including the Dietary Reference Intakes from the National Academy of Sciences, Institute of Medicine, and the Dietary Guidelines for Americans. The committees that establish these standards conduct extensive reviews and evaluations of all the current scientific literature. The determinations that they make are based on the preponderance of these research findings. Within the context of these standards, we are taking into consideration the findings from the Harvard study, along with the findings from numerous other studies

TIMING OF DIETARY GUIDELINES AND FOOD GUIDE PYRAMID

Question. Upon looking at the budget, it appears as though the updated Food Guide Pyramid will be completed and used in the development of the Year 2005 Dietary Guidelines for Americans. Please provide a timeline of how and when these two items will be developed and updated—how will the updated dietary guidelines be reflected in the Food Guide Pyramid if the Food Guide Pyramid is completed first, or will these two updates occur concurrently?

Answer. The development processes for the Food Guide Pyramid and the Dietary Guidelines for Americans are concurrent and coordinated. USDA plans to present Pyramid-related technical and consumer research to the Dietary Guidelines Advisory Committee. Coordination of these two activities allows for significant changes in the Guidelines to be reflected in the Pyramid. HHS and USDA expect to release the new Dietary Guidelines in January 2005. Release of an updated Food Guide Pyramid with a core set of actionable, consumer-friendly materials will follow shortly after that in early 2005. The projected timelines for development of the sixth edition of the Dietary Guidelines for Americans and the updated Food Guide Pyramid follow.

[The information follows:]

	Dietary Guidelines for Americans	Food Guide Pyramid
Fall 2002	USDA and DHHS Memorandum of Understanding provides the framework to jointly prepare and publish the 2005 Dietary Guidelines for Americans.	CNPP conducts technical research to develop proposed revisions to Food Guide Pyramid food patterns.
Spring 2003	The Dietary Guidelines Advisory Committee (DGAC) is chartered. Federal Register notice solicits public nominations for the DGAC.	
Summer 2003	USDA and DHHS appoint a Dietary Guidelines Advisory Committee (DGAC) composed of nationally recognized health and nutrition experts. Federal Register notice announces the DGAC members and their first meeting date. The notice also solicits written and oral comments from the public.	Proposed Food Guide Pyramid food patterns are published in the Federal Register for peer review and public comment.

	Dietary Guidelines for Americans	Food Guide Pyramid
Fall 2003	DGAC holds its first public meeting in Washington, DC.	Revised Food Guide Pyramid food patterns are finalized and cleared. Preliminary graphic presentation is conceptualized and designed.
Winter 2003-Summer 2004	DGAC holds its second, third and fourth public meetings, which include oral public testimony and presentations from invited experts on Dietary Guidelines related topics, including presentations by CNPP on the Food Guide Pyramid revision.	Preliminary graphic presentation is consumer tested. Proposed Food Guide Pyramid graphic presentation is published in the Federal Register for public comment.
Fall 2004	The DGAC report is issued to the USDA and HHS Secretaries. The departments develop and produce the bulletin, Nutrition and Your Health: Dietary Guidelines for Americans.	The Food Guide Pyramid is finalized.
January 2005	The sixth edition of Nutrition and Your Health: Dietary Guidelines for Americans is released.	Revised Food Guide Pyramid is cleared.
February 2005 .....	.....	Revised Food Guide Pyramid is released.

INTERACTIVE HEALTHY EATING INDEX

Question. An increase of \$400,000 is requested to update the Interactive Healthy Eating Index. How long has this website been in existence, and approximately how many hits does it receive daily? Are further increases anticipated, as the update is scheduled for fiscal year 2004 and fiscal year 2005?

Answer. In April 1998, the Interactive Healthy Eating Index (IHEI) was added to the Web site of the Center for Nutrition Policy and Promotion. In fiscal year 2002, on an average day, consumers hold more than 2,500 sessions of the IHEI, spending about 25 to 35 minutes on average assessing their dietary status and receiving targeted nutrition education messages. (The average number of hits per day is around 200,000, but this is not as informative as the average number of sessions). Besides continual updates to the IHEI foods database, the Center will need to incorporate any revisions in targets for the new Dietary Guidelines and the Food Guide Pyramid. An interactive menu planning module will be an enhancement that will allow consumers to plan for healthful diets based on their food preferences and dietary guidance. The Center also intends to develop and promote IHEI-related applications—a single-user CD-ROM and a Personal Digital Assistant (PDA) IHEI application—that will provide greater access to the IHEI.

OBESITY PREVENTION AND NUTRITION PROMOTION

Question. Please provide additional information regarding what the \$600,000 increase to expand an obesity prevention program, and the \$2.5 million increase for nutrition education and promotion, will be spent on. Will all of this money be spent in fiscal year 2004?

Answer. The \$600,000 increase to expand an obesity prevention program will be spent in fiscal year 2004 on consumer research and message development to refine and reshape consumer messages for additional audiences. In fiscal year 2003, the Center for Nutrition Policy and Promotion (CNPP) began development of a campaign to build awareness of USDA's anti-obesity message and promote behavior change. In this first phase, credible consumer messages were developed and pilot tested with 20 to 40 year old women, especially low-income women, to help motivate them to aim for a healthy weight. The fiscal year 2004 funds will be spent on research to test the applicability of these messages to men and women over 40, and to reshape the messages and modify the delivery channels as needed to better target these audiences. Widespread implementation of the consumer-tested campaign elements is planned for fiscal year 2005, using appropriate messages and delivery channels for each audience.

The \$2.5 million increase for nutrition education and promotion will be spent in fiscal year 2004 on:

Enhanced Media Support for the Eat Smart.Play Hard.™ Campaign (40 percent). This includes expanding the Web site with interactive games and projects for children and information for teachers and caregivers, producing nutrition education ma-

terials for teachers, and producing messages and other products that can be shown on in-school educational networks and closed circuit channels in WIC clinics, community centers and Food Stamp offices.

Revising, reprinting and distributing existing Eat Smart.Play Hard.™ Materials (25 percent). This includes providing materials to WIC and the household-based commodity programs and translating and making materials more culturally appropriate (for Native Americans and Hispanics).

Establishing and evaluating cross-program nutrition education interventions (35 percent). This includes working with specific States to plan and implement targeted nutrition education interventions by providing materials, training and evaluation support to teams representing all the FNS programs. Subjects would include promoting the 5-A-Day messages, breastfeeding, implementing comprehensive Team Nutrition, and overweight and obesity issues especially in children.

PUBLIC LAW 480 TITLE II

Question. During fiscal year 2003, we appropriated more than \$1.7 billion for international food assistance through the Public Law 480 Title II program. Those resources were in addition to other commodities released this year from the Bill Emerson Humanitarian Trust, and were vital to meet needs in places like Sub-Saharan Africa from which resources were being diverted to meet anticipated demand in connection with our military campaign in Iraq. However, the President's 2004 budget for Public Law 480 Title II is less than \$1.2 billion.

Can you explain why the President has recommended a decrease by more than \$500 million when the crisis in Africa remains at unprecedented levels?

Answer. Title II has been provided an unprecedented funding level for fiscal year 2003 in response to the scale and magnitude of emergency requirements around the globe, and for increased program costs due to higher U.S. commodity prices and fuel costs for shipping in the run up to the war with Iraq. Our assumption is that fiscal year 2003 is an unusual year, and fiscal year 2004 will see a return to a more traditional situation, including more typical commodity and fuel costs. Accordingly, the President's budget proposes to continue funding for Public Law 480 Title II in fiscal year 2004 at the same level requested for fiscal year 2003.

Question. Have the President's or your views changed since the United Nation's World Food Program informed the Administration just the other week that their appeal for assistance in Iraq for \$1.3 billion will be \$868 million below what they actually need?

Answer. Under the original appeal of \$1.3 billion, the World Food Program planned on distribution of full rations for 3 months, assuming the public distribution system (PDS) would be fully functioning in July. As time has progressed, we have come to realize that the PDS system will take longer than expected to become fully functional and will require the support of WFP for a longer period of time. The WFP now plans to expand its Emergency Operations, which are still under revision, to include full rations until the end of October at an estimated total value of \$1.85 billion.

Question. What assumptions were used for commodity prices in the fiscal year 2004 budget request for Public Law 480 Title II? How do they compare to more recent estimates of commodity prices for fiscal year 2004?

Answer. The commodity price projections used in the fiscal year 2004 budget request were based on the USDA baseline estimates of November 2002. The baseline incorporates provisions of the Farm Security and Rural Investment Act of 2002 and assumes that current farm legislation remains in effect through the projections period. Projected prices for corn, wheat, and soybeans reflect, in part, movements in stocks-to-use ratios. The baseline assumes that prices decline over the next several years as production recovers from the reduced levels of the 2002 crops. Prices for corn, wheat, and soybeans rise during the later years of the baseline period as growth in demand outpaces gains in production.

When the November forecasts were made, there was only limited information about Northern Hemisphere winter wheat plantings for 2003/2004 and, of course, no information about Southern Hemisphere crops for the next year. By the May revision, however, Northern Hemisphere winter and spring crop conditions and plantings were better known. In addition, by this time in the crop year, there are at least some indications of Southern Hemisphere winter grain plantings.

For wheat, the November 2002 baseline price for Marketing Year 2003/2004 was \$3.25 per bushel and this was revised to \$3.35 (midpoint of range) in the May 12, 2003, World Agricultural Supply and Demand Estimates (WASDE). For rice, the November 2002 baseline price for Marketing Year 2003/2004 was \$3.77 per hundred-weight and this was revised to \$5.25 (midpoint of range) in the May 12 WASDE.

For corn, the November 2002 baseline price for Marketing Year 2003/2004 was \$2.20 per bushel and this was revised to \$2.10 (midpoint of range) in the May 12 WASDE. For soybeans, the November 2002 baseline price for Marketing Year 2003/2004 was \$189 per metric ton and this was revised to \$182 (midpoint of range) in the May 12 WASDE. For soybean oil, the November 2002 baseline price for Marketing Year 2003/2004 was \$525 per metric ton and this was revised to \$430 (midpoint of range) in the May 12 WASDE.

Question. What estimates were used for emergency needs (commodity and dollar levels for each country) in the 2004 request for Title II? Are these levels still relevant? Will funding be needed for food aid for Iraq?

Answer. As outlined in USAID's Congressional Budget Justification, the estimated emergency allocation in the aggregate for fiscal year 2004 for Title II is approximately \$522 million, not including the unallocated reserve of \$241 million. It is expected that over 1 million metric tons of commodities for emergency food needs can be procured with this funding level. Allocation decisions between emergency and non-emergency programs must take into account many factors, including congressional mandates related to Title II as well as global food aid needs. No decisions regarding specific dollar and tonnage allocations by country for fiscal year 2004 have been made at this time. As we draw nearer to the fiscal year, funds will be allocated to countries or regions based upon the latest information on hand. This is true for all countries, including Iraq, where the projected funding allocation for fiscal year 2004 is largely dependent on what food commodities are sourced through the Oil for Food program contracts. The U.S. Government will provide funding to fill shortfalls as needed.

Question. Does the 2004 request for Title II assume that you will comply with the requirement in the 2002 Farm Bill that 1.875 MMT be made available for non-emergency purposes, and what steps have been taken to seek proposals for fiscal year 2004 developmental programs in order to reach the 1.875 MMT level?

Answer. The fiscal year 2004 budget request assumes that the Title II program will comply with the minimum tonnage level established for non-emergency programs. We understand the Office of Food for Peace at USAID continues to work with the U.S. PVO community to increase the number of effective development activities, as well as to program commodities for other non-emergency activities.

Question. Is OMB or USAID placing arbitrary limits on the use of monetization for Title II programs, rather than allowing PVOs to identify and justify in their proposals the appropriate levels to meet program objectives in particular countries?

Answer. No arbitrary limits have been placed by OMB or USAID on the use of monetization of Title II commodities. However, as part of the President's Management Agenda and related review of Title II programs, a decision has been made jointly by OMB and USAID to reduce the level of monetization over the next several years. A Monetization Rationalization Plan has been developed by USAID to guide this process. The plan is now under discussion with private voluntary organizations.

Question. How has the Administration met the requirement in the fiscal year 2003 Supplemental Appropriations Act that to the greatest extent possible USAID shall restore funding for the Title II non-emergency programs that were cut? What tonnage level do you estimate will be provided for non-emergency Title II programs in fiscal year 2003?

Answer. Except for India, funding has been restored to the maximum extent possible to all non-emergency programs that were cut to meet the food emergencies in Africa. In the case of India, the Government's position on commodities potentially containing genetically modified organisms prohibit us from shipping commodities to that country at this time. USAID anticipates that \$106 million will be restored to the PVO development portfolio in fiscal year 2003, bringing the funding level to \$416 million for PVO development activities.

Including PVO development activities and other Title II non-emergency activities, it is estimated that approximately 1.3–1.9 million metric tons grain equivalent of food will be programmed under Title II non-emergency programs in fiscal year 2003.

Question. What level (tonnage and dollar amounts) of food assistance is being provided for the following emergencies: a) Southern Africa, b) Ethiopia, and c) Eritrea and from what funding sources? What were the estimated food needs (tonnage and dollar amounts) in each of these cases in fiscal year 2003?

Answer. The information is submitted for the record.
[The information follows:]

Southern Africa.—The U.S. Government has provided 566,000 metric tons of food aid to Southern Africa over the past year, using both fiscal year 2002 and fiscal year 2003 funding availabilities. The estimated value of those contributions is \$320 million. In addition, USAID will be shipping an additional estimated 150,000 metric

tons of commodities in fiscal year 2003. Funding has come from three sources: Public Law 480 Title II, Section 416(b) programming, and the Bill Emerson Humanitarian Trust.

The estimated humanitarian cereal needs for the six affected countries in southern Africa between July 1, 2002, and March 31, 2003, was 1.2 million metric tons. With the addition of the other required components of the food basket, such as beans and oil, the total reached approximately 1.5 million metric tons. On average, the provision of this amount of food aid would cost \$825 million.

Ethiopia.—In fiscal year 2003, 737,020 metric tons valued at \$340 million have been provided from both the Bill Emerson Humanitarian Trust (\$77 million) and Public Law 480 Title II (\$263 million). The estimated food needs for Ethiopia are 1.52 million metric tons for 12.6 million beneficiaries. Based on U.S. pricing factors, this quantity on average would cost \$836 million.

Eritrea.—In fiscal year 2003, 118,900 metric tons valued at \$52 million have been provided from Public Law 480 Title II. The estimated food needs for Eritrea are 290,000 metric tons for 1.4 million beneficiaries. Based on U.S. pricing factors, this quantity on average would cost \$160 million.

Question. The Administration did not request food aid funding for Iraq, other than restoring \$200 million to foreign aid accounts for funds that were provided to the U.N. World Food Program for the purchase of food aid from other countries. What level (tonnage and dollar amount) of food aid will be provided to Iraq from the United States, not foreign purchases, in fiscal year 2003 and from what funding sources?

Answer. USAID will provide a total of 164,000 metric tons of Title II valued at \$150 million and 81,500 metric tons from the Bill Emerson Humanitarian Trust valued at \$46 million. The total planned U.S. contribution is 245,500 metric tons valued at \$196 million. This does not include the \$200 million in cash provided to WFP.

Question. What is the estimated need for Iraq food assistance for the remainder of the fiscal year? If this is not being supplied directly through U.S. food aid programs, then how is it being supplied? Do you agree with the World Food Program estimates in regard to Iraq, and if not, please explain.

Answer. Fortunately, the WFP has been able to re-negotiate over 1.2 million metric tons of food contracts. According to the latest reports from WFP, 1.2 million metric tons of Oil for Food contracts coupled with additional donor contributions, including those from the U.S. Government, mean that the food pipeline is fully sourced.

The total needs for the Iraqi population are being met in part through U.S. food contributions, other donor contributions, and a \$200 million cash contribution provided by the U.S. The cash allowed WFP to procure 330,000 metric tons of commodities in the Gulf region. This was done to provide commodities urgently needed in Iraq in May, when U.S. food aid could not have arrived in time.

We agree with WFP estimates in regard to Iraq. The total food needs per month under the Public Distribution System are a little under 500,000 metric tons. This level multiplied by 5 months is about 2.4 million metric tons.

BILL EMERSON HUMANITARIAN TRUST

Question. The fiscal year 2003 supplemental provides \$69 million for the purchase of commodities to replenish the Emerson Trust. Language is also included that prohibits the monetization of any additional release of Emerson Trust commodities during the remainder of this fiscal year.

Do you support having the authority to hold cash for replenishment of the Emerson Trust rather than being required to actually purchase commodities to be held in storage for future use?

Answer. Yes, we support maximum flexibility in administering the Bill Emerson Humanitarian Trust.

Question. What effect on U.S. commodity markets has the monetization of Emerson Trust commodities had during the past 2 years?

Answer. About 19 million bushels of wheat were monetized during the 2002/2003 marketing year. A review of wheat prices shows that wheat markets began an upswing in June and peaked in early September. Markets began a downward swing about mid-September and leveled off around mid-October. There was slight market increase in late October through early November. Markets then began a downward trend in mid-November that continued through the end of the marketing year.

Although wheat prices varied, there is no evidence to link the sale of wheat by CCC as the reason for any price decline. Price decreases point more directly to declines in the U.S. market share of world wheat trade, which resulted from lower priced wheat being offered by other countries, including a number of non-traditional

exporters. U.S. wheat exports during 2002/2003 were at the lowest level in many years.

It is also important to note that during the June to December 2002 period, CCC purchased more wheat in the marketplace—approximately 59 million bushels—than it sold—approximately 26.7 million bushels. When all these factors are taken into account, the sale of wheat from the Emerson Trust appears to have had a negligible impact on the domestic U.S. wheat market.

Question. How is the \$69 million appropriated in the fiscal year 2003 Supplemental Appropriations Bill being used?

Answer. At the moment, the \$69 million is being held by the Commodity Credit Corporation. No final decision has been made on how the \$69 million will be used, but clearly its use will depend on future needs.

Question. Why did USDA decide not to seek funds to replenish commodities for the Trust?

Answer. Funds were not sought by the Administration to replenish the Trust at this time due to other more pressing budget needs.

Question. Have Public Law 480 funds been used at any time to repay the Trust for commodities withdrawn for urgent needs under section 302(c)(1) of the Bill Emerson Humanitarian Trust Act? If so, have any of these funds been retained for the purchase of commodities to replenish the Trust, as permitted under section 302(b)(2)(B)?

Answer. CCC has been reimbursed three times for wheat released from the reserve in response to urgent humanitarian needs and programmed through Public Law 480 Title II. The reimbursements were based on the export market price of the wheat in accord with section 302(f)(2) of the authorizing statute. CCC was reimbursed \$45 million in fiscal year 1987, \$6.9 million in fiscal year 1991, and \$28 million in fiscal year 1995. These funds were not used for the purchase of commodities to replenish the Trust. The reason for that is because the authority provided in section 302(b)(2)(B) was not added to the statute until enactment of the Bill Emerson Humanitarian Trust Act of 1998, which was after all three reimbursements had occurred.

MILK PROTEIN CONCENTRATE

Question. Although USDA has no direct jurisdiction of the regulation of MPCs, the importation of these products has raised substantial concerns among dairy farmers.

Will USDA work with the USTR to ensure that any future agricultural trade negotiations will include the issue of MPC imports as a priority?

Answer. In trade negotiations we pay close attention to the needs of import-sensitive U.S. producers. Throughout the negotiations, USTR and USDA work together closely to assess a particular product's import sensitivity, based on advice from the ITC on probable economic effects. USTR and USDA also consult closely with private sector advisors and Congress throughout the negotiations. Negotiators use a variety of tools to protect U.S. import-sensitive sectors, including extended periods for tariff reductions and import safeguards.

Question. In the meantime, does USDA have any recommendations on how the harm to domestic dairy markets from MPC imports can be overcome?

Answer. MPC impacts on dairy markets would be to lower nonfat dry milk (NDM) prices. However, during MPC import growth domestic NDM prices have typically been near support and CCC has purchased significant quantities of NDM. The impact of MPC imports has been to support new product formulations and to some extent increase CCC NDM purchases. Direct impacts on farm prices are believed to be very small because of the milk price support program (MPSP).

A subsidy program to encourage the production of MPC domestically is being considered. Diversion of milk protein to domestic MPC production and away from NDM production might decrease CCC purchases and save total government expenditures.

A tariff rate quota would probably lead to a WTO challenge and possible demands from the EU for compensation of up to \$600 million.

INTERNATIONAL DEVELOPMENT POLICY

Question. There is evidence of growing sentiments around the world critical of the United States intentions and practices, on a global scale.

Do you agree or disagree that international developmental programs, such as those associated with Public Law 480 non-emergency programs, have great potential to overcome growing world hostilities toward American interests, help prevent the growth of terrorist organizations in those parts of the world, and provide significant long-term benefits for those countries and the United States?

Answer. We agree that Public Law 480 non-emergency programs, such as Public Law 480 Title I and Public Law 480 Title II development and food for work programs, have a significant role in supporting the economic development of low-income countries and in this way are beneficial in reducing the potential for terrorist activity. For the United States, reducing the number of chronically poor, undernourished and underweight people throughout the world is both a humanitarian concern and a strategic goal. Food aid resources are given to help those in need in an effort to deal with hunger and to eliminate the food insecurity that fuels political instability and the potential for terrorism. Global Food for Education programs and food for work activities also contribute to the prevention of conditions that foster terrorism and create new generations of better educated citizens. However, it is important to note that there is a mosaic of issues that stimulates terrorists that is much broader than food and economic development alone.

Question. If you agree, what will you do to help promote these programs and seek greater levels of resources?

Answer. Our first step in promoting the non-emergency programs will be to continue to work with the recipients of our programs to develop effective programs that are supported by the recipient governments. We also will continue to ensure that program oversight is effective so that program objectives are met. These measures will go a long way toward effective and efficient use of program resources.

Question. Should these types of programs take on a greater role in the context of national security in view of current world conditions?

Answer. The United States Government carries out a wide range of programs designed to assist in the growth and development of developing countries. These programs range from security, economic development, humanitarian food assistance, and health and safety programs. Maintaining a balance in the level of support for these programs is important, and that's what the Administration is attempting to do.

Question. One of the areas of U.S. involvement in reconstruction efforts in Iraq is agriculture. Please describe U.S. activities in this effort, including the amount of funds and number of personnel assigned to this task.

Answer. USDA has had one person on the ground in Baghdad since April 24th. He has been totally involved in getting the Ministry of Agriculture up and running and in selecting a management team which will begin to make decisions on the priorities of the agriculture sector. Once this team is in full play, USDA will be sending Daniel Amstutz, Senior Advisor for Agriculture, to Baghdad. He will be responsible for policy development in agriculture and as agriculture relates to the other sectors of the Iraqi economy.

USAID has begun the lengthy process of obtaining a project agreement for the reconstruction of agriculture in Iraq. The proposed project will contain four components: (1) increased agriculture production, (2) enterprise development, (3) access to rural credit, and (4) resource management—water, irrigation, etc. The timetable for this project will include full and open competition (45 days), a bidders' conference, a period in which to receive proposals, evaluation, selection, negotiations, and awards. Funding for this project is to come from the funds already designated for Iraq reconstruction.

Question. There has been significant criticism of U.S. farm policies (and those of other countries) that certain program characteristics, such as commodity price support programs, are very harmful to the developing economies of many poor nations. How does USDA respond to these criticisms?

Answer. All domestic support programs are not alike. The United States has tabled an ambitious proposal to the WTO agriculture negotiations designed to substantially reduce trade-distorting domestic support and open world agricultural markets to fair competition. Governments can and will continue to support their agricultural producers; however, our focus remains on trade-distorting domestic support.

The Uruguay Round only started the job of tackling trade-distorting domestic subsidies. As a result, the EU's current limit for amber box support is around \$67 billion annually, Japan's limit is around \$33 billion, and the U.S. limit is \$19.1 billion. In addition, the EU and Japan use blue box subsidies (trade-distorting support linked to production limiting policies). All other countries have much lower levels of amber and blue subsidies, if any.

The U.S. agriculture proposal in the Doha negotiations seeks to build on the first step of the Uruguay Round by pressing for much more substantial reductions to achieve a more level playing field for all countries, including developing ones. In particular, the U.S. proposal calls for a cut of over \$100 billion in trade-distorting support globally, undertaken in a manner that harmonizes levels across countries, with the eventual goal of eliminating such subsidies altogether. The United States proposes maintaining current rules on non-trade distorting support (green box)—

spending in areas such as conservation, research, food stamps, and the environment—as long as such spending is de-linked from production incentives.

BIOTECH TRADE

Question. An Iowa State University study concluded that the U.S. wheat industry could lose 30–50 percent of its business with foreign markets for spring wheat if Monsanto releases a new genetically modified variety of that commodity.

Do you agree with this assessment?

Answer. Dr. Robert Wisner of the Iowa State University concluded in a recent study that U.S. exports of hard red spring (HRS) wheat could fall by 33–52 percent if Monsanto's herbicide-tolerant, genetically modified (GM) wheat were introduced in the United States. We believe that this finding can only be regarded as a worst-case scenario. Dr. Wisner makes a strong assumption about the ready availability of non-GM wheat in competing countries. Further, his analysis does not consider the probable diversion of U.S. exports to markets that will accept GM wheat.

A preliminary ERS study suggests there is considerable scope for diversion of GM wheat away from sensitive export markets. In the U.S. domestic market, we estimate that the non-GM segment accounts for only 5–10 percent of demand. Thus, our large domestic market would provide an important outlet for GM wheat production, even if most export customers refused to accept it. Of course, the feasibility of diversion (without loss of export sales) also depends on extent of adoption by spring wheat growers. The ERS analysis, assuming 50 percent adoption of the GM variety, shows relatively modest impacts on average farm-level prices. However, buyers of non-GM spring wheat (primarily foreign) would incur additional costs.

Question. Do you think that the growing trend toward genetically modified agricultural products can continue without a further erosion of our foreign markets? If so, how?

Answer. Up to now, trade impacts from the rapid adoption of biotech crops since 1996 have been limited. Demand for non-biotech corn and soybeans has reflected biotech food labeling regulations in some parts of the world, such as the EU and Japan, and changing consumer preferences toward non-biotech foods. Over the last few years, the EU's de facto moratorium on approving new biotech varieties did adversely impact the United States. However, a concerted effort is being made by the government, the U.S. grain industry, and biotech companies to address issues that led to these incidents, paving the way for the further adoption of biotech crops.

Question. What plans does USDA have to counter the threats by foreign nations in regard to genetically modified products?

Answer. The Administration announced on May 13, 2003, that the United States, Argentina, and Canada are requesting World Trade Organization (WTO) consultations with the EU over its moratorium on approving new biotech varieties. The complaint intends to ensure that crops grown by U.S. farmers will not be rejected simply because they were produced using biotechnology.

In the United States, we have managed to keep biotech discussions within the realm of science; and, indeed, scientific assessments are the cornerstones of our regulatory system. USDA/APHIS, FDA, and EPA have managed to maintain consumers' faith in their abilities to discern which products are safe to consume, and which products are unsafe.

We continue to believe that keeping the discussions on scientific ground offers the most promise to counter threats to biotech products, but we need to reinforce those efforts. For this reason, the 2004 budget requests \$6.6 million to establish a new fund within the Office of the Secretary to support cross-cutting trade-related and biotechnology issues. These funds will be available to support the work of FAS, APHIS, and other USDA agencies as they address the growing array of regulatory and market access issues related to biotechnology.

QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

CONSERVATION TECHNICAL ASSISTANCE

Question. The most recent allocations for conservation programs were for far less than was generally expected after passage of the farm bill because of the Administration's decision to prohibit technical assistance to be paid from each program's funds as provided in the farm bill. I believe we need to find a solution that does not continue to require a net reduction in overall conservation funding, because that is the effect under both the omnibus appropriations bill and the Administration's budget.

Will you work with the Committee to find a way to fix the technical assistance funding problem that does not involve cutting funding for conservation from expected farm bill levels?

Answer. We share your concern about providing adequate funding for the technical assistance necessary to support the conservation programs of the 2002 Farm Bill. We believe that the President's budget proposal for a dedicated technical assistance account for Farm Bill implementation would be the best approach to fixing this problem. This approach maximizes the amount of financial assistance dollars while providing the technical assistance funding needed to deliver the programs. Having one central account also increases accountability and improves transparency of the Department's costs of delivering these conservation programs.

At the same time, both NRCS and the Farm Service Agency have been making concerted efforts to improve and streamline their operations in the field which has helped to significantly reduce NRCS technical assistance costs for the Environmental Quality Incentives Program. Recently proposed rule changes for the Conservation Reserve Program will help streamline and improve the sign-up process and will lead to additional savings. This summer, we will also be conducting a thorough sweep of all Farm Bill conservation program accounts and will convert any unused technical assistance funding back into program dollars.

Finally, NRCS will be fully implementing the new Technical Assistance Provider (TAP) system authorized in the Farm Bill. This will ensure that there is a viable cadre of technically qualified non-Federal partners that are certified by NRCS to provide the technical assistance needed to plan and oversee the installation of conservation practices.

While we believe that these steps will greatly help achieve the conservation envisioned by the Farm Bill, we also look forward to working with the Committee to look for ways to better address this issue and to make further improvements.

NATIONAL ORGANIC STANDARDS BOARD

Question. I am concerned about ongoing threats to the integrity of the Organic Foods Protection Act of 1990 (OFPA). OFPA requires a very strong public-private partnership in setting, enforcing and maintaining strong standards for organically certified foods. Specifically, OFPA established the National Organic Standards Board (NOSB) as a body of private-sector experts to help USDA set and oversee the implementation of the national organic standards, and required the establishment of a peer review panel to ensure public oversight of USDA's accreditation program. As envisioned by OFPA, the NOSB's recommendations would have significant weight and authority. Yet, in recent years, many of its recommendations have been ignored or simply not implemented by USDA. In addition, the peer review panel has yet to be established, even though organic certifiers have been accredited.

Please detail your plan for giving proper weight to recommendations of the NOSB and for constituting and supporting the required peer review panel.

Answer. AMS is in the process of establishing a peer review panel, with the American National Standards Institute (ANSI), a well recognized accrediting body that represents the United States in international standards setting organizations. A technical expert from the organic community will assist ANSI in their review of AMS' accreditation program under the National Organic Program (NOP). This technical expert will be selected from nominations made by the organic industry. AMS also is developing "Good Guidance Practices," a document that outlines in detail how the agency will process and handle recommendations from the NOSB. In addition, AMS has provided the NOSB with clear guidance on how to present their recommendations to the agency in a manner that will expedite action on those recommendations.

Question. In addition, would you please provide for the record a list of the recommendations that the NOSB has made, since the publication of the final rule on organic standards, and the actions that USDA has taken in response to those recommendations. If no action has been taken in response, please explain why.

Answer. Since the final rule was published in December, 2000, the NOSB has held six public meetings; all of their recommendations are posted on the NOP web site for viewing by the public. All recommendations concerning materials to be added or prohibited on the National List have been accepted by AMS and are being published in the Federal Register for notice and comment. All other recommendations made by the NOSB will be reprocessed through the guidance material that the agency has given to the NOSB, so that all Board recommendations are treated equally and to ensure that those recommendations that are feasible will withstand scrutiny from a legal and regulatory review.

REIMBURSEMENT RATE FOR CROP INSURANCE COMPANIES

Question. The crop insurance industry is in shaky financial shape in the wake of the drought and other disasters that affected the 2002/2003 crops, as illustrated by the failure of American Acceptance, the largest company at the time. The President's budget proposes to cap the amount of delivery expense reimbursement the crop insurance companies may receive at 20 percent of the premium. Such a cut from the current 24.5 percent would cut companies' revenue for delivery expenses by 20 percent.

What analysis has been done to assess the effect such a reduction would have on the financial condition of remaining companies, particularly in high-loss years such as 2002? What are the results of this analysis?

Answer. The 24.5 percent reimbursement rate is the statutory maximum rate. However, several crop insurance products currently have a maximum statutory reimbursement rate less than that. In fact, for the 2002 crop year the average reimbursement rate across all product lines was about 21 percent. We are projecting a reduction in reimbursements of about 10 percent. To put this in perspective, reimbursements have risen about 53 percent in the past 5 years with no increase in the number of policies sold.

RMA conducts an annual analysis of each company's plan of operation for the upcoming crop year, in addition, the Agency has recently instituted a comprehensive review of each company's financial condition. As part of this review, the Agency is evaluating financial data that has never been previously requested by RMA. While the results are preliminary, it is evident that the analysis will significantly improve the Agency's ability to identify companies who are in a particularly vulnerable financial position.

A reduction in the reimbursement rate will increase the financial pressure on companies to adjust their operating approach. Each company will strive for increased efficiencies without sacrificing service. This of course is a healthy exercise. However, if the company is not successful in driving down cost and generating sufficient returns to satisfy shareholders, consolidation or departures will be the result.

PACKERS AND STOCKYARDS

Question. In a letter to me from Under Secretary Hawks dated February 24, 2003, the Administration stated its opposition to the proposed ban on mandatory arbitration in livestock and poultry contracts, its opposition to efforts to reorganize USDA to improve enforcement of the Packers and Stockyards Act, and other competition and trade practice statutes. The letter argued that USDA already has the authority and enforcement regime to deal with matters like unfair contract terms. Yet a number of private suits, as well as numerous press accounts and studies, have highlighted the real problems that exist in USDA's enforcement of the Packers and Stockyards Act.

Your testimony indicates that the USDA budget seeks an additional \$500,000 to "enhance compliance with the Packers and Stockyards Act and to fund a review of the Act" (page 13). We have increased Grain Inspection Packers and Stockyards Administration (GIPSA) funding for years, with absolutely no improved results, and some would argue even more lax enforcement. Without substantial changes in the law and in USDA's enforcement organization, why should we think that simply increasing funding will address GIPSA's serious enforcement shortcomings?

Answer. Industry has become more complex, vertically integrated, and is making increasing use of technology, which complicates enforcement activities. The P&S Act has not undergone any significant review in many years. A review of the P&S Act and regulations is warranted to determine the best way for GIPSA to remain effective in the 21st century. The request for an additional \$500,000 to "enhance compliance with the Packers and Stockyards Act and to fund a review of the Act" would provide 6 additional staff years, expenses, and consultations necessary for a comprehensive review of the P&S Act.

FSIS MEAT RECALLS

Question. USDA has been criticized during recalls for its policy of telling State public health officials where recalled meat was distributed in their States only if those States promise not to tell their citizens where recalled product is being sold. It seems to me that the purpose of a recall is to get tainted product out of consumers' homes.

Can you explain the reasoning behind USDA's policy of essentially withholding from consumers information about where recalled product was sold? Is there any

barrier, legal or otherwise, to the Department's release of this information to any State public-health department that may need it to respond to a recall?

Answer. The goal of a recall is to protect public health by removing potentially contaminated product as quickly as possible. In a recall situation, FSIS needs to be able to act quickly to ensure public health by protecting consumers from potentially contaminated product. The cooperative arrangement with establishments ensures that FSIS can move as quickly as needed to remove potentially contaminated product from the marketplace. It also allows industry to move as rapidly as possible. The current cooperative arrangement allows FSIS to act quickly to protect public health and is preferable to a slow, cumbersome legal process.

There are no barriers to the Department's release of distribution information to the States.

FOOD AID PROGRAMS

Question. Has USDA considered adding Iraq to the list of countries receiving donations under the McGovern-Dole International Food for Education and Child Nutrition program?

Answer. USDA will consider all proposals during the application period, which we expect to begin in June. Proposals for Iraq would be considered, although Iraq will soon return to the status of middle-income country. Due to the limited budget for the McGovern-Dole International Food for Education and Child Nutrition program, most programming resources are expected to go to low-income countries. A major consideration in programming will be the cooperating sponsors' ability to carry out effective programs immediately. It is not clear if this criterion could be met for Iraq because the economic and political systems are in transition.

Question. If not, do you think it would help facilitate Iraqi reconstruction if we encourage such school nutrition programs there?

Answer. The education system in Iraq is already restarting and rebuilding. Over the next few months, what is needed to restore and improve the education system will be assessed by the new Iraqi government as well as the international donor community. Use of programs like McGovern-Dole should not be ruled out but, as Iraq emerges as a middle-income country, it would not be a primary target for U.S. Government food aid programs.

VALUE-ADDED GRANTS

Question. The Farm Bill provided \$40 million a year in mandatory funding for Value-Added Product Market Development grants. These grants have been a critical element in assisting rural value-added business development. Without the help of these value-added grants, many projects such as farmer owned ethanol plants and meat processing plants simply would not materialize. The Administration's budget proposes changing this program to discretionary funding and reducing the funding to \$2 million a year—only 5 percent of its fiscal year 2003 level—thus essentially eliminating this program.

What is the Administration's commitment to producer owned business and cooperative development in light of this budget proposal?

Answer. USDA spends approximately \$10 million a year on the Cooperative Service programs. Rural Development has over 75 years of experience in working with producer owned cooperative businesses. This includes assisting producers in organizing cooperatives; providing technical assistance, such as strategic planning, to existing cooperatives; conducting research on problems and issues facing cooperatives; and providing education services to cooperative boards, management, and members. The Administration is committed to the continuation of helping producers, their farm and ranch businesses, and their cooperatives.

RURAL BUSINESS INVESTMENT PROGRAM

Question. I am disappointed that the Department has moved slowly on implementing the Rural Business Investment Program, which was authorized and provided mandatory funding in the Farm Bill. As you know, venture capital is a crucial need in rural America. This program, carefully worked out in a bipartisan manner, should really help.

It has very broad support, including from the major farm groups, cooperative groups, bankers of all sizes, and many of the entities of the Farm Credit System.

I had hoped by now to see this program in full operation, creating jobs.

Exactly what is the status of the Department's actions to get the Rural Business Investment Program up and running?

Answer. Since the Farm Bill was signed, USDA has worked jointly and diligently with the Small Business Administration (SBA) to develop an RBIP implementation

and management plan that is based on the Program model, as envisioned and expressed by Congress in the statute. USDA and SBA have identified some impediments to the development of the implementation plan, such as how administrative responsibilities for the program would be shared between USDA and SBA within the context of the statute. We are continuing to work with SBA to reach agreement on such issues.

Question. When will the Department have this program in operation?

Answer. The timeline will be developed once an agreement with SBA is reached and specific roles and responsibilities are developed.

Question. Is there anything that we can be doing to help expedite the Department's implementation of the Rural Business Investment Program?

Answer. At this time, we know of nothing that the Committee needs to do to implement this program.

RURAL UTILITIES

Question. The farm bill provided \$360 million to assist in funding some of the backlog of water and wastewater programs at the Rural Utilities Service. Your budget proposes increasing the loan program, but reduces the grants by almost 50 percent, or \$250 million. Small communities will once again be placed on a long waiting list because grant funds will not be available. It is not the purpose of this program primarily to fund only communities that qualify for loan programs, but also to ensure that the poorest and smallest of communities needing clean drinking water or a wastewater system will not be left behind.

What is the national backlog in applications needing grant assistance? What is your plan for addressing the needs of small communities with very limited incomes, which need safe, reliable drinking water if this proposed shift in the program is implemented?

Answer. There are currently 443 incomplete applications and 662 complete applications on hand for water and waste grants for a total of 1,105. The total amount requested by these applications is \$433,762,484 for incomplete applications and \$763,852,491 for complete applications for a total of \$1,197,614,975.

With the additional funding from the Farm Bill, we were able to fund a significant number of applicants that needed grant funds to develop a feasible project. The applications remaining in the backlog indicate an increasing demand for loan funds. The current very low interest rate environment reduces the need for higher grant amounts, which will allow us to adequately meet the need for assistance. A project's financial feasibility is determined based on its ability to repay a loan and at the same time maintain reasonable user rates. A proposed system's budget is based on income projections solely from sales of services the system is providing. Since the Rural Utilities Service has the authority to switch funds between loan and grant, the levels established at the beginning of the year can be adjusted as needed based on projects funded during the year.

CREDIT

Question. On the matter of farm credit, your written testimony (page 10) indicates that the amount of direct loans that FSA will make available to farmers will decrease because the subsidy costs have somehow increased. Yet in other parts of your testimony, you note that the subsidy rate for other loan programs has actually fallen because of decreased interest rates.

Please explain why the subsidy rate for FSA direct loans has increased in this time of lower interest rates and relatively low default rates.

Answer. The cost of subsidizing direct loans has increased due largely to projections of increased loan defaults. As the modeling of the projected costs of subsidizing loans is refined, default projections have increased. Defaults are a major component of the subsidy rate that determines the amount of budget authority that is required to support the requested loan levels. Direct loans are more expensive to operate than guaranteed loans due to the fact that borrowers of direct loans are generally not able to obtain credit from commercial lenders due to their credit risk.

AGRICULTURAL BIOTECHNOLOGY

Question. As a supporter of agricultural biotechnology, I believe products derived from this new technology hold tremendous promise for consumers and our Nation's agricultural industries. For that very reason, any shortcomings in our regulatory regime must be addressed to ensure that the development of agricultural biotechnology continues in a thoughtful and secure manner that provides our Nation's consumers and our trading partners with assurance that these products are safe. The National Research Council has released two important reports on agricultural

biotechnology over the last few years. In last year's farm bill, Congress required your Department to issue a report to the House and Senate Agriculture Committees by next week outlining how USDA plans to implement the recommendations made by the Council.

Please provide an update on the status of this report.

Answer. While we have drafted a response to most of the recommendations from the National Academies of Science, National Research Council, there are a number of issues that we are currently working on with our partners at FDA and EPA that will affect many of our responses. As a result, our report missed the deadline of May 12. We feel it is important to work through the issues with our partners so that we can offer a more concrete overall Answer. Our report, when complete, will give a better sense of the direction we are taking in USDA and across government to address the recommendations in the reports.

FSIS—INSPECTIONS

Question. In May 2000, a Federal judge in Texas ruled that the Food Safety and Inspection Service (FSIS) could not use Salmonella test results to determine the sanitary conditions in a beef grinding plant. More recently a Federal court in Nebraska prevented FSIS from closing a meat plant repeatedly found to have sanitation violations. Rather than pursuing the Nebraska case, FSIS signed a consent agreement with the company which ceded the agency's authority.

In light of these court decisions, can you specify USDA's exact legal authority to close meat plants that repeatedly fail to comply with USDA's food-safety standards?

Answer. The Federal Meat Inspection Act and the Poultry Products Inspection Act provide the authority needed to close plants that fail to comply with regulatory requirements. USDA has the authority to initiate a withholding, suspension, or withdrawal action based on sanitation or HACCP violations, including: failure to collect and analyze samples for the presence of generic E. coli; failure to develop or implement sanitation standard operating procedures (SSOP); or failure to develop or implement a required HACCP plan. USDA may also initiate a withholding, suspension, or withdrawal action for other violations, such as inhumane slaughter or unsanitary conditions.

Question. Your statements last month seemed to indicate that you thought USDA could benefit from enhanced enforcement powers. What is USDA's opinion concerning the need for additional authorities, or clarifications of existing authorities?

Answer. We are always assessing our authorities to determine if they need to be strengthened. I have asked for a complete review of our authorities to determine if they allow us to do our job and am awaiting assessments on what options USDA should consider pursuing in the future.

RENEWABLE ENERGY AND ENERGY EFFICIENCY

Question. Please provide for the record the explanation you promised regarding proposed funding for the energy and energy efficiency program (section 9006) and the CCC Bioenergy program. As clarified in the hearing, these programs already have mandatory funding for fiscal year 2004 as provided in the farm bill. The Administration's budget proposes to change the 9006 program to a discretionary program and reduce funding from \$23 million to \$3 million in fiscal year 2004. The proposed cut of \$50 million to the bioenergy program is similarly troubling since this program has been a key Federal program to help increase ethanol and biodiesel production. How do you reconcile your stated support for the farm bill renewable energy and energy efficiency programs and the Administration's budget proposal?

Answer. This is a very tight budget and embodies numerous difficult resource allocation decisions. The Administration's energy policy strongly supports development and expansion of renewable and bio-based energy sources. Rural Development is in the process of implementing Section 9006 of the Farm Bill to promote renewable energy and energy efficiency projects. The \$23 million in mandatory funding will be made available as grants under this program. Rural Development has also supported renewable energy under its Business and Industry (B&I) guaranteed loan program, and the Value Added Producer Grant program. Through fiscal year 2003, projects totaling over \$70 million will have been funded under these programs. For fiscal year 2004, the Department is continuing to seek funding for the Section 9006 program, but at the reduced level of \$3 million, and as discretionary rather than mandatory money. During this tight budget environment, it is appropriate to pause and review the success and effectiveness of the significant funding that has already been provided. Furthermore, Rural Development will continue to support renewable and bio-based energy projects through the B&I program, and also the Value Added Producer Grant program.

ANIMAL FIGHTING

Question. I and many of my colleagues in the Senate and House are concerned about reports of illegal animal fighting. As you know, Congress strengthened this animal fighting law last year, as a component of the farm bill. In addition, we called on you to report back to the Committee on March 1, 2003 regarding plans for effective enforcement of the animal fighting law.

What can you tell us now about how the Department intends to carry out these responsibilities? When will we see the report?

Answer. The report will be sent to Congress on May 9, 2003. APHIS and the USDA's Office of the Inspector General (OIG) work together with State and local authorities to investigate and enforce Federal and State laws regarding animal fighting. USDA has made some progress with both APHIS and OIG taking steps to improve the effectiveness of the USDA enforcement effort. APHIS refers information it receives on animal fighting activities to OIG. OIG initiates investigations based upon the potential for criminal prosecution and as resources permit. In those instances where OIG does not initiate an investigation, it refers those complaints to State or local enforcement agencies as appropriate.

Despite these efforts, however, significant improvements cannot be achieved without increased involvement by other Federal and State law enforcement agencies specifically dedicated to investigating and prosecuting violators of the prohibition against animal fighting ventures. APHIS must rely on law enforcement agencies to conduct investigations into animal fighting ventures because they are often accompanied by other illegal activities and are inherently dangerous. APHIS and OIG will continue to work together to seek better ways of furthering the goal of reducing and eliminating illegal animal fighting ventures.

OUTSOURCING IN NRCS

Question. The farm bill does not authorize or justify downsizing of NRCS staff or outsourcing of their work. Instead, it provides for the use of outside personnel to supplement existing NRCS staff. I am concerned that the Administration has undertaken a process to downsize the agency by outsourcing and reducing the number of field offices.

Please provide for the record all analyses you have done of the expected workload involved in fully implementing the farm bill conservation programs and carrying out NRCS' responsibilities for assisting on-farm non-farm bill conservation. How will this workload be met by: NRCS staff; and outside personnel, and what are the planned numbers for each?

Answer. I will provide this information for the record.

[The information follows:]

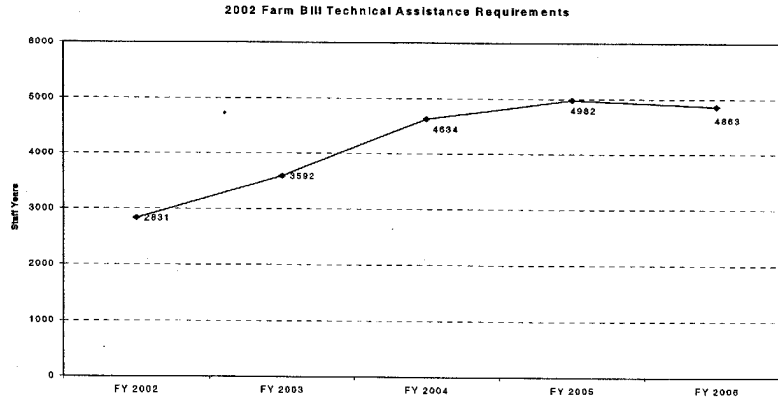
NRCS has developed a workload model to estimate the technical assistance costs to deliver each of the Farm Bill programs at the authorized level. The model uses information from the agency's Integrated Accountability System (IAS) including workload analysis, timekeeping, and financial systems data. The model is used to project future technical assistance requirements for Farm Bill programs based on actual data collected at the field level. This model assumes that the program will continue to be delivered in the way they are today. However, we anticipate finding opportunities to work smarter and more efficiently and effectively deliver technical assistance. Technical assistance is reflected as staff year needs, regardless of who does the work.

Farm Bill programs included in these technical assistance projections include:

- Agricultural Management Assistance Program (AMA)
- Conservation Reserve Program (CRP)
- Conservation Security Program (CSP)
- Environmental Quality Incentive Program (EQIP)
- Ground and Surface Water Conservation Program (GSWC)
- Klamath Basin
- Farm and Ranchland Protection Program (FRPP)
- Grassland Reserve Program (GRP)
- Wildlife Habitat Incentives Program (WHIP)
- Wetland Reserve Program (WRP)

Funding levels for Farm Bill Programs are based upon the Congressional Budget Office score of the Farm Bill. Funding levels can be adjusted to evaluate technical assistance requirements based upon different funding levels.

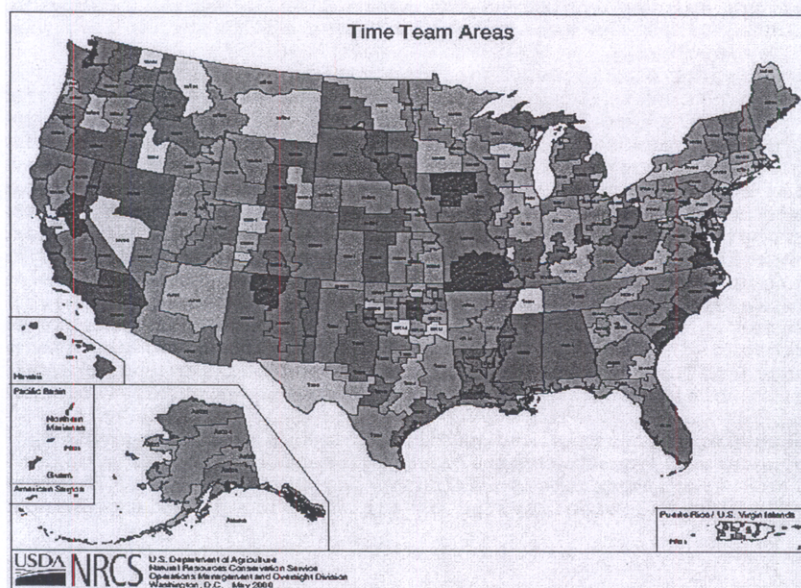
Farm Bill Technical Assistance Requirements currently projected based upon the model are displayed in the following graph:



The projections also include technical assistance requirements for USDA to continue to service ongoing Commodity Credit Corporation (CCC) contracts from prior years for the conservation programs authorized in the 1996 Farm Bill.

A key component of the NRCS workload projection model for Farm Bill Programs is the National Conservation Partnership Field Workload Analysis (WLA 2001), which provides a descriptive baseline of the workload requirements by discipline for Federal, State and district employees at the field level. WLA 2001 describes the time required by discipline for what employees do at the field level as described in 28 Core Work Products (CWPs). It captures the core field activities and the time to accomplish them for the NRCS field staff and the Conservation Partners field staff. WLA 2001 is used to estimate the staff years required to complete fiscal year projected workload and total resource conservation needs.

Within each Core Work Product, several tasks are identified and time associated with each task to accomplish the activity. Similar CWPs have the same tasks. For example, the natural resource CWPs all have the same tasks. Two hundred and eighteen Time Teams, consisting of NRCS and partner specialists (subject matter experts), provided estimates of the time required from various disciplines to perform the tasks necessary to accomplish each Core Work Product. Time teams were determined based on the area having similar resource concerns, geophysical characteristics, production characteristics, and cultural differences, time requirements for conservation activities.



Integrated with information from other components of the Integrated Accountability System, such as the Performance and Results Measurement System (PRMS) and the Total Costs and Accounting System (TCAS), the National Conservation Partnership Field Workload Analysis (WLA 2001) and the NRCS workload projection model for Farm Bill Programs are the analysis tools utilized to provide information necessary for management activities such as workforce planning, and performance planning.

The workload on non-farm bill programs consists of conservation planning assistance including lands, which are ultimately enrolled in Farm Bill programs and conservation practice installation accomplished on a voluntary basis without USDA incentives or cost sharing. The workload also includes development and maintenance of conservation technology such as the Field Office Technical Guide, soil surveys, water supply forecasts, conservation plant materials, etc. utilized by local, State and Federal agencies as well as individual land owners and operators, to guide resource management decisions and programs. In 2002, CTA resulted in 33 million tons of sediment reduction, conservation systems being applied on 8.8 million acres of grazing lands, and 2,172 Comprehensive Nutrient Management Plans being installed.

NRCS has allocated \$20 million in fiscal year 2003 or approximately 209 staff years for Technical Service Providers (TSPs) to assist in implementing Farm Bill programs this fiscal year. We anticipate the portion of technical assistance provided by TSPs of the total workload will grow in future years.

MAINTAINING ASSISTANCE TO PRODUCERS

Question. How will you ensure that reducing NRCS staff will not harm producers' access to this important assistance?

Answer. USDA will continue to utilize the best available information to evaluate the conservation workload and determine the most cost-effective means of providing the highest quality technical assistance available for producers including the use of NRCS staff and technical service providers. Given the farm bill workload, no net staff reductions are anticipated.

To ensure high quality technical assistance is provided by technical service providers as well as NRCS staff implementation of several initiatives were undertaken during the first year of the new Farm Bill. A technical service provider online self-certification process (TECHREG) was made available from the NRCS website for organizations and individuals who wish to provide technical assistance to USDA customers. Several hundred technical service providers have registered and self-certified and the list is growing each day. TECHREG also provides access to USDA

customers to identify sources of technical assistance available other than NRCS staff and their areas of expertise. NRCS quality assurance policies were revised and updated to provide a standard level of quality review for all technical assistance provided to USDA customers including technical service providers. On line access was developed and implemented to provide USDA customers and others electronic access to the latest in standards, specifications and other technical information available from their local Field Office Technical Guide.

By automating and streamlining administrative processes NRCS has made available staff resources for providing technical assistance under all programs, also reducing the technical assistance costs for the farm bill programs allowing more dollars to be available for cost-share assistance.

QUESTIONS SUBMITTED BY SENATOR BYRON L. DORGAN

LEGUME CROPS GENOMICS INITIATIVE

Question. The U.S. Legume Crops Genomics Initiative brings together growers and scientists to guide the development of priority research areas that will provide economic benefits and enhance sustainable agronomic practices of American agriculture. The initiative is designed to develop tools and research to alter compositional traits to further legume crops competitiveness and growers' profitability; maximize tolerance to biotic and abiotic stresses; and minimize use of inputs. Each of the 48 contiguous States produces legumes, from major row crops to alfalfa for hay and grazing. Agronomic improvements to legumes using modern genomics tools will provide an economic boost to agriculture in all areas of the United States. In 2000, the U.S. total estimated farmgate value was \$22 billion. An added value derives from the legume symbiosis with soil bacteria that fixes nearly 17 million metric tons of atmospheric nitrogen each year, worth about \$8 billion.

Given the need and benefits of the initiative, can you detail USDA's plans for including legume crops genomics funding in the Administration's budget?

Answer. Expansion and strengthening of legume genomics and genetics programs will play a crucial role in ensuring food for future generations. The fiscal year 2004 USDA/ARS request for sequencing and bioinformatics related to plants is \$5.1 million of which \$1.2 million is proposed for legume genomics.

USDA/CSREES supports plant/crop genomics (including legumes) through its competitive grants program, the National Research Initiative (NRI). The fiscal year 2004 request for the NRI is \$200 million with \$9 million requested for plant genomics (including legumes).

WORLD TRADE ORGANIZATION

Question. On March 17, the USTR official in charge of agricultural trade with China stated that the United States would be well justified in filing a WTO case against China, for failing to live up to its commitments on wheat trade. The official said that the evidence of unfair trade by the Chinese was undeniable, and that the Chinese themselves privately acknowledge that they are cheating on agricultural trade. He said that the interagency Trade Policy Review Group has given USTR the green light to move forward with a WTO case against China. But the official said that the Administration was reluctant to do so, because the Chinese might be offended. He said the Administration was worried that a WTO case would be seen as an "in-your-face" thing to do to China, so soon after China joined the WTO.

Is the Foreign Agricultural Service of USDA a part of the Trade Policy Review Group?

Answer. USDA is part of the interagency Trade Policy Review Group (TPRG), which also includes USTR, State, Commerce, Treasury, NSC, and several other agencies. USDA's representative at these meetings can vary depending on the topic, but generally includes high-level representation from either the Office of the Secretary, the Office of the Under Secretary for Farm and Foreign Agricultural Services, or the Foreign Agricultural Service.

Question. Didn't FAS sign off on a WTO case against China on wheat trade?

Answer. In the TPRG meeting that you refer to, USDA expressed support, absent a timely resolution of outstanding concerns, for pursuing a WTO case against China over its overall administration of its TRQ system. The TPRG deferred a decision to initiate a WTO case, pending the outcome of further discussions with the Chinese to resolve the issue. Ambassador Zoellick and Ambassador Johnson raised our concerns at the highest levels during their subsequent visit to Beijing in February. A follow-up meeting, which has been delayed by the SARS situation, is expected to occur in the very near future. Absent a satisfactory outcome, it is expected the

TPRG would reconvene to revisit the issue of initiating a WTO case. Wheat is one of nine agricultural commodities covered by China's TRQ system, and USDA believes that improvements in China's TRQ system would lead to greater market access for U.S. wheat and other commodities.

Question. Do you believe that filing a WTO case is an "in-your-face" thing to do, when there is undeniable evidence of a trade violation, as the USTR official stated?

Answer. USDA views very seriously China's failure to fully meet its WTO commitments. Our preference would be to resolve the issue bilaterally, as the WTO option, while certainly a viable one, could prove time consuming and could ultimately produce mixed results. At the same time, we recognize the bilateral process should not be open ended and that China should take immediate steps to bring its practices into compliance with the WTO. Toward that end, we are actively engaged with other U.S. agencies in preparation for upcoming negotiations with the Chinese to resolve this issue.

RURAL DEVELOPMENT FARM BILL SPENDING CUTS

Question. The Administration's proposal to prohibit all fiscal year 2004 mandatory funding for all Rural Development programs authorized in the Farm Bill and instead fund a few at much lower levels than authorized (such as renewable energy programs and enhancement of access to broadband services) is going to put tremendous pressure on this Subcommittee to fund these items with a very limited discretionary allocation.

Do you consider these issues when you claim that there are no cuts in the Farm Bill spending?

Answer. USDA considered both the mandatory and discretionary funding in developing its 2004 budget. The proposals to not spend mandatory funding that was authorized in the Farm Bill provided offsets for a portion of the discretionary funding that is being requested in the budget. Without these offsets, it would be even more difficult to stay within the discretionary spending targets.

PUBLIC LAW 480 PROGRAM FUNDING

Question. The Administration's request would provide \$1.185 billion for Public Law 480, which provides grants to private voluntary organizations (PVOs), and the World Food Program (WFP), to alleviate hunger. Last year, Congress provided \$1.44 billion in appropriations, \$300 million in supplemental appropriations (for a total of \$1.74 billion).

Why does the Administration believe that the appropriations needed will be \$55 million less in fiscal year 2004 than in fiscal year 2003?

Answer. Fiscal year 2003 is unusual in that unfavorable climatic conditions in the United States last summer resulted in dramatically higher commodity prices at the same time that we are experiencing several large scale emergencies overseas. The scale of the emergencies and the fact that they overlapped is almost unprecedented. Congress responded to the situation by increasing the level of appropriations for Public Law 480 Title II for fiscal year 2003.

Although we do not see an end to emergencies in fiscal year 2004, the budget assumption in this regard is that fiscal year 2003 is an unusual year in terms of the magnitude of emergency requirements, e.g., droughts in the Horn and Southern Africa and conflict in Iraq, and that the funding level required to respond to emergencies in fiscal year 2004 will not be as high.

SALES OF LOAN ASSETS

Question. I see that your budget includes a new provision that would provide an estimated savings of \$5 million from the sales of loan assets. I have to admit that this provision makes me very nervous given the experience that North Dakotans have had with the Small Business Administration's asset sale program and the sale of their disaster loans to private companies.

A GAO report released last January confirmed the complaints that I heard and found very serious problems in SBA's asset sales program. This report found that SBA lacks a comprehensive system to document and track all borrower inquiries and complaints after loans are sold, that SBA incorrectly calculated the losses on its loan sales and lacks reliable financial statements. It recommended that before OMB continues to encourage loan sales at USDA and other agencies, it make sure that agencies have the capability to properly carry out and account for these activities.

Does USDA have these mechanisms in place? Is USDA familiar with the concerns raised by GAO, and if so, what does it plan to do to address borrower inquiries and complaints after FSA and Rural Development loans are sold?

Answer. USDA does have mechanisms in place to correctly account for its loan programs and to handle constituent inquiries of any kind. USDA has reviewed the GAO report on the SBA loan sales program and is currently working with OMB to make certain that the problems experienced by SBA are not repeated at USDA. In the event of a sale of loan assets, all borrower rights would still be protected, as they were during previous sales.

QUESTIONS SUBMITTED BY SENATOR DIANNE FEINSTEIN

MEXICAN FRUIT FLY ASSISTANCE

Question. Secretary Veneman, I am concerned that the Mexican fruit fly outbreak this year is already worse—much worse than the previous Fallbrook outbreak. In 2000 I helped provide assistance to San Diego farmers hurt by the fruit fly outbreak, yet few growers who applied for payments received assistance from USDA.

Secretary Veneman, if 1,470 growers suffered approximately \$3.5 million in total losses, why did your department only provide assistance to 60 growers for a total of \$644,225?

Answer. We provided assistance to all producers that applied for the program. Some producers may have elected not to participate because of issues relating to gross revenue eligibility requirements.

MEXICAN FRUIT FLY OUTBREAK

Question. Fighting this infestation will be costly and I believe this widespread invasion of foreign species requires a strong Federal response from Congress. What more can USDA do to provide assistance to the avocado and citrus growers hurt by the current Mexican Fruit Fly outbreak?

Answer. USDA is mounting an aggressive response to the outbreaks. Since the initial detection of Mexican Fruit Fly (MXFF) in November 2002, APHIS and the California Department of Food and Agriculture have worked diligently to prevent and alleviate damage from this harmful pest as part of a cooperative eradication effort. We have increased trapping densities, continuously release millions of sterile MXFF's per square mile for at least two generations, and applied ground bait pesticide sprays and aerial treatments. We are also developing regulatory treatments especially for specialty fruits and organically grown commodities. Our program protocols specify pre-harvest and post-harvest treatments to allow the continued movement of commodities such as avocados and citrus in commerce.

Question. Would you support direct financial assistance to help the growers in San Diego County?

Answer. I would be happy to work with you to discuss the funding for the program.

Question. To ensure high value specialty crop growers are able to receive the help they deserve, I believe compensation payment must be based on the value of the crop, not the acreage. Would you support adding specific language to an appropriations bill to specify this so that growers of high value crops like avocados and citrus receive adequate payments?

Answer. I would be happy to work with you to discuss the funding for the program.

REALLOCATING UNUSED SUGAR EXPORT QUOTAS TO OTHER COUNTRIES

Question. Secretary Veneman, I was able to include an amendment to the Farm Bill to allow you the authority to ensure that the amount of sugar allowed to come into the United States actually makes it to the market.

At the end of section 1403 of the Farm Bill, I included a provision that allows you, working with the United States Trade Representative, to reallocate any unfilled portion of a sugar exporting country's quota when that country does not fill its quota.

On March 25th, I wrote you a letter urging you to make this reallocation because there are 50,000–60,000 tons of sugar that could be exported to the United States right now from other nations that have already met their cap. Will USDA and USTR be making this reallocation this year to help refineries like C&H Sugar—the only sugar refinery on the West Coast—obtain more raw sugar to be refined?

Answer. According to current estimates, the shortfall of the raw cane sugar tariff rate quota for fiscal year 2003 is expected to be 30,000 tons. The Harmonized Tariff Schedule of the United States and the Farm Bill authorize the United States Trade Representative to allocate the quota and reallocate it, if necessary. USDA's authority is limited to establishment of the quota and consulting with the U.S. Trade Rep-

representative. Concerning this year, the U.S. Trade Representative has not informed us of his intentions regarding a shortfall reallocation.

QUESTIONS SUBMITTED BY SENATOR RICHARD J. DURBIN

PATHOGEN TESTING AND ENFORCEMENT

Question. Madame Secretary, in a speech you gave in March you said “we are working under a Meat Inspection Act that pre-dates the Model T,” and I couldn’t agree with you more. It is obvious that changes are needed to ensure that dirty meat processing plants can be shut down based on the results of microbiological testing, and Senator Harkin, myself and others have sought to clarify the USDA’s authority through the Pathogen Reduction and Enforcement Act, or Kevin’s Law, as it also is known. I also want to ensure that you have enough resources to implement a vigorous microbiological testing program.

You have asked for a \$6 million increase to strengthen FSIS’ microbiological testing program for Salmonella, E.Coli and Listeria. How frequently will the USDA be testing products for Salmonella, E.Coli and Listeria with the \$6 million requested, and is that enough to make the new E.Coli and Listeria testing directives meaningful?

Answer. The proposed increase of just over \$6 million is to strengthen USDA’s microbiological testing program. Of the approximately \$6 million requested, \$4.5 million would be used to provide additional microbiologists, chemists, laboratory technicians, and other personnel to increase the agency’s ability to identify adulterants in meat, poultry, and egg products. This funding will help the agency develop analytical methods to test food products for chemical, biological, and radiological contamination. This initiative will also increase sampling of ready-to-eat (RTE) products for the presence of bacteria such as Listeria monocytogenes and Salmonella. FSIS will increase sampling of these products from 10,000 to 15,000 annually and will add the capability to conduct 5,000 Listeria monocytogenes environmental samples annually. The agency also plans to increase sampling of raw ground beef and raw ground beef ingredients for E. coli O157:H7 from 7,000 to 15,000 samples annually.

The budget request also includes a new \$1.7 million initiative to establish nationwide microbiological baseline studies to provide the long-term data necessary to assess the ongoing risks presented by the products FSIS regulates. The use of nationwide microbiological baseline studies will improve data quality and help us further incorporate risk management into all regulatory and policy actions. Furthermore, these increases will significantly increase FSIS’ ability to identify food safety risks associated with these pathogens.

Question. How much more testing could USDA perform if it were given \$10 million for the testing program?

Answer. It costs the agency approximately \$130 per test. However, the budget fully funds the laboratory needs for 2004.

MANDATORY NOTICE AND RECALL

Question. Madame Secretary, you also suggested earlier this year that you would be willing to support mandatory notification to USDA when a Federally inspected establishment has reason to believe it has adulterated or misbranded meat or poultry. You also called for civil penalties for continual lack of compliance, and expedited cease-and-desist orders and suspensions for those companies that violate their Hazard Analysis and Critical Control Points plan.

I support you in seeking these authorities, but I’m curious to know why you did not seek mandatory recall authority of an adulterated product, considering mandatory notice of adulteration, and recall authority, traditionally go hand in glove? Why would you want mandatory notice of a food safety problem, but not want the authority to act on it?

Answer. FSIS has the means to quickly remove potentially adulterated product from commerce in order to protect the public health. Any new authority would need to be implemented with an eye towards enhancing public health. Providing FSIS with mandatory recall authority would not increase the safety of our food supply nor enhance our Nation’s public health.

Advance notice of food safety problems would enable FSIS to more quickly identify and act to initiate a recall or other action to protect public health from a potential food safety hazard. This would provide an additional tool to increase response time to a food safety hazard with a recall or other action. A company’s decision to comply with a voluntary recall request from FSIS is compelled by FSIS enforcement powers

such as detention and seizure authority. In addition to detention and seizure authority, the agency can also shut a plant down by withholding official inspection.

LISTERIA STANDARDS

Question. Last summer a multi-state Listeriosis outbreak linked to deli products sickened at least 53 consumers, killing eight people and causing three miscarriages or stillbirths. More than 2 years have passed since the USDA published a proposal to require ready-to-eat meat and poultry processing plants to test for Listeria. A recent USDA risk assessment showed that requiring even more frequent Listeria testing than was proposed in 2001 would “lead to a proportionally lower risk of listeriosis.” Thus, the new risk assessment provides the scientific basis for the USDA to issue a stronger Listeria rule.

When do you anticipate issuing the final regulations for Listeria testing and when would those regulations go into effect?

Answer. We plan on issuing an interim final rule on June 4, 2003 with an effective date of 120 days after publication in the Federal Register.

Question. Wouldn't more testing save more lives by helping plants to more rapidly identify when they are not adequately controlling Listeria? Shouldn't USDA be seeking a testing scheme that is more protective of public health?

Answer. Through use of the Listeria risk assessment, FSIS discovered that a combination of testing, sanitation and interventions yielded greater benefits than any one strategy alone. The risk assessment also demonstrated that the use of intervention steps, such as post-packaging pasteurization or the introduction of growth inhibitors, showed dramatic public health benefits.

FSIS has worked diligently to gather the extensive scientific data necessary to develop a predictive risk assessment model. By allowing FSIS to evaluate factors that potentially contribute to the overall risk to public health, this risk assessment has given FSIS scientific confidence that new policies will be effective.

SAFETY OF FOODS PURCHASED BY SCHOOLS

Question. About 17 percent of the food served in schools is donated by the Federal Government and undergoes stringent USDA food-safety standards, including increased inspections and tougher pathogen standards. The USDA also has extensive safety information available to it on the companies it purchases food from to help it make informed decisions. Yet, the remaining 83 percent of food consumed at schools is purchased locally and is not subjected to these tougher standards. Local school officials also do not have access to the safety information that their Federal counterparts have when making their purchasing decisions.

In 2002, the General Accounting Office recommended USDA provide local school authorities with information and guidance on incorporating these more stringent safety provisions in their procurement contracts. The GAO also urged USDA to consider giving schools access to records from USDA's and FDA's inspections of prospective school food suppliers.

Have you followed up on these GAO recommendations? If so, to what extent have these recommendations been implemented?

Answer. As we understand it, the General Accounting Office (GAO) made these suggestions in testimony given in April 2002 on “Continued Vigilance Needed to Ensure Safety of School Meals.” Since that time, GAO has done extensive work in this subject area. They recently concluded an audit entitled, “GAO Audit of School Meal Programs: Opportunities Exist to Improve Nationwide Data on Frequency and Causes of Foodborne Illness and to Enhance School Food Safety Efforts (Assignment No. 360246).” GAO held exit conferences with the Food Safety and Inspection Service (FSIS), the Agricultural Marketing Service (AMS), and the Food and Nutrition Service (FNS) on March 7 and April 15, 2003. GAO released the audit on May 9, 2003, entitled “School Meal Programs: Few Instances of Foodborne Outbreaks Reported, but Opportunities Exist to Enhance Outbreak Data and Food Safety Practices (GAO-03-530).”

GAO's recommendation that USDA provide local school authorities with information and guidance on incorporating these more stringent safety provisions in their procurement contracts is currently being addressed. First Choice: A Purchasing System Manual for School Food Service has been revised and published by the National School Food Service Management Institute (NFSMI). NFSMI is currently working on a food safety supplement to First Choice that provides information on how to apply food safety to food purchasing including guidance on food safety procurement language that schools could use in developing their contracts. This supplement will be made available to every local school as a technical resource in the fall of 2003. Development and distribution of these NFSMI products are fully funded by USDA.

The suggestion to share inspection records was not raised in either exit conference or in the statement of facts that GAO provided. We feel that sharing inspection records with schools would not be an effective or efficient means of helping them make purchases, as these records are complex and voluminous. AMS conducts lengthy and rigorous screening of potential vendors and considers many factors, including inspection records, before admitting a vendor to the Approved Vendor List. That list, which may be useful to schools, is available on the AMS website.

USDA COMMODITY STANDARDS FOR LOCAL SCHOOLS

Question. What would be the health benefits of incorporating USDA's donated commodity standards into local schools' food-purchasing contracts?

Answer. There would be little or no health benefits of incorporating USDA's donated commodity standards into local school food purchasing contracts, as the more stringent safety standards only apply to USDA commodities of ground meats, turkey, some egg products, frozen cooked diced chicken, and canned fruits and vegetables. Otherwise, all foods supplied through the USDA commodity donation program have the same safety standards as are required for commercially available foods. Schools, for the most part, choose to use their entitlement money to purchase those products that are more stringently regulated (ground meats, turkey, some egg products, and frozen cooked diced chicken), and purchase very little of those same foods from the commercial market. Schools make direct purchases of foods such as fresh dairy products, fresh bread and other baked goods, additional fresh, frozen, or canned fruits and vegetables, and staples, such as salt, sugar, seasonings, and spices, for which no more stringent specifications are available at the Federal level.

SCHOOLS ACCESS TO SAFETY DATA

Question. Would school officials be able to make better purchasing decisions if they had access to companies' safety data? What barriers (legal or otherwise) are preventing USDA from implementing these recommendations?

Answer. No, we believe giving schools access to companies' safety data would prove to be overwhelming and not informative. If the assumption is that these records would lead school officials directly to a decision to purchase or not to purchase, there is no single set of inspection records that could be used to arrive at that conclusion. As noted above, heavily regulated foods supplied through the commodity program are more stringently governed by food safety measures. Other food items supplied by USDA or purchased commercially by schools meet all of the current safety standards as are required for all commercially available foods.

One barrier to providing inspection and safety records is that this data is voluminous, complex, and requires specialized knowledge of the subject in order to be properly interpreted. Another barrier is that this information would need to be screened and, in some cases "sanitized," to protect confidential and proprietary commercial information, or other protected information, from release.

SAFE FOODS IN SCHOOLS

Question. What other methods could be employed to ensure that schools are purchasing and preparing the safest foods possible for the school lunch program?

Answer. We believe that training school food service staff is the key to ensuring that schools are purchasing and preparing safe foods. Administering State agencies provide training to school food service personnel on an on-going basis. To support training in the areas of safe food purchasing and food handling practices, FNS has worked closely with the National Food Service Management Institute (NFSMI) to provide guidance and seminars to complement State agency training endeavors.

NFSMI is a key resource for food safety materials, education and training for food service personnel in our nutrition programs. Established by Congress in 1989, the Institute recently created a network of Hazard Analysis and Critical Control Points (HACCP) instructors to train school food service employees in HACCP principles, and developed a manual and teleconferences to train food service managers in responding to a food recall or emergency readiness crisis. In addition, NFSMI has been active in developing procurement materials including the manual, *First Choice, A Purchasing Systems Manual for School Food Service* which was originally published in 1995. Since its publication, over 2,000 school food service professionals have attended seminars using the manual as a reference. This training effort reinforces the concept that food procurement is integrally related to food safety. Emphasis is placed on bid specifications, laboratory testing of products, food recall procedures, and receiving and storage of foods.

FNS's Team Nutrition developed a complementary manual, *Serving It Safe: A Manager's Tool Kit* to assist food service managers to implement a comprehensive

sanitation and safety program in the cafeteria. Emphasis is placed on identifying key phases and critical control points in the food preparation process and identifying methods of preventing problems during each phase of the process. FNS continues to develop materials to educate food service personnel on food safety issues and to emphasize the importance of the safety of the food in school meals. We have distributed irradiation pamphlets; bio-security guidelines for school food service; "Fight BAC" food safety posters and pocket cards; "Thermy" pocket card, poster and magnet; and a manager's checklist.

FNS is providing funding to the NFSMI for various food safety projects including: creation of a Hand Washing Video and Poster, adding hazard analysis and critical control points information to all USDA recipes, and updating Serving it Safe—A Manager's Toolkit.

While we will continue to provide materials and guidance and to work with States to educate school food service personnel on food safety issues, we also believe that the reauthorization of the Child Nutrition Programs offers an opportunity to reaffirm the importance of food safety. We would support requiring all school food authorities to employ approved HACCP procedures in the preparation and service of meals, to ensure that every meal is prepared under the safest, most wholesome conditions possible.

QUESTIONS SUBMITTED BY SENATOR TIM JOHNSON

COUNTRY OF ORIGIN LABELING—CONSUMER BENEFITS

Question. A study from the International Agricultural Trade and Policy Center at the University of Florida was released yesterday concerning the benefits and costs of mandatory COL. This is the only comprehensive, independent study on COOL that covers the benefits of labeling, and also provides a legal analysis to guide regulators at USDA in the implementation of the rule. No other report exists other than those paid for by lobbying groups and opponents of COL.

The report contains very encouraging news about consumer willingness to pay for beef containing a U.S. label. It suggests the benefits of COL for beef may total between \$3 and \$6 billion if you extrapolate the consumer willingness to pay a 10 percent premium for steaks, 10 percent premium for roasts, and a 24 percent premium for hamburger. (We know from a recent Colorado State study consumers are willing to pay those premiums for beef with a U.S. label.) Finally, the University of Florida report suggests labeling won't cost \$2 billion, but rather between \$70 and \$200 million.

I encourage USDA to review this study and glean useful information from it.

Has USDA ever studied the benefits of COL? If not, why?

Answer. USDA has conducted studies that examined the benefits of Country of Origin Labeling (COOL). The Conference Report accompanying the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 1999 directed the Secretary of Agriculture to conduct a study on the potential effects of mandatory country of origin labeling of imported fresh muscle cuts of beef and lamb until such products reach the ultimate consumer. As directed, USDA's Food Safety and Inspection Service released a report entitled "Mandatory Country of Origin Labeling of Imported Fresh Muscle Cuts of Beef and Lamb" in January 2000. The findings of the report relate to benefits, costs, implications for international trade, and stakeholder views.

To fulfill requirements of the Paperwork Reduction Act of 1995 (PRA), USDA estimated the annual reporting and recordkeeping burden associated with the voluntary COOL program published on October 11, 2002. The PRA requires the estimation of the amount of time and related cost necessary for participants to comply with a program, but does not require the determination of any benefits that may be attributed to a program.

In the process of promulgating the regulations to implement mandatory COOL, USDA will prepare a cost/benefit assessment. We have received many comments on the initial reporting and recordkeeping burden estimates, which combined with information gleaned from available studies, the voluntary COOL program, and other public and private data, will assist us in examining both the benefits and costs of mandatory country of origin labeling.

Question. Do you agree that the consumer demand for knowing the country of origin of the food they feed their children is very substantial?

Answer. Many groups, including consumers and industry associations, have expressed an intense interest in the value of country of origin labeling.

Question. Do you agree that there may well be a significant willingness on the part of consumers to pay for information about the origin of the food they feed their families?

Answer. This will be one of the issues that will be examined when the requisite cost/benefit analysis is conducted as part of the mandatory rulemaking.

Question. Do you agree that more consumer information about their food is better than less information?

Answer. In general, consumers benefit from having more information on which to base their purchasing decisions. However, the costs of providing the additional information must be considered as well as the benefits.

A recent independent consumer survey conducted by economists at Colorado State University indicated that of those surveyed, 75 percent of consumers prefer mandatory COL for beef. Other findings included: 73 percent of consumers were willing to pay an 11-percent premium for steak and a 24-percent premium for hamburger with a "U.S." label and 21 percent of the consumers surveyed preferred COL for beef because they want to support U.S. ranchers—they prefer to buy American meat from American producers.

Question. Has USDA reviewed this consumer survey, will you consider these consumer benefits as you write the final rule, and do you agree with the results from the survey?

Answer. As part of the rulemaking process, USDA will prepare a detailed cost/benefit analysis utilizing all of the pertinent information available, including the Colorado State University survey. However, the researchers who conducted this survey recently issued a fact sheet about the appropriate use of the survey data and stated that results of the study "were not intended to and should not be used to establish COOL policy or cost benefit analysis."

COUNTRY OF ORIGIN LABELING—PACKER THREATS

Question. My constituents are very supportive of COL, but are very concerned about the abusive letters sent by meat packers saying that the packers intend to conduct random private audits of farmers and ranchers for compliance. The law was carefully written to prohibit on-farm, mandatory animal identification and it doesn't permit third-party audits mandated by packers.

What provision of the COL law leads USDA or the packers to believe mandatory third-party audits are permissible?

Answer. While Section 282(f)(1) of the law expressly prohibits USDA from using a mandatory identification system to verify country of origin, the law does not contain any language prohibiting the industry from using whatever method industry participants deem appropriate, including the use of third-party audits, to verify the country of origin information they receive from their suppliers (i.e. producers).

Question. Why do you believe it is reasonable for a packer to require a third-party audit of a farm when existing USDA programs to track origin and other information (USDA grading system, Certified Angus Beef program, school lunch program) do not allow for a similar requirement?

Answer. The COOL law requires suppliers to provide country of origin information to retailers. Retailers and their suppliers are subject to fines of up to \$10,000 per violation under the law. Therefore, it is reasonable to expect that industry participants will take the steps necessary to ensure themselves that they are in compliance with the law. In order for retailers to make accurate origin claims, suppliers must have proper documentation to verify "born, raised, slaughtered" information. Such documentation can only be provided by producers that have first-hand knowledge of where an animal was born.

The USDA grading system, Certified Angus Beef program, and school lunch program are command-and-control type systems that can only be utilized in conjunction with a mandatory identification system. Because USDA itself administers these systems, third-party audits by packers or other entities would be redundant.

Question. Do you agree with me that the prohibition of a mandatory animal identification system in the COL law means that USDA cannot mark product to trace the farm of origin but can mark product, including animals, to show the country of origin?

Answer. This provision states that USDA "shall not use a mandatory identification system to verify the country of origin of a covered commodity." The provision is not limited to mandatory animal identification systems and prohibits USDA from mandating any type of identification system to verify the country of origin.

COUNTRY OF ORIGIN LABELING—RECORDKEEPING/IMPLEMENTATION

Question. Livestock producers currently maintain birth, health, sales, breeding, feed, beef quality, veterinary, and inventory records on the cattle, sheep, and hogs they own. I intend for producers to be able to self-certify this information which can be utilized to help verify the origin of animals for COL.

Does USDA believe this type of information that a majority of producers already maintain is sufficient to comply w/COL?

Answer. USDA believes that in general, these types of records are useful in verifying the origin of animals for COOL. However, maintaining documents and records such as those listed will not necessarily ensure compliance. During a compliance audit conducted by USDA, auditors will review and assess any and all documents and information to the extent necessary to arrive at an accurate decision on compliance.

Question. If not, what additional information do you believe you will require?

Answer. Because of the diversity in industry operations, we cannot predetermine precisely what documents will be necessary to verify origin claims.

The COL law gave USDA discretion to create an audit verification system (not a mandatory system!) to help verify the origin of livestock. We included many existing industry practices and USDA programs to model in order to achieve voluntary audits. Some of these models include: the USDA grade stamp system—i.e. Choice, Select, etc, Certified Angus Beef and other breed programs, Beef Quality Assurance, Hazard Analysis Critical Control Points—HACCP, the national school lunch program, the Market Access Program, and, the voluntary “Born and Raised in the USA” label used by Carolyn Carey of California).

Question. To what extent is USDA using existing models to implement COL?

Answer. While the law provides USDA with the authority to require and enforce retail labeling, it does not provide USDA with the authority to certify and control the movement of products from production through retail sales. A necessary component of the models referenced is a mandatory identification system, which USDA is prohibited from requiring, to verify country of origin claims. Thus, none of these models could be used to implement COOL.

Recently, I discovered that for one beef carcass, packers track up to 2,500 different products—called stock keeping units. Packers segregate beef products by owner, type, breed, grade, and special company brands or labels they use to market the beef they sell. All of this information is computerized and records are kept by the company.

Moreover, a sticker is placed on every beef carcass which includes an identification number for the carcass and the packing plant number. This data is read from each sticker/carcass and downloaded into the company’s computer system. Boxed beef items are shipped to their final destination according to a complex computerized routing system. The boxes of beef contain labels denoting a wide array of data, including: cut of meat, breed of animal meat is derived from, final destination (whether for export, a grocery store, or wholesaler), special company labels, packing plant, quality grade of meat, and weight among other information.

All of this data is stored on a bar code included on every label placed on the boxed beef. It is my belief that while tracking animals, carcasses, and meat for COL will include costs, it isn’t impossible and it can be done knowing they track so many other bits of information for their business operations.

Question. If packers are tracking enough information to keep track of 2,500 different products from one beef animal, how are we to believe it’s virtually impossible and exorbitantly costly for them to also track the origin of the animals?

Answer. The level of complexity in the packing industry will be a function of the variation of the number of different origins and the number of products they process. In addition to maintaining an accurate recordkeeping system, packers that handle products from more than one country of origin will be required to have a segregation plan to maintain the identity of the origin of the product. Facilities may need modifications to permit product segregation, and there may be additional costs associated with handling, employee training, marketing, invoicing, shipping, etc. Products that may be of mixed origin, such as ground beef, add additional complexity to process needed to ensure credible country of origin labeling claims.

Question. Do you agree that the food industry currently tracks a large amount of data (at least 2,500 products just for one beef animal) about their product so that a whole new record keeping system is NOT required, but merely an adjustment to current records?

Answer. USDA does not believe that records pertaining to the origin of covered commodities as defined by the COOL law are already maintained by affected entities. While it may be possible for these entities to make modifications to their exist-

ing recordkeeping systems in order to meet the requirements of COOL, it is an additional burden that USDA must account for in the recordkeeping costs.

TRACKING IMPORTS ONLY FOR VERIFICATION OF COUNTRY OF ORIGIN LABELING

Question. It has been pointed out to me that under Article 9 (IX) of GATT 1994, live cattle entering the United States can be marked as to their country of origin so long as the mark doesn't discriminate against, materially reduce the value of, or unreasonably increase the cost of the imported item. Indeed, last year the U.S. imported about 800,000 calves from Mexico, and most of these calves were branded with an "M" to differentiate them from domestic cattle. This practice is in compliance with Article 9 of GATT.

Several organizations have made a very compelling case to me that one way to reduce the implementation and tracking costs associated with COL is to have USDA require markings similar to the "M" applied to imports of Mexican cattle on all imported livestock. The rationale is that tracking these markings on imports will reduce overall costs for implementation. I believe the costs associated with tracking only imported animals for COL implementation—in accordance w/Article 9 of GATT—is a common sense approach to pursue which is permissible under the law and would reduce implementation costs because imported livestock are already marked as such.

To what extent has USDA analyzed Article 9 of GATT to determine how to implement COL?

Answer. In promulgating the regulations for the mandatory Country of Origin Labeling program, USDA will analyze the pertinent statutes that govern the marking of imported goods and will work with the Office of the U.S. Trade Representative to ensure that the United States is in compliance with all of the applicable trade laws.

Question. Does USDA have a position on using Article 9 of GATT as a rationale to track only imported animals for COL implementation?

Answer. The COOL law applies to all covered commodities and specifically identifies the criteria that products of U.S. origin must meet. While Article 9 of GATT may permit the marking of imported animals, the COOL law does not provide authority to control the movement of domestic or imported products and prohibits the use of a mandatory identification system, which would be required to track imported product through the entire chain of commerce.

Question. Do you agree that virtually all imported covered commodities are currently marked as to country of origin and that such marks are specifically allowed by GATT and WTO rules?

Answer. While products imported in consumer-ready packages are required to be labeled for origin, many imports undergo some type of transformation that eliminates the current requirement for labeling of origin. In addition, certain products such as livestock are currently on the "J-List" and are exempt from marking requirements.

Question. In general terms, the United States only imports around 2 million head of live cattle but slaughters 28 million head. Obviously, most of the cattle we slaughter are of U.S. origin. Doesn't it make sense to USDA that tracking the 2 million imported cattle would be less costly than keeping track of 28 million?

Answer. While tracking only imported cattle may be less costly than tracking 28 million head, the law applies to all covered commodities and specifically identifies the criteria that product of U.S. origin must meet. The law does not provide authority to control the movement of products and prohibits the use of a mandatory identification system, which would be required to track product through the entire chain of commerce. Because the law requires country of origin labeling by retailers, compliance enforcement will begin at retail and will track the country of origin claims back through the production and marketing chain. Not all imported animals and covered commodities will be sold at retail, so there is little justification for requiring marking and tracking of all imported products.

COUNTRY OF ORIGIN LABELING—TRADE

Question. Nearly 30 major trading Nations in the world have mandatory COL programs for food.

Has the United States ever filed a complaint in the WTO against any of these foreign labeling requirements?

Answer. The U.S. filed a complaint against certain trade practices followed by Korea, which included an import labeling component.

Question. Has USDA reviewed any of these foreign labeling requirements so as to learn what pitfalls and/or success stories may be available regarding COL implementation?

Answer. USDA has reviewed many existing labeling requirements, including State labeling laws. However, all of these labeling programs have different definitions and requirements that provide limited value in terms of implementing the specificity of origin in the COOL law.

COUNTRY OF ORIGIN LABELING—COST

Question. Earlier this year USDA released a public cost estimate of \$2 billion for implementation of COL. I can think of no credible organization that agrees with this exorbitant estimate.

Through a Freedom of Information Act request, it was discovered that USDA only consulted with 3 organizations regarding the possible cost of COL—and all 3 were among the most powerful opponents of COL.

The documents released to the Consumer Federation of America reveal USDA consulted with the National Meat Association (packers), the National Food Processors Association, and the National Pork Producers Council before developing the \$2 billion cost estimate.

Shortly thereafter, I wrote you a letter asking that you explain the methods USDA used to determine the initial cost of COL and why you apparently met only with opponents.

You recently responded to my letter, assured me USDA would implement COL in a fair and balanced matter, and said USDA officials met formally w/29 different organizations and State programs regarding the cost estimate of COL, as opposed to just 3.

How many of the 29 groups supported COL and would you provide me with a list of the 29 different organizations USDA met with to discuss cost issues?

Answer. USDA was approached by numerous groups representing a variety of industry segments and we tried to meet with as many groups as possible. As the law had already been enacted, our discussions were focused more on the overall implementation of Country of Origin Labeling rather than the individual group's position on COOL. A copy of all of the groups we have met with to date is attached.

[The information follows:]

Event name	Event dates
Food Labeling Conference	January 15
R-Calif National Conv.	January 23–25
NAMP Executive Cmte.	January 27
NCBA/CBB Conv. & Trade Show	January 29-February 1
Northern VA Angus Assn.	February 1
Lancaster County Cattle Feeders Day	February 4
National Grocers Assn./GRLC	February 4
American Sheep Industry Assn. Annual Conv.	February 6–8
Congressional Research Service	February 14
California State Univ. @ Chico	February 15
American Farm Bureau Federation	February 16–20
United Fresh Fruit & Vegetable Assn.	February 21–24
Agricultural Women's Leadership Network Forum	February 24
21st Century Pork Club	February 26–28
National Meat Assn. MEATXPO 2003	March 2–5
Kentucky Farm Bureau	March 3–6
Joplin Regional Stockyards/Mo. Cattlemen's Assn	March 11
AMU/FMI/Topco Meat Conference	March 9–11
South Dakota Briefing—Farm Bill/USDA Programs & Services	March 11
International Boston Seafood Show	March 11–13
National Lamb Feeders Assn.	March 13–15
House Ag Committee Briefing	March 17
Virginia Farm Bureau	March 18
AAEA/FAMPS Food Labeling Conf.	March 20–21
Oklahoma Ag Leadership	March 20
Texas Southwest Cattle Raisers Assn.	March 23–26
Haverlah Ranch—Powderhorn Cowbells	March 25
Missouri Cattlemen's Association	March 25
International Meat Secretariat/OPIC Regional Meeting	March 30–April 1
Missouri Stockgrowers Assn.	April 10–12
National Cattlemen's Beef Assn., Spring Conference	April 11

Event name	Event dates
NFI Spring Conference	April 11-16
NAFTA Workshop	April 23-26
Federal Food Regulatory Conf.	April 28
American Farm Bureau Federation	May 6

2003 LIVESTOCK FEED PROGRAM

Question. On August 12, 2002, you announced \$150 million in feed assistance for producers in Colorado, Nebraska, South Dakota, and Wyoming. This assistance was provided in the form of \$23 feed credits for producers to use at their local feed supply store. At the same time, USDA was sending participating feed mills surplus nonfat dry milk stocks to be used in manufacturing the feed. In a press release issued by your office, it was stated that the four States chosen to participate in the program was because they were the hardest hit by the drought, with at least 75 percent of the pasture and forage crops rated poor or very poor.

The data made available by NASS indicates pasture in South Dakota was rated 59 percent poor or very poor the week of April 8, 2003, when the new Livestock Feed Program was announced. Additionally, feed supplies and stock water supplies jumped from an average of 4.5 percent very short in 2002 to an average of 23.5 percent very short in 2003. Yet it appears data of this sort was not taken into consideration in determining how producers would be eligible for the new feed assistance program.

If the entire State of South Dakota was eligible for the 2002 Cattle Feed Program and little if any precipitation has fallen since then, how can you justify excluding over three-fourths of the State from the 2003 feed assistance program?

Answer. In mid-April, when criteria for the 2003 Nonfat Dry Milk Feed Program were established, the previous 6 months' moisture accumulation data was used, specifically the U.S. Drought Monitor. In order to best utilize the available surplus stocks of non-fat dry milk, only the areas suffering the most according to the monitor were determined eligible.

Question. Why did the Department choose a different drought data source (Drought Monitor) for the 2003 program, which excludes over three-fourths of the producers that had been eligible for the 2002 program?

Answer. This program was established early in the spring before there was any new growth of pasture. The other program was established in late summer after pasture losses were known. Therefore, the criteria based on the U.S. Drought Monitor were utilized.

Question. How does the Department plan on providing assistance to producers who have no feed source for 2003 but were excluded from this recently announced program?

Answer. Under the Nonfat Dry Milk Feed Program, conditions are monitored on a monthly basis, and the program will be available in areas of persisting drought and inadequate grazing due to the drought.

PUBLIC TV QUESTION

Question. Secretary Veneman, as you may know, public television stations are facing a Federal mandate to convert all of their analog transmission equipment to digital. The deadline for public television stations to make this conversion recently passed on May 1, 2003. 195 stations have filed with the FCC for extensions of the deadline. Of the stations that cited financial hardship as reason for a waiver, 70 percent of them serve predominately rural areas.

Last year, members of this committee recognized that public stations serving rural areas would experience financial hardship as one of the obstacles to meeting the Federally mandated deadline. To assist the stations, the committee included \$15 million in the Distance Learning and Telemedicine program specifically to address these needs.

It is my understanding that the committee staff has recently met with both budget officers and attorneys in your department about fund for this purpose. Further, I understand that you agency has neglected to develop a plan for awarding these funds.

Can you explain the delay?

Madam Secretary, it is my understanding that the reason for the delay in awarding these funds is because your department does not feel that there is significant congressional direction to implement this program for public television.

I have read both the Senate report language as well as the Omnibus report language and I think that Congress was explicit in their intent to award these funds.

I might add that we put those funds in there for this specific purpose—to provide funding for rural public television stations.

Question. Secretary Venemen, can you explain why you are choosing to ignore a directive from this committee?

Answer. The 2003 Agriculture Appropriations Act provides \$56,941,000 for the Distance Learning and Telemedicine Program. It specifically enumerates that \$10 million of these funds are to be used for grants to support broadband transmission and local dial-up Internet services for rural areas. It is, however, silent concerning translators for digital conversions. There is language in the Senate Appropriations Committee Report and a reference in the Statement of Managers that accompanies the Conference Report that both sets out the \$15 million and refers to conversion to digital translators.

Rural Development is aggressively seeking the implementation of a Notice of Funds Availability (NOFA) that would make this funding available this summer. The NOFA will outline funding parameters and set forth eligibility requirements to allow for the most equitable distribution of this grant funding.

QUESTIONS SUBMITTED BY SENATOR ROBERT C. BYRD

ANIMAL WELFARE

Question. In the Fiscal Year 2003 Omnibus Appropriations bill, \$5 million was secured for the hiring of at least 50 new Humane Slaughter inspectors within the Food Safety Inspection Service (FSIS) at the United States Department of Agriculture (USDA). Report language in this bill instructed these new inspectors to work solely on the enforcement of the Humane Slaughter Act. Prior to the \$1.25 million allocation in the fiscal year 2001 Supplemental Appropriation bill for the hiring of 17 District Veterinary Medical Specialists at FSIS to work solely on the enforcement of the Humane Slaughter Act, there were no inspectors employed exclusively for this purpose.

Due to the late date on which the Fiscal Year 2003 Omnibus Appropriations bill was signed into law, language in the bill permitted the funding for inspectors to be used into fiscal year 2004. However, it has recently come to light that it is not the intention of the USDA to hire at least 50 new Humane Slaughter Inspectors with the funding that has been provided. Instead, it is believed that the USDA plans on hiring only 15 inspectors in fiscal year 2003, then in fiscal year 2004 the USDA will retain these 15 inspectors while hiring an additional 20 inspectors. While the USDA may claim that this qualifies as the minimum of 50 inspectors they are required to hire, this does not coincide with the original intent of the law.

At this time, how many new Humane Slaughter Inspectors have been hired to work solely on the enforcement of the Humane Slaughter Act, funded through the \$5 million provided for this purpose in the fiscal year 2003 Omnibus Appropriations bill? How many new inspectors will be hired by the end of fiscal year 2003?

Answer. FSIS continues to increase agency efforts to ensure that all field personnel understand their authorities and rigorously enforce the Humane Methods of Slaughter Act. FSIS has recently hired 215 new line inspectors trained in humane handling methods and at this time, the systemwide FSIS effort devoted to humane handling and slaughter inspection is equal to 63 FTEs. In fiscal year 2002, the comparable level of effort equaled 25 FTEs carrying out humane handling and slaughter inspection, so the agency has added 38 FTEs in fiscal year 2003. The agency expects that this number will continue to rise through fiscal year 2004 to meet and even exceed the requirement outlined in the fiscal year 2003 Omnibus Appropriations bill.

Question. When will the USDA complete securing no less than the 50 new Humane Slaughter inspectors as required by the fiscal year 2003 appropriations bill and what is the schedule for hiring these new inspectors?

Answer. The agency expects to meet the requirement in fiscal year 2004 and even exceed the requirement outlined in the fiscal year 2003 Omnibus Appropriations bill.

When determining the amount of funding necessary to employ 50 new Humane Slaughter Inspectors at the Food Safety Inspection Service, officials at the USDA requested the amount of \$5 million, indicating that it would be preferable to employ veterinarians in these positions, thus affecting the amount of funding that was allocated for these inspectors.

Question. Are all of the new Humane Slaughter Inspectors, and those that have yet to be hired, veterinarians? If not, how many inspectors, above the 50 required by the fiscal year 2003 Omnibus Appropriations bill, are being hired?

Answer. In fiscal year 2003, FSIS has hired 215 new line inspectors trained in humane handling methods and the systemwide FSIS effort devoted to humane handling and slaughter inspection is equal to 63 FTEs. In fiscal year 2002, the comparable level of effort equaled 25 FTEs carrying out humane handling and slaughter inspection, so the agency will have 38 FTEs in fiscal year 2003. The agency expects that this number will continue to rise through fiscal year 2004 to meet and even exceed the requirement outlined in the fiscal year 2003 Omnibus Appropriations bill.

In addition to the 63 FTEs, FSIS veterinarians also conduct humane handling verification activities. FSIS' Veterinary Medical Officers (VMO) are assigned to all livestock slaughter facilities that also provide inspection oversight for humane handling and slaughter. FSIS employs 1,100 veterinarians, approximately 600 of which conduct on-going humane oversight verification duties in livestock plants.

In order to ensure that adequate funding is available to maintain no less than 50 Humane Slaughter Inspectors throughout fiscal year 2004, the future funding needs must be determined.

Question. Given that the \$5 million provided in the fiscal year 2003 Omnibus Appropriations bill for no less than 50 new Humane Slaughter Inspectors has been made available through fiscal year 2004, will any additional funding be needed to fulfill and maintain this requirement in fiscal year 2004? If so, how much funding is needed?

Answer. FSIS has adequate resources to continue increasing agency efforts to ensure that all field personnel understand their authorities and vigorously enforce the Humane Methods of Slaughter Act.

COMPETITIVE SOURCING

Question. The Office of Management and Budget (OMB) scores agencies on how well they comply with the President's Management Agenda. Agencies are encouraged to submit management plans to the OMB which incorporate the competitive sourcing quotas outlined in the President's budget. I understand that agencies within the Department of Agriculture are currently studying their workforces to find places where it would be appropriate for private contractors to take over agency functions.

One example relates to potential outsourcing of technical specialists (such as soil scientists and other conservation specialists) of the Natural Resources Conservation Service. These are the very people who are responsible for transferring public conservation policy to private landholders through what has been one of the most successful public-private partnerships in history.

Another example which many of my constituents are concerned about is the privatization effort within the U.S. Forest Service, but I believe this is an important issue for every agency in your Department. Regardless of the agency or the activity, the uncertainty and the employee level as to how agency outsourcing will evolve is having a horrific effect on morale. Given the loss of experienced agency personnel that will occur as a large number of employees reach retirement, we should be thinking of ways to retain experienced workers, not engage in practices which will erode their trust in personnel management.

It is my understanding (from OMB) that these competitive sourcing plans, once they are submitted to the OMB for approval, can be released to the public at the discretion of the agency heads. If the Congress is to appropriate substantial funding for private sector employment opportunities, I expect that you will first provide Congress, and in particular this Committee, with a copy of any management plan or competitive sourcing proposal that the Department of Agriculture submits to the OMB.

When do you expect to submit a management plan to the OMB, and how soon can you make that plan available to this Committee?

Answer. I submitted a competitive sourcing plan to OMB in May 2002. This plan represents USDA's initial starting point for competitive sourcing. The Department expects to update this plan over the next several months. I will submit a copy of our May 2002 plan for the record.

[The information follows.]

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, D.C., May 14, 2002.

Hon. MITCHELL E. DANIELS, JR.,
Director, Office of Management and Budget, Washington, D.C.

DEAR DIRECTOR DANIELS: On January 4, we provided you with a summary of the Department's plan to meet the Administration's competitive sourcing goal by September 2003. Enclosed is a detailed plan of the specific positions we intend to compete or convert as part of Phase I of our plan.

In addition, we are also now focusing on USDA-wide functions, including the structure and initiatives for county-based agencies. As we finalize the tasks, we will incorporate additional changes, as necessary, to our competitive sourcing plans.

If you have any questions, please contact Edward R. McPherson, Chief Financial Officer, at (202) 720-5539.

Sincerely,

ANN M. VENEMAN,
Secretary.

U.S. Department of Agriculture Commercial FAIR Act Inventory Positions for Competitive Sourcing						
Organization	Location	FTE	Function	Direct Conversion/ Cost Comparison (DC/CC)	Responsible Official Name	Responsible Official Number
Departmental Activities						
Departmental Administration						
Departmental Administration	DC	3	Awards Admin	CC	Ray Fisher	202-720-3202
Departmental Administration	DC	3	Alternative Dispute Resolution	CC	Ray Fisher	202-720-3202
Departmental Administration	DC	2	Grievance Appeals	CC	Ray Fisher	202-720-3202
Departmental Administration	DC	5	Personnel Security Specialist	DC	Clifford Oliver	202-720-5711
Departmental Administration	DC	1	Personnel Security Administrative Aide	DC	Clifford Oliver	202-720-5711
D - Regulatory and Program Management Support Services						
Departmental Administration	DC	1	Continuity of Operations Plan - Planner	DC	Clifford Oliver	202-720-5711
Y - Other Selected Functions						
Departmental Administration	DC	8	Legal Techs	CC	Ray Fisher	202-720-3202
Departmental Administration	DC	6	Mail Clerks	DC	Ray Fisher	202-720-3202
Departmental Administration	DC	3	TBD	DC	Ray Fisher	202-720-3202
Total FTE - DA		32				
Office of the Chief Financial Officer						
C - Finance and Accounting						
Office of the Chief Financial Officer	LA	30	Federal system replacement (Telephone, Utilities, Federal Information System Payment)	DC	Steve Leafholtz	504-255-5134
Office of the Chief Financial Officer	LA	9	Clearing related to outstanding administrative and program bills	DC	Gary Mittel	504-255-5130
Office of the Chief Financial Officer	LA	3	Internal auditing of information systems	CC	Ella Robertson	504-255-5761
Office of the Chief Financial Officer	LA	30	Reconciliation of agency cash balances for 6652 and 6653			
H - Health Services						
Office of the Chief Financial Officer	LA	2	Nursing function	DC	Donald Lewis	504-255-5624
T - Other NonManufacturing Operations						
Office of the Chief Financial Officer	LA	2	Printing and reproduction of large volume documents	CC	Jules Leunmont	504-255-5522
Office of the Chief Financial Officer	LA	7	Visual information graphics support activities	CC	Jules Leunmont	504-255-5522

U.S. Department of Agriculture Commercial FAIR Act Inventory Positions for Competitive Sourcing						
Organization	Location	EFE	Function	Direct Conversion/ Cost Comparison (DC/CC)	Responsible Official Name	Responsible Official Number
			W - Automatic Data Processing			
Office of the Chief Financial Officer	LA	13	Seal management - Internal desktop computing support	CC	Jerry Lohfink	504-255-5200
Office of the Chief Financial Officer	LA	2	Cyber security real-time monitoring of intrusion detection and related alerts	DC	Michael Zerfingue	504-255-8799
Office of the Chief Financial Officer	LA	110	Data Center activities	CC	Jerry Lohfink	504-255-5200
			Y - Other Selected Functions			
Office of the Chief Financial Officer	LA	2	Records management activity in warehouse	DC	Debbie Byrne	504-255-5085
		210				
			T - Other NonManufacturing Operations			
Office of the Chief Information Officer	DC	1	Other Communications and Electronics	DC	Janet Guyer	816-926-2722
Office of the Chief Information Officer	DC	4	Administrative Support	DC	Janet Guyer	816-926-2722
Office of the Chief Information Officer	CO	2	Administrative Support	DC	Janet Guyer	816-926-2722
			W - Automatic Data Processing			
Office of the Chief Information Officer	CO	3	Administrative Support	DC	Janet Guyer	816-926-2722
Office of the Chief Information Officer	DC	2	Software Services	DC	Janet Guyer	816-926-2722
Office of the Chief Information Officer	DC	5	Seat Management Services	DC	Janet Guyer	816-926-2722
Office of the Chief Information Officer	DC	2	Other ADP Functions	DC	Janet Guyer	816-926-2722
Office of the Chief Information Officer	MO	6	Administrative Support	DC	Janet Guyer	816-926-2722
Office of the Chief Information Officer	MO	4	Data Center operations	DC	Janet Guyer	816-926-2722
Office of the Chief Information Officer	MO	3	Software Services	DC	Janet Guyer	816-926-2722
Office of the Chief Information Officer	MO	1	Other ADP Functions	DC	Janet Guyer	816-926-2722
Office of the Chief Information Officer	MO	2	Client services	DC	Janet Guyer	816-926-2722
		38				
			Total FFE - OCFO			
Farm and Foreign Agriculture Service						
Foreign Agriculture Service						
			D - Regulatory and Program Management Support Services			
Foreign Agriculture Service	DC	9	Program Marketing and Outreach	CC	Ray Suhr	202-720-7349
Foreign Agriculture Service	Brussels, Belgium	1	Data Collection and Analysis	DC	Ray Suhr	202-720-7349
Foreign Agriculture Service	Buenos Aires, Argentina	1	Data Collection and Analysis	DC	Ray Suhr	202-720-7349
Foreign Agriculture Service	Paris, France	1	Data Collection and Analysis	DC	Ray Suhr	202-720-7349
Foreign Agriculture Service	Tokyo, Japan	1	Data Collection and Analysis	DC	Ray Suhr	202-720-7349
Foreign Agriculture Service	Lima, Peru	1	Data Collection and Analysis	DC	Ray Suhr	202-720-7349

U.S. Department of Agriculture Commercial FAIR Act Inventory Positions for Competitive Sourcing						
Organization	Location	FTE	Function	Direct Conversion Cost Comparison (DC/CC)	Responsible Official Name	Responsible Official Number
Foreign Agriculture Service	Stockholm, Sweden	1	Data Collection and Analysis	DC	Ray Suehr	202-720-7349
Foreign Agriculture Service	Hong Kong, China	1	Data Collection and Analysis	DC	Ray Suehr	202-720-7349
Foreign Agriculture Service	Hamburg, Germany	1	Data Collection and Analysis	DC	Ray Suehr	202-720-7349
Foreign Agriculture Service	Bangkok, Thailand	1	Data Collection and Analysis	DC	Ray Suehr	202-720-7349
Foreign Agriculture Service	Wellington, New Zealand	1	Data Collection and Analysis	DC	Ray Suehr	202-720-7349
Foreign Agriculture Service	Overseas, TBD	3	Data Collection and Analysis	DC	Ray Suehr	202-720-7349
			Y - Other Selected Functions			
Foreign Agriculture Service	DC	10	Public Affairs Program Activities and Operations	CC	Ray Suehr	202-720-7349
Total FTE - FAS		32				
Farm Service Agency						
Farm Service Agency	MO	27	Finance and Accounting	CC	Ray Suehr	202-720-7349
Farm Service Agency	MO	35	Loan Processing and Services	CC	Ray Suehr	202-720-7349
			U - Education and Training			
Farm Service Agency	DC and MO	28	Education and Training	CC	Ray Suehr	202-720-7349
			W - Automatic Data Processing			
Farm Service Agency	DC and MO	92	Data Processing	CC	Ray Suehr	202-720-7349
Total FTE - FSA		182				
Risk Management Agency						
Risk Management Agency	DC	18	Administrative Support Services	CC	Ray Suehr	202-720-7349
			S - Installation Services			
Risk Management Agency	MO	31	Financial and Payroll Services	CC	Ray Suehr	202-720-7349
			W - Automatic Data Processing			
Risk Management Agency	MO	28	Systems Design, Development and Programming Services	CC	Ray Suehr	202-720-7349
Total FTE - RMA		75				

U.S. Department of Agriculture Commercial FAIR Act Inventory Positions for Competitive Sourcing						
Organization	Location	FTE	Function	Direct Conversion/ Cost Comparison (D/C/C)	Responsible Official Name	Responsible Official Number
Food, Nutrition, and Consumer Services						
			D - Regulatory and Program Management Support Services			
Food, Nutrition, and Consumer Services	HQ, Regions, & Field Ofs	88	Administrative Support	CC	Cherie Stallman	703-305-2332
Total FTE - FNS		88				
Marketing and Regulatory Programs						
Agricultural Marketing Service						
Agricultural Marketing Service	TBD	15	Fruit & Vegetable Check Loaders	CC	Phyllis Towns	202-720-4993
Agricultural Marketing Service	CA	6	Inspection Equipment Technicians	CC	Phyllis Towns	202-720-4993
			T - Other Nonmanufacturing Operations			
Agricultural Marketing Service	TX, AL, AR, SC, GA, TN, AZ, LA, CA	51	Equipment Operator	CC	Norma McDill	202-720-3193
Agricultural Marketing Service	TN	3	Mechanical Engineer	CC	Norma McDill	202-720-3193
			Z - Maintenance, Repair, Alteration, and Minor Construction of Real Property			
Agricultural Marketing Service	TN	3	Grounds Maintenance	CC	Norma McDill	202-720-3193
Total FTE - AMS		74				
Animal & Plant Health Inspection Service						
U - Education and Training						
Animal and Plant Health Inspection Service	IA	2	Training	TBD	Julie Cooper	301-734-7742
Animal and Plant Health Inspection Service	FL	5	Training	TBD	Julie Cooper	301-734-7742
Animal and Plant Health Inspection Service	MD	23	Training	TBD	Julie Cooper	301-734-7742
Animal and Plant Health Inspection Service	NM	1	Training	TBD	Julie Cooper	301-734-7742
W - Automatic Data Processing						
Animal and Plant Health Inspection Service	NY	6	Information Technology	TBD	Julie Cooper	301-734-7742
Animal and Plant Health Inspection Service	AZ	3	Information Technology	TBD	Julie Cooper	301-734-7742
Animal and Plant Health Inspection Service	CA	3	Information Technology	TBD	Julie Cooper	301-734-7742

U.S. Department of Agriculture Commercial FAIR Act Inventory Positions for Competitive Sourcing									
Organization	Location	EIE	Education	Direct Contracting Cost Comparison (DCC/CC)	Responsible Official Name	Number			
Animal and Plant Health Inspection Service	CO	31	Information Technology	TBD	Julie Cooper	301-734-7742			
Animal and Plant Health Inspection Service	DC	2	Information Technology	TBD	Julie Cooper	301-734-7742			
Animal and Plant Health Inspection Service	FL	2	Information Technology	TBD	Julie Cooper	301-734-7742			
Animal and Plant Health Inspection Service	GA	1	Information Technology	TBD	Julie Cooper	301-734-7742			
Animal and Plant Health Inspection Service	IA	10	Information Technology	TBD	Julie Cooper	301-734-7742			
Animal and Plant Health Inspection Service	KY	1	Information Technology	TBD	Julie Cooper	301-734-7742			
Animal and Plant Health Inspection Service	MA	42	Information Technology	TBD	Julie Cooper	301-734-7742			
Animal and Plant Health Inspection Service	MD	1	Information Technology	TBD	Julie Cooper	301-734-7742			
Animal and Plant Health Inspection Service	MI	1	Information Technology	TBD	Julie Cooper	301-734-7742			
Animal and Plant Health Inspection Service	MN	1	Information Technology	TBD	Julie Cooper	301-734-7742			
Animal and Plant Health Inspection Service	MS	1	Information Technology	TBD	Julie Cooper	301-734-7742			
Animal and Plant Health Inspection Service	NC	13	Information Technology	TBD	Julie Cooper	301-734-7742			
Animal and Plant Health Inspection Service	NY	2	Information Technology	TBD	Julie Cooper	301-734-7742			
Animal and Plant Health Inspection Service	OH	1	Information Technology	TBD	Julie Cooper	301-734-7742			
Animal and Plant Health Inspection Service	PR	1	Information Technology	TBD	Julie Cooper	301-734-7742			
Animal and Plant Health Inspection Service	TX	6	Information Technology	TBD	Julie Cooper	301-734-7742			
Animal and Plant Health Inspection Service	VA	2	Information Technology	TBD	Julie Cooper	301-734-7742			
Animal and Plant Health Inspection Service	MS	2	Information Technology	TBD	Julie Cooper	301-734-7742			
Animal and Plant Health Inspection Service	MT	1	Information Technology	TBD	Julie Cooper	301-734-7742			
Animal and Plant Health Inspection Service	OR	1	Information Technology	TBD	Julie Cooper	301-734-7742			
Animal and Plant Health Inspection Service	WA	1	Information Technology	TBD	Julie Cooper	301-734-7742			
Animal and Plant Health Inspection Service	National	23	Administrative Support	DC	Julie Cooper	301-734-7742			
Total FTE - APHIS		189							
Grain Inspection, Packers and Stockyards Administration									
Grain Inspection, Packers and Stockyards Administration	DC or MO	3	Information Technology	DC	John Good	202-720-5625			
Total FTE - GIPSA		3							
Natural Resources and Environment									
Forest Service									
Forest Service	National	249	E - Environment Environmental Planning - NEPA	CC	Tom Martin	703-605-0845			
Forest Service	WI, WA, & OR	11	R - Research, Development, Test, and Evaluation Building and grounds maintenance	DC	Tom Martin	703-605-0845			

U.S. Department of Agriculture Commercial FAIR Act Inventory Positions for Competitive Sourcing						
Organization	Location	FTE	Function	Direct Supervisor/ Cost Center (B/C/C)	Responsible Official Name	Number
S - Installation Services						
Forest Service	National	475	Fire Readiness Resources	DC/CC	Tom Martin	703-605-0845
Forest Service	CA, AZ, NM	35	Motor Vehicle Operation	CC	Tom Martin	703-605-0845
Forest Service	CA, AZ, NM	49	Motor Vehicle Maintenance	CC	Tom Martin	703-605-0845
Forest Service	OR & WA	61	Fleet Management Services	CC	Tom Martin	703-605-0845
T - Other Nonmanufacturing Operations						
Forest Service	National	1,465	National Forest Operations, temporary employees	DC/CC	Tom Martin	703-605-0845
Forest Service	MT, CA, UT	100	Road Construction	CC	Tom Martin	703-605-0845
Forest Service	CA	100	Enteplaner Trains	CC	Tom Martin	703-605-0845
Forest Service	National	100	Service Fire Consolidated Functions	CC	Tom Martin	703-605-0845
Z - Maintenance, Repair, Alteration, and Minor Construction of Real Property						
Forest Service	North East Region/State	21	Maintenance & Repair of Grounds	DC	Tom Martin	703-605-0845
Forest Service	OR & WA	38	Minor Construction, Maintenance & Repair of Buildings	CC	Tom Martin	703-605-0845
Forest Service	MT, CA, UT	300	Road Maintenance	CC	Tom Martin	703-605-0845
Total FTE - FS		3,035				
Natural Resources Conservation Service						
9 - Installation Services						
Natural Resources Conservation Service	AL	1	Supply, Warehousing & Distribution Svcs Mgmt.	DC	Robert N. Jones	334-887-4500
Natural Resources Conservation Service	AR	1	Supply, Ware, & Dist. Svcs. Mgt	DC	Kalven L. Trice	501-501-3100
Natural Resources Conservation Service	HI	1	Supply, Ware, & Dist. Svcs. Mgt	DC	Ronald L. Williams	817-324-5270
Natural Resources Conservation Service	NV	1	Supply, Ware, & Dist. Svcs. Mgt	DC	Stephen K. Chick	402-437-5300
Natural Resources Conservation Service	NH	1	Supply, Ware, & Dist. Svcs. Mgt	DC	William P. Peterson	712-245-3933
Natural Resources Conservation Service	OH	1	Supply, Ware, & Dist. Svcs. Mgt	DC	Robert E. Heard	217-257-2202
Natural Resources Conservation Service	PA	1	Supply, Ware, & Dist. Svcs. Mgt	DC	Carole Wyatt	817-509-5392
Natural Resources Conservation Service	TX	2	Supply, Ware, & Dist. Svcs. Mgt	DC	John P. Burt	254-742-5300
Natural Resources Conservation Service	TX	1	Supply, Ware, & Dist. Svcs. Mgt	DC	John P. Burt	254-742-5300
Natural Resources Conservation Service	VA	1	Supply, Ware, & Dist. Svcs. Mgt	DC	M. Denise Doetzer	804-297-1091
T - Other Nonmanufacturing Operations						
Natural Resources Conservation Service	TX	65	Mapping and Charting	CC	Maurice Masbach	202-690-4616
Natural Resources Conservation Service	CO	2	Admin. Support Services	CC	James Allen Green	303-776-1102
Natural Resources Conservation Service	DC	2	Admin. Support Services	DC	Leonard Jordan	706-546-2722
Natural Resources Conservation Service	GA	1	Admin. Support Services	DC	Kenneth M. Kanehito	808-541-2600
Natural Resources Conservation Service	HI	1	Admin. Support Services	DC	Leroy Ahlers	785-823-4565
Natural Resources Conservation Service	KS	1	Admin. Support Services	DC	Leroy Ahlers	785-823-4565
Natural Resources Conservation Service	MD	1	Admin. Support Services	DC	David P. Doss	410-767-0861

U.S. Department of Agriculture Commercial FAIR Act Inventory Positions for Competitive Sourcing						
Organization	Location	FTE	Function	Direct Conversion/ Cost Conversion (RUCS)	Responsible Official Name	Responsible Official Number
Natural Resources Conservation Service	AR	1	Admin. Support Services	DC	William Hurt	851-3785
Natural Resources Conservation Service	ND	1	Admin. Support Services	DC	Thomas E. Jewett	701-530-2900
Natural Resources Conservation Service	NE	1	Admin. Support Services	DC	Stephen K. Chick	402-437-5300
Natural Resources Conservation Service	NM	2	Admin. Support Services	DC	Rosendo Trevino II	505-761-4100
Natural Resources Conservation Service	NY	1	Admin. Support Services	DC	Adolfo Perez	315-477-6504
Natural Resources Conservation Service	TN	1	Admin. Support Services	DC	James W. Ford	615-758-5471
Natural Resources Conservation Service	TX	2	Admin. Support Services	DC	Carole Wyatt	817-506-3282
Natural Resources Conservation Service	TX	1	Admin. Support Services	DC	John P. Burt	254-742-9800
Natural Resources Conservation Service	AR, CA, CO, DC, ID, KS, KY, MA, MI, MO, MS, NC, NE, NJ, NM, NY, OH, OK, AL, AR, AZ, CA, CO, CT, DC, DE, FL, GA, HI, IA, IL, IN, KS, KY, MA, MD, ME, MI, MN, MO, MS, MT, NC, ND, NE, NH, NJ, NM, NY, NY, OH, OK, OR, PA, PR, SC, SD, TN, TX, UT, VA, VT, WA, WI, WV, WY	33	Geological Analysis	CC	Lawrence Clark	202-720-4030
Natural Resources Conservation Service	AL	88	Engineering Functions	CC	Lawrence Clark	202-720-4630
Natural Resources Conservation Service	AR	9	Soil Conservation Functions	DC	Robert N. Jones	334-487-4500
Natural Resources Conservation Service	CA	6	Soil Conservation Functions	DC	Kelvin L. Trice	561-301-3100
Natural Resources Conservation Service	CA	6	Soil Conservation Functions	DC	Michael Somerville	602-280-8808
Natural Resources Conservation Service	CA	14	Soil Conservation Functions	CC	Charles W. Bell	530-752-8800
Natural Resources Conservation Service	CA	14	Soil Conservation Functions	CC	James A. Johnson	916-226-2200
Natural Resources Conservation Service	CA	14	Soil Conservation Functions	CC	Marcel L. Wallace	880-871-4011
Natural Resources Conservation Service	DC	3	Soil Conservation Functions	DC	Thomas A. Wabair	202-720-4527
Natural Resources Conservation Service	DE	4	Soil Conservation Functions	DC	Elesa K. Cottrell	302-878-1160
Natural Resources Conservation Service	FL	8	Soil Conservation Functions	DC	T. Niles Glasgow	352-338-9500
Natural Resources Conservation Service	GA	10	Soil Conservation Functions	DC	Leonard Jordan	706-546-2272
Natural Resources Conservation Service	HI	4	Soil Conservation Functions	DC	Kenneth M. Kameshillo	808-541-2600
Natural Resources Conservation Service	IA	19	Soil Conservation Functions	CC	Leroy Brown	515-284-6955
Natural Resources Conservation Service	IA	17	Soil Conservation Functions	CC	Richard W. Sims	208-278-5700
Natural Resources Conservation Service	IL	11	Soil Conservation Functions	CC	James A. Johnson	617-280-3200
Natural Resources Conservation Service	IN	11	Soil Conservation Functions	CC	Lara E. Leach	765-823-4265
Natural Resources Conservation Service	KS	15	Soil Conservation Functions	CC	Leroy Ahlers	785-224-7350
Natural Resources Conservation Service	KY	8	Soil Conservation Functions	DC	David G. Sawyer	606-473-7350
Natural Resources Conservation Service	LA	9	Soil Conservation Functions	DC	Donald W. Gohmert	318-473-7351
Natural Resources Conservation Service	MA	2	Soil Conservation Functions	DC	Cecil B. Curran	413-283-4351
Natural Resources Conservation Service	MD	5	Soil Conservation Functions	DC	David P. Doss	410-757-0981
Natural Resources Conservation Service	MI	2	Soil Conservation Functions	DC	Russell A. Colett	207-590-9100
Natural Resources Conservation Service	MI	2	Soil Conservation Functions	DC	Richard L. Williams	917-224-9370
Natural Resources Conservation Service	MN	9	Soil Conservation Functions	DC	James A. Johnson	612-546-2200
Natural Resources Conservation Service	MO	23	Soil Conservation Functions	CC	Roger A. Hineson	572-576-0903
Natural Resources Conservation Service	MS	13	Soil Conservation Functions	CC	Homeer L. Wilkes	801-985-5205
Natural Resources Conservation Service	MT	14	Soil Conservation Functions	CC	Shelley Gammon	406-587-6811
Natural Resources Conservation Service	NC	8	Soil Conservation Functions	DC	Mary K. Comba	919-873-2161

U.S. Department of Agriculture Commercial FAIR Act Inventory Positions for Competitive Sourcing						
Organization	Location	FTE	Function	Direct Supervisor/ Cost Center/Item (R/CC/CI)	Responsible Official Name	Responsible Official Number
Natural Resources Conservation Service	ND	12	Soil Conservation Functions	CC	Thomas E. Jewett	701-450-8506
Natural Resources Conservation Service	NE	19	Soil Conservation Functions	CC	Stephen K. Chick	402-432-5300
Natural Resources Conservation Service	NH	1	Soil Conservation Functions	CC	Richard D. Babcock	603-898-5381
Natural Resources Conservation Service	NJ	4	Soil Conservation Functions	DC	Joseph R. Dell'Vecchio	732-246-1171
Natural Resources Conservation Service	NM	7	Soil Conservation Functions	DC	Rosendo Trevino III	505-761-1400
Natural Resources Conservation Service	NV	3	Soil Conservation Functions	DC	Nicholas N. Pearson	775-784-5885
Natural Resources Conservation Service	OH	10	Soil Conservation Functions	DC	State Conservationist	315-477-8504
Natural Resources Conservation Service	OK	13	Soil Conservation Functions	CC	J. Kevin Brown	817-255-2472
Natural Resources Conservation Service	OR	10	Soil Conservation Functions	CC	Robert G. Smith	503-412-1201
Natural Resources Conservation Service	PA	7	Soil Conservation Functions	CC	Robert E. Harrell	717-232-2202
Natural Resources Conservation Service	PR	3	Soil Conservation Functions	DC	Juan A. Martinez	787-766-5208
Natural Resources Conservation Service	SC	5	Soil Conservation Functions	DC	Walker W. Douglas	803-263-3935
Natural Resources Conservation Service	SD	8	Soil Conservation Functions	DC	Janel L. Oentry	605-352-1200
Natural Resources Conservation Service	TN	2	Soil Conservation Functions	DC	James W. Ford	615-736-5471
Natural Resources Conservation Service	TX	36	Soil Conservation Functions	DC	Tommy Farham	917-509-3420
Natural Resources Conservation Service	UT	6	Soil Conservation Functions	DC	John P. Burt	284-742-9500
Natural Resources Conservation Service	VA	9	Soil Conservation Functions	DC	Shirley A. Smith	804-281-1830
Natural Resources Conservation Service	VT	3	Soil Conservation Functions	DC	M. Denise Becker	802-243-6765
Natural Resources Conservation Service	WA	14	Soil Conservation Functions	DC	Francis M. Keeler	509-325-2900
Natural Resources Conservation Service	WI	9	Soil Conservation Functions	DC	Raymond L. Hughbanks	608-278-9742
Natural Resources Conservation Service	WV	8	Soil Conservation Functions	DC	Paula S. Leavenworth	304-284-7540
Natural Resources Conservation Service	WY	9	Soil Conservation Functions	DC	James L. Piper	307-281-5453
Natural Resources Conservation Service	AL	1	Administrative Support	DC	Robert H. Jones	334-487-4500
Natural Resources Conservation Service	AR	2	Administrative Support	DC	Kevin L. Jick	501-501-3100
Natural Resources Conservation Service	AZ	2	Administrative Support	DC	Michael S. Scoville	520-292-2900
Natural Resources Conservation Service	CA	2	Administrative Support	DC	Charles W. Ball	530-292-2900
Natural Resources Conservation Service	CO	1	Administrative Support	DC	James Allen Green	303-236-2818
Natural Resources Conservation Service	DC	9	Administrative Support	DC	Geflene Imman	202-720-4102
Natural Resources Conservation Service	FL	1	Administrative Support	DC	T. Niles Glasgow	352-333-6300
Natural Resources Conservation Service	GA	2	Administrative Support	DC	Leonard Jordan	706-545-2272
Natural Resources Conservation Service	IA	3	Administrative Support	DC	Kenneth M. Kameshko	800-541-2600 x100
Natural Resources Conservation Service	ID	1	Administrative Support	DC	Larry Brown	915-294-6555
Natural Resources Conservation Service	IL	1	Administrative Support	DC	Richard W. Shins	208-378-5700
Natural Resources Conservation Service	IN	1	Administrative Support	DC	James E. Harshbarger	317-284-3200
Natural Resources Conservation Service	KS	1	Administrative Support	DC	Jane E. Harshbarger	317-284-3200
Natural Resources Conservation Service	KY	1	Administrative Support	DC	Leroy Atkins	785-823-4865
Natural Resources Conservation Service	LA	1	Administrative Support	DC	David G. Sawyer	859-224-7550
Natural Resources Conservation Service	MD	1	Administrative Support	DC	Donald W. Gohmert	318-473-7751
Natural Resources Conservation Service	ME	1	Administrative Support	DC	David P. Does	410-757-0861
Natural Resources Conservation Service	MI	1	Administrative Support	DC	Russell A. Collett	207-990-9100
Natural Resources Conservation Service	MN	1	Administrative Support	DC	William Hunt	651-402-7899
Natural Resources Conservation Service	MO	2	Administrative Support	DC	Robert A. Wilson	620-252-5201
Natural Resources Conservation Service	MS	2	Administrative Support	DC	Hugh A. Wilson	678-252-5201
Natural Resources Conservation Service	MT	1	Administrative Support	DC	Shirley Garrison	406-287-4811
Natural Resources Conservation Service	NC	1	Administrative Support	DC	Mary K. Combs	919-373-2101
Natural Resources Conservation Service	ND	1	Administrative Support	DC	Thomas E. Jewett	701-550-2000

U.S. Department of Agriculture Commercial FAIR Act Inventory Positions for Competitive Sourcing						
Organization	Location	EIE	Function	Direct Connection Cost Comparison (DC/CCA)	Responsible Official Name	Responsible Official Number
			S - Installation Services			
			Admin. Support, Installation, Base or Facility Mgt, Bldg Mgt, Custodial Svc, Pest Mgt, Law Enforcement, Physical Security, Security Guard Ops, Motor Vehicle Ops and Maint., Electrical Plants and Systems Ops and Maint., Heating Plants and Distribution Systems Ops and Maint., Water Plants and Distribution Systems Ops and Maint., Sewage and Waste Treatment Plants and Maint., A-C and Cold Storage Plants and Maint., Air Conditioning and Refrigeration Plants and Maint., Power Plants and Maint., Other Support and Sanitary Fil Ops, Building Svc, Plumbing Craft support etc, Security and Protection Svc, Other Utility Plant and Dist Systems Ops & Maint., Other Installation Svc.			
Agricultural Research Service	AR, AZ, CA, CO, DC, FL, GA, HI, IA, ID, IL, KS, LA, MD, MS, MT, ND, NY, OK, OR, PR, SC, TX, WI, WY, WY	290		CC	Larry Cullumber	301-504-1895
			T - Other Nonmanufacturing Operations			
			Aggregative Svc, Other Supply Activities, Road Prop, Disposal, Engineering, Other Non-manufacturing Ops, Construction Mgt, Other Non-manufacturing Ops.			
Agricultural Research Service	CA, CO, DC, FL, GA, IL, LA, MD, MS, MT, ND, NE, PA, TX	62		CC	Larry Cullumber	301-504-1895
			W - Automatic Data Processing			
			Admin Support, Mgt, HQ Communication Computing and Information, Other Communications Systems, Computing Svc and Data Base Mgt, Other Computing Svc, Info Ops and Info Security, Other Info Ops Svc, Info Tech Mgt, Syst Design Development and Programming, Client Svc, Other ADP Functions.			
Agricultural Research Service	AZ, CA, CO, DC, FL, GA, IA, ID, IL, IN, KS, MD, MS, MT, NE, OR, PA, SC, TX, WA	131		CC	Larry Cullumber	301-504-1895
			Y - Other Selected Functions			
			Admin Support, Budget Execution Support Svc, Public Affairs Program Activities & Ops, Visual Info Program Activities & Ops, Other Functions			
Agricultural Research Service	CA, CO, GA, IL, MD, MS, PA	56		CC	Larry Cullumber	301-504-1895
			Z - Maintenance, Repair, Alteration, and Minor Construction of Real Property			
			Maintenance and Repair of Grounds & Surfaced Areas			
Agricultural Research Service	DC, MD, TX	24		CC	Larry Cullumber	301-504-1895
Total FTE - ARS		714				

U.S. Department of Agriculture Commercial FAIR Act Inventory Positions for Competitive Sourcing						
Qualification	Location	FTE	Function	Direct Contract Classification (DC/CC)	Responsible Official Name	Responsible Official Number
Cooperative State Research, Education, & Extension Service						
Cooperative State Research, Education, and Extension Service	DC	7	B - Personnel Management Research Administration Support, Classification, Employee Development, Agency Equal Employment Opportunity Programs, Other Personnel Activities	CC	Larry Cullumber	301-504-1695
L - Grants Management						
Cooperative State Research, Education, and Extension Service	DC	33	Administrative Support, Application Reviews and Evaluations	CC	Larry Cullumber	301-504-1695
W - Automatic Data Processing						
Cooperative State Research, Education, and Extension Service	DC	5	Admin Support, Mgt HQ Communication Computing and Information, Other Communications Systems, Computing Svc and Data Base Mgt, Other Computing Svc, Info Ops and Info Assurance/Safety, Other Info Ops Svc, Info Tech Mgt, Syst Design Development and Programming, Client Svc, Other ADP Functions	CC	Larry Cullumber	301-504-1695
Y - Other Selected Functions						
Cooperative State Research, Education, and Extension Service	DC	1	Admin Support, Budget Execution Support Svc, Public Affairs Program Activities & Ops, Visual Info Program Activities & Ops, Other Functions	CC	Larry Cullumber	301-504-1695
Total FTE - CSREES						
Economic Research Service						
T - Other Nonmanufacturing Operations						
Economic Research Service	DC	1	Administrative Spt, Other Supply Activities, Real Prop, Operational Expenses, Travel Svc, Fleet Management, Disposal of Excess and Surplus Prop, Admin Support Svc, Construction Mgt, Other Non-manufacturing Ops.	CC	Larry Cullumber	301-504-1695
W - Automatic Data Processing						
Economic Research Service	DC	4	Admin Support, Mgt HQ Communication Computing and Information, Other Comm. Systems, Computing Svc and Data Base Mgt, Other Computing Svc, Info Ops & Info Assur./Safety, Other Info Ops Svc, Info Tech Mgt, Syst Design Development and Programming, Client Svc, Other ADP Functions	CC	Larry Cullumber	301-504-1695

U.S. Department of Agriculture Commercial FAIR Act Inventory Positions for Competitive Sourcing						
Organization	Location	ETE	Function	Direct Comparison Code (DC/CC)	Responsible Official Name	Responsible Official Number
Economic Research Service	DC	23	Y - Other Selected Functions Admin Support, Budget Execution Support Svc, Public Affairs Program Activities & Ops, Visual Info Program Activities & Ops, Other Functions	CC	Larry Cullumber	301-504-1695
Total FTE - ERS		23				
National Agricultural Statistics Service						
National Agricultural Statistics Service	DC	2	B - Personnel Management Personnel Administrative Support, Classification, Employee Development, Agency Equal Employment Opportunity Programs, Other Personnel Activities	CC	Larry Cullumber	301-504-1695
National Agricultural Statistics Service	DC	70	W - Automatic Data Processing Admin Support, High HQ Communications Computing and Information, Other Communications Systems, Computing Svc and Data Base Mgt, Other Computing Svc, Info Ops and Info Assurance/Safety, Other Info Ops Svc, Info Tech Mgt, Syst Design Development and Programming, Client Svc, Other ADP Functions	CC	Larry Cullumber	301-504-1695
Total FTE - NASS		72				
Rural Development						
Rural Development	DC	1	B - Personnel Management Employee Relations Support	CC	Neil Storms	202-401-9702
Rural Development	MO	33	C - Finance and Accounting Accounts Receivable	CC	Patricia Guentoh	314-206-2819
Rural Development	MO	14	Administrative Support	CC	Christina Burgess	314-537-2960
Rural Development	MO	2	D - Regulatory and Program Management Support Services	CC	Christina Burgess	314-537-2960
Rural Development	DC	0.5	Administrative Support	CC	Carl Mulhauwer	202-660-2141
Rural Development	MO	6	Administrative Reviews	CC	Patricia Guentoh	314-206-2819

U.S. Department of Agriculture Commercial FAIR Act Inventory Positions for Competitive Sourcing						
Organization	Location	FTE	Function	Direct Conversion/ Cost Comparison (DC/CC)	Responsible Official Name	Responsible Official Number
			B - Installation Services			
Rural Development	DC	4	Other Installation Services	DC	Sharon Randolph	202-692-0207
Rural Development	MO	23	Rent Collection	CC	Patricia Gruentlich	314-206-2816
Rural Development	MO	1	Motor Vehicle Operation	DC	Sharon Randolph	202-692-0207
Rural Development	MO	2	Other Installation Services	DC	Sharon Randolph	202-692-0207
			T - Other Nonmanufacturing Operations			
Rural Development	DC	6	Administrative Support Services	CC	Carl Muhlbauer	202-690-2141
Rural Development	DC	1.5	Special Studies and Analysis	CC	Carl Muhlbauer	202-690-2141
Rural Development	DC	3	Administrative Support Services	DC	Sharon Randolph	202-692-0207
Rural Development	MO	31	Other Nonmanufacturing Operations	CC	Patricia Gruentlich	314-206-2816
Rural Development	MO	1	Visual Information	DC	Sharon Randolph	202-692-0207
Rural Development	MO	2	Administrative Support Services	DC	Sharon Randolph	202-692-0207
			U - Education and Training			
Rural Development	DC	2	Training Development and Support	CC	Nell Storms	202-401-9702
Rural Development	MO	1.5	Training Development and Support	CC	Nell Storms	202-401-9702
Rural Development	MO	2	Specialized Skill Training	CC	Nell Storms	202-401-9702
			W - Automatic Data Processing			
Rural Development	DC	1	Other ADP Functions	CC	Carl Muhlbauer	202-690-2141
Rural Development	DC	0.5	Other ADP Functions	DC	Sharon Randolph	202-692-0207
Rural Development	MO	11	Data Center Operations	CC	Christine Burgess	314-537-2960
		Total FTE - RD				
		151				
Total USDA		6,700				

Question. Secretary Veneman, how do you intend to quantify the collective experience and expertise of the public employees in your Department when determining their “competitiveness” in this process?

Answer. We use the guidance and process in OMB’s Circular A–76 when quantifying the experience and expertise of government employees in the competitive process. Circular A–76 requires that the government develop a Most Efficient Organization (MEO) to compete against private sector bidders. As part of that organization, the government develops a staffing plan, to include position descriptions that specify the level of expertise required to perform the work. If the government wins the competition, the new organization will be staffed from the personnel currently assigned within the organization.

Question. To the extent that the Administration intends to pursue a policy of outsourcing, why is that policy not limited to new hires, as current employees retire, so as to not erode the morale of current employees?

Answer. The Administration is pursuing a policy of competitive sourcing, not outsourcing. Where practicable, USDA has used and will continue to use current vacancies to minimize the impact of competitive sourcing on employees. However, limiting competitive sourcing only to vacancies could severely impact efforts to build better organizations across the department.

SUBCOMMITTEE RECESS

Senator BENNETT. Thank you for your persistence.

Madam Secretary, we appreciate your appearance here. We appreciate the work that you do, and that all of your team does. I know this process sometimes gets untidy, and you will get more questions in writing that will add to the untidiness. But we are grateful to you and your staff for your ability to straighten this all out, and in the end, give us a result and a product that we can understand where you are.

The subcommittee is recessed.

[Whereupon, at 12:28 p.m., Thursday, May 8, the subcommittee was recessed, to reconvene to subject to the call of the Chair.]

**AGRICULTURE, RURAL DEVELOPMENT, AND
RELATED AGENCIES APPROPRIATIONS FOR
FISCAL YEAR 2004**

FRIDAY, MAY 16, 2003

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 9:32 a.m., in room SD-124, Dirksen Senate Office Building, Hon. Robert F. Bennett (chairman) presiding.

Present: Senator Bennett.

DEPARTMENT OF AGRICULTURE

STATEMENTS OF:

KEITH COLLINS, CHIEF ECONOMIST

J.B. PENN, UNDER SECRETARY FOR FARM AND FOREIGN AGRICULTURAL SERVICES

MARK E. REY, UNDER SECRETARY FOR NATURAL RESOURCES AND ENVIRONMENT

THOMAS C. DORR, UNDER SECRETARY FOR RURAL DEVELOPMENT

JOSEPH J. JEN, UNDER SECRETARY FOR RESEARCH, EDUCATION, AND ECONOMICS

OPENING STATEMENT OF SENATOR ROBERT F. BENNETT

Senator BENNETT. The subcommittee will come to order.

I apologize to our witnesses for the fact that we are here on a Friday when many would rather be out on a golf course, but it is raining so you might as well be in here where it is dry.

But the Senate voted for something like 72 hours—or, no, it seemed like 72 hours—17 hours yesterday right straight through, so everything got canceled or postponed.

Senator Kohl, the ranking member of the subcommittee, had a commitment today that he was unable to break, and I discussed with him whether we should go ahead today or not. He urged me to go ahead because we need to be moving ahead with our appropriations process. And given his previous commitments, why, we excuse him. Other Senators have run into the same problem, so that means the witnesses are going to have to bear with the rather heavy dose of me this morning.

I will not be constrained by any 5-minute rule. Nor will I go two or three rounds. We will simply start in, and I will cover as many of my questions as I can, and on behalf of some of the other Senators, ask theirs as well.

We are pleased this morning to have what are somewhat familiarly called "the Unders" this morning; that is, we have four Under Secretaries and Dr. Collins, who is the Chief Economist, and I am sure ranks and is paid as an Under Secretary of the Department of Agriculture. Title inflation seems to have set in everywhere. I remember when there was one Under Secretary in the whole Department. But he is now the Deputy Secretary, and former Assistant Secretaries have become Under Secretaries, and I don't know what it is that has become an Assistant Secretary or how it has worked out.

Nonetheless, these are the men who do much of the heavy lifting in the Department, and we appreciate your being here and sharing your testimony with us as we proceed.

PREPARED STATEMENTS

This will be the second hearing of this subcommittee dealing with the 2004 appropriations bill. Last week, we had Secretary Veneman, who was very helpful to us in her presentation, and we have another hearing scheduled for next week.

[The statements follow:]

PREPARED STATEMENT OF SENATOR CONRAD BURNS

Thank you, Mr. Chairman for holding this hearing. I believe we had a very successful and informative hearing last week and look forward to today's testimony.

I would also like to thank the witnesses for joining us here today.

Dr. Penn, I know from being in this business for a while that the only time we hear anything is when we've done something wrong. I would like to take this opportunity to thank you and your staff for your hard work on the Drought Disaster package.

As is often the case, the devil is in the details and that was never truer than in the details of the Crop Disaster Program. I talked to you a number of times myself on this issue.

Additionally, I have heard from a number of the wheat and barley producers in Montana and they said you were always responsive to their concerns and you were willing to work with them on the problems.

Maybe I should repeat that. You were responsive to the concerns of the agriculture producer. That is what it is all about folks. That is why are here in the first place. That is why USDA was formed.

Thank you for that willingness to work with producers and I urge you to get those checks out to the farmers as soon as possible.

PREPARED STATEMENT OF SENATOR HERB KOHL

Thank you, Mr. Chairman, and welcome to all our witnesses here today. I will be brief.

Today's panel centers on the mission areas of USDA that have the most direct impact on Rural America. There is much concern today about the national economy and how it is suffering compared to recent years. We must remember that much of Rural America did not share in all the prosperity that the rest of the Nation enjoyed over the past decade, and conditions on the farm are, in many cases, worse than ever. Wisconsin dairy farmers, for example, face record low prices, increasing costs, and this market squeeze is devastating.

I have some concerns about the delivery of many of the programs available to support the farm sector. In regard to international programs, there are tremendous challenges we face regarding trade impediments and we must not lose sight of our responsibilities regarding humanitarian food assistance.

In comparison to overall federal spending on research, agricultural research lags far behind, in spite of the fact that such research is tied to the production, maintenance, and safety of our food supply. Clearly, protection of our food supply is one of our greatest responsibilities.

Mr. Chairman, thank you and I look forward to our witnesses statements.

PREPARED STATEMENT OF SENATOR RICHARD J. DURBIN

Chairman Bennett, thank you for holding this important hearing today on the USDA's fiscal year 2004 Budget. I look forward to working with you, Senator Kohl, and my Subcommittee colleagues on the farm economy and rural sector. I would like to welcome our witnesses Keith Collins, USDA Chief Economist, J.B. Penn, Under Secretary for Farm and Foreign Agricultural Services, Mark Rey, Under Secretary for Natural Resources and Environment, Dr. Joseph Jen, Under Secretary for Research, Education and Economics and Thomas Dorr, Under Secretary for Rural Development. I would also like to thank others in USDA who submitted testimony for today's hearing.

I'd like to take a few minutes this morning to talk about some very important issues that affect the Department, and my home state of Illinois. When I go back to Illinois, one of the things I hear from farmers is: How can we get the rural economy back on track? As you know, there are over 60 million people that call rural America home. Illinois has a significant rural community so I am pleased to see USDA is committed to creating new economic opportunities and improving the quality of life for a diversified rural population.

One issue of importance is to make sure our rural communities have access to the kinds of technology, business opportunities and affordable housing that we have in other parts of the country, so that rural America will not be left behind. We must work on economic growth in rural America.

Illinois is one of our country's most important agricultural contributors. Illinois farm land, which accounts for about 27 million acres, is considered some of the most productive in the world. More than 76,000 farm families in the state produce corn, soybeans, wheat, beef, pork, dairy products, and specialty crops. Illinois exports more than \$3.4 billion worth of agricultural products. The state's agribusiness activity is vibrant. From the Chicago area to Decatur and throughout Illinois, agricultural processing employs thousands of people. And our researchers at the University of Illinois as well as at other institutions, continue to help provide answers to some of the most common as well as the most complex, agricultural questions we face.

I would like to bring attention to the USDA's Rural Development budget. The rural utilities water and waste disposal system is an important program for Illinois (For fiscal year 2003; total direct loans, \$23 million, guaranteed loans, \$1.5 million and grants, \$3.4 million) and the rest of the country. As stated by Administrator Hilda Gay Legg's submitted testimony, the need for water and waste disposal systems are still significant and are likely to grow as a result of expanding populations in certain rural areas, changes to water quality standards, drought conditions and similar factors. I know the additional funding provided by the Farm Bill helped reduce backlog for assistance and it is my hope we will be able to reduce the backlog in a timely manner.

I would also like to take a minute to comment on research and education and to stress how important I feel they are to USDA. Though agriculture research we have the opportunity to face challenges to our Nation's food and agriculture system.

I am planning on introducing legislation again this year to ensure the safety of genetically engineered foods, a fast-growing segment of our food supply that shows much promise, but which also must be adequately regulated to assure consumers of biotech products' safety and effectiveness. Through genetic engineering, scientists are hoping to address world hunger, develop new drugs and create alternative fuel sources to help solve many of the social problems that vex us today. My bill will ensure these efforts continue, but require a mandatory, public approval process that deems such foods and products safe before they are put in the marketplace. In today's global marketplace, it is critical that we demonstrate the safety of these foods and products through a scientific-based approval process.

Chairman Bennett and Senator Kohl, thank you again for the opportunity to talk about these issues and the fiscal year 2004 Budget.

Senator BENNETT. Gentlemen, we appreciate your being here. Let's hear from you, probably from my left to my right. Let's start with Dr. Jen, who is the—okay. Let's start with my right and go to your left. We will start with Dr. Collins, who is the Chief Economist at USDA. Doctor, we appreciate your being here. For the record, this is Dr. Keith Collins.

OFFICE OF THE CHIEF ECONOMIST

Dr. COLLINS. Thank you very much, Mr. Chairman. I am happy to go in whatever order you would desire.

This morning, you are going to hear the budgets profiled for programs that generally represent American agriculture and rural areas, and what I think I will do is begin not by talking about my budget but instead talking a little bit about the perspective that these programs will operate in, in the current year, and where the agricultural economy might be heading in the future.

U.S. AGRICULTURAL ECONOMY

In a nutshell, like most sectors of the U.S. economy, U.S. agriculture has been restrained by slow global economic growth. We have had a high value of the dollar over the last couple of years, lots of production in competing countries. We have had declining prices. We have had bad weather. And all of these things have also limited growth.

But the agricultural economy has been improving over the past year. I think it is going to continue improving, but I think the recovery is going to be gradual. It is going to be uneven. And I think in some sectors it will lag, such as in dairy.

The world economy is expected to grow only about 2 percent this year. That is about the same rate of growth of the world economy last year. And some of our major markets are growing even slower, such as in Japan and the European Union. Nevertheless, a number of countries appear to be doing better, such as Latin America, and with that better growth and with a declining value of the dollar, we think U.S. agricultural exports will be up \$4 billion this year to \$57 billion, although we will again look at that number and possibly revise it on May 27th.

The stronger exports and the higher farm prices that have followed from last year's below-trend production are boosting farm revenues. Farmers' receipts from the sale of products in the marketplace are expected to be up about \$7 billion this year, exceed \$200 billion, and I think that is a very healthy gain. And we are seeing receipts up for both crops and for livestock.

I think the most important observation I can make—and we just released our first forecasts for the 2003–2004 marketing year—about the coming year, year and a half, is that U.S. agricultural markets generally look to be in pretty good balance. If you look at grain stocks, they are in desirable ranges. Oilseed stocks are, in fact, very low. Cotton and rice stocks are finally declining after being persistently high for some time.

Average farm prices are up, and that is leading to very sharp reductions in the costs of farm programs such as the Marketing Loan Program.

Crop production this year is expected to rise, assuming we have average weather, which we can't predict yet at this time. For example, we expect that wheat production will bound back and be up 31 percent from last year's drought crop. Corn and soybeans are expected to also increase, cotton probably stabilize, and rice decline, and that will help continue the price increases we have been seeing for cotton and rice over the past year.

Now, although exports of grains over the past year have been pretty weak, soybean exports have been record high, and cotton exports were the highest or we think will be the highest in 75 years this year.

Looking ahead to the coming season, soybeans exports are likely to decline as South America continues to expand sharply. But grain exports should increase and cotton could possibly set an all-time record high.

Livestock markets are finally looking fundamentally bullish. We have had weather disruptions and trade disruptions over the last couple of years, and that has caused liquidations and prices to go down. I think those downward trends are beginning to turn, and the recovery could be very sharp over the next couple of years. But that is a conclusion, I think, that very much depends on what is going to happen with forage and range conditions.

You, Mr. Chairman, probably know as well as anyone the hurdle that livestock producers face because in looking at the current drought monitor, I see that Utah remains the only State in the Nation where every single county is either in extreme or exceptional drought. And so that is a hurdle for livestock producers in battling back.

With cattle and hog inventories down and poultry output being cut back, we think that meat production will be lower in 2003. We think it will be lower again in 2004. And that is going to push prices of cattle, hogs, and broilers up probably 10 to 15 percent this year, and up again next year, and we could possibly see a record high cattle price in 2004.

Dairy remains our most unbalanced sector. We have weak demand. We have dairy product stocks at record highs. We have prices at 20-year lows. Our programs, however, I think have been stabilizing. We are regularly buying cheese, butter, and nonfat dry milk, and so far, since the program started, we have spent about \$1.3 billion in the Milk Income Loss Contract Program.

Summing up, for 2003, net cash farm income is expected to be up about 11 percent as market receipts grow, Government payments rise. Excluding Government payments, market income will be flat, and I think that reflects a sharp increase in production expenses. We are seeing prices for key input items up, feeder cattle, fertilizer, and energy-based inputs.

Farmland values remain strong. We think when the final data come in, they will be up 4 percent for 2002. We are predicting 1.5 percent for 2003. And I think the higher asset values are keeping the farm balance sheet in reasonably good shape.

The performance of the non-farm economy is also crucial for farm households since three out of four farm households earn the majority of their income off the farm.

PREPARED STATEMENT

It is now a way of life for farms to be under pressure daily to raise productivity, to adopt new technology, to lower their production costs, to farm sustainably, to raise product quality, and to respond to consumer tastes and preferences. And I think as they do these things, they are going to need more than ever USDA's commodity, conservation, rural development, and research programs.

And, with that, that completes my comments, Mr. Chairman.
[The statement follows:]

PREPARED STATEMENT OF KEITH COLLINS

Mr. Chairman and members of the Committee, I appreciate the opportunity to appear at this hearing to discuss the current situation and outlook for U.S. agriculture. In general the agricultural sector should show improvement this year after several years of low prices. However, recovery is expected to be slow and uneven, with some sectors such as dairy continuing to lag.

Outlook for United States and World Economies and the Implications for Agriculture

Macroeconomic factors, such as the exchange value of the dollar and slow economic growth around the world, have constrained demand for U.S. agricultural products and farm prices and will continue to do so over the next year or more.

The past 2 years have been disappointing as far as the U.S. economy goes. We have been continually pushing out into the future the expected rebound. Six months ago, the blue chip economists' forecast of U.S. Gross Domestic Product (GDP) growth for 2003 was 3.5 percent. Now, it is 2.4 percent, the same as last year's growth rate. The U.S. economy in 2003 will face some of the same restraints it faced in 2002: excess capacity, low returns in many sectors, high consumer and business debt, low consumer confidence, high unemployment, and weak growth in Japan and Europe.

But on the positive side: interest rates are low; liquidity is substantial; consumer confidence is rising; oil prices have declined; and fiscal policy is expansionary and may get more so with enactment of a growth package that cuts taxes or provides other stimulus. Unfortunately, though, we do not foresee stronger economic growth for the United States, such as in the 3 to 3.5 percent range, until 2004, and unemployment remains high.

When the U.S. economy is very weak, as in the recessions in 1991 and 2001, growth in food consumption slows. It did pick up in 2002, but was still not very strong, rising only 1.7 percent, which is half the rate of growth in 1999, when the economy was stronger and consumers were more confident. With the economy likely to show limited growth this year, we can expect food spending to be similar to last year, perhaps slightly stronger.

Consumer spending at grocery stores in 2002 also grew slowly, rising 1.5 percent. However, sales were up 2.5 percent during the first quarter of 2003, compared with a year earlier. As the U.S. economy eventually starts growing faster, the farm economy will benefit from stronger domestic food sales. As we look to the future, we can expect American consumers to continue to shift their consumption patterns as factors like income, population diversity, age, diet and health awareness drive change. Per capita consumption for such foods as fruits, vegetables, yogurt, eggs, poultry, grains, and nuts are likely to grow, while milk, red meats and potatoes may face declines.

World economic growth continues to be slow. Global GDP is forecast at only 2.0 percent in 2003, similar to last year's 1.9 percent. While mild U.S. growth will restrain overall foreign growth, growth for most of our trading partners, with the exception of Japan and the European Union, is expected to be moderate. Economic growth in Asia is forecast at 5.4 percent in 2003, down slightly from the 5.8 percent growth in 2002. Mexico's GDP is expected to continue its slow recovery, with 2003 growth forecast at 3.0 percent. Likewise, Brazil and Argentina should see positive growth this year after the sharp devaluations and recessions in 2002.

Despite the weak global economy, the value of U.S. agricultural exports is forecast to reach \$57 billion in fiscal 2003, the fourth consecutive annual increase. We are within striking distance of the record \$60 billion achieved in fiscal 1996. Much of the increase is due to stronger farm prices rather than volume gains. The value of agricultural imports has also risen during that same period, but so has our agricultural trade surplus.

Although the dollar remains relatively strong, especially against Latin American currencies, it has depreciated against the euro, Canadian dollar, and the yen. On a weighted-average basis, against the currencies of our major markets, the dollar has fallen steadily since early 2002. Although no precipitous drop in the dollar is anticipated, we are likely to see a slow decline against major currencies over the rest of the year and into 2004. The United States is running a record current account deficit, which requires financing from overseas. However, the combination of low real interest rates in the United States and a listless economy is unlikely to attract foreign investment. Thus, for the moment, the fundamental direction for the dollar has to be down. This is good news for export prospects.

USDA released its long term baseline projections on February 7th. They suggest some of the export pressures and opportunities U.S. farmers may face in the future. Exports are seen rising to the 1996 record of \$60 billion by 2005 and then to nearly \$72 billion by 2010. But the projected growth is all in intermediate and consumer ready products. By contrast, bulk commodities are expected to face continued very strong competition. For many of the bulk products, their best entry into export growth markets will be in value-added and processed form, such as feed grains and protein meals exported as meat.

Outlook for Major Crops

Weather remains the dominant factor shaping the near-term outlook. Drought in key areas in 2002, notably in Australia, Canada, and the United States, depleted crop supplies in traditional exporting countries, and drought in Africa expanded global food aid needs. Weather raised many U.S. crop prices, and these higher prices are carrying into the first half of 2003. However, a rebound in yields and strong competition especially from traditional competitors will likely cause a pull back in prices. The major uncertainty in this conclusion is the ongoing drought in the west, although precipitation has helped in recent weeks.

Wheat plantings for 2003/2004 are estimated at 61.7 million acres, up 1.3 million (2 percent) from 2002, as gains in winter wheat more than offset lower spring wheat plantings. Winter wheat seedings are 6 percent above last year, with most of the increase in hard red winter (HRW). Soft red winter (SRW) plantings are down as prolonged wet conditions resulted in reduced seedings in parts of the Delta, Southeast, and Atlantic Coast and offset gains in the Midwest. Farmers indicated in March that they plan to plant 7 percent less land to other spring wheat and 3 percent fewer durum acres than in 2002.

Wheat prices are down sharply from the highs of last fall and alternative crops are offering better returns than spring wheat. For example, contract prices for malting barley are up sharply from last year, due to drought-reduced supplies in the United States and Canada.

While wheat planted area looks like it will expand less than previously expected, wheat production is forecast up more than 30 percent from last year's unusually poor crop. Harvested acres are forecast up 6.9 million acres (15 percent) and yields up 4.8 bushels per acre (14 percent). If this projection materializes, larger production would more than offset the smallest carryin stocks since 1996/1997, leaving 2003/2004 supplies almost 185 million bushels above 2002/2003.

Food use likely will increase, but at a rate less than population growth due to changes in diets and baking technology that have extended the shelf life of bakery products. Feed and residual use, forecast at 175 million bushels, will be up sharply from the unusually small 125 million bushels in 2002/2003. Reduced wheat prices, especially during harvest, will promote the use of wheat for feeding. Hog and poultry feeders in the Southeast and Atlantic Coast areas and cattle and hogs feeders in the Plains likely will see relatively high prices for corn during the early summer. These areas had poor corn and sorghum crops in 2002 and will have to bear the cost of transporting feed corn from a greater distance than usual.

U.S. 2003/2004 wheat exports are estimated at 950 million bushels, an 8.6 percent increase over 2002/2003 levels. The United States will face increased competition from expanding production in the major foreign exporters, especially Australia and Canada, and declining competition from Russia, Ukraine, and Eastern Europe.

Total wheat use in 2003/2004 is expected to increase about the same as supplies, leaving ending stocks little changed from a year earlier. Prices received by farmers are expected to average \$3.05 to \$3.65 per bushel, compared with \$3.56 in 2002/2003. Large U.S. winter wheat supplies, declining global imports, and sharply expanding production in Australia and Canada will provide little opportunity for prices to rebound as the year progresses. However, if crops in the major foreign exporters do not rebound strongly from 2002/2003, U.S. prices will rise sharply to ration limited supplies, because the "minor" exporters will not have the supplies available to step in and meet market needs, as they did this past year.

U.S. rice producers intend to plant 3.0 million acres in 2003, down 6 percent from last year, and a decline of 8 percent from the preceding 5-year average. Planted area in long-grain rice is down 9 percent from last year, while combined medium- and short-grain plantings are up 5 percent. Poor market prices is the primary reason for the decline in expected plantings. The recent strengthening of U.S. prices due in part to anticipated significant food aid purchases destined for Iraq could offset some of the expected decline in planted acres.

Assuming trend yields, U.S. rice production in 2003/2004 is expected to be down about 5 percent from last year's bumper crop. Average rice yields have jumped higher in the last several years due to the introduction of higher-yielding long-grain va-

rieties in the South. Production of long grain rice is expected to be down about 9 percent from 2002/2003, while combined medium- and short-grain rice production will be up fractionally. Domestic and residual use is expected to be up slightly and on trend, while U.S. exports are expected to be down 26 percent from record 2002/2003 levels because of reduced supplies and keen international competition. Ending stocks are expected to total 22.1 million cwt, about the same as 2002/2003. The season-average price is expected to be \$1.10 per cwt higher than 2002/2003 due to tighter domestic supplies.

Global rice trade for calendar year 2003 is projected to contract slightly with global rice prices below the levels of the 1990s. For example, Thai 100b long grain milled rice was quoted at about \$209 per ton as of early April compared to \$194 per ton a year ago and \$276 per ton 2 years ago. In 2002, India subsidized the majority of its exports in an effort to reduce burdensome stocks thereby pressuring rice prices. India is currently reviewing its export policy for 2003 and may decide to reduce the level of export subsidies as its stocks are worked down.

In 2003, Thailand will continue to be the world's predominant exporter with exports projected at 7.5 million tons, 4 percent above 2002. The other top exporters will include Vietnam and India at 4.0 million tons each, followed by the United States at 3.4 million tons and China at 2.25 million tons. Indonesia is projected to be the largest importer with imports of 3.25 million projected for 2003, 7 percent below 2002. Other large importers include Nigeria at 1.5 million tons, Iran at 1.25 million tons, and the Philippines at 1.2 million tons.

In March, U.S. corn farmers indicated they will plant marginally fewer acres to corn than the 79.1 million seeded in 2002 and well below industry expectations for a 1 to 2 million acre increase. The expected expansion in corn acres may not occur because of lower acres in the Great Plains, where lack of irrigation water, concerns about high energy prices, and lack of soil moisture reserves changed farmers' intentions. Corn harvested acreage for grain is forecast at 72 million acres and yield is forecast at 139.7 bushels per acre, based on a simple linear trend over crop years 1960-2001 and is well above the 130 bushels per acre in 2002 and the 1994 record of 138.6. Thus, corn production is forecast at 10.1 billion bushels, up more than 1 billion from 2002. However, reduced carryin stocks will be partially offsetting and total supplies are projected at 11.1 billion bushels, up around 510 million from 2002/2003.

Projected 2003/2004 corn feed and residual use is down slightly from a year earlier, but food, seed, and industrial use is expected to increase 4 percent, following a 11-percent gain in 2002/2003. While most uses are expected to show little change, corn used for ethanol production is projected to increase 8 percent from the rapidly expanding levels of 2002/2003.

The global setting for feed grain trade in 2003/2004 is more favorable than that for wheat, but U.S. corn exports will continue to face strong competition from corn from Argentina and China and feed wheat from India and the Black Sea region. However, an expected 20-cents-per-bushel drop in the U.S. farm price of corn will make U.S. corn more competitive. China's corn exports continue to be the biggest unknown. Corn plantings in China are expected to decline as some producers switch to soybeans in response to various Government incentives and a reduced protection price for corn. However, the volume of China's corn exports will continue to largely depend on the level of Government export incentives. U.S. corn exports are projected at 1,850 million bushels, up 225 million from the 2002/2003 forecast.

Corn ending stocks for 2003/2004 are projected at 1,304 million bushels, a rise of less than 250 million from the forecast 2002/2003 level. The projected farm price of \$1.90 to \$2.30 compares with a forecast price of \$2.30 for 2002/2003.

Soybean production in 2002/2003 was 2.7 billion bushels, down about 5 percent from the record level achieved a year earlier. Despite reduced total use, ending stocks are projected to decline to 145 million bushels, the lowest since 1996/97. At these levels, the soybean stocks-to-use ratio is the lowest in 30 years. Before the dramatic expansion of soybean production in South America in recent years, stocks at these levels would have been associated with much higher prices. However, with soybean production in South America significantly exceeding that of the United States, farm level prices are likely to average only \$5.50 per bushel.

Soybean producers in March indicated intentions to plant 73.2 million acres for 2003, down 0.6 million acres from 2002. If realized, soybean acreage would decline for the third consecutive year. Although net returns and crop rotations favor a shift toward corn this year as evidenced by the intentions of producers in the Eastern Corn Belt, producers in the Northern Plains are planning to further expand soybean acreage, a trend that began in the mid 1990's. With a return to trend yields, production is expected to reach 2.9 billion bushels, up 4 percent from 2002.

Domestic soybean meal demand is projected to grow at a moderate 1–2 percent, limited by slow expansion in poultry and hog production and increased availability of other protein meals. With large competitor supplies of soybeans, soybean meal exports are likely to remain relatively weak as well. Soybean meal prices are projected to decline 6 percent from 2002/2003 levels.

Much of the world's 2003/2004 soybean demand growth will come from China and other Asian markets. Demand is also rising in Latin America, the Middle East and North Africa. In 2002/2003, China is forecast to import a record 16.5 million tons, exceeding its domestic soybean production for the first time. U.S. exports to China will reach record levels in 2002/2003. However, record South American soybean crops will leave world supplies high in the fall of 2003, and likely will limit export growth for the United States for both soybeans and soybean meal. Consequently, U.S. soybean exports are projected to decline about 5 percent in 2003/2004. With larger supplies and limited demand growth for U.S. soybeans, ending stocks are expected to increase to above 200 million bushels for 2003/2004. With higher stocks and continued prospects for larger foreign soybean production, soybean prices are projected to drop below \$5.00 per bushel for the 2003/2004 marketing year.

Cotton production for 2002/2003 was 17.2 million bales, a reduction of 15 percent from the preceding year's record. Domestic mill use has stabilized after a 13-percent drop in 2001/2002 and is forecast at 7.6 million bales. Lower foreign production and higher foreign consumption are supporting exports at a level near last season's 11.0 million bales—the current forecast is 10.8 million bales. With total use approaching that of last season, ending stocks are expected to fall 17 percent to 6.3 million bales. The reduction in stocks, combined with higher world prices, has raised farm prices more than 40 percent from last season's 29-year low.

Cotton producers intend to plant 14.3 million acres in 2003, 2 percent more than last year. While cotton prices have risen, so have prices for alternative crops. The small increase in area is primarily a result of a more certain environment following passage of the 2002 farm bill. With average abandonment and yields, production would be about the same as 2002's 17.2 million bales. Domestic mill use is likely to stabilize or fall slightly in 2003/2004, as U.S. mills continue to have difficulty competing with textile imports. Exports, however, could rise to a record 11.5 million bales. If these forecasts are realized, stocks would be drawn down to about 4.7 million bales, which is a relatively tight 25 percent of total use, and cotton prices would likely continue to rise.

World cotton stocks are forecast to fall to 36.6 million bales at the end of 2002/2003, their lowest level since 1994/1995. A combination of lower area and unfavorable weather cut world production more than 10 percent; at the same time, demand has probably been helped by low cotton prices vis-a-vis polyester. While global cotton production is likely to rebound in 2003/2004 in response to higher prices, it will be difficult to offset the reduction in stocks experienced in 2002/2003 and, at the same time, satisfy further increases in demand. Therefore, world stocks are anticipated to remain tight through the 2003/2004 season.

U.S. sugar production in 2003/2004 likely will increase, assuming average weather, following last year's damaging storms in Louisiana and below-average sugarbeet yields in many northern States. However, if sugar consumption returns to near-normal growth, supplies likely will not be burdensome to producers. A major uncertainty in the near future is how to accommodate a completely integrated North American sweetener market, as will happen by 2008 under the North American Free Trade Agreement. Additional uncertainties could develop in the next round of WTO trade talks, and as the United States works toward bilateral and regional free trade agreements.

The outlook for U.S. sugar markets largely will be driven by the sugar program. At present, marketing allotments are being used to prevent sugar loan forfeitures and maintain the program at no cost to the taxpayer, as directed by the 2002 Farm Bill. Allotments have been in effect since October 2002, and raw sugar prices have averaged 22 cents per pound while refined sugar has averaged 27 cents per pound. As long as sugar imports do not exceed the legislated trigger, marketing allotments will remain in place and prices likely will continue at these levels.

At \$11.3 billion forecast for 2002/2003, horticultural exports account for 20 percent of total agricultural exports and a significant portion of horticultural farm sales. Reduced growth rates began with the Asian financial crisis and continued with stagnating prospects in the European Union. While fresh citrus, processed fruits and vegetables, wine, and nursery/greenhouse products have stabilized, prospects have been stronger for fresh vegetables and deciduous fruits, tree nuts, and juices.

The outlook for horticultural crops is a return to trend growth in farm sales, following a strong performance in 2002/2003. Fruit and vegetable farmers earned

\$28.4 billion from the 2002 harvest, up \$1.6 billion and well above trend growth. The increase resulted from higher output and prices. Fruits and vegetables, which have accounted for 30 percent of all horticultural crop values in recent years, are sharply up from a 22-percent share for 1996. In addition, greenhouse/nursery crop sales likely will top \$14 billion in 2003, increasing \$600 million following flat growth in 2002. Export growth, however, has slowed to only \$200 million annually during the last 5 years, much lower than \$700 million yearly growth leading up to 1997.

Outlook for Livestock, Poultry and Dairy

The livestock, poultry, and dairy sectors experienced a stressful year in 2002 as weather, disease, trade disruptions, record production, and low prices affected markets. Price prospects for the livestock and poultry sectors are much improved for 2003, but the outlook for the dairy sector remains guarded.

Commercial beef production in 2002 reached a record 27.1 billion pounds as drought conditions caused producers to continue to reduce their herds. With record beef production, as well as record pork and broiler production, Choice Nebraska steer prices fell nearly 8 percent to \$67.04 per cwt.

U.S. commercial beef production is forecast at 26.2 billion pounds in 2003, 3.2 percent lower than in 2002. After wheat grazed cattle are placed in feedlots this spring, feeder cattle supplies are expected to tighten, especially if forage conditions improve, enabling producers to hold back heifers for herd rebuilding. Cattle slaughter is expected to decline year-over-year during the second half of the year, ending 3.5 percent lower. Choice Nebraska steer prices in 2003 are forecast to be \$76 per cwt, an increase of 14 percent from 2002. Firm beef demand and tighter cattle supplies pushed prices to about \$78 per cwt in the first quarter of this year. After a seasonal decline during the spring, steer prices will then increase to the upper \$70's per cwt.

Beef exports in 2002 rebounded from the BSE-reduced import demand of 2001. Although sales were weak to Japan, U.S. exports to Mexico and Korea reached record levels. In 2003, beef exports are forecast to be about the same as in 2002 as Japan remains weak and tighter supplies limit growth but then rise 3-4 percent in 2004 as the world economy improves.

Herd liquidation continued for the seventh consecutive year in 2002. The cattle herd on January 1, 2003, was 96.1 million head, about 1 percent lower than a year earlier. Herd expansion is not expected this year as most heifers retained this year will not calf until 2004. Signs of heifer retention likely will appear by late May or early June as producers finalize retention decisions. For 2004, another decline in beef production is expected and fed cattle prices could reach record high levels.

In 2002, pork production increased 2.7 percent to a record 19.7 billion pounds. Hog imports from Canada climbed to more than 5.7 million head last year, and 66 percent of the imports were feeder pigs mainly destined for finishing operations in the Midwest. Increased pork supplies last year resulted in an average hog price of about \$35 per cwt, nearly \$11 below the previous year's price.

Given last year's price weakness, the industry appears not to be expanding in 2003. Beginning with the 4th quarter of 2002 and continuing into 1st quarter 2003, producers reduced the number of sows farrowed by about 2.5 percent. Producers also indicated they intend to farrow 3 percent fewer sows through August 2003. This would result in a smaller pig crop and fewer hogs to slaughter in 2003 and into 2004. Consequently, pork production is forecast at 19.5 billion pounds in 2003, 1 percent lower than in 2002, with another 1 percent drop in 2004. Hog prices are forecast at \$38-\$39 per cwt in 2003, up 9-12 percent over 2002, with a further price increase in 2004 into the low \$40's per cwt.

Pork exports increased 3.5 percent in 2002, due to rising shipments to Japan and Korea. In 2003, exports are forecast to increase nearly 3 percent and another 2 percent in 2004.

Whole-bird broiler prices dropped 6 percent to 55.6 cents in 2002. Parts prices were even weaker as the broiler sector, which exported nearly 18 percent of production in 2001, was hit with trade disruptions caused by disease outbreaks and trade disagreements with Russia over antibiotic use and processing plant inspections. Northeast leg quarter prices were 28 percent lower in 2002 than in 2001. Meat that could not be exported led to burdensome broiler stocks which weighed on other prices. In response to the price weakness last year, broiler producers began to scale back production in the fall of 2002. Hatchery data indicates that eggs set in incubators and chicks placed on feed have been below year ago levels since last September, except for 1 week.

As a result of these cutbacks, broiler production in 2003 is forecast to increase just 0.2 percent, the smallest year-to-year increase since the early 1970's. Higher prices may result in production increases beginning in the later part of the year and continue into 2004 when a 1 percent increase is projected. Broiler prices in 2003

are forecast at 60–62 cents per pound, up 8–12 percent, and the highest average price since 1998, and hold there in 2004.

Broiler exports fell nearly 14 percent in 2002 because of disease outbreaks and a Russian ban on poultry imports. Exports in 2003 are forecast at 5.0 billion pounds, 4 percent higher than last year. In an attempt to stimulate domestic production, Russia imposed a 1.05-million-ton quota on poultry imports for the next 3 years. The quota goes into effect at the beginning of May, and the quota quantity is prorated at 744,000 tons for 2003. The United States was allocated 553,500 tons under the quota in 2003. Under this scenario, the United States will not export to Russia much more than levels from a year ago because of trade uncertainties early in the year and the quota limitations beyond April.

In 2002, milk production increased 2.5 percent to 169.8 billion pounds. Output per cow gained more than 2 percent and the number of milk cows were slightly higher as producers responded to the high prices of 2001. However, in the face of expanded production and slowing demand, the all-milk price fell to \$12.11 per cwt, 19 percent below a year earlier. Prices for butter, cheese, and nonfat dry milk (NDM) were considerably weaker in 2002 as fat basis commercial use languished at just 0.5 percent above 2001 and skim-solids use declined. With increased milk production and weaker commercial use in 2002, Commodity Credit Corporation (CCC) purchases of nonfat dry milk were 66 percent higher than in 2001, and cheese purchases were 4 times the level of the previous year.

For 2003, the all-milk price is expected to drop around 7 percent to \$11.10–11.60 per cwt. Milk production is forecast to increase 1 percent to 171.4 billion pounds on continued gains in output per cow. Although beginning the year fractionally above 2002, cow numbers are expected to drop slightly this year. Cow numbers have remained higher than expected because exits from the dairy industry have been slower than anticipated over the past year. The Milk Income Loss Contract program likely has provided many producers with a cushion against low milk prices. Commercial use is expected to increase about 2 percent in 2003 but not enough to boost prices given the abundant supply of milk and stored products. As a result, CCC purchases of butter, cheese, and NDM are expected to remain substantial.

Farm Income Outlook

The U.S. farm economy was under financial stress in 2002, but it is on an improving footing in early 2003. Some producers, especially those affected by weather, do face serious problems. However, because of structural diversity and preventive steps, most in agriculture are enduring. While prospects for 2003 look stronger for many producers, a boom is not in sight.

In 2002, farm cash receipts for crops rose slightly, but livestock receipts fell \$10.5 billion as prices fell sharply under the big, drought-driven increase in meat production and slower meat exports and lower milk prices. Another factor affecting farm income was the slow pace of farm program signup, which resulted in \$4 billion in government payments being shifted from the fall of 2002 into 2003. These factors combined to reduce farm income in 2002 quite sharply and cause it to drop below the levels we forecast a year ago. Net farm income, which includes noncash items such as depreciation and inventory change, fell 29 percent in 2002 from the 2001 level. Net cash farm income, which is gross cash income minus total cash expenses, fell 22 percent.

In 2002, net cash income, the income an operator has left over to pay living expenses, capital costs and service debt, was at its lowest level since the mid 1980s. The big drop indicates many producers faced tight budget constraints in 2002, particularly those in weather-affected areas. Income declines occurred in all regions and were especially pronounced for hog and dairy operations. This continues to pressure input markets such as machinery sales. Many bankers tightened collateral requirements as their unease grew during 2002. On the other hand, loan delinquencies have been modest, farm interest rates remain low, and banks remain in sound condition with ample loanable funds.

Several factors contribute to the economic resiliency of many farm households. First, three out of four farm households earn the majority of their income from off-farm sources. This reduces the impact of farm income changes—either up or down—on their well being. Second, the farms most dependent on farm income are the 10 percent of farms that produce two-thirds of the output and receive the bulk of U.S. agricultural support. These farms, on average, have household incomes that are well above the national average and remained so in 2002. Third, the value of farm assets continues to grow, giving some financially stressed producers a chance to weather a down period by selling some assets or borrowing against them.

For 2003, net cash farm income is expected to rebound by 11 percent to over \$51 billion, as both crop and livestock receipts grow and government payments rise. If

government payments are excluded, net income from the market is expected to be little changed, as farm production expenses rise reflecting higher feed and feeder cattle costs and higher energy and fertilizer expenses. Farmland values remain strong, rising an estimated 4 percent in 2002, but are expected to rise at a slower 1.5 percent in 2003, reflecting the reduced cash income in 2002 and restrained market income expectations in 2003. For 2003, with slow growth in asset values but another boost in debt levels, the farm debt-to-asset ratio is forecast to move up to 16 percent a still healthy figure but the highest since 1998.

As always, these observations about the farm economy must be weighed in light of a number of uncertainties. There are many: the aftermath of the war in Iraq and its uncertainties; the global economy, its pace of recovery, the influence of uncertain factors such as SARS and the behavior of exchange rates; foreign nations' farm and trade policies, especially China for crop imports and exports, and places like Russia and Japan for meat imports; and finally, the weather, here as well as abroad.

FARM ECONOMIC INDICATORS COMMODITY PRICES

Unit	1997/1998	1998/1999	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004
Commodity Prices:							
Wheat	3.38	2.65	2.48	2.62	2.78	3.56	3.35
\$/bu							
Corn	2.43	1.94	1.82	1.85	1.97	2.30	2.10
\$/bu							
Soybeans	6.47	4.93	4.63	4.54	4.38	5.50	4.95
\$/bu							
Rice	9.70	8.89	5.93	5.61	4.25	4.15	5.25
\$/cwt							
Cotton	65.20	60.20	45.00	49.8	29.8	142.5	.....
cents/lb							

¹ August through March average.

FARM ECONOMIC INDICATORS COMMODITY PRICES

Unit	1998	1999	2000	2001	2002	2003	2004
Commodity Prices:							
Hogs	34.72	34.00	44.70	45.81	34.92	38.50	42.50
\$/cwt							
Steers	61.48	65.56	69.65	72.71	67.04	76.50	80.50
\$/cwt							
Broilers	63.00	58.10	56.20	59.10	55.60	61.00	60.50
cents/lb							
Milk	15.46	14.38	12.40	14.97	12.12	11.35	11.65
\$/cwt							
Gasoline ¹	1.07	1.18	1.53	1.47	1.39	1.56	1.43
\$/gallon							
Diesel ¹	1.04	1.12	1.49	1.40	1.32	1.53	1.38
\$/gallon							
Natural gas (wellhead) ¹	1.96	2.19	3.69	4.12	2.95	4.52	3.95
\$/per1,000 cubic ft							
Electricity ²	8.26	8.16	8.24	8.48	8.41	8.52	8.37
\$/kwh							

¹ Source: Energy Information Administration, Short Term Energy Outlook, April 2003.

FARM ECONOMIC INDICATORS TRADE

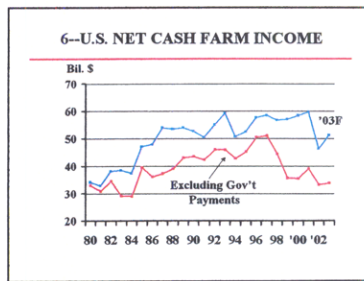
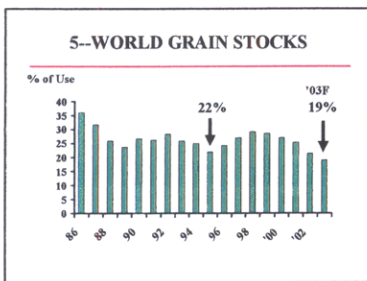
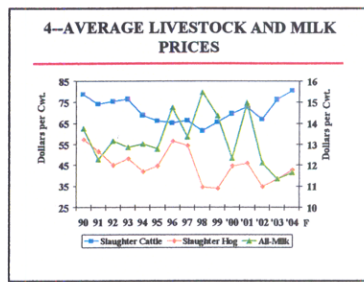
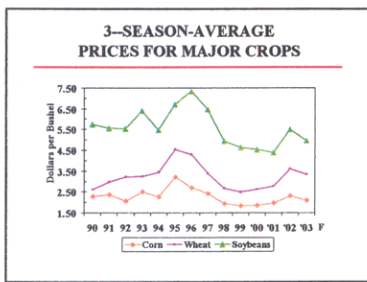
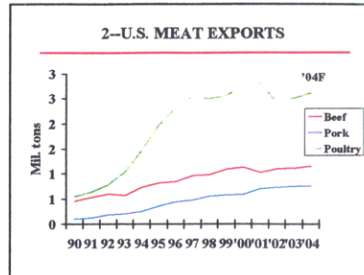
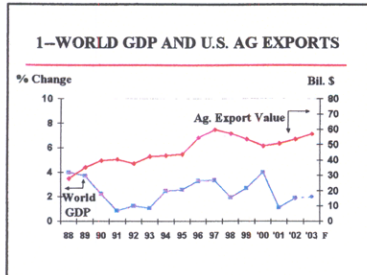
	Fiscal Year						
	1997	1998	1999	2000	2001	2002	2003
Agricultural Trade (Billion \$):							
Total exports	57.4	53.6	49.1	50.7	52.7	53.3	57.0
Asia	23.9	19.7	18.5	19.7	20.1	19.4	20.9
Canada	6.6	7.0	7.0	7.5	8.0	8.6	9.1
NA							

FARM ECONOMIC INDICATORS TRADE—Continued

	Fiscal Year							
	1997	1998	1999	2000	2001	2002	2003	2004
Mexico	5.1	6.0	5.7	6.3	7.3	7.1	7.9	NA
Total imports	35.7	36.8	37.3	38.9	39.0	41.0	43.0	NA

FARM ECONOMIC INDICATORS FARM INCOME

	Fiscal year							
	1997	1998	1999	2000	2001	2002	2003	2004
Farm Income (Billion \$):								
Cash receipts	207.6	195.8	187.5	193.7	202.8	193.5	200.5	NA
Gov't payments	7.5	12.4	21.5	22.9	20.7	13.1	17.6	NA
Gross cash income	227.3	222.2	224.0	230.4	238.5	222.5	234.9	NA
Cash expenses	168.7	167.4	166.9	172.0	178.8	176.2	183.6	NA
Net cash income	58.5	54.8	57.1	58.4	59.7	46.3	51.3	NA



Senator BENNETT. Thank you very much.
 Our next witness will be Dr. J.B. Penn, who is the Under Secretary for Farm and Foreign Agricultural Services. Dr. Penn?

FARM AND FOREIGN AGRICULTURAL SERVICES

Dr. PENN. Thank you, Mr. Chairman. It is a pleasure to be with you this morning, and I am pleased that you chose to describe us as “Unders” rather than “lessers.”
 As you know, I represent the Farm and Foreign Agricultural Service mission area of the Department, and that encompasses the Foreign Agricultural Service, the Farm Service Agency, and the Risk Management Agency, and the administrators of those agencies are with us this morning.

The programs and services of the Farm and Foreign Agricultural Services mission area are central to the Department's efforts to meet the challenges of agriculture in the 21st century and to enhance economic opportunity for America's farmers. The agencies of our mission area were very heavily involved in major activities related to the farm economy during the past year. As you know, the Farm Bill was enacted last May, and we immediately undertook the massive task of ensuring timely and effective implementation of that program and ensuring that we got the benefits to the agricultural sector on time.

As Dr. Collins noted, severe drought affected major parts of the country, and our risk management resources were taxed to meet the failure of the Nation's largest crop insurance company last year. And now we are very heavily involved in the task of implementing the Emergency Disaster Assistance Program, which was enacted on February 20th.

Now, at the same time all of those things were going on, the workload associated with the very ambitious international trade negotiation agenda has increased, and we are spending more and more time maintaining the existing markets that we have while the trade enforcement responsibilities also continue to grow.

The 2004 budget proposals that we are discussing today fully support continuation of all of these activities and ensure our continued efforts on behalf of America's agricultural producers.

FARM SERVICE AGENCY

I want to first briefly note the Farm Service Agency. That is USDA's primary vehicle for delivering assistance, and it is the one with which farmers and ranchers interact the most frequently. Because of FSA's important role in operating the farm programs, our budget proposal places a priority on enhancing the agency's ability to continue to assist our producers. We propose a 2004 program level for FSA salaries and expenses of \$1.3 billion to support a ceiling of 5,900 Federal staff years and 10,800 non-Federal county staff years.

We also continue to strive to modernize our services. One important effort is the initiative to put the Geospatial Information System in place to replace hard-copy paper maps and data files with an integrated digital system. The GIS will enable producers and our service center agencies to electronically share and process information on farm records, soils, and aerial photography in ways that we believe will dramatically improve efficiency.

The President's budget proposes \$42 million under the Office of the Chief Information Officer for FSA's component of the common computing environment to support this GIS and related activities.

Now, the Farm Service Agency also plays a critical role by providing a variety of direct loans and loan guarantees to farm families who would otherwise be unable to obtain the credit they need to continue their farming operations. By law, a substantial portion of the direct loan funds are reserved each year for assistance to beginning, limited-resource, and socially disadvantaged farmers and ranchers. And our budget proposal includes funding for \$850 million in direct loans and \$2.7 billion in loan guarantees, and we believe these amounts will be sufficient to meet the demand in 2004.

Now, for emergency disaster loans, our carryover funding from 2003 is expected to provide sufficient credit in 2004 to those producers whose farming operations have been damaged by natural disasters.

RISK MANAGEMENT AGENCY

Now, very briefly, the Risk Management Agency. The Federal crop insurance program, as you know, is an increasingly important part of the safety net available to our agricultural producers. In 2002, crop insurance provided \$37 billion in protection on 215 million acres. That is 4 million acres more insured last year than were insured in 2001. And because of the drought, we expect indemnity payments on the 2002 crops to exceed \$4 billion, and that is well over \$1 billion more than the indemnities for the 2001 crop.

We are budgeting for slightly lower participation in 2004 based on our latest estimates of planted acreage and expected market prices for the major agricultural crops.

The 2004 budget requests an appropriation of such sums as necessary for the mandatory costs associated with the program, and this will provide resources to meet program expenses at whatever level of coverage the producers choose to elect.

For salaries and expenses of the Risk Management Agency, \$78 million in discretionary spending is proposed, and that is an increase of \$7.8 million over the previous year.

In addition, we have proposed nearly \$9 million for information technology needs under the common computing environment. RMA's information technology is aging. The last major overhaul occurred more than 10 years ago, and this funding request under the common computing environment will provide for the needed improvements to RMA's existing information technology, and it will enable coordination and data sharing with the Farm Service Agency, a goal that all of us have long sought to achieve.

FOREIGN AGRICULTURAL SERVICE

Let me finally turn very quickly to the Foreign Agricultural Service and the international activities of the Department. The importance of expanding international market opportunities for America's farmers and ranchers simply can't be overstated, so expanding market access is among our highest priorities for agriculture. We continue to pursue trade expansion efforts, as I noted. We are doing this on several fronts, negotiation of new trade agreements at the international level, the regional level, and the bilateral level, and the plan is that these will reduce barriers and expand access to critically needed overseas markets.

Our trade policy activities, however, are not limited to only negotiating new agreements. We have stepped up our efforts to monitor compliance with existing agreements and then to ensure that our trade rights are protected. This past year, we worked hard to resolve important issues such as China's restriction on soybean imports, implementation of its WTO accession commitments. We worked on Russia's ban on U.S. poultry. And we have continuing difficulties with Mexico and the implementation of NAFTA, which continues to take a lot of our time.

The Foreign Agricultural Service is the lead agency in the Department's international activities, and it leads our efforts to expand and preserve overseas markets. And I am pleased to say that this month marks the 50th anniversary of the Foreign Agricultural Service, a very important milestone for that agency and for USDA.

The budget provides total appropriated funding for FAS of \$145 million for 2004 and supports a number of important trade-related initiatives. We are proposing 20 additional staff years for our involvement in the trade negotiations and to bolster the rapidly growing market access constraints that are related to sanitary and phytosanitary provisions and to biotechnology.

Finally, the 2004 budget requests additional funds for FAS for non-discretionary administrative requirements including pay cost increases, inflation, and higher payments to the U.S. Department of State for administrative services that they provide to us at overseas posts.

Now, the United States also continues its commitment to alleviating hunger and improving food security in developing countries through the provision of food assistance. The proposed budget includes a total program level for U.S. foreign food assistance of nearly \$1.6 billion. This includes \$1.3 billion for Public Law 480 Title I credit programs and Title II donations. And the budget also requests \$50 million of appropriated funding for the McGovern-Dole International Food for Education and Child Nutrition Program. This is a new program that was included in the Farm Bill, and we hope to soon have those regulations in final form and to begin operation of that program.

PREPARED STATEMENTS

Mr. Chairman, let me close by saying that this is a very modest but positive budget proposal. It provides the needed resources for the Farm and Foreign Agricultural Services mission area to continue the important work on behalf of all of our farmers and ranchers, and it supports some important investments to ensure that, as we look ahead, we can continue to provide those benefits in an effective and efficient manner.

Thank you very much. That concludes my statement. Again, it is a pleasure to be with you today.

[The statements follow:]

PREPARED STATEMENT OF J.B. PENN

Mr. Chairman and Members of the Committee, I am pleased to appear before you today to present the 2004 budget and program proposals for the Farm and Foreign Agricultural Services (FFAS) mission area of the Department of Agriculture (USDA). Accompanying me this morning are the Administrators of the three agencies within our mission area: James Little, Administrator of the Farm Service Agency; Ross Davidson, Jr., Administrator of the Risk Management Agency; and Ellen Terpstra, Administrator of the Foreign Agricultural Service. We also have with us Kirk Miller, the Department's General Sales Manager, and Dennis Kaplan from the Office of Budget and Program Analysis.

Statements by each of the Administrators providing details on the agencies' budget and program proposals for 2004 have already been submitted to the Committee. My statement will summarize those proposals, after which we will be pleased to respond to any questions you may have.

Mr. Chairman, last February, Secretary Veneman released a new strategic plan that provides the framework for achieving the Department's policy and program objectives. One of the five primary goals established in the plan is to "enhance eco-

conomic opportunities for American agricultural producers". The programs and services of the FFAS mission area are at the heart of the Department's efforts to respond to the challenges of the 21st century and enhance economic opportunities. Through the wide range of services provided by our agencies—price and income supports, farm credit assistance, risk management tools, conservation assistance, and trade expansion and export promotion programs—we provide the foundation for ensuring the future economic health and vitality of American agriculture.

This past year, the FFAS agencies and programs were challenged by a number of significant developments to which they responded effectively. In May, the Farm Security and Rural Investment Act of 2002 (2002 Farm Bill) was enacted, and we undertook the massive task of ensuring timely and efficient implementation of this far-reaching and complex legislation. Sections of the United States experienced drought this past summer, and our risk management resources were taxed to meet the most pressing needs of drought-stressed producers. Now, we are undertaking the task of implementing the supplemental emergency disaster assistance provisions of the 2003 omnibus appropriations act. At the same time, the workload associated with our trade negotiation and enforcement responsibilities has continued to grow, and 2003 will be a critical year for negotiations aimed at further reducing trade barriers and opening new markets overseas.

The 2004 budget proposals we are discussing today fully support continuation of these activities and ensure our continued efforts on behalf of America's agricultural producers. In particular, the budget supports the implementation of the domestic commodity and income support, conservation, trade, and related programs provided by the new Farm Bill. It fully funds our risk management and crop insurance activities. It supports the Administration's export expansion goals by providing a program level of \$6 billion for the Department's international activities and programs. Also, it provides for the continued delivery of a large and complex set of farm and related assistance programs, while improving management and the delivery of those programs.

FARM SERVICE AGENCY

The Farm Service Agency (FSA) is our frontline agency for delivering farm assistance and is the agency the majority of farmers and ranchers interact with most frequently. Producers come to FSA to participate in farm programs, including programs involving direct and countercyclical payments, commodity marketing assistance loans, loan deficiency payments, farm ownership and operating loans, disaster assistance, and conservation programs such as the Conservation Reserve Program (CRP). Because FSA plays a lead role in implementing provisions of the new Farm Bill, the budget places a priority on enhancing the ability of FSA to provide better service to our producers more efficiently.

Farm Program Delivery

The new Farm Bill signed in May 2002 required immediate action by FSA to formulate and put into effect a new set of programs for the 2002 crops. With about 2.1 million farms eligible for the complex, new Direct and Counter-cyclical Payments Program, FSA faced major implementation challenges. Producers had until April 1, 2003, to contact their local FSA offices and update bases and yields, and have until June 2nd to finalize their contracts. Approximately 4 percent of our producers were required to schedule appointments after the April 1st deadline to select their base and yield option because of the heavy workload in some of our busier offices. Those late appointments will be concluded by tomorrow, May 16th, at which time we are confident that everyone who wanted to update their bases and yields will have been provided the opportunity to do so. Approximately \$4.3 billion in direct and counter-cyclical payments had been paid out as of April 25th, and payments have risen rapidly as sign-up has progressed. In addition, over \$1.3 billion in Milk Income Loss Contract payments have been made to date to dairy producers, and about \$1.2 billion in Peanut Quota Buyout payments have been made along with Apple Market Loss Assistance and other payments issued this fiscal year.

Along with implementation of the provisions of the new farm bill, FSA continues to meet the challenges of simultaneously implementing provisions of the recently passed \$3.1 billion Disaster Assistance package. In fact, FSA is currently making payments to producers signed up for the reauthorized Livestock Compensation Program; approximately \$15 million in refunds under the Conservation Reserve Program Refund Program; and \$10 million in grants to Texas farmers for water losses in the Rio Grande Valley. Sign-up for the \$50 million Cottonseed Program began 2 weeks ago, with payments scheduled to begin at the end of June and, within a few days, FSA will begin disbursing payments for the \$55 million Tobacco Payment Program. On June 6th we will begin accepting applications for the \$2.15 billion

Crop Disaster Program and begin making payments by the end of June. We are also expediting \$60 million in payments to sugarcane producers suffering from devastating hurricane losses, \$1.7 million in assistance to New Mexico producers who incurred losses from pesticide applications, and \$60 million in payments to sugar beet producers. A disaster assistance website with frequently asked questions and answers as well as input from farmers, ranchers, and industry organizations have ensured that the programs are implemented clearly and effectively.

The magnitude and complexity of the programs being implemented will continue to reinforce the need to improve customer service efficiency in FSA and the other county-based conservation and rural development agencies. FSA will continue to face a substantial workload through 2004, as new Farm Bill programs are implemented. As the initial work associated with commodity programs signup in 2003 moderates, the workload associated with supporting the expansion of the Farm Bill mandated conservation programs will rise in 2004 and beyond.

The proposed 2004 program level for FSA salaries and expenses of \$1.3 billion will support a ceiling of about 5,900 Federal staff years and 10,800 non-Federal county staff years. The proposed level for 2004 will maintain permanent non-Federal county staffing at prior year levels, while reducing the number of temporary non-Federal staff, which had been increased in 2003 and earlier years to support supplemental assistance programs and to begin Farm Bill implementation in 2002 and 2003. The agricultural assistance title of the 2003 omnibus appropriations act provides \$70 million for the administrative costs of implementing that title, as well as title I of the 2002 Farm Bill. Federal staff years for 2004 are near prior year levels except for an increase of 56 staff years to support the Geospatial Information System (GIS) initiatives to improve services to producers and enhance efficiency.

The Administration places high priority on management initiatives and investments in technology to deliver improved, more efficient services to rural customers by continuing to streamline and modernize the field offices and Service Centers. Although we have established a high number of consolidated Service Centers and have made major strides in replacing separate-agency, aging information technology systems with the Common Computing Environment and re-engineered business processes, additional steps are needed to realize the full benefits.

A key component in these efforts is the continued initiative to put the GIS in place to replace normal hard-copy paper maps and data files with an integrated digital system. The GIS will enable producers and the Service Center agencies to electronically share and process vital information on farm records, soils, and aerial photography in ways that can dramatically improve efficiency. The President's budget proposes \$42 million in appropriated funds under the Office of the Chief Information Officer for FSA's component of the Common Computing Environment to support GIS and related FSA investments.

FSA also will work on modernizing its farm credit program servicing activities, and we will review Service Center office processes and structure to explore additional ways to provide services at lower cost.

Commodity Credit Corporation

Disaster and commodity price and income support programs administered by FSA are financed through the Commodity Credit Corporation (CCC). CCC also is the source of funding for a number of conservation programs administered by USDA, and it funds many of the export programs administered by the Foreign Agricultural Service. CCC borrows funds directly from the Treasury to finance those programs.

Changes over the last decade in commodity, disaster, and conservation programs have dramatically changed the level, mission, and variability of CCC outlays. CCC net outlays have declined from a record of \$32 billion in 2000 to \$22.1 billion in 2001 and \$15.7 billion in 2002.

CCC net outlays for 2004 are currently estimated at \$15.4 billion, down approximately \$3.8 billion from the revised 2003 estimated level of \$19.2 billion. These estimates reflect the new Farm Bill and the supplemental emergency disaster assistance provided in the omnibus appropriations act for 2003.

Annual agriculture appropriations acts authorize CCC to replenish its borrowing authority as needed from the Treasury, up to the amount of realized losses at the end of the preceding fiscal year. This authority provides CCC with the flexibility to request funds as needed from the Treasury, up to the actual losses recorded for the most recent year. For 2002 losses, CCC was reimbursed \$17.7 billion.

Conservation Programs

Conservation program outlays will account for over 10 percent of CCC expenditures in 2003. The Farm Bill authorized direct CCC funding for the CRP administered by FSA and dramatically increased funding for several conservation programs

administered by NRCS. Funds for several conservation programs are transferred to NRCS and presented in the budget estimates for that agency.

CRP protects millions of acres of topsoil from erosion and is designed to improve the Nation's natural resources base. Participants voluntarily remove environmentally sensitive land from agricultural production by entering into long-term contracts for 10 to 15 years. In exchange, participants receive annual rental payments and a payment of up to 50 percent of the cost of establishing conservation practices.

The 2002 Farm Bill authorized USDA to increase CRP enrollment to 39.2 million acres in fiscal year 2006 through general signups, a continuous signup, the Conservation Reserve Enhancement Program (CREP), and the Farmable Wetlands Program (FWP). Since May 5, FSA has been accepting applications for a Conservation Reserve Program (CRP) general signup. Current participants with contracts expiring this fall, accounting for about 1.5 million acres, can make new contract offers. Contracts awarded under the new general signup will become effective at either the beginning of fiscal year 2004 or the following fiscal year, whichever the producer chooses.

The Farm Service Agency will evaluate and rank eligible CRP offers using the Environmental Benefits Index (EBI) for environmental benefits to be gained from enrolling the land in CRP. Decisions on the EBI cutoff will be made after the general signup ends in late May and EBI numbers of all offers have been analyzed. Those who would have met previous sign-up EBI thresholds are not guaranteed a contract under the current signup.

Aside from the general signup, the CRP continuous signup program is ongoing. USDA has reserved two million acres for the continuous program, which represents the most environmentally desirable and sensitive land. USDA is making a special effort to help enhance wildlife habitats and air quality by setting aside 500,000 acres for bottomland hardwood tree planting. Continuous signup for hardwood planting will begin after the general signup is complete.

The President's budget does not request additional appropriated funding for the Emergency Conservation Program for 2004 because it is impossible to predict natural disasters in advance and, therefore, difficult to forecast an appropriate level of funding.

Farm Loan Programs

FSA plays a critical role for our Nation's agricultural producers by providing a variety of direct loans and loan guarantees to farm families who would otherwise be unable to obtain the credit they need to continue their farming operations. By law, a substantial portion of the direct loan funds are reserved each year for assistance to beginning, limited resource, and socially disadvantaged farmers and ranchers. For 2004, 70 percent of direct farm ownership loans are reserved for beginning farmers and about 35 percent are made at a reduced interest rate to limited resource borrowers, who may also be beginning farmers.

The 2004 budget includes funding for about \$850 million in direct loans and \$2.7 billion in guarantees. In prior years, the Department shifted funding from guaranteed operating loans to meet excess demand in the direct loan programs. The levels requested for 2004 reflect those shifts and are expected to reflect actual program demand more accurately. The overall reduction is due primarily to higher subsidy rates for the direct loan programs, which make those programs more expensive to operate than guarantees. However, we believe the proposed loan levels will be sufficient to meet the demand in 2004.

The 2004 budget maintains funding of \$2 million for the Indian Land Acquisition program. For the Boll Weevil Eradication program, the budget requests \$60 million, a reduction of \$40 million from 2003. This reduction is due to the successful completion of eradication efforts in several areas. The amount requested is expected to fund fully those eradication programs operating in 2004. For emergency disaster loans, carryover funding from 2003 is expected to provide sufficient credit in 2004 to producers whose farming operations have been damaged by natural disasters.

RISK MANAGEMENT AGENCY

The Federal crop insurance program represents one of the strongest safety net programs available to our Nation's agricultural producers. It reflects the principles of this Administration contained in the Food and Agricultural Policy report by providing risk management tools that are compatible with international trade commitments, creates products and services that are market driven, harnesses the strengths of both the public and private sectors, and reflects the diversity of the agricultural sector.

In 2002, the crop insurance program provided about \$37 billion in protection on over 215 million acres, which is about 4 million acres more than were insured in

2001. Our current projection is that indemnity payments to producers on their 2002 crops will exceed \$4 billion, which is about \$1 billion more than was incurred on 2001 crops.

The crop insurance program has seen a significant shift in business over the past several years—producers have chosen to buy-up to higher levels of coverage as a result of increased premium subsidies provided in the Agricultural Risk Protection Act of 2000 (ARPA). The number of policies, acres, liability, and premium all increased more than 40 percent for coverage levels 70 percent and higher.

Our current projection for 2004 shows a modest decrease in participation. This projection is based on USDA's latest estimates of planted acreage and expected market prices for the major agricultural crops, and assumes that producer participation remains essentially the same as it was in 2002.

The 2004 budget includes a legislative proposal to reduce the percentage of administrative expense reimbursements from 24.5 percent to 20 percent of premium. This proposal is estimated to save taxpayers about \$68 million in 2004. A 1997 study of the crop insurance program by the General Accounting Office (GAO) indicated that higher premiums had resulted in substantially higher reimbursements to the companies for delivering essentially the same number of policies. In 1998, Congress responded to that report by imposing the current cap of 24.5 percent on reimbursements. Since that time, Congress has enacted a number of reforms to crop insurance designed to encourage participation at higher levels of coverage. Although the number of policies sold has remained virtually unchanged, total premiums in 2002 are more than 50 percent higher than in 1998, and reimbursements have increased by about \$229 million over that time.

Savings in reimbursements to the companies are achievable. About 95 percent of the policies sold annually are renewals, which require less work to maintain and service than do policies sold for the first time. Further, in 2000, Congress passed the Freedom to e-File Act, which mandated that Federal Agencies provide access to all forms and other program information via the internet and provide for the electronic filing of all required program paperwork. Today, the vision Congress expressed through that mandate is a reality for agricultural producers participating in the Federal crop insurance program who are doing most of the paperwork on their own.

The 2004 budget requests an appropriation of "such sums as necessary" as mandatory spending for all costs associated with the program, except for Federal salaries and expenses. This level of funding will provide the necessary resources to meet program expenses at whatever level of coverage producers choose to purchase. The current projection for the 2004 budget year is that \$3.3 billion will be needed for that purpose.

For salaries and expenses of the Risk Management Agency (RMA), \$78.5 million in discretionary spending is proposed, an increase of about \$8 million above 2003. This net increase includes additional funding mainly for information technology, maintenance costs, increased monitoring of the insurance companies, and pay costs.

At this time I would like to return to the budget request for the common computing environment (CCE). This budget includes about \$8.7 million for information technology needs of RMA under the CCE. This amount is in addition to any funding requested within the salaries and expenses of RMA. Historically, funding under the CCE has been reserved for the Service Center agencies. However, in the ARPA legislation passed in 2000, Congress mandated a new role for FSA to assist RMA with program compliance and integrity in the crop insurance program. That mandate has required a greater level of coordination and data sharing between these two agencies. The best way to ensure the level of coordination required is to provide funding under the controls of the CCE.

RMA's information technology system is aging; the last major overhaul occurred about 10 years ago. Since that time, the crop insurance program has expanded tremendously. Catastrophic coverage and revenue insurance products have been initiated and coverage for new commodities has been added, including many specialty crops and more recently livestock. In short, RMA's information technology system has not kept pace with the changes in the program. The funding requested under the CCE will provide for improvements to RMA's existing information technology system to improve coordination and data sharing with the insurance companies and with FSA. The funding will also provide for the development of a new information technology architecture to support the way RMA will need to do business in the future with strong consideration to shared resources under the CCE.

FOREIGN AGRICULTURAL SERVICE

The importance of international markets for America's farmers and ranchers cannot be overstated and, thus, improving market access and expanding trade are among our highest priorities for American agriculture. Expanding international market opportunities is one of the key objectives set forth in the Department's new strategic plan.

We continue to pursue our trade expansion efforts on many fronts. At the center of these efforts is the negotiation of trade agreements that will reduce barriers and improve access to overseas markets. We expect 2003 will be a crucial year for these efforts. At the World Trade Organization (WTO) multilateral negotiations, where U.S. remains committed to an ambitious outcome, we are entering a critical phase. Having missed the March 31st the deadline for reaching agreement on the modalities—or formula—for reducing protection and trade-distorting subsidies, we need to step up our efforts to press for real and effective trade reform. The next critical milestone will be the September Ministerial in Cancun. Our trading partners, particularly the European Union and Japan, must show flexibility and demonstrate their commitment to reform in order for the Ministerial to give the negotiations the direction and impetus to conclude next year.

We also are engaged in a number of regional and bilateral negotiations to establish free trade agreements. Negotiations to establish a Free Trade Area of the Americas (FTAA) are entering an important phase. In February, countries tabled specific offers to reduce trade barriers in key areas, including agriculture. The United States will host the next FTAA Ministerial in November, and we will be working diligently to move the negotiations along. Our goal is to provide greater trade opportunities in this market of 800 million consumers with an annual Gross Domestic Product of \$13 trillion. At the same time, we will be engaged in negotiations this year with Central American countries, the Southern African Customs Union, Australia, and Morocco to reach free trade agreements that will improve trade opportunities for American farmers and ranchers.

Our trade policy activities are not limited to negotiating new agreements however. As new agreements have been implemented, we have stepped up our efforts to monitor compliance and ensure that U.S. trade rights are protected. These efforts are essential as the Department continues to work diligently to resolve a number of trade problems, such as China's implementation of its WTO accession commitments on tariff-rate quota administration and export subsidy obligations; Russia's quotas on meat and poultry imports; and Mexico's continuing implementation of provisions of the North American Free Trade Agreement.

As traditional trade barriers fall, we find a rise in technical barriers to trade including resistance to adoption of new technologies, such as biotechnology, and increased use of sanitary and phytosanitary measures. It is fundamental to our maintaining market access to encourage the adoption by our trading partners of science-based regulatory systems. In this regard, it has become increasingly important to improve these countries' capacity to trade so that they can take part in negotiations, implement agreements, and connect trade liberalization to a program for economic reform and growth. This work is important because it helps to engage developing countries in the development and implementation of trading rules and guidelines and, thereby, helps to ensure the success of the trade negotiating process and the fair implementation of its results.

Another major focus of activity this year is implementation of the new Trade Adjustment Assistance for Farmers program that was authorized in the Trade Act of 2002. Under the new \$90 million program, USDA is authorized to make payments to eligible producers when commodity prices have been affected by imports. Benefits may be provided when the current year's price of an agricultural commodity is less than 80 percent of the national average price during a preceding 5-year period and the Secretary determines that imports have contributed importantly to the price decline. This has proven a very complex program to put in place; its administration will involve at least 5 agencies of the Department. These agencies have worked diligently to design and establish the program. Proposed regulations for the program were published on April 23rd, and we are working to have final regulations in place and to begin accepting petitions for assistance this summer.

FAS Salaries and Expenses

The Foreign Agricultural Service (FAS) serves as the lead agency in the Department's international activities and plays a critical role in our efforts to expand and preserve overseas markets. In March, we observed the 50th anniversary of FAS, an important milestone for the agency and for the Department.

Much has changed during the past 50 years, not the least of which is the importance of international markets for U.S. farmers and ranchers and the FAS programs that support our agricultural community to take advantage of those opportunities. U.S. agricultural exports were \$2.8 billion during 1953, while imports were higher at \$4.3 billion. By fiscal year 2002, exports had grown to just over \$53 billion and imports to \$41 billion.

This morning, our more immediate concern is ensuring that FAS has the necessary resources and staffing to continue their important work as we face new trade challenges together with the U.S. agricultural community. The budget provides total appropriated funding for FAS of \$145.2 million for 2004, and supports a number of important trade-related initiatives.

First, an additional 20 staff years are provided to FAS to facilitate the agency's active involvement in ongoing multilateral, regional, and bilateral trade negotiations and to bolster its efforts to address rapidly growing market access constraints related to biotechnology, and sanitary and phytosanitary measures. These will be funded from a centralized fund to be established in the Office of the Secretary to support cross-cutting USDA trade-related and biotechnology activities.

Funding also is provided to FAS for a trade capacity building initiative to support a number of critical activities supporting our trade policy agenda. This includes assistance to countries to implement the Cartagena Protocol on Biosafety. If countries misinterpret the Protocol, it can seriously impede international trade, product development, technology transfer, and scientific research. FAS will work with developing countries so that science-based, transparent, and non-discriminatory standards are adopted and, by doing so, will help to avoid potential disruptions to trade or other problems.

Funding is also provided for a USDA contribution to the Montreal Protocol Multilateral Fund. The Fund was established in 1991 to help developing countries switch from ozone depleting substances to safer alternatives. The USDA contribution will supplement contributions by the Department of State and Environmental Protection Agency to the Fund and will further U.S. agricultural interests in the implementation of the Protocol.

Finally, the 2004 budget requests additional funds for FAS for a number of non-discretionary administrative requirements, including pay cost increases, inflation, and higher payments to the Department of State for administrative services provided at overseas posts.

Export Promotion and Market Development Programs

FAS administers the Department's major export promotion and market development programs that are key components in our efforts to expand exports. The 2002 Farm Bill provided increased funding for a number of these programs in order to bolster our trade expansion efforts on behalf of U.S. agriculture, and the President's 2004 budget proposals fully reflect those increases.

For the market development programs, including the Market Access Program and the Foreign Market Development Cooperator Program, the budget provides \$164 million, an increase of \$15 million above 2003. Included in this amount is \$2 million for the Technical Assistance for Specialty Crops program that was authorized in the Farm Bill. Under the program, grants are provided to assist U.S. organizations in activities designed to overcome phytosanitary and related technical barriers that prohibit the export of U.S. specialty crops. FAS worked very hard in getting that program up and running so that 2002 programming could be implemented by the end of last year. Final regulations for the program are currently under development and are expected to be published in the near future, which will allow 2003 programming to move forward.

For the CCC export credit guarantees, the largest of our export programs, the budget includes a program level of \$4.2 billion. We experienced strong growth in the supplier credit guarantee program during 2002, with sales registrations once again doubling the previous year's level.

The budget also includes projected program levels of \$57 million for the Dairy Export Incentive Program and \$28 million for the Export Enhancement Program (EEP).

International Food Assistance

The United States continues its commitment to alleviating hunger and improving food security in developing countries through the provision of food assistance. The budget includes a total program level for U.S. foreign food assistance of nearly \$1.6 billion. This includes \$1.3 billion for Public Law 480 Title I credit and Title II donations, which is expected to support the export of 3.1 million metric tons of commodity assistance. The Farm Bill increased the annual minimum tonnage for Title

II donations to 2.5 million metric tons and, based on current price projections, the budget provides sufficient funding to meet that requirement.

The budget also provides \$50 million of appropriated funding for the McGovern-Dole International Food for Education and Child Nutrition Program. As the Committee will recall, the Farm Bill authorized this new program, which succeeds the Global Food for Education Initiative pilot program that the Department carried out during 2001 and 2002. For 2003, the program will be funded through the CCC but, beginning in 2004, is to be funded through annual appropriations. FAS published proposed regulations for the program on March 26th, and the public comment period ended on April 25th. Once the final rule is published, FAS will request proposals from private voluntary organizations, the World Food Program, and other groups to begin implementation of the program.

The budget also includes a program level of \$151 million for the CCC-funded Food for Progress programs during 2004. The Farm Bill authorized an increase in transportation and other non-commodity costs in order to support the minimum annual program level of 400,000 metric tons for Food for Progress activities established in the Bill. Finally, the budget also assumes that donations of nonfat dry milk will continue under the authority of section 416(b) of the Agricultural Act of 1949. The value of the assistance and associated costs are projected to total \$118 million.

This concludes my statement, Mr. Chairman. I would be pleased to answer any questions you or other Members of the Committee may have.

PREPARED STATEMENT OF JAMES R. LITTLE, ADMINISTRATOR, FARM SERVICE AGENCY

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to present the fiscal year 2004 budget for the Farm Service Agency (FSA). This budget supports the FSA programs that will ensure a strong, viable U.S. agriculture market. Before addressing the details of the budget, I would like to comment on some of the initiatives that FSA has undertaken over the last year.

Farm Bill Implementation

Since before the Farm Security and Rural Investment Act of 2003 was signed on May 13, 2002, FSA employees in headquarters and across the Nation have dedicated themselves to its effective and timely implementation.

Producers had until April 1, 2003, to contact their local FSA offices and update bases and yields and until June 2nd to finalize their contracts. Approximately 4 percent of our producers were required to schedule appointments after the April 1st deadline because of the heavy workload in some of our busier offices. Those late appointments should be completed by tomorrow, May 16th, at which time we are confident that everyone who wanted to update their bases and yields would have been provided the opportunity to do so. As of April 25th, FSA has issued approximately \$4.3 billion in direct and counter-cyclical payments (DCP)—over \$3 billion in direct payments and over \$1 billion in counter-cyclical payments to date, and payments have risen rapidly as signup has progressed. We have worked diligently to ensure that producers have the information they need to make informed decisions about program participation. While the DCP Program has been a major focus, we have also provided a steady stream of information on other Farm Bill provisions including: the Milk Income Loss Contract program, the Peanut Quota Buyout program, new loan rates, the addition of pulse crops, and other issues important to the agriculture community. As of April 25th, over \$1.3 billion in Milk Income Loss Contract payments have been made to dairy producers. About \$1.2 billion in Peanut Quota Buyout payments have also been made along with the Apple Market Loss Assistance and other payments issued this fiscal year.

At the same time, we have worked internally to develop extensive training sessions and materials to ensure that county office employees on the front line of program delivery have the information needed to perform their jobs. Recognizing that the effectiveness and efficiency of Farm Bill implementation hinges on high quality and timely information, FSA worked with State extension services and the Farm Foundation to undertake an extensive training initiative. In August and September of 2002, four regional train-the-trainer meetings were conducted to provide representatives of State extension services, Native American councils and tribal organizations, 1862 and 1890 universities, farm organizations, farm consulting firms, farm management organizations, farm lenders, and agribusiness leaders with Farm Bill information. Attendees were able to use materials provided at the sessions to replicate the training within their own organizations and train an additional 1,000 trainers. This process allowed local training for various target audiences of farmers and ranchers across the Nation. In addition, attendance by the press helped ensure

that early and accurate Farm Bill information was disseminated through the media. The partnership between Federal, State, and private organizations was key in alerting producers of the importance of making informed management decisions regarding the new legislation.

FSA employees at every organizational level have succeeded in implementing extensive new programs and program changes in record time. The implementation challenge was complicated by the need to partially rely on old technology systems. We are in the process of transitioning to new systems under the Common Computing Environment and look forward to the benefits of the improvements, once the transition is complete.

Technology has proven to be an invaluable tool. We have supplemented our FSA website to provide Farm Bill information and program details, updated enrollment data, and frequently asked questions. The website offers online program forms to allow producers to e-file applications in compliance with the Government Paperwork Elimination Act. We also provided web-based calculation tools such as the base and yield update analyzer developed in collaboration with Texas A&M University.

As we continue to administer the Farm Bill programs, we are committed to utilizing technology and process improvements to further enhance performance and deliver the quality of service that America's producers and taxpayers have the right to expect.

Agricultural Assistance Act Implementation

Along with implementation of the new farm bill, FSA continues to meet the challenges of simultaneously implementing provisions of the recently passed \$3.1 billion Agricultural Assistance Act of 2003. In fact, FSA is currently making payments to producers signed up for the reauthorized Livestock Compensation Program; approximately \$15 million in refunds under the Conservation Reserve Program Refund Program; and \$10 million in grants to Texas farmers for water losses along the Rio Grande River. Signup for the \$50 million Cottonseed Program began 2 weeks ago, with payments scheduled to begin at the end of June, and FSA will begin disbursing payments for the \$55 million Tobacco Payment Program within a few days. On June 6th, we will begin accepting applications for the \$2.15 billion Crop Disaster Program and begin making payments by the end of June. We are also expediting \$60 million in payments to sugarcane producers suffering from devastating hurricane losses, \$1.7 million in assistance to New Mexico producers who incurred losses from pesticide application, and \$60 million payments to sugar beet producers.

Civil Rights

To ensure every customer is treated with dignity and respect, FSA has developed a civil rights action plan to address issues of unequal access and disparate treatment in the past. The plan ensures that preventive measures, such as oversight of loan servicing and outreach at the State level, are in place. We are investigating reports of disparate treatment in certain locales, taking corrective action where appropriate. Our actions ensure that FSA employees at every level, in every part of the country, offer superior customer service.

Program Outreach

FSA's civil rights effort works in tandem with our ongoing program outreach initiative. For fiscal year 2003, we initiated 16 projects to reach out to various underserved populations across the country. Nine of these projects are underway, and six are in the planning stages. One of the projects is an expansion of the existing American Indian Credit Outreach Initiative, which originated as a pilot project in Montana and has achieved resounding success. The project was expanded to 10 States in fiscal year 2002, and we are expanding to 31 States in 2003.

Warehouse Act Implementation

FSA has also been engaged in implementing revisions in the law pertaining to federally licensed warehouse operators under the Grain Standards and Warehouse Improvement Act of 2000. USDA has defined the issue of Federal preemption as the exclusive jurisdiction of the Department over a Federally licensed warehouse for activities related to the merchandising and storage of grain. We have developed an action plan that improves warehouse regulations and better protects the interests of producers and other depositors. One measure we are proposing is to upgrade the net worth and financial reporting requirements for obtaining a Federal warehouse license. Revised licensing agreements for commodities other than grains will be available for review by warehouse operators early this summer, prior to the start of the 2003 harvest. Licensing agreements for grain elevators have been postponed in accordance with the moratorium under Section 770 of the 2003 Consolidated Appropriations Resolution.

Management Initiatives

FSA is an active participant in USDA's management achievements, many of which fall within the scope of the President's Management Agenda. I would like to highlight a few of our success stories.

Improving Financial Performance.—FSA has demonstrated its commitment to improving financial performance and accountability by achieving a clean audit opinion for the fiscal year 2002 financial statements. A clean audit opinion assures the public that the financial data is reliable, accurate, and complete, and it enables users to make informed decisions and manage resources more wisely. The achievement of a clean audit opinion contributed toward the clean audit opinion for USDA as well. We have also made progress in fully complying with the Debt Collection Improvement Act of 1996.

Expanded Electronic Government.—In partnership with other Service Center agencies, FSA met the requirements of the Freedom to E-File Act in 2002 by posting over 300 electronic forms for producer access through our common e-Forms service site located at the following address: <http://forms.sc.egov.usda.gov>.

Farm Credit Program Loan Servicing.—FSA is working with the Department to identify and implement improvements to modernize loan servicing, including mailings, billings, collections, and correspondence.

BUDGET REQUESTS

The following highlights our proposals for the 2004 budget for commodity and conservation programs funded by the Commodity Credit Corporation (CCC); the farm loan programs of the Agricultural Credit Insurance Fund; our other appropriated programs; and administrative support.

COMMODITY CREDIT CORPORATION

Domestic farm commodity price and income support programs are administered by FSA and financed through the CCC, a government corporation for which FSA provides operating personnel. Commodity support operations for corn, barley, oats, grain sorghum, wheat and wheat products, soybeans, minor oilseed crops, cotton (upland and extra long staple), rice, tobacco, milk and milk products, honey, peanuts, pulse crops, sugar, wool and mohair are primarily facilitated through loans, payment programs, and purchase programs.

The 2002 Farm Bill authorizes CCC to transfer funds to various agencies for authorized programs in fiscal years 2002 through 2007. It is anticipated that in fiscal year 2003, \$1.5 billion will be transferred to other agencies.

The CCC is also the source of funding for the Conservation Reserve Program (CRP) administered by FSA, as well as many of the conservation programs administered by the Natural Resources Conservation Service. CCC also funds many of the export programs administered by the Foreign Agricultural Service. When called upon, CCC finances various disaster assistance programs authorized by Congress.

Program Outlays

The 2004 budget estimates largely reflect supply and demand assumptions for the 2003 crop, based on November 2002 data. CCC net expenditures for fiscal year 2004 are estimated at \$15.4 billion, down about \$3.8 billion from \$19.2 billion in fiscal year 2003.

The nearly \$3.8 billion net decrease in projected expenditures is attributable to reduced outlays for disaster assistance programs and several programs such as Milk Income Loss Contract payments, Peanut Quota Buyout payments, and net marketing assistance loan outlays, which more than offset increased outlays for direct and counter-cyclical payments.

Reimbursement for Realized Losses

Annual appropriations acts authorize CCC to replenish its borrowing authority, as needed, from Treasury, up to the amount of realized losses recorded in CCC's financial statements at the end of the preceding fiscal year. For fiscal year 2002 losses, CCC was reimbursed \$17.7 billion.

Conservation Reserve Program

FSA's Conservation Reserve Program (CRP) is currently USDA's largest conservation/environmental program. It is designed to cost-effectively assist farm owners and operators in improving soil, water, air, and wildlife resources by converting highly erodible and other environmentally sensitive acreage to a long-term resource-conserving cover. CRP participants enroll acreage for 10 to 15 years in exchange for annual rental payments as well as cost-share assistance and technical assistance to

install approved conservation practices. The 2002 Farm Bill increased the enrollment ceiling under this program from 36.4 million acres to 39.2 million acres.

The fiscal year 2004 budget reflects funding for general signups in fiscal years 2003 and 2004, for approximately 2.8 million acres and 1.8 million acres, respectively; 600,000 continuous signup and Conservation Reserve Enhancement Program acres and 100,000 Farmable Wetlands Program acres. Since May 5, FSA has been accepting applications for CRP. In addition to the general signup, CRP's continuous signup program will be ongoing. In total, two million acres are reserved for the continuous signup program, which provides for enrollment of the most environmentally desirable and sensitive land. Included in the two million acre reserve is 500,000 acres for bottomland hardwood tree planting to enhance wildlife habitats and air quality. Continuous signup for hardwood planting will start after the general signup is complete.

Current participants with contracts expiring September 30, 2003, account for about 1.5 million acres. These participants can make new contract offers during the general signup, with an effective date of October 1, 2004 if they are accepted. All other contracts awarded under this signup will become effective either at the beginning of next fiscal year, October 1, 2003, or the following year, October 1, 2004, whichever the producer chooses.

The Farm Service Agency will evaluate and rank eligible CRP offers using the Environmental Benefits Index (EBI). Decisions on the EBI rankings and cutoff criteria will be made after signup ends and after analyzing EBI rankings of all offers. Those who may have met previous signup EBI thresholds are not guaranteed a contract under this signup, as USDA is committed to enrolling acreage which will provide the greatest environmental benefit.

Overall, CRP enrollment is assumed to gradually increase from 34 million acres at the end of fiscal year 2002 to 39.2 million acres by fiscal year 2006, while maintaining a reserve sufficient to provide for a total program enrollment of 4.2 million acres in continuous signup and CREP. To date, approximately 2.2 million acres are already enrolled through continuous signup and CREP. In May 2000, new continuous signup and CREP participants became eligible for additional financial incentives designed to boost participation. USDA has allocated \$147 million for these one-time, up-front incentive payments in each of fiscal years 2003 through 2006. Actual incentive payments for fiscal year 2002 were approximately \$115 million.

FARM LOAN PROGRAMS

The loan programs funded through the Agricultural Credit Insurance Fund provide a variety of loans and loan guarantees to farm families who would otherwise be unable to obtain the credit they need to continue their farming operations.

The fiscal year 2004 Budget proposes a total program level of about \$3.5 billion. Of this total, \$2.7 billion is requested for guaranteed loans, which are offered in cooperation with private lenders. To align more closely with actual program demand, the fiscal year 2004 Budget allocates a larger share to the direct loan programs than the 2003 request. In 2001 and 2002, FSA transferred guaranteed loan funding to the direct loan programs as provided by law, and we are preparing for a similar transfer in 2003. By increasing the proportion of direct loan funding up front, as proposed, we will avert delays that might occur through an inter-program transfer of funds.

For direct farm ownership loans, we are requesting a loan level of \$140 million. The proposed program level would allow FSA to extend credit to about 1,200 small and beginning farmers to purchase or maintain a family farm. In accordance with legislative authorities, FSA has established annual county-by-county participation targets for members of socially disadvantaged groups based on demographic data. Seventy percent of direct farm ownership loans are reserved for beginning farmers, and about 35 percent are made at a reduced interest rate to limited resource borrowers, who may also be beginning farmers. For direct farm operating loans, we are requesting a program level of \$650 million to provide nearly 14,000 loans to family farmers.

For guaranteed farm ownership loans in fiscal year 2004, we are requesting a loan level of \$1 billion, which will provide approximately 3,500 farmers the opportunity to acquire their own farm or to preserve an existing one. Guaranteed farm ownership loans allow real estate equity to be used in restructuring short-term debt under more favorable long-term rates. For guaranteed farm operating loans, we propose an fiscal year 2004 program level of approximately \$1.7 billion to assist about 10,000 producers finance their farming operations. This program enables private lenders to extend credit to farm customers who would not otherwise qualify for com-

mercial loans. We are particularly proud of our guaranteed loan program, which is one of the most successful in the government system.

In addition, our budget proposes program levels of \$2 million for Indian tribal land acquisition loans and \$60 million for boll weevil eradication loans. For emergency disaster loans, carryover funding from 2003 is expected to provide sufficient credit to producers whose farming operations have been damaged by natural disasters.

OTHER APPROPRIATED PROGRAMS

State Mediation Grants

State Mediation Grants assist States in developing programs that deal with disputes involving distressed farm loans, wetland determinations, conservation compliance, pesticides, and other agricultural issues. Operated primarily by State universities or departments of agriculture, the program provides neutral mediators to assist producers, primarily small farmers, in resolving disputes before they culminate in litigation or bankruptcy. States with certified mediation programs may request grants of up to 70 percent of the cost of operating their programs.

The fiscal year 2004 Budget requests \$4 million for 28 to 32 grants to States. The \$3.9 million available for fiscal year 2003 has provided grants to 29 States.

Emergency Conservation Program

It is impossible to predict natural disasters and, therefore, difficult to forecast an appropriate funding level for the Emergency Conservation Program (ECP). The President's Budget does not include a request for this program because a significant amount of supplemental funding provided in fiscal year 2002 for ECP remained available for carryover to operate the program in 2003 when the fiscal year 2004 budget was prepared. However, because of severe drought, floods, tornadoes, and other disasters, which have occurred already this fiscal year, as of April 22, over \$22 million has been allocated in fiscal year 2003 to repair damage to agricultural lands and to provide water enhancement measures during the drought emergencies. We are currently reviewing our funds availability.

Dairy Indemnity Program

The Dairy Indemnity Program (DIP) compensates dairy farmers and manufacturers who, through no fault of their own, suffer income losses on milk or milk products removed from commercial markets due to residues of certain chemicals or other toxic substances. Payees are required to reimburse the Government if they recover their losses through litigation or other sources. As of April 22, we had paid fiscal year 2003 DIP claims totaling \$213,000 in nine States.

The fiscal year 2004 appropriation request of \$100 thousand, together with unobligated carryover funds expected to be available at the end of fiscal year 2003, would cover a higher than normal, but not catastrophic, level of claims. DIP, which was extended through 2007 by the 2002 Farm Bill, is an important element in the financial safety net for dairy producers in the event of a serious contamination incident.

ADMINISTRATIVE SUPPORT

The costs of administering all FSA activities are funded by a consolidated Salaries and Expenses account. The account comprises direct appropriations, transfers from loan programs under credit reform procedures, user fees, and advances and reimbursements from various sources.

The fiscal year 2004 Budget requests \$1.3 billion from appropriated sources including credit reform transfers. The request assumes decreases in non-Federal county staff years and operating expenses, partially offset by increases in pay-related costs to sustain essential program delivery.

In total, the fiscal year 2004 Budget reflects a ceiling of 5,917 Federal staff years and 10,784 non-Federal staff years. The Agricultural Assistance Act of the 2003 Consolidated Appropriations Resolution provided \$70 million to cover increased administrative costs needed to implement the disaster provisions as well as the commodity provisions of the 2002 Farm Bill. Temporary staffing and overtime will be used to meet this increased workload for the remainder of this fiscal year. As workload stabilizes in fiscal year 2004, temporary non-Federal staff years will be reduced from the fiscal year 2003 level, as is reflected in this request. Permanent non-Federal county staff years are expected to increase slightly to support the conservation provisions, where the workload is expected to remain at significant levels.

Federal staff years will increase by 56 to support the Geospatial Information Systems initiative, which will be funded by the Common Computing Environment account of the Office of the Chief Information Officer. This and other CCE initiatives

will lead to more efficient and effective customer service and will help move FSA and the other Service Center agencies into the e-Government era, resulting in significant long-term savings and administrative improvements.

Mr. Chairman, this concludes my statement. I will be happy to answer your questions and those of the other Subcommittee Members.

PREPARED STATEMENT OF A. ELLEN TERPSTRA, ADMINISTRATOR, FOREIGN
AGRICULTURAL SERVICE

Mr. Chairman, members of the Subcommittee, I appreciate the opportunity to review the work of the Foreign Agricultural Service (FAS) and to present the President's budget request for FAS programs for fiscal year 2004.

This year, as FAS celebrates its 50th anniversary as an agency, we have an opportunity to review our history and make sure we are prepared for tomorrow's challenges. In 1953, Secretary of Agriculture Ezra Taft Benson issued four challenges to the new agency:

- Supply American agriculture with current market information;
- Promote the sale of American farm products abroad;
- Remove obstacles to foreign trade; and
- Help other countries become better customers through technical assistance, foreign investment, greater use of credit and other means.

Through all the changes of the past 50 years—new nations, new technologies, new food and agricultural products, to name just a few—those activities remain the core of our agency's work. The work we do supports the Department's strategic objectives of expanding international market opportunities and supporting international economic development and trade capacity building.

The challenges the new FAS faced in 1953 are not unlike the challenges we face today—the excess productive capacity of U.S. agriculture, continued global agricultural policy reform, weather uncertainties and competition. At the same time, the U.S. export situation is incredibly different. During the 1950s, our agricultural trade balance was awash in red ink. In 1953, for example, U.S. agricultural imports were \$4.3 billion and exports were \$2.8 billion, leaving a trade deficit of \$1.5 billion. In sharp contrast, for fiscal 2002, U.S. agricultural exports topped \$53 billion and imports were \$41 billion, producing a surplus of more than \$12 billion.

In the early 1950s, six of our top 10 export markets were in Western Europe. Now half are in Asia and only two are in Europe. Also, Canada and Mexico, our partners in the North American Free Trade Agreement, ranked 1 and 3 in 2002. Together, they took 29 percent of our total agricultural exports, up from 11 percent in the early 1950s when Mexico was not even in the top 10.

Bulk commodities dominated the U.S. trade picture back then. The big three at the time—wheat, cotton and tobacco leaf—accounted for up to 60 percent of total U.S. agricultural export value. A USDA report at the time boasted that our soybean exports set a record in 1953—42 million bushels. We now export about a billion bushels a year. In the early 1950s, meats trailed animal fats in export volume and value, and horsemeat tonnage beat poultry meat. Like meats, fruits and vegetables show huge export gains over the past 50 years. In 1952 and 1953 combined, we exported 164 million pounds of fresh apples, compared with 2.9 billion pounds in 2000–2001.

Many factors contributed to these changes. The global marketplace has grown enormously—more people, more production, higher incomes and much, much more trade. World population increased from about 2.7 billion in 1953 to a projected 6.3 billion this year. Urban populations have more than tripled.

Rising incomes have expanded trade not only by generating demand for more food, but also by helping to alter diets, sharply boosting per capita global consumption and trade in meats, cereals, fruits and vegetables, and processed grocery products. At the same time, trade liberalization, changing market structures and new technologies in processing, storage and shipping created new opportunities and new markets.

American producers, processors and exporters took advantage of these growing opportunities by increasing their productivity, improving quality and variety, and intensifying marketing efforts. And through it all, government—including FAS—and the private sector developed a strong partnership, working together on market development and promotion programs, market-opening negotiations and new trade agreements, food and technical assistance, and research and quality improvements.

While we still face many challenges, we continue to believe that world markets offer rewarding growth opportunities and play a vital role in the future strength and prosperity of American agriculture.

FAS Program Activities

Throughout our 50 years, Congress has given us many tools to help us expand export opportunities for U.S. agricultural, fish, and forest products. Last year, we continued to use our long-standing export programs vigorously and have implemented new initiatives contained in the Farm Security and Rural Investment Act of 2002.

The 2002 Farm Bill established the Technical Assistance for Specialty Crops program and authorizes \$2 million in Commodity Credit Corporation funds for each fiscal year from 2002 to 2007. We moved quickly to implement the program and allocated \$2 million to 18 entities for fiscal year 2002 under this program, which is designed to address unique barriers that prohibit or threaten the export of U.S. specialty crops.

The Farm Bill also increased the Market Access Program to \$100 million for 2002, and those funds were allocated to 65 trade organizations to promote their products overseas. The Farm Bill increased funds for the Foreign Market Development Program, and FAS approved marketing plans totaling \$34.5 million for 24 trade organizations for fiscal year 2002.

The Emerging Markets Program is authorized at \$10 million each year to promote increased market access for U.S. commodities and products in emerging markets. A total of 82 projects were approved for fiscal year 2002. The Quality Samples Program provides funds so U.S. organizations can provide commodity samples to foreign buyers to help educate them about the characteristics and qualities of U.S. agricultural products. FAS allocated \$1.6 million in fiscal year 2002 to 21 organizations under this program.

The export credit guarantee programs facilitated sales of nearly \$3.4 billion in U.S. agricultural products last year. The GSM-102 program helped U.S. exporters register sales of nearly \$650 million in the South America region and over \$395 million to Turkey, two areas where the program is most successful. U.S. exporters continue to discover the benefits of the Supplier Credit Guarantee Program. We issued over \$452 million in credit guarantees under this program in 2002, and we project continuing growth for this newer GSM program.

With the aid of the Dairy Export Incentive Program (DEIP), U.S. exporters sold more than 86,000 tons of dairy products in fiscal year 2002. The Commodity Credit Corporation awarded over \$54 million in bonuses to help U.S. dairy exporters meet prevailing world prices and develop foreign markets, primarily in Asia and Latin America.

On the trade policy front, USDA works to open, expand, and maintain markets for U.S. agriculture. FAS was a key player in the development of the comprehensive U.S. agricultural negotiation proposal for the World Trade Organization (WTO) Doha Development Agenda. The proposal calls for significant new disciplines in the areas of market access, export competition, and domestic support.

We also have actively participated in other trade negotiations including the Free Trade Area of the Americas (FTAA) and the now completed Singapore and Chile Free Trade Agreements.

While pursuing these new negotiations, we have begun to see the benefits of earlier agreements. United States exports of forest products, rice, cotton, citrus, and wheat to Taiwan and China have increased by over \$100 million as a result of their accessions to the WTO, and U.S. soybean meal and corn exports to Jordan have nearly doubled as a result of the U.S.-Jordan Free Trade Agreement.

FAS also worked to defend United States access to markets. Monitoring of trade agreements is essential to ensure that the benefits gained through long, hard negotiations are realized. Our monitoring of the Uruguay Round Agreement on Agriculture and the Sanitary and Phytosanitary Agreement ensured that nearly \$1.8 billion in U.S. trade was protected or expanded. Examples include the monitoring of China and Taiwan's WTO accession commitments, Venezuela's import licensing for numerous commodities, and Costa Rica's rice import permits.

In addition, we worked to secure access for U.S. organic exports to Japan and Europe, averted the imposition of grain import restrictions by the European Union (EU), and helped open the Australian market to U.S. table grapes.

To support the U.S. commitment to global food aid efforts, we have used our assistance authorities to ship commodities from the United States to needy people around the world. FAS programmed more than 2.4 million metric tons of food assistance in fiscal year 2002 under Public Law (Public Law) 480, Title I and Section 416(b) of the Agricultural Act of 1949. These products, valued at \$600 million, went to more than 60 countries.

Under the pilot Global Food for Education (GFE) Initiative, which began in fiscal year 2001, the United States has provided 800,000 tons of commodities and associ-

ated assistance valued at \$300 million over a 2-year period to provide school meals for 7 million children in 38 countries.

Our emphasis on trade capacity building and our roles in international organizations continue to grow. International cooperation is the cornerstone for building bilateral and multilateral relationships that can facilitate resolution of trade differences, expand trade, and promote economic growth. For example, last year we used several international organization meetings to advance our WTO proposals. We began our efforts to communicate the important link between market access and global food security at the Food and Agriculture Organization's Conference in Rome in November, just prior to the successful launch of the Doha Development Round. We continued our efforts at the Finance for Development Conference in Monterrey in March, the World Food Summit: Five Years Later in Rome in June, the G-8 Summit in Kananaskis, Canada, 2 weeks later, and finally the World Summit on Sustainable Development in Johannesburg in August.

The meetings provided opportunities for outreach on our WTO proposal and biotechnology as key to addressing the problem of food security. Our efforts were carefully crafted to specific audiences. For example, at the World Food Summit: Five Years Later, Secretary Veneman identified three U.S. priorities for reducing hunger, with specific initiatives to boost agricultural productivity in the developing world, end famine, and alleviate severe vitamin and mineral deficiencies. She invited other countries to join us in these efforts. The Secretary announced a USDA-sponsored ministerial-level conference on agricultural science and technology designed to assist developing countries in increasing productivity. We sponsored a well-attended event on biotechnology that included Nobel Peace Prize winning scientist Dr. Norman Borlaug, bringing greater credibility to the scientific support behind the technology. Finally, the Secretary met with Latin American ministers of agriculture in their capacity as members of the Inter-American Institute for Cooperation on Agriculture. The result of that meeting was consensus among members on trade capacity building priorities for IICA, including sanitary and phytosanitary issues and biotechnology.

It is these relationships and the training we provide that will help us resolve trade disputes in the future, as well as prepare developing countries for global trade. Our longstanding training program, the Cochran Fellowship Program was used to introduce 972 Cochran Fellows from 78 countries to U.S. products and policies in 2002—the largest number of participants in the program's history. These Fellows met with U.S. agribusiness; attended trade shows, policy and food safety seminars; and received technical training related to market development. The Cochran Fellowship Program provides USDA with a unique opportunity to educate foreign government and private sector representatives not only about U.S. products, but also about U.S. regulations and policies on critical issues such as food safety and biotechnology.

We also collaborated with a diverse group of U.S. institutions in research partnerships with 53 countries. These research and exchange activities promoted the safe and appropriate development and application of products from biotechnology, as well as other areas such as food safety, improved nutritive value of crops, environmental sustainability, and pest and disease resistance of crops and livestock.

In the end, the technical assistance that we provide, both our own and through international organizations, will help build the institutions needed for developing countries to attract investment and grow their economies. If our efforts are successful, our food and agricultural producers will benefit by access to more and better markets.

Challenges Ahead

Faced with continued growth in our agricultural productivity, intense competition, and continued aggressive spending on market promotion by our competitors, we must redouble our efforts to improve the outlook for U.S. agricultural exports. I would like to discuss our top priorities for the year.

Continuing Trade Liberalization for Agriculture

At the top of our list is moving forward in the multilateral trade negotiations on agriculture under the WTO. The United States was the first WTO member to put forward a comprehensive and specific agriculture proposal, which has gained support from many WTO members. As the negotiations progress, it has become clear that two camps have developed: one that wants to address the inequities of the Uruguay Round consistent with the Doha mandate and one that does not. The EU and Japan are in the latter group. Both have indicated resistance to moving beyond the limited Uruguay Round framework.

We are at a critical stage in the WTO agriculture negotiations. We were disappointed, but not surprised that resistance to change and reform stymied agreement on the modalities for cuts in subsidies and tariffs by the March 31 deadline. The Chair of the agricultural negotiating group, Stuart Harbinson, is to be commended for his leadership in moving the process forward. However, his paper was not completely satisfactory to us. But it did highlight that a large number of countries, including the United States, are ready to advance significant reform, to cut subsidies and tariffs substantially.

Along with our comprehensive tariff reduction formula, the United States has proposed that WTO members engage in negotiations on a sector-specific basis on further reform commitments that go beyond the basic reductions that will apply to all products. These would include deeper tariff reductions, product-specific limits on trade-distorting domestic support, and other commitments to more effectively address the trade-distorting practices in the affected commodity sectors. This is an area where we need support and involvement from our food and agriculture industry, and we will be seeking their guidance throughout the negotiations.

So where do we go from here? We cannot lose our commitment to the Doha Development Agenda effort just because we encounter problems. WTO members need to keep working, exploring ways to bring parties together, to match interests so that we can move the process forward. As we work toward the Cancun Ministerial in September, we will continue to support the efforts of Chairman Harbinson to advance the negotiations.

Overall, the passage of Trade Promotion Authority (TPA) was great news for America's farmers, ranchers, and food industry. The United States can now move forward on its ambitious trade agenda of opening markets multilaterally in the WTO, regionally, and bilaterally. This Administration is pressing ahead in its effort to create the largest, most comprehensive free trade area encompassing 34 democracies in the Western Hemisphere—a Free Trade Area of the Americas (FTAA). Despite economic turmoil in Latin America, the negotiations remain on schedule.

In December, the United States, at the Free Trade Area of the Americas (FTAA) Ministerial in Quito, Ecuador, pushed negotiations forward to complete the FTAA by January 2005. The ministers energized market access negotiations and agreed that the United States and Brazil will co-chair the FTAA process through the conclusion of negotiations. The next meeting will be in Miami late this year, with another meeting set for Brazil in 2004.

When completed, the FTAA will provide U.S. producers and exporters with much greater access to 450 million consumers outside the NAFTA countries, who will have \$2 trillion in income. USDA estimates suggest that the FTAA could expand U.S. agricultural exports to the hemisphere by more than \$1.5 billion annually.

While we recognize that many challenges lie ahead and that the U.S. agricultural community has some concerns about the FTAA, we cannot afford to stand on the sidelines while other countries take away our potential markets. The reality is that if all Western Hemisphere countries have preferential agreements among themselves and the United States is not a party to these agreements, U.S. exports to the hemisphere would actually decline, perhaps as much as \$300 million annually. So we must be a participant and a leader in these important negotiations.

In the year ahead, we will also be working on agreements with Australia, Morocco, five countries in Central America, and the Southern African Customs Union. As you see, we will be working on many fronts to continue to improve export opportunities for the American food and agriculture sector.

We also are actively participating in the Asia Pacific Economic Cooperation (APEC) forum. We expect APEC to serve a key role in promoting continued trade liberalization within the region and in the WTO, and we will be working through the APEC food system to realize this goal.

We will continue to work with the countries that would like to join the WTO, such as Russia and Saudi Arabia. Although increasing the number of members in the WTO is a high priority, we will continue to insist that these accessions be made on commercially viable terms that provide trade and investment opportunities for U.S. agriculture. And when membership in the WTO is achieved, we must continue to monitor aggressively those countries' compliance with their commitments. We must ensure that acceding countries implement trade policies and regulations that are fully consistent with WTO rules and obligations.

Building Trade Capacity

Hand-in-hand with our negotiating efforts are our efforts to help developing countries participate more fully in the trade arena. Our trade capacity building efforts are aimed at helping countries take part in negotiations, implement agreements, and connect trade liberalization to a program for reform and growth. We will work

closely with the U.S. Trade Representative and the U.S. Agency for International Development in this effort.

If we are to achieve success in the negotiating process, we must engage the developing world in the creation and implementation of appropriate trading rules and guidelines. This will take time, but it will be worth the investment. These countries represent our future growth markets. Throughout the year, we will use all of our available tools—the Cochran Fellowship Program, the Emerging Markets Program, and our involvement in international organizations such as the Inter-American Institute for Cooperation on Agriculture (IICA)—to aid in this important effort.

Addressing Biotechnology Issues

Another priority is how we deal with the issues surrounding products produced through biotechnology. The increasing number of countries around the world that are issuing regulations relating to products of biotechnology present a particular challenge, both for our infrastructure and for our food and agricultural exports. We are using every available fora to ensure countries adopt science-based policies in this area.

For example, last year we participated in the first APEC policy dialogue on biotechnology, where the 21 APEC member countries reached a consensus that biotechnology is an important tool with great potential for food security and the environment. In an effort to foster closer cooperation, the North American Biotechnology Initiative identified science, marketing, and regulatory issues as priorities for the three NAFTA partners. The Philippines enacted well-crafted biotech commercialization guidelines after 3 years of sustained FAS interaction through educational events and Cochran Fellowship training programs. FAS worked closely with third countries and allies within the EU to counter misinformation and to highlight the practical implications of EU legislation on biotech food and feed products.

Biotech issues will continue to be important for U.S. agriculture in the immediate years ahead, whether in the WTO or in our bilateral relationships with customer and competitor nations alike. We continue to insist that biotech approval regimes, wherever they exist, must be transparent, timely, predictable, and science-based.

Maintaining Market Access

Inherent in the FAS mission is the need to anticipate and prevent disruptions to trade imposed by new market barriers. Perhaps no other task that we carry out is as important, yet less visible. It is a measure of our success that so many issues are resolved so quickly, with so little public awareness. Virtually every day, our overseas and domestic staff work as a team on a variety of concerns—first to prevent crises from developing and then to resolve thorny issues should they arise. They coordinate efforts with a number of USDA agencies, as well as with private sector companies and associations.

Every year, these activities preserve millions of dollars in trade that could have potentially been lost by countries imposing new barriers. Some problems may be resolved quickly with a phone call or a meeting; others are more complex, and involve multiple U.S. agencies. Our priorities include resolving poultry trade issues with Russia, poultry and other issues with Mexico, and tariff-rate quota and biotech issues with China.

Ensuring World Food Security

We recognize that significant emergency food needs continue to haunt many in the world and we are working to help address them. Today the most severe needs are in Mauritania, Sudan, Angola, North Korea, Afghanistan, southern Africa, and the Horn of Africa. The United States has delivered or pledged more than 500,000 tons (valued at \$266 million) to southern Africa since the beginning of 2002, making us the largest donor to the World Food Program's (WFP) operations there. The United States is also providing food aid to Ethiopia, Eritrea, Sudan, Angola, North Korea, Afghanistan, and many other countries.

However, U.S. food aid donations are determined by the availability of commodities, budget resources and commodity and transport prices. We have reduced our reliance on that part of the Section 416(b) program that depended on the availability of surplus U.S. commodities and have increased funding under the more traditional Public Law 480 and Food for Progress authorities. We hope that this change will allow other governments, private voluntary organizations (PVOs), and the World Food Program to have a much more reliable picture of how much food aid will be available from the United States each year.

We also will be implementing the new McGovern-Dole International Food for Education and Child Nutrition Program. This new program, established in the 2002 Farm Bill, builds on the pilot Global Food for Education Initiative that I mentioned earlier. We will be working closely with the World Food Program and our PVO part-

ners to ensure that this program gets off to a good start and builds on the success achieved by the Global Food for Education Initiative.

In addition, FAS continues to assist USAID in its Famine Early Warning System (FEWS) by providing satellite and crop data. We will soon launch our effort to track global water resources that will allow us to measure critical water reservoirs in developing countries.

But despite all our efforts, estimated food aid needs continue to be high. That is why we continue to press other major donors to increase their contributions. The United States is working with the G-8 to make this effort multilateral. In addition, we are especially supportive of the efforts of the WFP's new director to widen the spectrum of support from private sector organizations.

But we know food aid is not the only tool to achieve world food security. That is why Secretary Veneman will host a Ministerial Conference and Expo on Agricultural Science and Technology June 23-25 in Sacramento, Calif. Ministers are being invited from over 180 nations. The conference, also sponsored by the U.S. Agency for International Development and the Department of State, will focus on the critical role science and technology can play in raising sustainable agricultural productivity in developing countries, with the goal of boosting food availability and access and improving nutrition.

Implementing Program Changes

Our top program priority is developing and implementing the Trade Adjustment Assistance Program for Farmers, a new program established by the Trade Act of 2002. Under the program, USDA is authorized to make payments to eligible producer groups when the current year's price of an agricultural commodity is less than 80 percent of the national average price for a previous 5-year marketing period, and the Secretary determines that imports have contributed importantly to the decline in price. FAS is currently coordinating efforts with other USDA agencies to establish the new program. On April 23, we invited public comments on proposed regulations for the program.

Comments are due by May 23

Another priority is expanding our eGov capability. EGovernment is a multi-faceted initiative that will change the way we in FAS communicate with each other, with the rest of government, and most importantly, with the customers we serve around the world. For FAS, eGov means making more information and services available online, while organizing and presenting all of this data in a logical, accessible and useful way.

Specifically for FAS, this means changing our processes for producing data and information in ways that make it easier to categorize, publish and present online. FAS has committed to being an early adapter in the content management initiative of eGov. Within the next year, FAS will make most information-collecting forms such as grant applications and reporting documents interactive and available online. And in the long term, we will analyze every function and activity throughout the agency to develop ways to leverage our information technologies to complete our agency activities faster, smarter and better.

BUDGET REQUEST

Mr. Chairman, our fiscal year 2004 budget proposes a funding level of \$145.2 million for FAS and 1,005 staff years. The request includes a number of important trade related activities and non-discretionary administrative increases.

First, an additional 20 staff years are proposed to facilitate the agency's active involvement in ongoing multilateral, regional, and bilateral trade negotiations and to bolster its efforts to address rapidly growing market access constraints related to biotechnology, and sanitary and phytosanitary measures. These will be funded from a centralized fund to be established in the Office of the Secretary to support cross-cutting USDA trade-related and biotechnology activities.

Additionally, the budget proposes an increase of \$500,000 to support a series of regionally based seminars on the specifics of the Biosafety Protocol. Representatives from 170 countries are currently negotiating international provisions governing the shipment and use of products from biotechnology under the Cartagena Protocol on Biosafety. Parameters set under this agreement are intended to provide uniform international requirements for ensuring the safe transport and use of these products.

The Biosafety Protocol can offer a framework to guide countries that currently lack national regulatory systems for products of biotechnology. However, if member countries misinterpret the Protocol, it can seriously impede international trade, product development, technology transfer, and scientific research. Through a series

of regional seminars, FAS will work to ensure that the implementation of these standards under the Biosafety Protocol are science-based, transparent, and non-discriminatory. These seminars will be coordinated in conjunction with other USDA agencies such as the Animal and Plant Health Inspection Service (APHIS), industry representatives, academia, the non-governmental organization community, and international regulatory agencies.

The budget also requests \$5 million for a USDA contribution to the Montreal Protocol Multilateral Fund (MPMF). The MPMF was created in 1991 to help developing countries switch from ozone depleting substances to safer alternatives. Developing countries' commitment to comply with the Protocol's strict requirements is contingent on developed countries providing help through the MPMF. Historically, the Department of State (DOS) and the Environmental Protection Agency have provided nearly all U.S. payments to the MPMF. This has funded projects that are leading to the phase out of the production and use by developing countries of industrial chemicals that deplete the ozone layer, such as chlorofluorocarbons and halons. In the future, there will be an increasing focus on reducing the use of methyl bromide. In recognition of the growing importance of agricultural issues in the Montreal Protocol process, USDA is requesting a \$5 million contribution to the MPMF.

The budget includes an increase of \$4,220,000 for non-discretionary administrative requirements including:

- An increase of \$1,871,000 to cover higher personnel compensation costs associated with the anticipated fiscal year 2004 pay raise. Pay cost increases are non-discretionary and must be funded. Absorption of these costs in fiscal year 2004 would primarily come from reductions in agency personnel levels, which would significantly affect FAS trade expansion efforts.
- An increase of \$1,539,000 for inflation. Using the OMB economic assumption of 2.3 percent, this is the amount needed to offset anticipated inflationary cost growth. This increase is of particular importance for maintaining FAS offices overseas at current levels.
- An increase of \$594,000 for higher ICASS payments to the Department of State. The DOS provides overseas administrative support for foreign affairs agencies through the International Cooperative Administrative Support Services (ICASS) system. FAS has no administrative staff overseas, and thus relies entirely on DOS/ICASS for this support. For fiscal year 2004, DOS has informed agencies that it anticipates an increase of 6.5 percent over fiscal year 2003 levels. That 6.5 percent estimate includes amounts for increasing staffing under the Diplomatic Readiness Initiative, continuing the Overseas Infrastructure Initiative, and budgeting for overseas comparability pay.
- An increase of \$356,000 for increased overseas rental expenses arising from the sale of dedicated FAS overseas housing by DOS. Section 213 of the Foreign Relations Authorization Act, fiscal year 2003, (Public Law 107-228) repealed Section 738 of the fiscal year 2001 Agriculture Appropriations Act that limited DOS's authority to sell "unneeded" property by making sales decisions contingent on FAS approval. In view of this action and State's intention to sell three additional residences, FAS is now seeking additional funding to finance moves into commercial space where government owned space is not available.
- A decrease of \$140,000 for the savings associated with centralization and improvement of information technology. Savings are associated with consolidated buys for infrastructure and office automation, and consolidation of enterprise architecture projects within the Department. USDA continues to ensure that information technology investments utilize enterprise licenses for hardware and software where appropriate and reduce the information technology costs.

Export Programs

Mr. Chairman, the fiscal year 2004 budget proposes \$6.2 billion for programs to promote U.S. agricultural exports, develop long-term markets overseas, and foster economic growth in developing countries. The 2002 Farm Bill increased funding for several of these programs in order to bolster our trade expansion efforts that are reflected in the President's fiscal year 2004 budget.

Export Credit Guarantee Programs

The budget includes a projected overall program level of \$4.155 billion for export credit guarantees in fiscal year 2004.

Under these programs, the Commodity Credit Corporation (CCC) provides payment guarantees for the commercial financing of U.S. agricultural exports. As in previous years, the budget estimates reflect actual levels of sales expected to be registered under the programs and include:

- \$3.3 billion for the GSM-102 program

- \$18 million for the GSM-103 program
- \$750 million for Supplier Credit guarantees
- \$44 million for Facility Financing guarantees Market

Development Programs

Funded by CCC, FAS administers a number of programs to promote the development, maintenance, and expansion of commercial export markets for U.S. agricultural commodities and products. For fiscal year 2004, the CCC estimates include a total of \$164 million for market development programs that includes:

- \$125 million for the Market Access Program, an increase of \$15 million over the fiscal year 2003 level of \$110 million;
- \$34.5 million for the Foreign Market Development (Cooperator) Program, unchanged from fiscal year 2003;
- \$2.5 million for the Quality Samples Program, unchanged from fiscal year 2003; and
- \$2 million for the new Technical Assistance for Specialty Crops Programs. International Food Assistance

The fiscal year 2004 budget continues the worldwide leadership of the United States in providing international food aid. In this regard, the fiscal year 2004 proposals total \$1.6 billion which include:

- \$1.345 billion for Public Law 480, which is expected to provide approximately 3.1 million metric tons of commodity assistance. For Title I, the budget provides for a program level of \$160 million, which will support approximately 600,000 metric tons of commodity assistance. For Title II donations, the budget provides for a program level of \$1.185 billion, which is expected to support 2.5 million metric tons of commodity donations.
- \$151 million for Food for Progress. Funding at the requested level is expected to meet the minimum tonnage level of 400,000 metric tons stipulated in the 2002 Farm Bill;
- \$118 million for Section 416(b) donations. Under this program, surplus commodities that are acquired by CCC in the normal course of its domestic support operations are available for donation overseas. For fiscal year 2004, current CCC baseline estimates project the availability of surplus nonfat dry milk that could be made available for programming under section 416(b) authority; and
- \$50 million for the McGovern-Dole International Food for Education and Child Nutrition Program. The McGovern-Dole program is an entirely new program, authorized by the 2002 Farm Bill. Fiscal year 2003 funding for McGovern-Dole is \$100 million from CCC for both commodities and technical assistance. The fiscal year 2004 budget requests appropriated funding of \$50 million. However, programming should not decline significantly in fiscal year 2004 because of the many programs that will likely carry over from fiscal year 2003. In developing the fiscal year 2005 budget, the Administration will be in a position to review program performance during fiscal years 2003 and 2004, and will make decisions on future funding in accordance with those results.

Export Subsidy Programs

FAS administers two export subsidy programs through which payments are made to exporters of U.S. agricultural commodities to enable them to be price competitive in overseas markets where competitor countries are subsidizing sales. These include:

- \$28 million for the Export Enhancement Program (EEP). World supply and demand conditions have limited EEP programming in recent years, and as such, the fiscal year 2004 budget assumes a continued limited activity. However, the 2002 Farm Bill includes a maximum annual EEP program level of \$478 million allowable under Uruguay Round commitments and that amount could be used should market conditions warrant.
- \$57 million for the Dairy Export Incentive Program (DEIP), \$26 million above the fiscal year 2003 estimate of \$31 million. This estimate reflects the level of subsidy currently required to facilitate exports sales consistent with projected United States and world market conditions and can change during the programming year as market conditions warrant.

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

PREPARED STATEMENT OF ROSS J. DAVIDSON, JR., ADMINISTRATOR, RISK
MANAGEMENT AGENCY

Mr. Chairman and members of the Subcommittee, it is a pleasure to appear before you to testify in support of the President's fiscal year 2004 budget for the Risk Management Agency (RMA). RMA has made rapid progress in meeting its legislative mandates to provide an actuarially sound crop insurance program to America's agricultural producers. However, more needs to be done. The program is expected to provide approximately \$38 billion in risk protection on about 208 million acres in 2004, representing approximately 80 percent of the Nation's planted acres for principal crops.

RMA's primary mission is to promote, support and regulate the delivery of sound risk management solutions to preserve and strengthen the economic stability of America's agricultural producers. Our key objectives in support of that mission are to:

- Provide widely available and effective risk management solutions;
- Ensure customers and stakeholders are well-informed;
- Provide a fair and effective delivery system;
- Maintain program integrity;
- Provide excellent service.

To achieve these objectives, RMA's total fiscal year 2004 budget request is \$3.4 billion. The funding level proposed for the Federal Crop Insurance Corporation (FCIC) is \$3,300,187,000 and for the Administrative and Operating Expenses the request is \$78,488,000. This budget request includes a legislative proposal to reduce the administrative expense reimbursement to the insured companies.

FCIC FUND

The fiscal year 2004 budget proposes that "such sums as may be necessary" be appropriated to the FCIC Fund. This ensures the program is fully funded to meet producers' needs. The current estimate of funding needs is based on USDA's latest projections of planted acreage and expected market prices. The fiscal year 2004 budget requests an increase of \$389.2 million from \$2.9 billion in fiscal year 2003 to \$3.3 billion in fiscal year 2004. The budget request includes increases of \$69.9 million for Premium Subsidy, \$30.3 million for Delivery Expenses, \$10.0 million for mandated Agricultural Risk Protection Act of 2000 (ARPA) activities, and \$346.8 million for reimbursement to the Insurance Fund for U.S. Treasury transfer for excess 2002 crop year losses. The legislative proposal is expected to save approximately \$67.8 million in 2004 by reducing the administrative expense reimbursement rate paid to the insured companies from 24.5 percent to 20 percent. These savings are achievable principally because there has been a substantial growth in premium dollars and reimbursements have increased proportionally—in essence, insuring the same number of acres at higher levels of coverage.

ADMINISTRATIVE AND OPERATING EXPENSES (A&O)

RMA's fiscal year 2004 request of \$78.5 million for Administrative and Operating Expenses represents an increase of about \$8 million from fiscal year 2003. This budget will support increases for information technology (IT) initiatives in the amount of \$5.5 million. These IT funds are targeted towards the continual maintenance and enhancement of the corporate operating systems necessary to run the program. Included in the total request is \$1.0 million to expand the monitoring and evaluation of reinsured companies, and \$1.3 million for pay cost for a staffing level of 568 employees.

Finally, this budget also includes a funding request of about \$8.7 million for information technology for the RMA under the Common Computing Environment (CCE) in the budget of the Chief Information Officer. This amount is in addition to the funding requested above the administrative and operating expenses of RMA. Historically, funding under the CCE has been reserved for the service center agencies. The Department is working aggressively to coordinate its information technology resources to ensure greater efficiency in software development, hardware acquisition and maintenance and in sharing common data among its various agencies. The best way to ensure the level of coordination required is to provide funding under the controls of the CCE.

In addition, RMA has an aging information technology system, the last major overhaul occurred about 10 years ago. Since that time the crop insurance program has expanded tremendously. Catastrophic coverage and revenue insurance products have been initiated and coverage for new commodities has been added including many specialty crops and more recently livestock. In short, RMA's information tech-

nology system has not kept pace with the changes in the program. The funding requested under the CCE will provide for improvements to RMA's existing information technology system to improve coordination and data sharing with the insurance companies and FSA. The funding will also provide for the development of a new information technology architecture to support the way RMA will need to do business in the future.

PROGRAM HIGHLIGHTS

Board of Directors

A new FCIC Board of Directors (Board) was appointed in 2002. This Board and I have set an aggressive agenda to address producers' issues and challenges in the crop insurance program. This agenda increases participation in the program, ensures outreach to small and limited resource farmers, expands programs where appropriate, affirms program compliance and integrity and ensures equity in risk sharing. Nine Board meetings were held during 2002. The Board approved 26 programs in fiscal year 2002 and is considering another 18 programs. Private companies submitted five of the approved programs. Two of these were livestock programs. RMA is efficiently contracting for and reviewing new products, and promoting new risk management strategies.

In 2002, RMA provided approximately \$37 billion of protection to farmers, and expects indemnity payments for 2002 losses of approximately \$4.2 billion. The expected loss ratio for 2002 is 1.42 compared to 1.0 for 2001. In 2002, much of the agriculture region across the United States suffered from severe drought conditions. The increase in the loss ratio reflects this. As a result, the amount of claim payments made under the crop insurance program increases significantly. This shows that the agriculture community is successfully benefiting from the risk management tools the government provides. RMA continues to evaluate the crop insurance program to identify areas for improvement and to create new products for commodities that are not offered coverage under the current crop insurance programs so that the government can eliminate or at least substantially reduce the need for ad-hoc disaster assistance payments to the agriculture community. The participation rate was approximately 80 percent. While participation in the program is voluntary, subsidizing the premium paid by farmers for coverage encourages participation.

Increases in subsidies resulting from the passage of ARPA had a positive affect on participation. Since 2000, farmers have shown a trend of choosing to purchase higher levels of buy-up protection and revenue coverage policies. In 2002, over 50 percent of the insured acreage was insured at 70 percent or higher level of coverage compared to only 9 percent in 1998. The high participation rate and the higher levels of coverage purchases by participants have added to the ability for Crop Insurance to become the main risk management tool for America's farmers. We have made additional improvements recently that will continue this trend. In addition, the increased number of farmers buying up higher levels of coverage has generated the efficiencies reflected in the proposal to lower the administrative expense reimbursement rate.

Program Compliance and Integrity

RMA, with the assistance of the Farm Service Agency (FSA) and private sector insurance providers, works to improve program compliance and maintain the integrity of the Federal Crop Insurance Program. In order to complete ARPA requirements, RMA executed procedures for the FSA to refer potential crop insurance abusers. RMA established a fraud case management system and improved the sanction process. In addition, RMA implemented data mining projects and fine-tuned the data reconciliation process.

Last year RMA achieved a 700 percent increase in referrals on possible instances of fraud through data mining and analysis, a formalized alliance with FSA, and collaboration with approved insurance providers. These results demonstrated the direct impact of RMA's public effort to prevent fraud and saw an estimated \$94 million reduction in program costs by preventing potential fraudulent claims during October 2000 through December 2001. This strategy and its effects are discussed further in the RMA's Program Compliance and Integrity Annual Report to Congress.

Livestock Insurance Plans

The FCIC Board approved two pilot insurance programs for Iowa swine producers to protect them from declining hog prices. The two approved programs are the Livestock Gross Margin Pilot and the Livestock Risk Protection Pilot. Both policies are available from private insurance agents. Authorized under ARPA, these types of livestock insurance programs provide livestock producers with effective price risk management tools. RMA is providing \$19 million in coverage on approximately

304,000 hogs for the 2003 reinsurance year. Pilot program length will be determined by farmer participation and financial performance of the program.

The Livestock Gross Margin (LGM) pilot protects swine producers from price risks for 6 months and up to 15,000 hogs per period. The policy protects the gross margin between the value of the hogs and the cost of corn and soybean meal. Prices are based on hog futures contracts and feed futures contracts. LGM protects producers if feed costs increase and/or hog prices decline, depending on the coverage level selected by the producer. Coverage levels range from 85–100 percent. LGM sales began in July 2002. There are two sale periods each year—January and July.

The Livestock Risk Protection (LRP) pilot protects producers against declining hog prices if the price index specified in the policy drops below the producer's selected coverage price. Swine can be insured for 90, 120, 150, or 180 days, up to a total of 32,000 animals per year. Unlike traditional crop insurance policies which have a single sales closing date each year, LRP is priced daily and available for sale throughout the year. Coverage levels range from approximately 70–95 percent of the daily hog prices. In addition, the FCIC Board recently approved LRP for both fed and feeder cattle beginning in 2003. We expect these programs to be available in late spring.

Adjusted Gross Revenue—Lite

The FCIC Board approved the Adjusted Gross Revenue-Lite (AGR-Lite) insurance plan in late 2002 and began sales for 2003. This product was submitted to FCIC through Section 508(h) of the Federal Crop Insurance Act. AGR-Lite is available in most of Pennsylvania and covers whole farm revenue up to \$100,000, including revenue from animals and animal products. RMA encourages other states to develop similar programs.

Adjusted Gross Revenue (AGR) Cost-Share Program

ARPA authorized cost-sharing to assist producers in reducing financial risk through product diversification. To meet this directive, FCIC announced a cost-share program for AGR insurance that was made available in 11 underserved Northeastern States: Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New York, New Jersey, Pennsylvania, Rhode Island, and Vermont. Under this program, FCIC paid 50 percent of the producer-paid premium and the full \$30 administrative fee.

Cost of Production

In 2001, RMA contracted for research and development of a Cost of Production (COP) insurance pilot program for 12 crops (soybeans, corn, cotton, wheat, rice, almonds, peaches, cranberries, apricot, nectarines, onions, and sugarcane). The FCIC Board considered an initial COP program for cotton this past fall. Expert reviewers and the Board indicated several significant issues for further review. As a result, the Board concluded that more work is needed to successfully bring producers a COP policy to meet their needs. Currently, RMA and the contractor are working diligently to find solutions to these issues. Should the issues be resolved and a cotton pilot program is successful, RMA plans to expand COP coverage to other crops.

Forage and Rangeland

RMA currently offers the Group Risk Plan (GRP) Rangeland Pilot in twelve Montana Counties. GRP is an alternative risk management tool based on the experience of the county rather than individual farms. It indemnifies the insured in the event the county average per-acre yield (the "payment yield") falls below the insured's "trigger yield." We are doing everything possible to ensure payment yields accurately and fairly represent the production experience of Montana's rangeland producers. RMA is diligently working with the Montana Agricultural Statistics Service as well as the Farm Service Agency (FSA) to obtain the best data needed to develop appropriate payment yields. While considerable interest has been generated in the program, we recognize specific problems need solutions. RMA contracted for an evaluation of the GRP program and is looking forward to potential solutions for making this product more effective. RMA also contracted for a feasibility study specifically for pasture and rangeland. This study suggested a risk management program could be developed for these individual crops, and RMA is proceeding with the development in fiscal year 2003.

Nursery Crops

RMA recently completed work on many significant changes to the nursery program. RMA will be contracting for a cost benefit analysis leading to a proposed rule in the Federal Register. The nursery industry will have the opportunity to comment on the rule, which is expected to be announced as a proposed rule during the 2003

calendar year. These changes were in response to producers' requests to modify the program to align it more closely with production practices and producer needs, balanced with the need to maintain program integrity.

Research and Development

During fiscal year 2002, over \$19 million was obligated to qualified public and private organizations for research, feasibility studies, and development of risk management products. This represents approximately 45 contracts and partnership agreements. Examples include Florida fruit trees; Hawaii tropical fruit and tree research and development; livestock disease research and a sorghum pilot program; risk reduction for specialty crops in the southeast; direct marketing of perishable agricultural crops; and an apiculture insurance product, among others.

Risk Management Education

During fiscal year 2002, RMA focused its outreach and education program on underserved states, specialty crop producers, the Dairy Options Pilot Program, grants through the Cooperative State Research, Education, and Extension Service, and the Adjusted Gross Revenue (AGR) Cost Share Program. In 2002, RMA established cooperative agreements in historically underserved states with respect to crop insurance; 13 cooperative agreements totaling \$1.8 million were established to deliver crop insurance education to producers in Connecticut, Maine, New Hampshire, Pennsylvania, Vermont, West Virginia, Delaware, Maryland, New Jersey, New York, Utah, and Nevada. These cooperative agreements expand the amount of risk management information available to producers and promote risk management education opportunities. The agreements will also inform agribusiness leaders of increased emphasis on risk management and deliver risk management training to producers emphasizing outreach to small farms.

In addition, RMA awarded 72 partnership agreements to specialty crop producers at a total cost of \$3.7 million. RMA is in partnership to deliver risk management education to specialty crop producers with state departments of agriculture, universities, grower groups, and private agribusinesses. In conjunction with the Future Farmers of America, RMA also promotes youth participation and education in agriculture.

National Outreach Program

RMA has implemented several initiatives to increase awareness and service to small and limited resource farmers, ranchers, and other underserved groups. During 2002, customized regional and local workshops were held in several regions to deliver proven survival strategies directly to the producers. Forty-five competitively awarded partnership, with community-based, educational and nonprofit organizations will use \$3.2 million to educate women, limited-resource, and other traditionally underserved farmers and ranchers. For example, an agreement with the Agricultural and Land Based Training Association will provide risk management training to beginning Latino farmers on the central coast of California. RMA is sponsoring and participating in approximately 15 Farm Bill briefings nationwide, targeting small and limited resource farmers and ranchers. In addition, the second national Survival Strategies for Small and Limited Resource Farmers and Ranchers is currently scheduled for November 2003 in California.

PROGRAM ISSUES/CONCERNS

RMA received notice in November of the business failure of one of its larger reinsured companies, American Growers Insurance Company (AGIC). The Nebraska Department of Insurance took action under state law to place AGIC under regulatory supervision and later moved to place the company under a rehabilitation order. RMA has devoted significant resources to ensure that producers insured by AGIC are paid in full and on time. Our primary objectives are to protect policyholders, taxpayers and the integrity of the program. RMA is working with the Nebraska Department of Insurance to meet these objectives. RMA has established procedures for policyholders to transfer from AGIC to other approved providers. The transfer of fall 2003 policies is essentially complete. Spring policy transfers are being processed. RMA will continue to provide the necessary oversight, regulatory collaboration, and resources until the 2002 crop year claims are complete and existing 2003 policies have been transferred to another insurance provider.

PROGRAM STRATEGIES/OVERSIGHT

The President's fiscal year 2004 budget includes \$1.0 million for monitoring and evaluating the reinsured companies. RMA is increasing oversight of the reinsured

companies to promote a fair and effective delivery system. The actions being taken by RMA are:

- Closer and more frequent monitoring of the current and emerging financial condition of each reinsured company;
- Greater disclosure and transparency of specific operating expenses, including distribution system costs, and enhanced assessment of potential financial and operating exposures;
- Comprehensive reviews of the Federal Crop Insurance Corporation's product portfolio and all manuals, handbooks and basic policies to identify process and product efficiencies;
- Comprehensive evaluations of the current regulatory structure and dispute resolution procedures to identify any changes that would enable RMA to more proactively and cost-effectively ensure program integrity, service to the policyholder and protection of the taxpayers' interests;
- Working with the reinsured companies and other delivery participants to review the current cost structure of the industry, to identify and pursue real cost savings, explore opportunities that may allow more effective risk diversification consistent with the market orientation of the program, and explore resource sharing where appropriate and effective; and
- Increased monitoring and oversight of the insured companies' financial condition to protect program integrity. If FCIC determines that a reinsured company is (a) incurring expenses that jeopardize the financial stability of the company; (b) accepting business beyond its capacity to service or financially support that business; or (c) otherwise operating in a manner that adversely affects its financial condition or continued participation in the Federal Crop Insurance Program, then RMA will use all remedies available to protect the program.

We will also pursue actions necessary to enhance the safety and soundness of the product delivery system.

CONCLUSION

As shown by my testimony today, the RMA crop insurance plan is working; higher participation and higher levels of coverage substantiate that Crop Insurance is becoming the main risk management tool for America's producers. Over \$4 billion in coverage will go directly to producers this year. Buy-up coverage has dramatically increased. Insurance coverage has expanded to forage, fruits and vegetables, nursery products and livestock. Thousands of producers have participated in education and outreach activities. Cooperative agreements with state universities and department of agriculture have been established. New enforcement and sanction authority has been implemented as provided by ARPA. I ask that you approve this budget so RMA, under the direction of the USDA, can continue to provide an actuarially sound crop insurance program to America's agricultural producers. Thank you, Mr. Chairman and members of this committee. This concludes my statement. I will be happy to respond to any questions.

Senator BENNETT. Thank you very much, Dr. Penn.

Now we go to Mark E. Rey, who is the Under Secretary for Natural Resources and Environment. Mr. Rey?

NATURAL RESOURCES AND ENVIRONMENT

Mr. REY. Chairman, I appreciate the opportunity to appear before you here today to present the fiscal year 2004 budget and program proposals for the Natural Resources Conservation Service. In light of the fact that the Senate was in session late, I will attempt to be very brief.

Before I highlight our vision for 2004, though, I want to take a moment to mention the diligent work of the NRCS employees in accountability and results measurements for the funds provided by Congress last year. NRCS is more accessible to farmers, ranchers, and the general public, and the public is getting a good deal for the monies appropriated to NRCS.

This week marks the 1-year anniversary of the signing of the Farm Bill. This Farm Bill represents historic opportunities, but it also represents a historic challenge for our natural resources pro-

professionals. The 2004 budget request for NRCS includes \$1.2 billion in appropriated funding and \$1.4 billion in mandatory CCC funding for the Farm Bill conservation programs. That includes \$850 million for the Environmental Quality Incentive Program. The 2004 budget also proposes \$704 million for Conservation Operations, which includes \$577 million for conservation technical assistance. This will continue the agency's activities that support locally led, voluntary conservation through the unique partnership that has been developed over the years with each soil and water conservation district.

This partnership provides the foundation on which the Department addresses many of the Nation's critical natural resources issues, such as maintaining agricultural productivity and water quality. It leverages additional investments from non-Federal sources.

I believe that the NRCS can continue to build upon the level of excellence demonstrated so far if it is provided the right support and the needed resources as provided in the President's budget request. Given the challenges presented by this Farm Bill, I suggest that we will be pursuing three areas of emphasis in 2004: first, to provide adequate support for Farm Bill implementation through a dedicated technical assistance account; second, to further leverage the assistance of our conservation partners through a new technical services provider program; and, third, to ensure adequate support for conservation operations with an emphasis on developing technical tools and streamlining efforts to gain efficiencies where possible.

PREPARED STATEMENTS

In summary, I believe the Administration's 2004 request reflects sound policy and will provide a greater level of stability to the vital mission of conservation of private lands.

Thank you very much.
[The statements follow:]

PREPARED STATEMENT OF MARK REY

Mr. Chairman and Members of the Committee, I am pleased to appear before you today to present the fiscal year 2004 budget and program proposals for the Natural Resources Conservation Service (NRCS) of the Department of Agriculture (USDA). First, I would like to congratulate you Mr. Chairman in your new role for the subcommittee. I would like to express gratitude to Members of this body for ongoing support of private lands conservation.

Private Lands Conservation Gains

Mr. Chairman, in order to bring us to a common starting point and provide a context for the President's fiscal year 2004 Budget Submission, I would like to take a moment to highlight some of the impressive gains in conservation that have been realized.

- Farmers and ranchers have reduced soil erosion on cropland and pasture by 1.2 billion tons from 1982 to 1997 alone.
- Landowners have reduced the loss of wetlands caused by agriculture to only 27,000 acres per year between 1992 and 1997. That's down from nearly 600,000 acres a year in the 1950s, 1960s, and 1970s.
- Landowners have used the Wetlands Reserve Program to restore nearly one million acres of wetlands since 1991.
- They have used the Conservation Reserve Program to produce hunting and recreation benefits estimated at more than \$700 million per year.

- Since 1999, animal feeding operations have applied nutrient management on more than 5 million acres.
- They have installed 26,000 waste management systems and completed more than 11,000 Comprehensive Nutrient Management Plans.
- Through the Grazing Lands Conservation Initiative, owners of rangeland and pasture have developed grazing management plans for more than 80 million acres of grazing land since 1999.
- And farmers and ranchers are helping improve air quality by increasing the amount of carbon stored in the soil through a process known as “carbon sequestration.”

All of these accomplishments have led to cleaner air and cleaner water, and conservation of our soil. But there is much more our private landowners can do, with the assistance of government and of partners. USDA will help landowners by offering proper incentives, and pursuing the science and policies that are needed to create a market for the additional environmental benefits landowners can produce and want to produce.

The Administration is investing in private land conservation at an historic level to make this happen. The President’s budget for fiscal year 2004 includes a record \$3.9 billion for conservation on our Nation’s farmlands, more than double the funding level in the past 2 years.

Performance and Results

Mr. Chairman, before I provide the details of our future vision for fiscal year 2004, I wanted to take a moment to mention our diligent work in accountability and results measurement for the funds provided by Congress last year. I am proud of the strong efforts that NRCS has made in the past year under the leadership of Chief Knight on performance and results as well as making NRCS more accessible to farmers, ranchers, and the general public. I believe we are offering greater value to taxpayers, and can demonstrate increased accountability to Congress as well.

For fiscal year 2002, USDA received a clean audit opinion for all Department financial statements.

This clean rating was the result of our staff overcoming many hurdles such as ascertaining by appraisal the costs of real property, cleaning up years of neglect in personal property, accelerating month-end time tables in order to prepare reports, and correcting cash imbalances with the Department of Treasury. NRCS employees worked many nights and weekends to ensure the accuracy of reports and to correct state data that was in the system, leading to the unqualified opinion.

Looking Ahead

Mr. Chairman, last year at this time, we discussed the Administration’s views for the future of agriculture policy and outlined several conservation provisions of Food and Agriculture Policy: Taking Stock for the New Century. A year later, virtually all of the Administration’s conservation principles have been advanced in the form of the new Farm Bill. This Farm Bill represents historic opportunities, but it also represents a historic challenge for our natural resource professionals.

The 2002 Farm Bill contains many new conservation programs designed to protect and enhance the environment. The Department is now faced with the demanding task of implementing this Farm Bill which provides more than \$17 billion in new funding over the next 10 years. The 2004 budget request in the conservation area recognizes the importance of this task, as well as the need to continue to support underlying programs to address the full range of conservation issues at the national, State, local and farm level.

The 2004 budget request for NRCS includes \$1.2 billion in appropriated funding, and \$1.4 billion in mandatory CCC funding for the Farm Bill conservation programs, including \$850 million for the Environmental Quality Incentive Program. The appropriation request includes \$577 million for conservation technical assistance for the base programs that support the Department’s conservation partnership with State and local entities. One new element in the NRCS account structure, proposed initially in a 2003 budget amendment, is a new Farm Bill Technical Assistance Account that will fund all technical assistance costs associated with the implementation of all the Farm Bill conservation programs. In 2004, this new appropriation account is requested at \$432 million.

The 2004 budget for NRCS will also enable the agency to maintain support for important ongoing activities such as addressing the problems associated with polluted runoff from animal feeding operations and providing specialized technical assistance to landusers on grazing lands. In addition, limited increases will be directed to other high priority activities such as addressing air quality problems in non-compliance areas.

Technical Assistance

Technical Assistance funding for conservation programs has been the subject of ongoing controversy for several years and a topic of interest to this Subcommittee. A fiscal year 2003 Budget amendment provided a long-term solution to the technical assistance issue by establishing a new Farm Bill Technical Assistance account and dedicating additional resources for this purpose. While Congress rejected this proposal, we appreciate your taking proactive steps to deal with the long-standing problem of technical assistance for Farm Bill conservation programs in the Consolidated Appropriations Resolution for fiscal year 2003. However, we believe that this legislation contains many deficiencies. As such, we would like to continue working with the Subcommittee on an approach that is mutually acceptable and beneficial.

Conservation Operations (CO).—The 2004 budget proposes \$704 million for CO which includes \$577 million for Conservation Technical Assistance (CTA). This will continue the agency's activities that support locally-led, voluntary conservation through the unique partnership that has been developed over the years with each conservation district. This partnership provides the foundation on which the Department addresses many of the Nation's critical natural resource issues such as maintaining agricultural productivity and water quality and leverages additional investment from non-Federal sources.

The CTA budget will also enable NRCS to increase support for certain activities as well as maintain funding for ongoing high priority work. For example, increases are provided in the budget for additional specialized staff and training to help address air quality problems in areas that are not in compliance with national air quality standards; to enhance the Customer Service Toolkit which provides NRCS field staff with the geographic data and technical tools that they need to adequately deliver farm bill conservation and other field programs; and to establish a monitoring and evaluation regimen that will provide more meaningful performance goals and measures for Farm Bill conservation programs.

Last year, I pointed out the excellent customer service ratings that NRCS staff has received from an independent analysis. Mr. Chairman, I believe that NRCS can continue and build upon this level of excellence, if they are given the right support and the needed resources as provided in the President's budget request.

Given the challenges presented in the Farm Bill, I suggest the following areas of emphasis:

- Provide adequate support for Farm Bill implementation through a dedicated Technical Assistance account.
- Further leverage assistance for our conservation partners and through the new Technical Service Provider system. These new sources of technical assistance will complement our existing delivery system.
- Ensure adequate support for Conservation Operations, with an emphasis on developing technical tools and streamlining efforts to gain efficiencies where possible.

Mr. Chairman, in summary, we all know that we are trying to plan for the future under an atmosphere of increasingly austere budgets and with a multitude of unknowns on the domestic and international fronts. But I believe that the Administration's fiscal year 2004 request reflects sound policy and will provide a greater level of stability to the vital mission of conservation on private lands. The budget request reflects sound business management practices and the best way to work for the future and utilize valuable conservation dollars.

I thank Members of the Subcommittee for the opportunity to appear, and would be happy to respond to any questions that Members might have.

PREPARED STATEMENT OF BRUCE I. KNIGHT, CHIEF, NATURAL RESOURCES
CONSERVATION SERVICE

Thank you for the opportunity to appear before you today to discuss our fiscal year 2004 budget request. I assumed the responsibility of Chief of the Natural Resources Conservation Service (NRCS) one year ago, and believe that this period of time has presented one of the most significant junctures in private lands conservation.

One year ago, we witnessed enactment of one of the most important pieces of conservation legislation history in the form of the 2002 Farm Bill. The legislation responds to a broad range of emerging conservation challenges faced by farmers and ranchers, including soil erosion, wetlands, wildlife habitat, and farm and rangeland protection. Private landowners will benefit from a portfolio of voluntary assistance, including cost-share, land rental, incentive payments, and technical assistance. The

Farm Bill places a strong emphasis on the conservation of working lands—ensuring that land remains both healthy and productive.

The conservation title of the Farm Bill builds upon past conservation gains and responds to the call of farmers and ranchers across the country for additional cost-sharing resources. In total, this legislation represents an authorization of more than \$17 billion in increased conservation spending. In addition, the legislation will expand availability and flexibility of existing conservation programs, and increase farmer participation and demand for NRCS assistance.

Three weeks ago, we released the funding allocations to our states for all of the conservation programs. Through these allocations, more than \$1.8 billion in assistance has been made available to farmers and ranchers. And beyond allocating the funds, we have been working expeditiously to set in place the program guidelines and technical tools needed to implement these conservation opportunities on the ground. To date, we have published in the Federal Register rulemaking for every ongoing Farm Bill conservation program NRCS administers. This includes Final Rules for the Wetland Reserve Program, Wildlife Habitat Incentives Program, Environmental Quality Incentives Program, and the Farm and Ranch Lands Protection Program. We are making funds available under the Grassland Reserve Program. I am also pleased to note that we had an extremely robust comment period and response from all sectors of the agriculture and conservation interests to our Advanced Notice of Proposed Rulemaking on the Conservation Security Program (CSP). We are currently analyzing and incorporating the feedback we have received as we begin development of a proposed rule for CSP. Given the widespread provisions and complexity of the Farm Bill, I think this record is a testament to the hard work and dedication of our staff and I am proud of what we have accomplished. One year after enactment, we are open for business, and ready to the needs of farmers and ranchers.

MEETING EMERGING CHALLENGES

Throughout the course of fiscal year 2002 and fiscal year 2003 as Congress developed and enacted the new Farm Bill, I am proud of the proactive steps that our agency took in order to prepare for emerging challenges. I would like to highlight our work in this area.

Increasing Third-Party Technical Assistance

With the historic increase in conservation funding made available by the 2002 Farm Bill, NRCS will look to non-federal partners to supply the technical assistance needed to plan and oversee the installation of conservation practices. NRCS will use the new Technical Service Provider (TSP) system to facilitate this technical assistance delivery. The TSP system ensures that producers have the maximum flexibility for choosing a third-party provider to work on their land, while also ensuring that TSP providers are properly certified and meet NRCS standards.

Expanding Local Leverage

One of the key attributes that NRCS has developed for local leverage is the Earth Team volunteer program. We, at NRCS, are proud of the Earth Team's accomplishments and the record expansion that this program has experienced. The National Earth Team Status Report for fiscal year 2002 showed a 19 percent increase in the number of volunteers, a 17 percent increase in the number of volunteer hours and a 5 percent increase in the number of NRCS offices using volunteer services over the previous year's figures. For fiscal year 2002, the total value of volunteer time was more than \$17 million, based on the \$16.05 hourly rate established by nationally recognized volunteer organizations. The total amount invested nationally in the Earth Team is approximately \$199,000, which gives NRCS a return on its investment equal to \$86 for every \$1 spent.

Since the Earth Team began in 1982, the number of volunteers has gone from 327 to more than 38,000 and the number of hours donated has jumped from 29,100 to 1,089,100. I believe that Earth Team volunteers will be increasingly important as we move forward to implement the new Farm Bill and provide more conservation on private lands in the future. It serves as an excellent example of the kind of partnership effort needed to accomplish the massive challenge of getting private lands conservation out to those farmers, ranchers, and private landowners who need assistance.

Lean and Local and Accessible

One of the core themes that I have stressed to our agency is the need to be lean and local. Throughout the year, we have worked hard to provide as much decision-

making flexibility to the local level as possible. In addition, we have worked to provide streamlined business processes to improve use of valuable staff resources.

One of the most important investments we can make today in improved efficiency is development of new and improved technical tools for use by our staff and the general public. Recently, we launched the Electronic Field Office Technical Guide (EFOTG). The EFOTG provides conservation information and scientific and technological resources on the Web in an easy-to-use environment. The electronic technical guides are linked to 8,000 NRCS web pages and external sites. Content includes data in technical handbooks and manuals, scientific tools that help generate conservation alternatives, conservation practice standards, conservation effects case study reports and other electronic tools for evaluating the effects of conservation technical assistance. In total, the EFOTG will make our information more accessible, and supports the President's Management Agenda for E-Government. The EFOTG is part of our larger efforts at developing SMARTECH to provide technical information to a broad base of conservation professionals and the general public.

Access and Accountability

As a core principle, we need to increase the accessibility of NRCS to the public, not only by providing conservation data, but also by making our internal processes more easily understood. This year, we have taken steps to make items such as our allocation formulas, backlog and program participation data much more transparent to the general public. We have worked to foster competition and reward performance, in our internal functions and also in contracting and cooperative agreements. Throughout this process, our goal has been to provide the best and most efficient service to producers at the local level and to make NRCS more farmer friendly and accessible.

We know this process will take time, and I look forward to continuing this effort into the future.

DISCRETIONARY FUNDING

While we have come a long way in the past year, the future presents many emerging challenges and bright horizons. The President's fiscal year 2004 budget request for NRCS reflects our ever-changing environment by providing appropriate resources for the ongoing mission of NRCS and ensuring that new opportunities can be realized.

Conservation Operations

The President's fiscal year 2004 budget request for Conservation Operations proposes a funding level of \$704 million which includes \$577 million for Conservation Technical Assistance (CTA). The CTA budget will enable NRCS to increase support for certain activities as well as maintain funding for ongoing high priority work. For example, increases are provided in the budget for additional specialized staff and training to help address air quality problems in areas that are not in compliance with national air quality standards; to enhance the Customer Service Toolkit which provides NRCS field staff with the geographic data and technical tools that they need to adequately deliver Farm Bill conservation and other field programs; and, to establish a monitoring and evaluation regiment that will provide more meaningful performance goals and measures for Farm Bill conservation programs.

High priority ongoing work that will be maintained includes addressing water pollution associated with animal agriculture. In addition to regular technical assistance support provided to grazing land customers, the budget proposes to maintain funding for Grazing Land Conservation Initiative (GLCI) at \$22 million in 2004. The GLCI is a private coalition of producer groups and environmental organizations that supports voluntary technical assistance to private grazing landowners and managers.

The Conservation Operations account funds the basic activities that make effective conservation of soil and water possible. It funds the assistance NRCS provides to conservation districts, enabling people at the local level to assess their needs, consider their options, and develop area-wide plans to conserve and use their resources. Conservation Operations support the site-specific technical assistance NRCS provides to individual landowners to help them develop plans that are tailored to their individual economic goals, management capabilities, and resource conditions. It also includes developing the technical standards and technical guides that are used by everyone managing soil and water—individuals, local and State agencies and other Federal 6 agencies. It includes our Soil Survey and Snow Survey Programs and other natural resources inventories, which provide the basic information about soil and water resources that is needed to use these resources wisely. This basic inven-

tory work contributes to homeland security as well as to the long-term sustainability of the Nation's natural resource base.

We have made great strides in developing an effective accountability system with the support of Congress. This accountability system has allowed us to accurately track the accomplishments of Conservation Operations. In fiscal year 2002, technical assistance supported by Conservation Operations funds enabled land users to treat 9.46 million acres of cropland and 11.5 million acres of grazing land to the resource management system level (sustainable management). On 7 million acres of cropland that had been eroding at severely damaging rates, NRCS technical assistance enabled farmers to reduce erosion to the tolerable rate or less, thus preserving the productive capacity of the soil.

In fiscal year 2002, NRCS continued to assist producers to respond to the public concern about water quality through the development of regulations addressing water quality at local, State, and Federal levels. We applied practices to help protect water quality, including 5.4 million acres of nutrient management, 1.84 million acres where irrigation water management was improved, and 578,419 acres of buffer practices. All of these activities were supported by Conservation Operations; in some cases, funds from other Federal programs or State or local sources were utilized in combination with Conservation Operations.

Adequate funding for Conservation Operations in 2004 will enable NRCS to continue to provide assistance to producers across the country. It will also enable us to increase our attention to critical resource concerns, such as animal feeding operations and assistance to producers who will be required to take actions under the new CAFO rule. EPA estimates that 15,500 producers will come under the new regulatory framework. Most if not all of these producers will require planning assistance from NRCS with nutrient management-related concerns.

Another serious concern continues to be the health of private rangeland and pastureland. The Nation's 630 million acres of non-Federal grazing lands are vital to the quality of the Nation's environment and the strength of its economy. In November 2002, we were successful in issuing new technical guidance to field staff for conservation assistance on private grazing lands. Our guidance will help provide producers with the ecological principals associated with managing their land and implementing a conservation plan that meets their management objectives and natural resource needs. I believe that we need to offer a high level of excellence to grazing land and am proud of the great strides that we are making in this area. Sustained resources in Conservation Operations will mean that needed expertise can be brought to bear at the field level on farms and ranches.

Farm Bill Technical Assistance

Fully funding technical assistance for the Farm Bill programs is essential to ensure the environmental benefits that are expected from the significant increase in conservation spending. In a 2003 budget amendment, the Administration proposed establishing a new \$333 million account to fund the technical assistance needed to implement the conservation programs authorized in the 2002 Farm Bill. The 2004 budget proposes the Farm Bill Technical Assistance (FBTA) account at a level of \$432 million and would provide technical assistance funding for the 2002 Farm Bill conservation programs which include the Conservation Reserve Program, the Wetland Reserve Program, the Environmental Quality Incentives Program, the Wildlife Habitat Incentives Program, the Farm and Ranchland Protection Program, the Conservation Security Program, and the Grasslands Reserve Program.

This new account will be used to plan, design, and oversee the installation of conservation practices, and maximize the amount of dollars available to help farmers and ranchers install on-the-ground conservation projects. Establishing one technical assistance account will also improve the accountability and transparency of the conservation program's cost of delivery.

Watershed and Flood Prevention Operation (WFPO).—The 2004 budget proposes funding for the Public Law 566 Watershed Operations, but requests no funding for the Emergency Watershed Protection program. With emergency spending being so difficult to predict from year to year, the budget proposes instead to direct available resources to those projects that are underway and for which Federal support is critical for their successful implementation. Funding for the regular watershed program will also address the backlog of unmet community needs by ensuring implementation of those watershed projects that are designed to meet these needs.

Watershed Surveys and Planning.—NRCS works with local sponsoring organizations to develop plans on watersheds dealing with water quality, flooding water and land management, and sedimentation problems. These plans then form the basis for installing needed improvements. The Agency also works cooperatively with State and local governments to develop river basin surveys and floodplain management

studies to help identify water and related land resource problems and evaluate alternative solutions. The 2004 Budget requests \$5 million to ensure that this important work is continued.

Watershed Rehabilitation Program.—One of the agency's strategic goals is to reduce risks from drought and flooding to protect community health and safety. A key tool in meeting this goal is providing financial and technical assistance to communities to implement high priority watershed rehabilitation projects to address the more than 11,000 dams installed with USDA assistance that will be or are now at the end of their 50-year life span. Some dams already pose a significant threat to public safety and these will naturally be the first to be addressed. The budget proposes \$10 million to continue the work begun in 2002.

Resource Conservation and Development (RC&D).—The purpose of the RC&D program is to encourage and improve the capability of State and local units of government and local nonprofit organizations in rural areas to plan, develop, and carry out programs for RC&D. NRCS also helps coordinate available Federal, State, and local programs. The 2004 budget proposes a level of \$50 million which will support the 368 RC&D areas now authorized.

FARM BILL AUTHORIZED PROGRAMS

Environmental Quality Incentives Program (EQIP).—The purpose of EQIP is to provide flexible technical, educational, and financial assistance to landowners that face serious natural resource challenges that impact soil, water and related natural resources, including grazing lands, wetlands, and wildlife habitat management. We have seen that producer demand continues to far outpace the available funding for EQIP. During fiscal year 2002, we received 70,000 more applications than could be funded, representing financial assistance requests of \$1.4 billion for one fiscal year. Projections for the future are that the demand will continue to eclipse the program. At the end of January 2003, we published revised program rules for EQIP resulting from the changes enacted in the new Farm Bill. We believe that the increased program flexibility and improved program features will continue to make EQIP one of the most popular and effective conservation efforts federal government-wide.

EQIP was reauthorized by the 2002 Farm Bill through 2007 at a total funding level of \$5.8 billion, including \$1 billion for 2004. The budget proposes a level of \$850 million for financial assistance. The Farm Bill Technical Assistance account will provide the technical assistance to implement EQIP.

Wetlands Reserve Program (WRP).—WRP is a voluntary program in which landowners are paid to retire cropland from agricultural production if those lands are restored to wetlands and protected, in most cases, with a long-term or permanent easement. Landowners receive fair market value for the land and are provided with cost-share assistance to cover the restoration expenses. The 2002 Farm Bill increased the program cap to 2,275,000 acres. The fiscal year 2004 budget request estimates that about 200,000 acres will be enrolled in 2004.

Grassland Reserve Program (GRP).—The 2002 Farm Bill authorized the GRP to assist landowners in restoring and protecting grassland by enrolling up to 2 million acres under easement or long term rental agreements. The program participant would also enroll in a restoration agreement to restore the functions and values of the grassland. The 2002 Farm Bill authorized \$254 million for implementation of this program during the period 2003–2007.

Conservation Security Program (CSP).—CSP, as authorized by the 2002 Farm Bill, is a voluntary program that provides financial and technical assistance for the conservation, protection, and improvement of natural resources on Tribal and private working lands. The program provides payments for producers who practice good stewardship on their agricultural lands and incentives for those who want to do more. In 2004, the budget proposes to cap CSP spending at a total of \$2 billion over ten years.

Wildlife Habitat Incentives Program (WHIP).—WHIP is a voluntary program that provides cost-sharing for landowners to apply an array of wildlife practices to develop habitat will support upland wildlife, wetland wildlife, threatened and endangered species, fisheries, and other types of wildlife. The 2002 Farm Bill authorized \$360 million for implementation of the program during the period 2002–2007 including \$60 million in 2004. The budget proposes to cap WHIP at \$42 million for financial assistance. The Farm Bill Technical Assistance account will provide the technical assistance to implement WHIP.

Farm and Ranchland Protection Program (FRPP).—Through FRPP, the Federal Government establishes partnerships with State, local or Tribal government entities or nonprofit organizations to share the costs of acquiring conservation easements or other interests to limit conversion of agricultural lands to non-agricultural

uses. FRPP acquires perpetual conservation easements on a voluntary basis on lands with prime, unique, or other productive soil that presents the most social, economic, and environmental benefits. FRPP provides matching funds of no more than 50 percent of the purchase price for the acquired easements. The 2002 Farm Bill authorized a total of \$597 million for the program through 2007 including \$125 million in 2004. The budget, partially proposes a level of \$112 million in financial assistance. The Farm Bill Technical Assistance account will provide the technical assistance to implement FRPP.

Conclusion

As we look ahead, it is clear that the challenge before us will require dedication of all available resources—the skills and expertise of the NRCS staff, the contributions of volunteers, and continued collaboration with partners. Conservation Districts, Resource Conservation and Development Councils and many valuable partners continue to make immeasurable contributions to the conservation movement. It is this partnership at the local level that makes a real difference to farmers and ranchers. As we move forward, we will accelerate the use of third-party sources of technical assistance as well. We recognize that the workload posed by future demand for conservation will far outstrip our capacity to deliver and seek to complement our resources with an appropriate system of qualified expertise.

But it will take a single-minded focus and resolve if we are to be successful. I am proud of the tenacity that our people exhibit day in and day out as they go about the work of getting conservation on the ground and I believe that we will be successful. But it will require the continued collaboration of all of us, especially Members of this Subcommittee because available resources will ultimately determine whether our people have the tools to get the job done. I look forward to working with you as we move ahead in this endeavor.

This concludes my statement. I will be glad to answer any questions that Members of the Subcommittee might have.

Senator BENNETT. Thank you, sir.

We are now going to hear from Thomas C. Dorr, who is the Under Secretary for Rural Development. Mr. Dorr.

RURAL DEVELOPMENT

Mr. DORR. Thank you, Mr. Chairman.

I, too, appreciate the opportunity to come before you this morning to present to you the President's fiscal year 2004 budget request for USDA's Rural Development. But as Mr. Rey first indicated, I would also like to acknowledge the exemplary performance of our associates at Rural Development and their ability to get our programs out in a timely and effective manner.

This budget strongly supports our vision of Rural Development as rural America's venture capitalist. Rural Development provides equity, liquidity, and technical assistance to finance and foster growth, developing new opportunities for home ownership, business development, and critical community and technology infrastructure. It is with this vision in mind that Rural Development's mission has been designed to deliver programs in a way that will support, first, increasing economic opportunity and, second, improving the quality of life for all rural Americans.

This is a very basic concept to increase economic opportunity and improve the quality of life. But it is these fundamental principles that guide our mission at Rural Development. This organization, which used to be known as the old Farmers Home Administration, frequently known as the lender of last resort, is now Rural Development. And we are the venture capitalist for rural America.

With this renewed sense of understanding and purpose, Rural Development is utilizing the tools and resources at hand to support

economic growth in rural America. Let me just highlight some of our more significant efforts.

Our single-family housing program forms the bedrock of our commitment to rural America. It is a commitment that allows over 40,000 families annually to realize their dream of home ownership. This Administration knows that owning a home is the oldest and best form of building equity, and we must encourage more families to invest in their future.

We are also providing rural community facility loans and grants for municipal, health care, child- and adult-care facilities, as well as public safety equipment of all kinds. And through our rural business programs, we expect to create or save through fiscal year 2003 funding over 90,000 jobs through the Business and Industry Guaranteed Loan Program and 30,000 jobs through local business revolving loan funds.

Additionally, we continue to implement the value-added Agricultural Product Market Development Grant Program through which over \$57 million has been committed during the last 2 fiscal years and an additional \$40 million will be committed this year.

On April 7th of 2003, we announced a \$23 million farm bill-related Renewable Energy and Energy Efficiency Systems Grant Program to assist our rural small businesses, farmers, and ranchers to develop energy-efficient systems. Through these efforts, along with the tax incentives being considered by Congress, support for renewable energy ventures will be greatly enhanced. They can provide an important boost toward America's overall independence from foreign energy supplies.

An added focus this year is the implementation of the farm bill Rural Business Investment Program. This is a complex new initiative, and we are continuing to work with SBA to coordinate the implementation of this important program.

In our Rural Utilities Program, we are working to support the build-up of our rural technology infrastructure through making nearly \$1.5 billion in rural broadband access loan funds available, along with our ongoing efforts through the telemedicine, distance learning loan and grant program. Additionally, our Water and Wastewater Program is providing communities with funding necessary to support the development of water and wastewater infrastructure.

Finally, I wish to report that our effectiveness in delivering all of Rural Development programs will ultimately be measured by a rigorous standard of accountability. We believe it is essential to be accountable to the Congress, the President, and, most importantly, the rural citizens which our programs are intended to benefit. And in that vein, we have several major initiatives underway.

One of our top initiatives is to look at the effectiveness of the current cooperative model for assisting farmers and ranchers, who struggle to convert equity and dreams into the kinds of economic opportunity they need and desire.

We are also focused on addressing and shoring up our multi-family housing portfolio. There are many converging dynamics relative to the current portfolio, which includes aging building complexes over 20 years of age.

Finally, we must work harder to ensure that the people of rural America are aware of what is available to assist them with their local efforts to increase economic opportunities and to improve their quality of life.

PREPARED STATEMENTS

The goal of the President and Rural Development is to support these communities in their quest for long-term sustainability and to place at their disposal the tools they need to succeed. I know you share this common value and desire to support rural America. We do as well. And, Mr. Chairman, we appreciate the support this committee has provided to this mission and to rural America.

At this time I will be happy to answer any questions that you may have.

[The statements follow:]

PREPARED STATEMENT OF THOMAS C. DORR

Thank you Mr. Chairman. Mr. Chairman, Members of the Committee, I appreciate the opportunity to come before this committee to present to you the President's fiscal year 2004 Budget request for USDA Rural Development.

This is my first opportunity to appear before you—as Under Secretary for Rural Development—I am honored by the opportunity President Bush has given me to serve my country in this position and to assist him in directing Federal resources to help rural America grow and prosper in an ever-changing environment.

My own roots in rural America run deep. For all but 9 years of my life I have lived, worked and enjoyed life on a farm in Northwest Iowa, and I am appreciative for the values these experiences have instilled in me.

I seek daily to apply those fundamental values and life experiences to the way we do business at Rural Development. My goal as Under Secretary is to pursue a clear vision and encourage a renewed commitment to the people and communities of rural America. I come to work each day determined to renew the energy and belief in ourselves and in all of rural America. By so doing, this will enable us to assure continued focus on our outreach efforts. This new sensitivity and belief in ourselves—not just as an agency or department—but our belief in the good people of rural America will drive all our efforts in Rural Development.

So I come before this Committee Mr. Chairman with a keen understanding of rural issues and a strong desire to implement federal programs provided through this President and Congress in a way that families and communities can utilize most effectively the available resources and opportunities.

VISION

The President's 2004 budget proposal is key to economic revitalization in rural America. It strongly supports our vision of Rural Development as the Venture Capitalist for Rural America. Rural Development provides equity, liquidity and technical assistance to finance and foster growth in existing and new opportunities for homeownership, business development, and critical community and technology infrastructure. The return on this equity is the economic growth realized through direct assistance and incentivizing private market forces.

So why do I say Rural Development is the venture capitalist of rural America? Because we, the President, and Congress believe in rural America. We believe the return on our investment will be a stronger rural economy and a higher quality of life, along with all the ancillary benefits derived from utilizing the talents of all rural Americans. Revitalized economic activity provides new opportunities for rural youth and helps stem out-migration from rural areas. It is critically important that we find ways to entice our young people to stay or even return to Rural America.

MISSION

It is with this vision in mind that Rural Development's mission has been designed to deliver programs in a way that will support (1) increasing economic opportunity and (2) improving the quality of life of rural residents.

Historically, Rural Development has been associated with the old Farmers Home Administration—the lender of last resort. However, in order to properly address

these mission goals, it is important to recognize the changes that have occurred throughout rural America. In the 1980 Census, it was revealed that over 960 counties derived at least 20 percent of gross income from production agriculture. The 2000 Census data indicated only 262 counties retain that distinction. These changes in our rural economy drive our efforts today. We must be aggressive in helping our communities develop new economic vehicles that will enable them to grow and prosper. The philosophies and drive of the old Farmers Home Administration no longer apply to today's Rural Development and today's rural communities.

It is with this renewed sense of understanding and purpose that Rural Development, under President Bush's leadership, has become rural America's venture capital firm. I would add that in contrast to reports that Rural America is dying, there is no reason to believe that we can't have economic growth in rural America. We have the essential tools and resources at hand.

RESPONSIBILITIES

Through Rural Development's Rural Business-Cooperative Service; Rural Housing Service; and Rural Utilities Service we offer a multitude of programs that support economic development.

Let me share with you a brief overview of the wide range of programs we administer.

Rural Housing

Housing is important because a home is the basis for the family. This President feels a safe secure home is the foundation for the family unit. In addition, owning a home is the oldest and best form of building equity. This is why the President has proposed a 32 percent increase for single-family housing direct loans in his 2004 budget.

In general, we provide loans and repair grants for single family, multi-family, and farm labor housing.

We also provide rural community facility loans and grants for municipal, health care, child and adult care facilities; as well as public safety equipment and facilities.

Rural Business-Cooperative Services

Through our rural business programs, we provide Business and Industry Guaranteed loans,

Fund the Intermediary Relending Program, which provides capital for local revolving loan funds, and

Have implemented the Value-Added Agricultural Product Market Development grants programs (VADGs).

Rural Utilities

In our rural utilities program, we support technology infrastructure through rural Broadband—Telemedicine/Distance Learning;

Rural Community water and wastewater loans and grants; and Electric and telephone direct and guaranteed loans.

Our programs may be traditional in name—but they must be used in new and innovative ways.

Rural Business-Cooperative Services should be mindful of the need to improve business knowledge and skills. Serious attention needs to be given to business strategies, finance, marketing and decision making that will enable farmers, business and community leaders to lead dynamic, creative businesses that can succeed.

Rural Housing Services must think about how its various programs can serve as a foundation for helping rural families build wealth through homeownership. We must be aggressive in ensuring that America's minority families gain access to financial resources that will allow increased levels of minority homeownership. The President has set a goal of assisting 5.5 million more minority families in attaining their dream of homeownership by the year 2010. It is a goal that we are diligently working to meet.

Finally, our utilities programs must focus on the future. Technology infrastructure will do for rural America in the 21st century what railroads did in the 19th century and highways in the 20th century. Rural America's economic future and her ability to remain viable in the global community will be dependent upon the development of the necessary communications infrastructure.

In all of these programs, it is important to remember that our effectiveness in delivering Rural Development programs will ultimately be measured by a rigorous standard of accountability. This accountability applies to our Congress, President and most importantly the rural citizens, which our programs are intended to benefit.

In that vein, we have several major initiatives underway:

PRIORITY INITIATIVES

One of our top initiatives is to look at the effectiveness of the current cooperative model for assisting farmers and ranchers. The traditional cooperative model was developed with good intentions. However cooperatives are now struggling to convert the equity and dreams of many rural Americans and agricultural producers into the kinds of economic opportunity they need and desire. Rural Development's Rural Business-Cooperative Service group should be at the focal point of this discussion and we intend to be.

We are also focused on addressing and shoring up our multi-family housing portfolio. There are many converging dynamics relative to the current portfolio, including the fact that it is an aging portfolio with many building complexes over 20 years old.

Another focus is on doing a better job of marketing our programs to rural America. Simply put, we must work harder to assure that the people of rural America are aware of what is available to assist them with their local efforts and initiatives to increase economic opportunities and improve quality of life. I believe that local communities are the cradles of innovation and, if properly encouraged and assisted, they will provide models and vehicles to help all of rural America better address its changing landscape.

Cooperation, coordination, and collaboration, both within Rural Development and with other public and private partners will be essential to maximizing the impacts of our programs. Our commitment will be evident through an extensive communications effort, to raise the visibility of Rural Development, and minimize the perception that programs are operated under individual agencies. We recognize Rural Development needs to articulate comprehensive development themes, and not promote individual agencies and their specific programs. We also recognize there is still a public perception that the Farmers Home Administration exists, with its role of being the lender of last resort. Rural Development will engage in a comprehensive communications plan that will clarify our mission to the public, clearly identify our accessibility, and underscore our commitment to cooperation, coordination, and collaboration across our programs.

SUMMARY

Rural communities, much like agriculture, have been undergoing critical changes that are important to their long-term sustainability and growth. The goal of the President and Rural Development is to support these communities and place at their disposal the tools they need to succeed. I know you share this common value and desire to support rural Americans in their efforts to capitalize on economic opportunities and an improved quality of life for their families and communities. With the support of the President, Congress, and public and private sector partners, the economic future of rural America will be strong.

RURAL DEVELOPMENT BUDGET REQUEST

Mr. Chairman, the President's commitment to rural America is reflected in the budget request for fiscal year 2004. The Rural Development request totals \$2.3 billion in budget authority, to support \$12 billion in direct loans, loan guarantees, grants and technical assistance, and to pay administrative expenses.

I will now discuss the requests for specific programs. Rural Utilities Service

The Rural Utilities Service (RUS) provides financing for essential infrastructure needs including electric, data/telecommunications, and water and waste disposal services that are prerequisite for economic development in rural areas. The RUS program request totals nearly \$4.9 billion in program level, which is comprised of \$2.6 billion for electric loans, \$495 million for rural data/telecommunication loans, \$50 million for Distance Learning and Telemedicine loans, \$25 million for Distance Learning and Telemedicine grants, almost \$200 million in loans and \$2 million in grants to support broadband transmission, \$1.1 billion for direct and guaranteed Water and Waste Disposal loans, \$346 million for Water and Waste Disposal Grants, and \$3.5 million for Solid Waste Management Grants.

Electric program funding will benefit about 3.3 million consumers from systems improvement, through upgrading almost 187 rural electric systems. Approximately 59,800 jobs will be created as a result of facilities constructed with Electric program funds. Almost 133,000 new subscribers will receive telecommunications service, over 495,000 existing subscribers will receive improved service, and about 11,385 jobs will be generated as a result of facilities constructed with Telecommunications funds. RUS will be analyzing loans made in 2002 and 2003 to determine ways to

improve the electric and telecommunication programs. This will include a review of potential targeting opportunities to increase funding to needy areas. Under the Distance Learning and Telemedicine programs, approximately 140 schools will receive distance learning facilities and 55 health care providers will receive telemedicine facilities. Over 40,500 jobs will be generated as a result of facilities constructed with water and waste disposal program funds, as about 648 rural water systems and about 347 rural waste systems are developed or expanded in compliance with the Safe Drinking Water Act and Federal and State environmental standards.

The Rural Telephone Bank (RTB) was established in 1972 to provide a supplemental source of credit to help establish rural telephone companies. This has proved to be remarkably successful, and efforts have been underway to privatize the bank. In 1996, the RTB began repurchasing Class "A" stock from the Federal government, thereby beginning the process of transformation from a Federally funded organization to a fully privatized banking institution. A private bank will have greater flexibility in providing support to rural America which will increase economic development opportunities. The fiscal year 2004 budget reflects the Administration's commitment to a fully privatized RTB that does not require Federal funds to finance the loans it makes.

I would like to underscore two points in our Rural Utilities budget request. First, regarding broadband loans, we are building on the \$1.455 billion loan program recently announced. Mandatory funding is provided for this program under the Farm Bill. For fiscal year 2004, we are not seeking additional mandatory money, but, rather, are requesting \$9.1 million in discretionary budget authority. We believe programs should compete for resources through the annual appropriations process. This level of discretionary budget authority will support almost \$200 million of loans, continuing support for expanding broadband access in rural America. Second, we propose to provide the nearly \$1.5 billion Water and Waste program level by relying on higher loan levels in meeting communities' needs. This increased reliance on loans is possible due to the low interest rate environment, the extensive funding provided in fiscal year 2002 under the Farm Bill, and the demonstrated needs in the current application pipeline.

RURAL BUSINESS-COOPERATIVE SERVICES

One key to creating economic opportunity in rural areas is the development of new business and employment opportunities. These opportunities are essential to retaining youth and ensuring young, emerging leaders remain in rural areas. But, local lending institutions frequently do not have the capacity or capital needed to sustain local businesses and generate new economic growth. Agricultural producers do not have a ready mechanism, or information necessary, to utilize the equity available in farmland for other business purposes. Such equity could be leveraged into other activities, providing capital infusions into capital-starved areas. Rural Business-Cooperative Services (RBS) programs, particularly the Business and Industry (B&I) loan guarantee program, were enacted to supplement the efforts of local lending institutions in providing capital to stimulate job creation and economic expansion. Cooperative Services' research and technical assistance has the capacity to assist in the identification and creation of new business structures and financing mechanisms to support innovative capital formation and utilization in rural America.

The RBS budget request for fiscal year 2004 totals about \$718 million program level, the bulk of which represents over \$600 million for the B&I loan guarantee program. Additionally, we are requesting to maintain the fiscal year 2003 President's program levels for the majority of the remaining RBS programs (\$44 million for the Rural Business Enterprise Grant program, \$3 million for the Rural Business Opportunity Grant program, \$40 million for the Intermediary Relending Program, \$15 million for Rural Economic Development loans, and \$9 million for Rural Cooperative Development Grants.

The Farm Bill provided mandatory funding for Value-Added grants and Renewable Energy Systems and Energy Efficiency Improvements. We are not seeking those mandatory funds, but rather request discretionary funding to support these programs. As I stated earlier, the Administration believes programs should compete for funding in the appropriations process. For fiscal year 2004, we are requesting \$2 million for Value-Added producer grants, and \$3 million to support the Renewable Energy program. Through lessons learned from the Value-Added program administered with mandatory fiscal year 2002 funds under the Farm Bill, \$2 million can be effectively deployed to promote value-added activities and stimulate income generation in rural areas. Three million dollars for renewable energy will assist in fulfilling the President's Energy Policy that encourages a clean and diverse portfolio

of domestic energy supplies to meet future energy demands. In addition to helping diversify our energy portfolio, the development of renewable energy supplies will be environmentally friendly and assist in stimulating the national rural economy through the jobs created and additional incomes to farmers, ranchers, and rural small businesses.

RURAL HOUSING SERVICE

The budget request for programs administered by the Rural Housing Service (RHS) totals \$5.7 billion. This commitment will improve housing conditions in rural areas, and, in particular, improve homeownership opportunities for minority populations. Rural Development has implemented a "5-Star Commitment," which supports the President's homeownership initiative. Under this 5-Star plan, our goal is to increase minority participation in housing programs by ten percent over the next few years.

The request for single family direct and guaranteed homeownership loans totals almost \$4.1 billion, which will assist about 49,000 households, who are unable to obtain credit elsewhere. The RHS request maintains the program level for housing repair loans and grants, \$35 million for housing repair loans and almost \$32 million for housing repair grants, which will be used to improve 10,000 existing single family houses, mostly occupied by low income elderly residents.

This budget also supports my commitment to focus on repair, rehabilitation, and preservation of multi-family housing projects, with the goal of developing a comprehensive strategy for program overhaul. We are proposing a rental-housing request of \$71 million for direct loans, \$100 million for multi-family guaranteed loans, \$42 million for farm labor housing loans, \$17 million for farm labor housing grants, and \$740 million in rental assistance. RHS has an existing multi-family housing portfolio of \$12 billion, that includes 17,500 projects. Many of these projects are 20 years old or older, and face rehabilitation needs. Given the demands for repair/rehabilitation and preservation of existing projects, and our ongoing study of program alternatives, we are deferring a request for new construction funding this year.

This budget provides an increase in farm labor housing loans and maintenance of farm labor housing grants. In total, the farm labor-housing program will rise to \$59 million, which will address pressing needs for farm worker housing across the country. This program provides housing to the poorest housed workers of any sector in the economy, and supports agriculture's need for dependable labor to harvest the abundance produced by rural farms.

The budget includes \$740 million for Rental Assistance, a slight increase over the current level. These payments are used to reduce the rent in multi-family and farm labor housing projects to no more than 30 percent of the income of very low-income occupants (typically female heads of households or the elderly, with annual incomes averaging about \$8,000). This level of funding will provide rental assistance to almost 45,000 households, most of which would be used for renewing expiring contracts in existing projects.

The request for community facilities funding holds program levels to the fiscal year 2003 President's Budget—\$250 million for direct loans, \$210 million for guaranteed loans, and \$17 million for grants. Community facilities programs finance rural health facilities, childcare facilities, fire and safety facilities, jails, education facilities, and almost any other type of essential community facility needed in rural America. These funds will support 140 new or improved health care facilities, 370 new or improved public safety facilities, and 95 new or improved educational facilities.

ADMINISTRATIVE EXPENSES

These requested program levels provide ambitious targets for accomplishments, for which this Committee will be proud. However, delivering these programs to the remote, isolated, and low income areas of rural America requires administrative expenses sufficient to the task. Over the last several years, Rural Development has administered growing program levels, and new programs, with modest Salaries and Expenses (S&E) funding increases. From fiscal year 1996 through fiscal year 2002 Rural Development's annual delivered program level increased by 79 percent. Over that same period Rural Development's S&E appropriation increased 13 percent. Rural Development curtailed employment, and Full Time Equivalent (FTE) staffing fell 15 percent.

With an outstanding loan portfolio exceeding \$86 billion, fiduciary responsibilities mandate that Rural Development maintain adequately trained staff, employ state of the art automated financial systems, and monitor borrowers' activities and loan security to ensure protection of the public's financial interests. Curtailed S&E fund-

ing in the past strained our ability to provide adequate underwriting and loan servicing to safeguard the public's interests.

For 2004, the budget proposes a total of \$680 million for Rural Development S&E, an increase of \$50 million from the fiscal year 2003 President's Budget. The bulk of this increase is consumed by: pay costs; automated systems maintenance, enhancement, and operational cost increases; and funding the mandatory move of staff from downtown St. Louis to the Goodfellow Facility, a former military installation. Twelve million dollars is requested to support enhancements of three automated financial systems—the Guaranteed Loan System, the Dedicated Loan Origination System, and the RUS Loan Servicing System, which maintain accounting and servicing information on direct and guaranteed loans across the mission area. Over \$17 million is needed to fund the General Services Administration (GSA)-mandated move of Rural Development staff in St. Louis. We are also requesting \$1.6 million to support several specific initiatives: continuing to monitor guaranteed single and multi-family housing lenders; funding studies and analysis of outsourcing; and continued Credit Reform modeling and analysis support. In fiscal year 2002, Rural Development received a clean audit opinion for the first time since 1994. However, the Office of the General Counsel and the General Accounting Office view our cash flow modeling efforts as short-term solutions, and recommend continued analysis and refinements. Contract assistance is needed to improve data collection, sensitivity analysis, and validation. Improvements in Credit Reform processes provide assurance that program budget cost estimates are reasonable. Our clean audit opinion was hard-won, and we thank this Committee for resources provided in the past to achieve this goal. We are committed to maintaining this high standard.

Rural Development is also requesting a modest (4 FTE) increase in staffing. These 4 FTEs will be senior analysts, with cutting-edge financial and analytical skills. They will be spread across the organization and provide financial and administrative analytical assistance to senior managers.

Rural Development is very appreciative of the funding provided in prior years for automated financial systems development, which allowed Rural Development to continue to support systems for guaranteed loans, multi-family housing loans, Rural Utilities Service systems modernization, and the Program Funds Control System. This funding will allow Rural Development to continue to address long delayed automated systems development needs, but these are major projects and will not be completed in 1 year. We urge the committee to fund the President's fiscal year 2004 \$680 million S&E request.

Mr. Chairman, Members of the Committee, this concludes my formal statement. We would be glad to answer any questions you may have. Thank you for the opportunity to appear before you to discuss the Rural Development budget request.

PREPARED STATEMENT OF HILDA GAY LEGG, ADMINISTRATOR, RURAL UTILITIES SERVICE

The fiscal year 2004 budget reflects President Bush's support for investing in the infrastructure of rural America. It includes \$4.9 billion in loan and grant assistance for the on-going electric, telecommunications, and water and waste programs, which compares to \$4.8 billion in the fiscal year 2003 budget.

TELECOMMUNICATIONS PROGRAM

The building and delivery of an advanced telecommunications network is having a profound effect on our Nation's economy, its strength, and its growth. In discussing the importance of advanced, high-speed access—commonly referred to as "broadband service"—at the Economic Forum in Waco this past summer, President Bush said: "In order to make sure the economy grows, we must bring the promise of broadband technology to millions of Americans. And broadband technology is going to be incredibly important for us to stay on the cutting edge of innovation here in America."

Just as our citizens in our cities and suburbs benefit from access to broadband services, so should our rural residents. Broadband service is a necessity in rural America, it plays a vital role in solving the problems created by time, distance, location, and lack of resources. The promise of broadband is not just "faster access".

Today's advanced telecommunications networks will allow rural communities to become platforms of opportunity for new businesses to compete locally, nationally and globally, and the funding we are seeking in the fiscal year 2004 budget request will help us continue to meet the "new communications needs" of rural America and ensure that no rural resident—from students to parents and teachers, from patients

to doctors, or from consumers to entrepreneurs—will be left behind in this new century.

Treasury Rate, Guaranteed, and Hardship Loans

Since 1995—when Rural Development implemented Congress' visionary policy requiring that all Rural Development-financed facilities be "broadband capable"—every telephone line constructed with Rural Development financing is capable of providing advanced services using digital and fiber technologies. These loan programs target the most rural of our rural communities, towns with populations of less than 5,000 people.

The fiscal year 2004 budget further targets rural areas experiencing extreme financial hardship, by nearly doubling the amount of Hardship loan funds available to those borrowers that serve the most rural, highest cost areas. The budget proposes over \$145 million in direct hardship loans, an increase of approximately \$70 million over the 2003 program level. These loans bear a fixed 5 percent interest rate to ensure project viability and feasibility, and due to the extraordinary repayment history, carry a zero subsidy cost—so no increase in budget authority is necessary. The budget also proposes \$350 million in Treasury rate loans and loan guarantee authority—which can be provided for a modest subsidy cost of only \$125,000. This represents a cost of just over two one-thousandths of a cent for every resident in rural America!

Rural Telephone Bank

This budget also reflects the Administration's commitment to accelerate privatization of the Rural Telephone Bank—as required by law—and therefore does not request budget authority to support lending for fiscal year 2004. Today, the bank operates as a supplemental lender to entities eligible to borrow from the Rural Development program. A privatized bank would be able to expand or tailor its lending practices beyond the current limitations imposed as a governmental lender, as well as leverage its substantial loan portfolio and cash reserves to extend favorable credit terms to rural companies that do not qualify to borrow from Rural Development.

Broadband Loans and Grants

We are seeking continued support from Congress for funding to facilitate the deployment of broadband service in rural areas. As part of the Administration's continuing commitment to invest in rural America, in January, Rural Development announced the opening of its "Access to Broadband" Program as authorized by the Farm Security and Rural Investment Act of 2002, Public Law 107-171. It is the culmination of a 2-year pilot program under the Bush Administration that financed \$180 million of loans dedicated to bringing broadband service to rural communities—where nearly 100,000 customers will receive first-time broadband service!

This new program will have a profound affect on the lives of rural Americans. Over the next year, it is expected that \$1.4 billion in loans and loan guarantees will be made to bring the promise of high-speed access—or Broadband—to our rural communities. This substantial investment level—nearly \$680 million greater than original estimates—is a result of 2 years of mandatory budget authority for fiscal years 2002 and 2003 and a very favorable subsidy cost/rate. This funding is "no-year" money and will remain available until expended. Because of this enormous lending level leveraged by low subsidy rates, the fiscal year 2004 budget proposes to eliminate the mandatory budget authority of \$20 million and replace it with approximately \$9.1 million in discretionary authority. This will result in a total loan and loan guarantee program of approximately \$1.7 billion over the first 3 years of funding (fiscal years 2002 through 2004), versus the estimated \$1.2 billion when the Farm Bill was passed.

Even during these fiscally challenging times, Congress has overwhelmingly supported funding for broadband projects. The proposed budget seeks to minimize taxpayer costs while providing the investment level envisioned by Congress and the Administration in the Farm Bill.

The budget also proposes \$2 million in grants to provide broadband service to areas that cannot afford loans. This past year, as part of the pilot program, Rural Development made available grant funds in a program called "Community Connect"—a new and exciting approach to community funding. Funding is available to provide broadband service to "connect" the schools, libraries, police and fire stations, hospitals, community centers, businesses, and residents—everyone in the community—and introduce them to the benefits of advanced communications infrastructure. For some communities, this program will provide the seeds for sustained economic growth and community prosperity. The proposed grant authority will enable us to continue to seek ways to ensure that no one is left behind.

There are many challenges before us and even greater rewards if we succeed. And the investment IS needed. Much is depending upon a successful public/private partnership. Rural economies today are much more than the farm-based economies of a few years ago. And broadband service not only provides critically needed economic stimuli for rural communities through e-commerce initiatives and by enticing new businesses, it creates a new workforce of students educated through distance learning programs with the skills necessary to compete globally.

Distance Learning and Telemedicine Loans and Grants

The Distance Learning and Telemedicine program continues its charge to improve educational and health care delivery in rural America. The terms “distance learning” and “telemedicine” are becoming synonyms for “opportunity and hope.”

Telemedicine projects are providing new and improved health care services beginning with patient diagnosis, through surgical procedures and post-operative treatment. New advancements are being made in the telepharmaceutical and telepsychiatry arenas and providing health care options never before available to many medically under-served, remote, rural areas.

Distance learning projects continue to provide funding for computers and Internet connection in schools and libraries. The vast array of study options available to rural students through distance learning technologies literally brings the world to their doorstep.

The value of these services to rural parents, teachers, doctors, and patients is immeasurable. Building on advanced telecommunications platforms, distance learning and telemedicine technologies are not only improving the quality of life in rural areas, but they are also making direct contributions to the economies in rural areas by introducing the skills needed for a high-tech workforce and promoting sound health care practices, including preventative care initiatives.

Over the past 10 years in which this program has operated, it is clear that the demand for loans in this program is very small. This is primarily due to the types of entities that are eligible to borrow—namely schools and health care providers serving rural areas. In most cases, schools are prohibited from entering into loan agreements and would not be able to generate revenues to repay the loan if they could. The high cost associated with the provision of rural health care limits the feasibility of telemedicine loans as well. Telemedicine offers a means to reach the most isolated and poorest residents of the country, but does not always provide a means for cost recovery. Therefore, in the fiscal year 2004 budget, \$50 million in loans is being requested. This amount is more than sufficient to cover loan demand based on past program experience and to meet any demand from larger, consortium-based entities with the necessary resources to collateralize a loan. The budget seeks \$25 million in grants to continue the tremendously popular and successful grant program.

Local Television

As you are aware, in December 2000, the Local TV Act, “Launching Our Communities’ Access to Local Television Act of 2000”, Public Law 106-553 was enacted. The Local TV Act provides for the establishment of the Local Television Loan Guarantee Board (the Board) consisting of the Secretaries of Agriculture, Treasury, Commerce, and the Chairman of the Board of Governors of the Federal Reserve System, or their designees. The Board is authorized to approve loan guarantees of up to 80 percent of the total loan amount of no more than \$1.25 billion to facilitate access, on a technologically neutral basis, to signals of local television stations for households located in nonserved and underserved areas. This program has been fully funded through fiscal year 2002 appropriations and mandatory funding provided in the 2002 Farm Bill. Therefore, no additional funding is being requested in the fiscal year 2004 budget.

Telecommunications Program Conclusion

Given the amount of investment capital necessary to deploy advanced telecommunications technologies—not to mention the lack of available private capital—it is unreasonable to believe that the private markets, particularly local banks, can generate the capital required.

Our goal should be to deploy a seamless, Nation-wide broadband network, where the only thing distinguishing users is their zip code.

Since private capital for the deployment of broadband services in rural areas is not sufficient, incentives offered by the Rural Development program are more important than ever before. Providing rural residents and businesses with barrier-free access to the benefits of today’s technology will bolster the economy and improve the quality of life for rural residents.

There is no one solution to the complicated issue of bringing advanced telecommunications services to every citizen. Government incentives; cost support mechanisms; changes in technologies; and private investment—each must play a role. Rural Development will continue to do its part.

ELECTRIC PROGRAM

The Rural Development Electric Program budget proposes a program of \$2.6 billion. This amount includes: a hardship program level of \$240 million; a municipal rate program level of \$100 million; a \$700 million funding level for Treasury rate loans; and a \$1.5 billion funding level for guaranteed loans through the Federal Financing Bank, which does not require any budget authority; and \$60,000 in budget authority for a \$100 million loan guarantee program for private sector loan guarantors.

In the last 4 fiscal years (1999–2002) RUS had lent over \$6.2 billion for distribution facilities. In addition, it is anticipated that another \$2 billion will be lent for distribution purposes in fiscal year 2003, which will bring the total over \$8.2 billion. In the past 3 years (2000–2002) RUS had lent over \$3.8 billion for generation and transmission facilities. In addition, it is anticipated that another \$1.7 billion will be lent in fiscal year 2003, which will bring the total to over \$5.5 billion. When consideration is given to the amount we have lent in the last 5 years and the fact that the backlog will have been reduced to less than 6 months, there is no demonstrated need for a \$4 billion loan program in fiscal year 2004.

An example of how our rural electric borrowers can improve the economic potential and quality of life in rural communities is the United Cooperative Service (United) in Cleburne, Texas. United was created in April 2000, from the consolidation of Erath County Electric Cooperative Association and Johnson County Electric Cooperative Association. United provides service to 77,916 consumers, using 8,819 miles of distribution line. In January 2002, Rural Development awarded a loan to United for \$32 million to serve 10,823 new consumers, build 743 miles of new distribution lines, and make other system improvements.

WATER AND ENVIRONMENTAL PROGRAMS

This budget seeks \$346 million in budget authority for Water and Waste Disposal (WWD) grants; \$3.5 million in budget authority for solid waste management grants; and \$35 million in budget authority to support over \$1.1 billion in WWD direct loans and \$75 million in guaranteed loans.

The budget request earmarks \$11.8 million for Colonias along the U.S.-Mexico border, \$16.2 million for technical assistance and training grants, \$9.5 million for the circuit rider technical assistance program, \$11.8 million for rural Alaskan villages, \$13 million for Federally Recognized Native American Tribes; and \$12.6 million in budget authority for loans and grants Federally designated Empowerment Zones and Enterprise Communities. Our budget request will also allow third-party service providers, such as rural water circuit riders, to make over 56,000 water and wastewater system contacts to communities needing technical assistance, and through a clearinghouse effort, take more than 20,000 telephone calls and an estimated 11,000 electronic bulletin board and web site contacts.

As a result of Rural Development's strong technical assistance efforts, both from staff and third-party service providers/contractors, loan delinquency and loan losses will remain low. Currently, only 1 percent of approximately 8,000 borrowers is delinquent. Since the inception of the water and waste disposal program, less than 0.1 percent of the amount loaned has been written off.

Rural Development programs improve the quality of life and health of an estimated 1.4 million Americans in needy communities each year by providing access to clean, safe drinking water. In addition, new or improved waste disposal facilities are provided to an estimated 500,000 people living in rural areas. A field network of Rural Development employees deliver the program through "hands-on" technical and financial assistance under the Rural Community Advancement Program.

The Water and Waste Disposal program has been very successful since its inception over 60 years ago. A total of over \$25 billion in financial assistance has been provided, about 70 percent of that in the form of loans; approximately 45 percent of the total has been provided during the past 10 years. Indications suggest, however, that needs for water and waste disposal systems are still significant and are likely to grow as a result of expanding population in rural areas, changes to water quality standards, drought conditions, and similar factors. The additional funding provided by the Farm Bill helped reduce the backlog for assistance. However, the backlog still persists and totals approximately \$2.3 billion. Over the last 3 years, Rural Development has assisted 1,124 borrowers in moving up to commercial credit

in accordance with its graduation requirement. The loans paid off as a result of this effort totaled nearly \$680 million.

Mr. Chairman, this concludes my testimony for the Rural Development fiscal year 2004 budget for rural utility programs. I look forward to working with you and other Committee members to administer our programs. I will be happy to answer any questions the Committee might have.

PREPARED STATEMENT OF ARTHUR A. GARCIA, ADMINISTRATOR, RURAL HOUSING SERVICE

Mr. Chairman and members of the Committee, thank you for this opportunity to testify on the President's fiscal year 2004 proposed budget for the USDA Rural Development rural housing and community program.

Rural Development assists in making rural America a better place to live and work. Our rural housing loan and grant programs help to revitalize small towns and rural communities. Most of our customers are first-time homebuyers who turn to us because we, in many instances, provide the only opportunity to share in the benefits of homeownership. As Secretary Veneman said last fall, "homeownership strengthens our rural communities and contributes to the overall quality of life for rural families. USDA works with community organizations, lenders and individual residents to provide opportunities to the millions who seek the dream of owning a home." We are called upon to be citizen-centered in President Bush's management agenda. We have responded to this call with programs that help rural families purchase homes and gain access to affordable rural rental housing, and we provide financing for essential community services, such as facilities for health care, police and fire protection, adult day care, child care, and educational institutions.

For more than 50 years, Rural Development has assisted some of our Nation's poorest people who reside in the most remote areas of our country. Whether on Indian reservations in the Dakotas; the Colonias along the Mexican border; the isolated pockets of the Appalachian mountains in West Virginia; or the Mississippi Delta, our programs provide the essential link to individuals, communities, and financial markets so that all rural residents may share in our Nation's prosperity and enjoy the basic human dignities of housing and community facilities.

Let me share with you how we plan to continue improving the lives of rural residents under the President's fiscal year 2004 budget proposal for our rural housing programs.

SINGLE FAMILY HOUSING PROGRAMS

With the \$5.67 billion total program funding, more than \$4 billion will be used to make guaranteed and direct Single Family Housing (SFH) loans. This includes an increase of approximately \$400 million more for direct loans. These funds will assist nearly 49,000 rural families to purchase homes, and most of them will be first-time homeowners. Of the SFH funds, \$2.5 billion will be available as loan guarantees with private partners to help approximately 28,500 low- and moderate-income families become new homeowners. An additional \$225 million in loan guarantees will be used to refinance loans for approximately 2,500 rural families in order to make their payments more affordable. We will fund another \$1.4 billion in direct loans and assist nearly 18,000 low and very low-income families who cannot obtain credit to purchase homes without a down payment, or who cannot meet the loan terms offered through most lenders. In addition, the fiscal year 2004 budget includes \$35 million in direct loans and \$31.5 million in grants to approximately 12,000 elderly and disabled families or individuals to repair or rehabilitate their homes to decent, safe, and sanitary housing.

The subsidy cost of operating the SFH direct loan program will be less expensive in 2004 due primarily to lower interest rates which reduce the Government's cost of borrowing and more accurate projections of the financial status of our borrower population. This cost savings will enable Rural Development to help more families obtain homeownership and lowers the cost to taxpayers to about \$7,000 per home financed. The loans that we guarantee in the private sector cost slightly less than \$1,500 per home. For rural Americans with very-low, low, and moderate incomes, the SFH direct and guaranteed loan programs continue to be the most cost-effective housing programs available.

Five-Star Commitment to Increase Minority Homeownership

President Bush has made a commitment to remove the barriers that stand in the way of our Nation's minority families obtaining homeownership.

According to the 2000 census data, minorities represent about 13 percent of rural Americans. In fiscal year 2002, 32.2 percent of the direct loans and 12.1 percent of the loan guarantees administered by Rural Development made for single-family home purchases went to minorities. More than 60 percent of the loans and grants were made to women or female-headed households. We also help disabled families remodel, build and afford barrier-free access to housing.

We can do even better.

To implement the President's vision, Rural Development's Under Secretary Tom Dorr recently announced the USDA Five-Star Commitment to expand rural minority homeownership. This commitment will help make housing available to all rural Americans by:

- Lowering fees to reduce barriers to minority homeownership;
- Doubling the number of Mutual Self-Help participants by 2010;
- Increasing participation by minority lenders in our rural housing programs;
- Promoting credit counseling and homeownership education; and,
- Monitoring lending activities to ensure that we attain a 10 percent increase in minority homeownership.

Lowering Fees to Reduce Barriers to Minority Homeownership

To encourage more minority participation in the guaranteed single-family housing loan program, Rural Development recently reduced the guarantee fee to make homeownership more affordable. Our goal in reducing the up-front costs is to increase homeownership opportunities for low- and moderate-income borrowers, particularly minorities. The fee was reduced from 2 percent to 1.5 percent for purchasing a home, representing an average savings of \$435 per family. Also, the fee was reduced from 2 percent to 0.5 percent for refinancing a guaranteed loan, representing an average savings of \$1,305 per family.

We closely monitor the other fees charged by participating lenders in our SFH guarantee program to ensure that fees charged are reasonable. Further, we work closely on the local level with local non-profits, which provide our first-time buyers with homeowner education training, credit counseling, and assistance in obtaining grants for closing costs and other basic homeowner assistance.

Doubling the Number of Self-Help Participants by 2010

The fiscal year 2004 budget request includes \$34 million for the section 523 Mutual Self-Help Technical Assistance grant program. In fiscal year 2002, Rural Development partnered with more than 140 groups to help provide homeownership opportunities to rural families through this sweat equity program. Last year, nearly 1,500 families built their homes through the Self-Help program, representing about 10 percent of the total SFH direct loans. Self-Help grantees assist groups of six to twelve families as they work together to build their own neighborhoods. They provide homeowner education, guidance through the loan application process, and supervision and technical assistance in building their homes.

The individual successes of our Self-Help borrowers are proof of the life-altering effect of this program. One example is the Elsie and George Phillips family of Birdsong, Arkansas. This couple, now in their 80's, recently moved into the new home they helped to build—after living in a dilapidated trailer for the past 24 years.

Increasing Participation by Minority Lenders in Rural Housing Programs

Rural Development works with more than 3,000 lenders and other partners in our direct and guaranteed loan programs. Lenders in the guaranteed program range in size from small hometown banks to large nationwide lenders. One of our largest lenders, J.P. Morgan Chase (Chase), recently committed \$500 billion to increasing minority homeownership, in part through our rural housing loan guarantees. Chase is the largest participating lender and services almost 40,000 rural housing guaranteed loans, totaling over \$3 billion.

Rural Development field employees are trained to reach out to their respective communities, develop relationships, and enhance partnerships with lenders and others serving the housing needs of minorities in rural America.

Promoting Credit Counseling and Homeownership Education

Rural Development has partnered with the FDIC to use its MoneySmart program to provide homeownership education to our applicants. FDIC has provided training to our field employees on their program. MoneySmart provides an additional tool to assist in creating successful homeowners.

Locally, rural housing partners with many Federal and State agencies to assure low-income applicants have access to homebuyer education. These programs, many funded through HUD's HOME program, provide homeownership education and credit counseling. We have established effective working relationships with public and

private groups offering these services to rural communities. Our goal is to assure that homebuyer education programs are available in all rural areas.

Monitoring Lending Activities

Increasing minority homeownership is a serious matter for us. We have established goals at the National and State Offices. These goals are performance-based and at each level of the organization, performance will be rated, in part, by achievement of the goals.

Rural Housing Programs More Important Than Ever Before

The Home Repair Loan and Grant Program helps very low-income families whose homes are in need of repair. The program is for those families who own a modest home in a rural area, but are unable to obtain financial assistance to repair their homes. The average annual income of households obtaining home repair assistance last year was under \$10,000. Funds are used to make substandard homes decent, safe and sanitary through repairs and rehabilitation, including installation of indoor plumbing, new furnaces, weatherization, safe wiring, new roofs, and making homes accessible for persons with disabilities.

In its October 2000 report, *Opening Doors to Rural Home Ownership: Outcomes from the National Rural Housing Coalition Rural Home Symposium*, the National Rural Housing Coalition stated, "Although poverty has decreased to its lowest level in 20 years, almost all of the changes occurred in central cities and metropolitan areas. Rural homeowners are more likely than homeowners as a whole to live in substandard housing."

In its December 2002 report *Taking Stock: Rural People, Poverty, and Housing at the Turn of the 21st Century*, the Housing Assistance Council stated: "Minorities in rural areas are among the poorest and worst housed groups in the entire Nation, with disproportionately high levels of inadequate housing conditions. Non-white and Hispanic households are nearly three times more likely to live in substandard housing than white rural residents."

The fiscal year 2004 proposed budget contains \$66.5 million to assist up to 12,000 families with incomes below 50 percent of the area median income. This includes \$35 million in home repair loan funds for 6,000 very-low income families and \$31.5 million for grants to assist a comparable number of elderly homeowners.

Jaime Morales moved to the United States in 1990. In 2002, he and his wife, Maria, were able to purchase their own modest home in Horizon City—near El Paso, Texas—for less than \$20,000. However, as with many homes in the Colonias, their house lacked adequate plumbing and needed other repairs. Jaime could do much of the work needed on the house, but with limited income from work at a pallet shop, the plumbing would have to wait. A Rural Development grant of \$3,320 has changed that by paying for a connection to a public water system, the Lower Valley Water District. We provided funding for piping, a sink, commode, water heater inside the house, and installation of an individual septic system. This grant has truly improved the living conditions of Mr. and Mrs. Morales and their son, Jaime, Jr.

We have a very successful record of working with private and nonprofit organizations to increase homeownership in rural communities. In fiscal year 1996, only about 8 percent of the SFH direct loans were leveraged with funds from additional sources, such as other bank loans, or were provided with down payment assistance and other grants. In that year, these other funding sources provided only 3 percent of the total cost of the home purchase. Last year, more than 55 percent of the loans were leveraged, with other sources contributing more than \$120 million. This enabled us to assist an additional 2,000 families to own their home—an expansion of tax dollars of more than 12 percent.

MULTI-FAMILY HOUSING PROGRAMS

Rural Development's Multi-Family Housing (MFH) program together with Rental Assistance provide decent, safe, and affordable housing to families who need it the most. The MFH direct loan program is the largest of the MFH programs, and is a principal source of multi-family housing for the elderly in rural America. Elderly households make up approximately 55 percent of the residents in the MFH program. In this program, we make 1 percent interest loans to private individuals, state and local housing agencies, and non-profit organizations, who build apartments and offer them as rental housing, primarily to very low-income senior citizens and working mothers. The incomes of these households average about \$8,100, well below the poverty level. Currently, we have a MFH portfolio of about 17,500 projects, which contains about 450,000 units. The total outstanding indebtedness of

these projects is about \$11.9 billion. Approximately 70 percent of the portfolio is over 15 years old and in need of repair.

The fiscal year 2004 budget proposes that \$70.8 million in MFH direct loans be used to provide much-needed repairs or rehabilitation to approximately 5,900 projects in the current portfolio. We are not proposing fiscal year 2004 funding for new construction, however the budget includes \$100 million in guaranteed loans that may be used for new construction. MFH guarantee loans will build 2,400 apartments and repair, rehabilitate and pay incentives to owners on 5,900 apartments. In addition, the request includes \$42 million in loans and \$17 million in grants for section Farm Labor Housing (FLH) living units—most of which will be new construction. These funds will finance over 1,700 apartments for migrant and farm workers. Providing adequate housing to these workers is essential to having a dependable and available workforce.

The President's fiscal year 2004 budget requests \$740 million for Rental Assistance (RA) to ensure the integrity and financial stability of MFH and Farm Labor Housing loan and grant programs. In fiscal year 2004, well over 93 percent of the RA budget will be used to renew more than 42,000 RA contracts so that elderly, disabled, and female-headed resident households remain in safe and livable rental apartments they call home. The remainder of the RA funding will be used to keep rent affordable when repair and rehabilitation are needed for existing units. Rental assistance reduces the cost of housing for rural Americans with very low incomes to no more than 30 percent of their income.

Over the past year and a half, we have faced the possibility of losing affordable housing due to borrower prepayment. In 1979, 1988, and 1992, Congress passed legislative changes to the MFH programs to restrict a borrower's ability to prepay their loan, thereby protecting residents from displacement. Recent legal actions brought by borrowers have challenged the statute that governs the MFH prepayment process. The future of the MFH program will require continued strategic and tactical planning and execution to keep affordable housing available to our residents. Our methods will include a combination of changes to the program, program incentives to owners, and the establishment of new partnerships with state and local housing agencies, non-profits, and faith-based organizations, whose commitment to rural communities is long-term.

We look forward to working closely with you and your colleagues as we address the MFH program needs.

Rural Development's MFH program has a long proud history of working with faith-based organizations to provide housing to rural America. In fact, since 1975, we have made 125 loans to faith-based organizations and affiliation of faith-based organizations to construct more than 4,253 units of rental-assisted properties located in 24 states. More recently, several large national faith-based housing organizations have been very active in acquiring Rural Development-financed MFH properties that were in danger of being lost as affordable housing through prepayment. We encourage nonprofit organizations such as these to take over preservation properties, as the organizations often bring additional resident services to the properties. Additionally, their charters anticipate that they will remain owners in the program for a significant time period, thereby reducing the chance that a property will, again, be taken out of the affordable rural housing portfolio.

We are also examining industry-wide asset management practices to develop our MFH property's capital needs, such as roofing, exterior siding, major mechanical systems, window and door replacement, flooring, and rehabilitation of common areas such as laundry rooms, meeting rooms, and parking lots. Additionally, we have examined several asset management protocols developed by HUD, and incorporated those concepts into our recently implemented Multi-Family Information System (MFIS III). As a result, we can focus more closely on specific asset management attributes of small, rural apartments.

Based on housing industry standards and our own reserve requirements, owners will typically need about \$10,000 per unit in rehabilitation funds every 8 to 12 years. Reinvestment of capital in these properties assures continued modernization of multi-family housing and protects the value of the property as collateral for the loan. Timing of these investments and adequacy of additional funding sources are aspects of capital risk management that must be considered. It is important to note that capital replacement is needed due to the normal aging of the physical building. We are working to determine the best methods to achieve these housing goals and will have a one-time comprehensive study of our portfolio conducted. We anticipate that the study will allow us to develop short-term and long-term strategies to manage and protect this \$11.9 billion national asset.

COMMUNITY PROGRAMS

Along with decent and affordable housing, many communities also have a need for essential community facilities, such as educational buildings, fire, rescue, and public safety facilities; and child care centers, health care facilities, and day care and assisted living facilities for their increasing senior citizen populations. Having adequate community facilities not only impacts the quality of life for community residents, but also makes easier for communities to attract and retain businesses. Rural Development's Community Facilities (CF) direct and guaranteed loan and grant programs provide funding for these essential facilities.

The fiscal year 2004 budget includes a program level of \$477 million for the CF program: \$250 million for direct loans, \$210 million for loan guarantees, and \$17 million for grants. This level of funding will allow us to continue the commitment to educational facilities, which are especially important in preparing rural children and adults to compete in the global economy.

In fiscal year 2002, Rural Development assisted 134 communities by investing \$46.7 million in buildings to house public schools, charter schools, libraries, museums, colleges, vocational schools, and educational facilities for the disabled. Rural Development also helped finance the purchase of computers and other technological equipment. Public safety is often a need in rural communities. In fiscal year 2002, we invested \$105.7 million in 537 facilities, including communications centers, police, fire and rescue stations, civil defense buildings, and related vehicles and equipment. An example is the recently opened Central Shenandoah Criminal Justice Training Academy in Virginia's Shenandoah Valley. Rural Development invested \$3.8 million in direct loan funds and \$2.3 million in guaranteed loan funds in this 56,000 square foot facility, which can train 280 students at one time. The curriculum ranges from basic law enforcement through the most technical and sensitive issues of homeland security and emergency preparedness. The academy's membership comprises 57 agencies, including local police and sheriffs' departments, emergency operations centers, regional jails, and private police departments. The facility is also made available to State and Federal agencies for independent training.

In partnership with local and state governments and Indian Tribes, the CF budget will support more than 140 new or improved health care facilities, more than 130 new or improved fire and rescue facilities, and about 50 new or improved child care facilities in fiscal year 2004. These essential community facilities will create or preserve more than 30,000 jobs in rural America.

Centralized Service Center

The USDA Centralized Service Center (CSC) in St. Louis, Missouri, provides all written and oral communication to customers in either English or Spanish to better serve the needs of these customers. At the CSC, we have used aggressive recruitment and retention initiatives in order to create a workforce that is 11 percent bilingual. The CSC also works closely with the National Industries for the Blind and provides monthly mortgage statements in Braille for blind customers. National TDD phone service is also available from CSC, as well as e-mail customer responses for customers with hearing disabilities. Over 10 percent of the CSC employee population have a disability and are provided special equipment to enhance their productivity and ability to serve customers.

Rural Development's commitment to helping people become self-sufficient is also evident in their ongoing Welfare-to-Work initiative. CSC has worked with the St. Louis Transitional Hope House and the American Red Cross to employ former welfare recipients. Twenty-six employees referred through this effort started out as worker trainees. Eighteen have since been promoted into permanent loan processor positions. New worker trainees are provided with mentors, and may later become mentors themselves as they become proficient in the work environment. One employee who started in the Welfare-to-Work program is now enrolled in college and pursuing an accounting degree. Another has obtained rural housing financing and is now a proud single-parent homeowner.

The CSC has received several individual and Government agency awards for its initiatives. These include awards from the Council for Employment of Individuals with Disabilities, the Hispanic Employment Council, and the Black Employment Council.

eGovernment

Rural Development is actively supporting the President's eGovernment initiative. We are engaged in implementing a department-wide electronic government strategy, which calls for greater integration and collaboration across USDA and across government in developing and delivering services to citizens and businesses.

When I arrived last year at Rural Development, electronic loan processing for our SFH direct loan program was performed by a commercial, off-the-shelf software system. This software, called UniFi, improved rural housing loan processing nationwide, but was limited by requiring dedicated computers in each office.

In fiscal year 2002, \$1 million was allocated to web enable' the UniFi software. The primary objective of the project was to convert the personal computer-based UniFi system to a centralized, web based server application that allows for multiple-user access and uniformed system maintenance. All field offices have successfully converted to the centralized database.

In our SFH guaranteed loan program, the primary platform that allows guaranteed lenders to interact with us is the Lender Interactive Network Connection (LINC). LINC was launched in 2001 and we are continuing with enhancements to improve the transfer of information between lender-partners and Rural Development.

Rural Development has also implemented an Electronic Data Interchange and a web-based reporting system that greatly enhances the ability of our lender-partners to report the status of the guaranteed loans they service. Lenders can report more data, more frequently, more accurately, at less expense.

We are very excited about the Automated Loss Claims system that will be implemented this spring. This web-based system significantly reduces the paperwork burden on our lenders, allowing them to submit their loss claims electronically. The Automated Loss Claims system will significantly speed up the process, saving the government interest expense. In addition, the Automated Loss Claims system will enable lenders and Rural Development to gather more comprehensive data on loss claims—data that will be used in our risk management efforts to continually reduce the cost of our programs.

Another technology-driven development is our Automated Underwriting system for guaranteed loans, scheduled for release this summer. This web-based system will automate the property and applicant eligibility determinations, streamline the underwriting process, allow for better and more fair underwriting decisions, improve the quality of our data, increase our risk management capabilities, and decrease processing time and costs for both lenders and Rural Development. Lower processing costs will lead to more affordable mortgages for rural home loan applicants.

We have developed two databases in MFH that provide accounting and management information. In fiscal year 2002, a major upgrade converted the existing system to a web-based format. The upgrade provided additional eGovernment capabilities by enabling borrowers to submit information electronically.

Rural Development has played an important role in the USDA's county-based agency eForm initiative. The eForms website was developed in response to the requirements of the Freedom to E-File Act (Public Law 106-222) passed by Congress in June 2000. Through collaboration with the Farm Service Agency, the Natural Resources Conservation Service, and Rural Development, customers, producers, partners, and others have electronic access to forms related to USDA programs. The website permits Rural Development customers to access and download forms to apply and participate in our programs.

Rural Development employees and management recognize the tremendous positive impact of homeownership on the economy, its impact on families' lives, and on the strength of rural communities. We recognize that Rural Development cannot address the homeownership and rural community facilities issues alone, and will continue to identify and work with partners who have joined with the President to improve the lives of rural residents. Rural Development will continue to reach out to and partner with lenders, the many faith-based groups and other non-profit organizations, as well as Federal, State, local, and Indian Tribal governments to meet the housing and community needs of low income families and individuals in rural America.

I hope I have illustrated for you the many ways that Rural Development's rural housing and community programs improve lives in rural areas. Mr. Chairman and members of the Committee, with your continued support, Rural Development looks forward to improving the quality of life in rural America by providing housing opportunities and building competitive, active rural communities.

PREPARED STATEMENT OF JOHN ROSSO, ADMINISTRATOR, RURAL BUSINESS
COOPERATIVE SERVICE

Mr. Chairman and members of the Subcommittee, I am pleased to appear before you today to present the Administration's fiscal year 2004 budget for Rural Development's rural business and cooperative programs.

Mr. Chairman, the programs and services of Rural Development, in partnership with other public and private sector businesses, continue to improve the economic climate of rural areas through the creation or preservation of sustainable business opportunities and jobs. Rural Development continues to invest in rural America, especially in the under-served rural areas and populations. Rural Development programs, help close the gap in opportunity for these under-served rural areas and populations, moving them toward improved economic growth by providing capital, technology and technical assistance. The \$718 million requested in this budget for Rural Development programs will assist in creating or saving about 72,646 jobs and providing financial assistance to more than 2,269 businesses and cooperatives.

BUSINESS AND INDUSTRY GUARANTEED LOAN PROGRAM

For the Business and Industry (B&I) program, the fiscal year 2004 budget includes \$29 million in budget authority to support \$602 million in guaranteed loans. We estimate that the funding requested for fiscal year 2004 would create or save about 19,156 jobs. We anticipate the demand for this program to continue to be strong.

The Business and Industry program allows lenders to better meet the needs of rural businesses. Through the lender's reduced exposure on guaranteed loans, they are able to meet the needs of more businesses at rates and terms the businesses can afford. B&I guaranteed loans may also be used by individual farmers to purchase cooperative stock in a start-up and existing cooperative established for value-added processing.

I would like to share a success story to illustrate how this program has improved the economic climate in an under-served area of rural America. Finger Lakes Construction in Wayne County, New York, is a general contractor that specializes in the construction of post frame and steel frame buildings. They employ 115 people and have built numerous buildings for residential, commercial, and agricultural customers throughout central and western New York. The company had financed a considerable amount of their growth out of cash flow, which negatively affected their working capital. A \$1,062,000 Business and Industry Loan capitalized those investments, and the company now has the working capital to meet their goals. The September 11, 2001, disaster and high out-migration of several New York communities has seriously affected many businesses, including the construction industry in many areas of New York state. This B&I guarantee helped to preserve local jobs within the State.

INTERMEDIARY RELENDING PROGRAM

The fiscal year 2004 budget also includes \$17.3 million in budget authority to support \$40 million in loans under the Intermediary Relending Program (IRP). The initial investment of this proposed level of funding will create or save an estimated 9,000 jobs. Because these funds are loaned three or four times by the intermediary over the 30-year loan term, we estimate that over 30,600 jobs will eventually be created or saved.

Participation by other private credit funding sources is encouraged in the IRP program, since this program requires the intermediary to provide, at a minimum, 25 percent in matching funds. The demand for this program continues to be strong. To illustrate the benefits IRP provides to rural America, I would like to share with you a story from Dimmit County, Texas.

The Neighborhood Housing Service of Dimmit County is a non-profit organization that has successfully administered \$1.75 million in IRP funds and received an additional \$750,000 in fiscal year 2002. The Neighborhood Housing Service has successfully loaned this money to businesses in an economically depressed part of Texas. Dimmit County is a poor community with a large portion of its population at or below the poverty level, with unemployment in the double digits. Dimmit County benefits from these loans through the creation of new businesses and additional employment opportunities. Overall, the Neighborhood Housing Service has made loans to 15 businesses, created 115 jobs, and continues to provide the communities with critical loans to support the livelihood in Dimmit and surrounding counties.

RURAL BUSINESS ENTERPRISE GRANT PROGRAM

For the Rural Business Enterprise Grant (RBE) program, the fiscal year 2004 budget includes \$44 million. We anticipate that this level of funding will create or save over 16,300 jobs. The demand for these grants continues to be strong. The purpose of this program is to assist small and emerging businesses. It is estimated that each dollar of investment of an RBE generates another \$2.40 in private capital.

Among the many eligible grant purposes under this program is the renovation of existing facilities by the grantee to support small and emerging business development in rural areas. For example, renovation of an older building in the downtown area of rural Uniontown, Washington, and converting it into a business incubator was a way for this community to revitalize their downtown area and spur business development and job creation. A \$75,000 RBEG will help to save and create 15 jobs in the business incubator. The first tenant of this building is a bakery, and other space is being prepared for additional tenants in this small agricultural community.

RURAL ECONOMIC DEVELOPMENT LOAN PROGRAM

The fiscal year 2004 budget includes \$15 million in Rural Economic Development Loans. This program represents a unique partnership, since it directly involves the rural electric and telecommunications borrowers in community and economic development projects. It provides zero-interest loans to intermediaries, who invest the funds locally. In fiscal year 2002, each dollar invested through these programs attracted an estimated \$9.91 in other capital. This is one reason why Rural Development is the venture capitalist in rural America. The return on our equity from rural America is strong.

I'd like to provide an example of how this program can assist. The Gibson Electric Cooperative was awarded a \$400,000 Rural Economic Development Loan to assist the Williams Sausage Company, Union City, Tennessee, purchase machinery and equipment for a major expansion of the plant. The business is a major purchaser of hogs in the region and provides a market for local farmers in Tennessee, Kentucky, and Missouri. It is estimated that there will be 60 jobs created and 140 jobs saved by this one business assisted with Rural Economic Development Loan funds.

RURAL BUSINESS OPPORTUNITY GRANT PROGRAM

The fiscal year 2004 budget includes \$3 million for Rural Business Opportunity Grants to provide much-needed technical assistance and capacity building in rural areas. The demand for this program continues to grow. Many rural areas need to develop economic and community development strategies that will attract private investment capital and Federal and State assistance. Also, the vast majority of rural communities are served by part-time officials who do not have the time or training necessary to compete with large communities for funding that may be available to them. The funds requested under this program will provide invaluable assistance to communities as they take their first step toward overcoming these impediments.

To illustrate, the Irwin County Board of Education in Ocilla, Georgia, will provide a construction consultant and professional staff to: (1) oversee the construction of an education facility; and (2) work with student interns, oversee demonstration projects, and facilitate meetings and education events. This Agricultural Demonstration and Education Farm project will cost an estimated \$740,000, \$45,000 of which is from a Rural Business Opportunity Grant. This is yet another example of the value in leveraging Rural Development funds.

RENEWABLE ENERGY GRANTS PROGRAM

The Renewable Energy Systems and Energy Efficiency Improvements Program was authorized by the Farm Security and Rural Investment Act of 2002. The program authorizes loans, loan guarantees, and grants to farmers, ranchers, and rural small businesses to: (1) purchase renewable energy systems; and (2) make energy efficiency improvements. The fiscal year 2004 budget proposes \$3 million in discretionary funds, rather than mandatory funds authorized under the Farm Bill. The program supports the President's Energy Policy by helping to develop renewable energy supplies that are environmentally friendly. In addition, the program contributes to local rural economies through the jobs created and additional income to rural small businesses, farmers, and ranchers.

COOPERATIVE SERVICES

The functions of our cooperative programs are authorized under both the Cooperative Marketing Act of 1926 and the Agricultural Marketing Act of 1946. Our programs serve as the focal point of national activity to help farmers and other rural residents help themselves by providing the necessary advice and assistance.

Rural Development recently produced a report titled "Cooperatives in the 21st Century." This report identifies the challenges and opportunities that face farmer cooperatives in the years ahead, and offers strategies to increase their chances of success. External forces besetting cooperatives are examined, as are their internal strengths and weaknesses. Priority issues are listed that cooperative members, lead-

ers and advisors need to address. The report serves as a catalyst for further thought and discussion on how farmer cooperatives can enhance the income and quality of life available to their members.

In addition to providing written assistance, Rural Development helps cooperatives by providing hands-on instruction. Rural Development is providing technical assistance to the Southwestern Peanut Growers Association (SWPGA), a cooperative involving peanut growers in TX, OK, and NM. The cooperative is making a transition from a Commodity Credit Corporation (CCC) designated sales agent for government-owned peanuts to a marketing cooperative. To maintain this activity, SWPGA must develop a marketing and processing business in the peanut industry. Rural Development is working with them to develop a business plan.

RURAL COOPERATIVE DEVELOPMENT GRANT PROGRAM

For the Rural Cooperative Development Grants (RCDG) Program, the fiscal year 2004 budget requests \$11 million. Of this amount, up to \$1.5 million would be used for projects, which focus on assistance to small minority producers through their cooperative businesses. This program complements our internal National and State Office technical assistance efforts by encouraging the establishment of centers for cooperative development. The centers provide expertise for conducting feasibility analysis, outreach, and other forms of technical assistance for new and existing cooperatives.

The Farm Bill formalized the value-added grant program authorizing \$240 million in mandatory funding spread over six years. Over the past two years, 293 grants have been awarded for nearly \$57.5 million. This program has four component parts including value-added producer grants, agriculture innovation centers, agricultural marketing resource center, and research on the impact of value-added projects. Eligibility for this grant program was greatly expanded in the Farm Bill and the program encourages applications for grants less than the \$500,000 maximum allowed to provide benefits to as many producers as possible.

Five hundred thousand dollars will be used for Cooperative Research Agreement in a competitive program. Cooperative Services will provide a program of research on applied and theoretical cooperative issues affecting agricultural and other rural cooperatives. The use of cooperative agreements requires substantial involvement of our staff with the universities' and non-profits' staff leveraged to conduct the research. Personnel and funds for a competitive program are requested to bring research efforts back up to a level justified by current farm conditions; rapid industrialization, concentration, and integration in production agriculture; quickly evolving information, communications, and biological technologies; and transformation of the social and economic structures of rural areas. Funds are requested in fiscal year 2004 to fund the cooperative agreements with Cooperative Services researchers and operations of the direct cost of conducting the competitive process to be funded out of the Salaries and Expense account.

One example is the Cooperative Development Center at Montana State University-Northern. Since the fall of 2000, the Center has helped to form the Montana Natural Beef (LLC), Amazing Grains Cooperative, Flathead Native Beef Cooperative and Peaks & Prairies Oil Seed Growers Cooperative. Seven other cooperative groups are also receiving assistance. The Center has also conducted workshops on business formation and marketing; provides assistance in specialty food-product development, and facilitates business development through the use of a commercial kitchen.

The Appropriate Technology Transfer for Rural Areas Program (ATTRA) provides technical information to producers and their advisors on the best sustainable production practices. We are requesting \$2.0 million for this program. This funding would support responses to over 18,000 direct inquiries from agricultural producers, extension personnel, and others on sustainable practices that reduce dependence on chemicals and is more environmentally friendly. ATTRA funding also supports a website that provides instant information to agricultural producers.

Mr. Chairman, this concludes my testimony for the Rural Development fiscal year 2004 budget for rural business and cooperative programs. I look forward to working with you and other Committee members to administer our programs. I will be happy to answer any questions the Committee might have.

Senator BENNETT. Thank you very much.

Now we go to Joseph Jen, who is the Under Secretary for Research, Education, and Economics. An economist at one end and an economist at the other end. Maybe that tells us something.

RESEARCH, EDUCATION, AND ECONOMICS

Dr. JEN. Thank you, Mr. Chairman. I am a biochemist by training.

Senator BENNETT. If you are Under Secretary for Economics, you are an economist by definition.

Dr. JEN. I do have an MBA, too, so I do qualify for being an economist. Thank you.

Mr. Chairman, it is my pleasure to appear before you to discuss the fiscal year 2004 budget for the REE mission area agencies. REE consists of ARS, CSREES, ERS, and NASS. The administrators of the agencies are present here today.

Placed in the context of current tight Government spending, the REE budget that we are here to discuss today reflects a strong commitment to addressing the challenges facing our Nation's food and agriculture system. We appreciate your support for the fiscal year 2003 appropriations. The President's fiscal year 2004 budget proposes \$2.266 billion for the four REE agencies, about the same as fiscal year 2003 Presidential budget proposal of \$2.312 billion.

Science and technology are the foundation of the American food and agricultural systems. The four REE agencies have been central to making the discoveries that have given us the most plentiful, affordable, and safe food supply any nation has ever known.

The environment surrounding the food and agricultural system is in constant flux. Today, our farmers and ranchers and our value-added food industry face stiff competition in worldwide markets. Many countries now spend a much higher percentage of their national research dollars on the food and agricultural system than we do. Constant attention to and investment in food and agricultural research is necessary to maintain our leadership in the world.

The remarkable success enjoyed by the food and agricultural system in this Nation depends heavily on our having a reservoir of basic scientific knowledge. Technology and mission-oriented applied research and problem-solving projects must draw from this reservoir of scientific knowledge. I appreciate very much your support of the USDA flagship grant program, the National Research Initiative, NRI, with an increase of \$46 million in the fiscal year 2003 appropriations, raising the total funding level to \$166 million. As a competitive grant, the NRI is open to the entire research community and provides the most effective mechanism to attract the best minds in the Nation to work on food and agricultural research and to add to our science knowledge reservoir. For the fiscal year 2004 budget, we propose to increase the NRI to \$200 million.

One of the most recent scientific breakthrough areas and one that represents immense opportunities for the food and agricultural sector is genomics research. Genomics is where the 21st century biological science is going.

Through the study of genetic makeup of organisms, genomics links the properties of genes to how plants and animals function.

Both ARS and CSREES have significantly increased their genomics programs in recent years. However, fulfilling the promises of genomics will require additional investments.

In capturing the unique benefits of genomics research and development, USDA has collaborated with other science institutions,

both in the United States and abroad. The goal is to achieve direct applications in food and agriculture that would not likely be addressed without USDA participation and targeted funding. USDA has worked closely with the National Science Foundation on the National Plant Genome Initiative and the Microbe Genetic Project. USDA is leading in the coordination of Federal research activities related to domestic animal genomics, including working closely with the National Institutes of Health.

Our work with other agencies in various research areas is indicative of a growing collaboration in which REE agencies are participating. Additionally, the new REE strategic plan asks the four REE agencies to provide increasing research, analytical, statistical, economical, and educational services to other USDA agencies.

The proposed budget provides additional funding for REE agencies to play a major role in strengthening the Nation's biosecurity. The safety of our food and security of our food supply are critical elements of homeland security. Because of its size, complexity, and integration, U.S. agriculture is uniquely vulnerable to highly infectious disease and pests, particularly those diseases not native to the United States.

PREPARED STATEMENTS

With continued investment, REE will be ready to meet the challenges to agriculture and take advantage of the opportunities presented by cutting-edge scientific and technology.

This concludes my statement. Thank you for your attention.
[The statements follow:]

PREPARED STATEMENT OF DR. JOSEPH J. JEN

Mr. Chairman, Members of the Committee, it is my pleasure to appear before you to discuss the fiscal year 2004 budgets for the Research, Education, and Economics (REE) mission area agencies of the USDA. I am accompanied by Dr. Rodney Brown, Deputy Under Secretary of REE and the Administrators of the four agencies: Dr. Edward Knipling, Acting Administrator of the Agricultural Research Service (ARS); Dr. Colien Hefferan, Administrator of the Cooperative State Research, Education, and Extension Service (CSREES); Dr. Susan Offutt, Administrator of the Economic Research Service (ERS); and Mr. Ronald Bosecker, Administrator of the National Agricultural Statistics Service (NASS). Also present is Mr. Dennis Kaplan of the Office of Budget and Program Analysis of the Department. Each Administrator has submitted written testimony for the record.

Placed in the context of current tight government spending, the REE budget that we are here to discuss today reflects a strong commitment to addressing the challenges facing our Nation's food and agricultural system. We appreciate your support in fiscal year 2003 appropriations. The President's fiscal year 2004 budget proposes \$2.266 billion for the four REE agencies, about the same as fiscal year 2003 presidential budget proposal of \$2.312 billion. The proposed budget requests increases for higher priority programs by reprogramming lower priority programs and eliminating completed tasks.

Science and technology are the foundation of the American food and agricultural system. These four agencies have been central to making the discoveries that have given us the most plentiful, affordable, and safe food supply any nation has ever known. Research investments and scientific advances have caused per acre yields of corn for silage and milk production per dairy cow to more than double in the last half of the 20th Century, while household income devoted to food has dropped from 20.5 to 10.2 percent. It is a phenomenal success story, a story based significantly on REE agencies' research, education, and economic and statistical analysis over the years.

The environment surrounding the food and agricultural system is in constant flux. Today, our farmers and ranchers and our value-added food industry face stiff competition in worldwide markets. Many countries now spend a much higher percentage

of their national research dollars on the food and agricultural system than we do. Constant attention to and investment in food and agricultural research is necessary to maintain our leadership in the world.

A recent *National Academies report on REE, entitled Frontiers in Agricultural Research—Food, Health, Environment and Communities*, states, “Recent scientific breakthroughs will make it easier for agriculture to achieve its potential for delivering a wide array of benefits to society. For this potential to be realized, the agricultural research system must take advantage of new opportunities and relationships. Changing public values and needs will create new market opportunities and will alter agriculture’s relationship to the food and fiber system, the environment and the fabric of American society. Research will support agriculture as a positive economic, social, and environmental force and will help the sector to fulfill ever-evolving demands.”

The remarkable success enjoyed by the food and agricultural system in this Nation depends heavily on our having a reservoir of basic scientific knowledge. Technology and mission-oriented applied research and problem solving projects must draw from this reservoir of scientific knowledge. I appreciate very much your support of the USDA flagship grant program, the National Research Initiative (NRI) with a significant increase of \$46 million in the fiscal year 2003 appropriations, raising the total funding level to \$166 million. However, the NRI funding level is still only one third of the authorized level of \$500 million. As a competitive program, the NRI is open to the entire research community and provides the most effective mechanism to attract the best minds in the nation to work on food and agricultural research, and to add to our science knowledge reservoir. For the fiscal year 2004 budget, we propose to increase the NRI to \$200 million.

One of the most recent scientific breakthrough areas and one that represents immense opportunities for the food and agriculture sector is genomics research. Genomics is where 21st century biological science is going. Genomics and biotechnology provide powerful tools to address many of the thorny problems that have challenged production agriculture for years. Called the “high speed biology,” genomics permits rapid understanding and careful use of desired traits in microbes, plants, and animals. Where previously scientists worked at the cellular level, they can now work at the molecular-level. Genomics also adds to the basic science knowledge reservoir. As has been demonstrated in the study of the human genome, studying the metabolic pathways dictated by genetic sequences can lead to new knowledge that has unanticipated beneficial applications.

Through the study of the genetic makeup of organisms, genomics links the properties of genes to how plants and animals function. For example, genomics can:

- Eliminate the production of fungal toxins such as aflatoxin.
- Prevent diseases in animals exposed to pathogens, such as foot and mouth disease.
- Uniformly and reliably produce desirable nutritional characteristics in commodities such as golden rice, which contains high vitamin A and iron levels.
- Develop rapid accurate diagnostic tools for monitoring and detecting animal and plant pathogens, such as *Listeria*.
- Make production friendlier to the environment, tapping into the natural defensive resources of agricultural plants and animals.
- Reduce or eliminate the use of many agricultural chemicals and antibiotics and make the food products that consumers want.

“Molecular-level understanding of life processes” is one of six public research and development priorities set out in the fiscal year 2004 budget memorandum from the Directors of the White House Offices of Science and Technology Policy and Management and Budget. In particular, the Directors note that “new applications in health care, agriculture, energy, and environmental management,” justify genomics as a priority. Agriculture lags behind the medical, energy-related, and non-agricultural basic sciences in making investments in this area. To be a world leader in agricultural genomics, USDA requires a sustained investment to engage in genomics research and to cooperate with other federal agencies.

Both ARS and CSREES have significantly increased their genomics programs in recent years. However, fulfilling the promises of genomics will require additional investments. The President’s fiscal year 2004 budget provides increases of \$13 million in ARS’s agricultural genome budget and \$10 million in CSREES’ NRI to strengthen both agencies’ genomics programs. An increase of \$1.1 million in the ERS’ budget will provide economic data and analysis that complements collateral biological and bioinformatics research, and serves as the basis for policy decisions arising from rapid genomics-based development in food and agriculture.

In capturing the unique benefits of genomics research and development, USDA has collaborated with other science institutions, both in the United States and

abroad. The goal is to achieve direct applications in food and agriculture that would not likely be addressed without USDA participation and targeted funding. USDA has worked closely with the National Science Foundation on the National Plant Genome Initiative and the Microbe Project. USDA is leading in the coordination of federal research activities related to Domestic Animal Genomics, including working closely with the National Institutes of Health.

Our work with other agencies in various research areas is indicative of the growing collaborations in which REE agencies are participating. The REE agencies are working with the National Aeronautics and Space Administration on remote sensing, with the Food and Drug Administration and the Centers for Disease Control on food safety, with the Environmental Protection Agency on implementation of the Food Quality Protection Act, and with the Department of Defense and Department of Energy on biobased products and bioenergy research. Additionally, the new REE strategic plan asks the four REE agencies to provide increasing research, analytical, statistical, and educational services to other USDA agencies.

The proposed budget provides additional funding for REE agencies to play a major role in strengthening the Nation's biosecurity. The safety of our food and security of our food supply are critical elements of homeland security. The budget provides ARS \$11.5 million for biosecurity research with an additional amount for related research on emerging diseases that may be accidentally or intentionally introduced into the food system. Because of its size, complexity, and integration, U.S. agriculture is uniquely vulnerable to highly infectious diseases and pests, particularly diseases not endemic to the United States. Working cooperatively with APHIS, the budget provides CSREES with \$16 million to maintain a unified Federal-State network of public agricultural institutions to identify and rapidly respond to high-risk biological pathogen outbreaks in the food and agricultural system. Funding of \$1 million will support ERS' effort to improve and maintain a security analysis system initiated with supplemental Homeland Security funds. Finally, the President's fiscal year 2004 provides ARS with \$22 million to finance additional security assessments and implement security countermeasures at ARS research laboratories.

Scientific and professional human capital is one of the most crucial variables affecting the future of our food and agriculture system. Increases in the budget supporting the research component of REE are complemented with increases in education, a critical function of REE. The President's budget provides an increase of \$1.9 million for two higher education programs, Institution Challenge Grants to enhance institutional capacity and Graduate Fellowship Grants for the development of expertise. The budget also proposes funds for a program to further incorporate an international component into teaching, research, and extension programs at land-grant institutions.

I would now like to turn briefly to the budgets of the four REE agencies.

Agricultural Research Service.—The Agricultural Research Service fiscal year 2004 budget requests slightly over \$1 billion in ongoing research and information programs and facilities. Within the total, the budget proposes increases dedicated toward higher priority program initiatives of national and regional importance, several of which I previously described. Offsetting these increases, the budget proposes redirection or termination of approximately \$149 million in current programs. As the principal intramural biological and physical science research agency in the Department, ARS continues to play a critical role for the Department and the larger agricultural community in conducting both basic and mission-oriented research. Results from ARS' basic research provide the foundation for applied research carried out by ARS, academic institutions and private industry. ARS' applied research and technology development address the research needs of other USDA agencies, as well as of those engaged in the food and agriculture sector.

Agriculture is vulnerable to changes in climate. Rising temperatures, changing amounts of precipitation, increased variability in weather, and increases in the frequency and intensity of extreme weather events like drought and floods are predicted to accompany the intensification of the greenhouse effect. While vulnerable to these environmental changes, agriculture also offers significant opportunities to mitigate the increase in greenhouse gases in the atmosphere. An increase of \$6.3 million in the President's budget for climate change will support research providing information on balancing carbon storage and agricultural productivity in different agricultural systems across the Nation.

The Abraham Lincoln National Agricultural Library (NAL), one of four national libraries, serves as a national resource for information on food and agricultural sciences. The proposed increase will enhance NAL's information technologies, increase the volume and quality of information available, reduce the cost of information and services, and develop specialized collections. This will include the first steps towards developing a National Digital Library for Agriculture in partnership

with the land grant universities, to improve NAL's worldwide customers' access to key digital agricultural information. The President's budget also provides \$2 million to continue a multi-year plan to address major facility deficiencies.

As discussed above, the budget also proposes \$22 million for security needs at ARS research laboratories.

Cooperative State Research, Education, and Extension Service.—The President's fiscal year 2004 budget provides just over \$1 billion for the Cooperative State Research, Education, and Extension Service. In providing critical funding for the research, education, and extension programs of the Land Grant system and other universities and organizations across the country, CSREES continues to play a central role in the generation of new knowledge and technology and the transfer of that knowledge and technology to stakeholders. Within the discretionary budget, the funding levels for the six formula programs are slightly higher than the fiscal year 2003 appropriations, due principally to restoration of the across-the-board cuts in fiscal year 2003.

In addition to the increases in the NRI and higher education programs described above, the CSREES budget includes increases to enhance the agency's capacity to serve its grantees through developing a new electronic grants application and reporting system and continuing the design and development of the Research, Education, and Economics Information system.

The Government Paperwork Elimination Act (GPEA) mandates that electronic submission, maintenance or dissemination of information be available as a substitute for paper. GPEA has significant implications for the agency's management of its grant-making programs. The budget maintains support for CSREES's activities related to GPEA and eGovernment.

Economic Research Service.—The Economic Research Service is provided \$76.7 million in the President's fiscal year 2004 budget. As the Department's principal intramural economics and social science research agency, ERS conducts research and analysis on the efficiency, efficacy, and equity aspects of issues related to agriculture, food safety and human nutrition, the environment, and rural development. In addition to the increases described above in genomics and homeland security, the budget includes \$9 million to fund ERS' Food Assistance and Nutrition Research Program. In light of the President's Initiative on "Healthier America" and the current obesity epidemic, data on consumer nutrition status is critically needed to serve the Nation.

National Agricultural Statistics Service.—The National Agricultural Statistics Service budget requests \$136.2 million, a decrease of \$2.3 million over the fiscal year 2003 Act. NASS's comprehensive, reliable, and timely data are critical for policy decisions and to keep agricultural markets stable, and to ensure a level playing field for all users of agricultural statistics. The President's budget provides increases in several critical areas of the NASS program, as well as a decrease of approximately \$16 million in the Census of Agriculture, which reflects normal changes in the Census cycle.

An increase of \$4.8 million will be directed at restoring and modernizing the core survey and estimation program to meet the needs of data users at an improved level of precision. This program has not received an increase in funding since 1990, leading to a reduction in the quality of survey data on which estimates are based. Another increase of \$1.6 million will incrementally improve statistically defensible survey precision for small area statistics that are widely used by USDA agencies, such as the Risk Management Agency for indemnity calculations.

To minimize respondent burden, NASS is committed to developing a system that will allow producers and agri-businesses the option of electronically filling out and submitting surveys, as mandated by the GPEA. To that end, the budget requests \$3.25 million for NASS's electronic data reporting initiative. By 2006, most NASS self-administered surveys will be available electronically and it is anticipated that the 2007 Census of Agriculture will be electronically collected.

SUMMARY

In summary, I want to reiterate that, given current budget constraints, the REE agencies' budgets present a balanced portfolio, with investments in cutting edge research such as genomics and in application of the research findings to such issues as biosecurity and food safety pathogens. The budget also provides new funding in education to ensure that the Nation has a strong cadre of professionals in the food and agricultural system. In addition, it recognizes that statistics and economic analysis are critical for informed decision making for all parties involved in the system. With these continued investments, REE will be ready to meet the challenges to agri-

culture and take advantage of the opportunities presented by cutting-edge science and technology. This concludes my statement. Thank you for your attention.

PREPARED STATEMENT OF DR. EDWARD B. KNIPLING, ACTING ADMINISTRATOR,
AGRICULTURAL RESEARCH SERVICE

Mr. Chairman, and members of the Subcommittee, I appreciate this opportunity to present the Agricultural Research Service's (ARS) budget recommendations for fiscal year 2004. The President's fiscal year 2004 budget request for ARS Salaries and Expenses is \$987,303,000. This represents a net decrease of \$58.6 million from the fiscal year 2003 adjusted appropriation level. This net decrease results from program additions and reductions, and increases for pay and operating costs. The fiscal year 2004 budget also proposes \$24,000,000 for the ARS Buildings and Facilities account. Also included in the President's budget is the proposed transfer in appropriations from ARS to support activities included in the budget for the Department of Homeland Security (DHS).

PROPOSED PROGRAM INCREASES

The fiscal year 2004 President's budget funds a number of new and expanded priority research initiatives as follows:

Emerging Diseases of Plants and Animals (\$12,100,000).—Emerging diseases are caused by previously unidentified pathogens or new manifestations of "old" diseases. Reemerging diseases occur after long quiescent periods or upon the introduction of a new pathogen into a native plant/animal population in a new geographical area. The globalization of trade, increased international travel of people and movement of goods, changing weather patterns, genetic shifts in pathogen populations, and changes in crop management practices all provide opportunities for the emergence or reemergence and spread of plant and animal diseases. ARS will use the proposed increase to develop sensitive diagnostic tests and vaccines to control exotic diseases. Prevention and control strategies will be developed for porcine reproductive respiratory syndrome, bovine spongiform encephalopathy, and Marek's disease (in chickens). Research will also be conducted on emerging and exotic plant diseases to minimize or prevent their establishment in the United States.

Sequencing and Bioinformatics (\$12,887,000).—The Nation's agricultural system today faces formidable challenges including new pests and pathogens from water and soil pollution, environmental regulations, and the extinction or inaccessibility of genetic resources. Genomics and biotechnology are critically important for maintaining and enhancing the production, quality, and safety of plant- and animal-based food products.

With the proposed increase, ARS will identify the genes that influence disease resistance, reproduction, nutrition, and other economically important production traits in livestock and poultry. Research will identify the genes in Texas cattle fever tick that contribute to acaricide resistance and host function for babesiosis. In addition, research will identify and utilize genes and gene products that influence economically important traits in plants.

Biosecurity Research (\$11,500,000).—The General Accounting Office (GAO) has reported that certain countries are developing biological warfare agents directed at animal and plant agriculture. The GAO indicates that U.S. agriculture is a potential target. Disease outbreaks from a malicious introduction of pathogens could have profound impacts on the national infrastructure, the domestic economy, and export markets. Disease pathogens that could be used to debilitate U.S. agriculture include highly infectious viruses, bacteria, nematodes, fungi, and insects that attack major commodities, such as cattle, swine, poultry, cereals, vegetables, and fruits. With the proposed increase, ARS will develop more rapid and sensitive onsite pathogen detection and identification tests for animal pathogens. Also, ARS will develop a genomic analytic sequencing capability which will assist in determining threatening diseases/pathogens' geographic origin and potential for spread.

Biotechnology Risk Assessment (\$3,725,000).—The National Academy of Sciences has identified several areas that need further study, such as, the characteristics of genetically engineered crops and the long term ecological impacts of these crops; the effects of genetically modified organisms on non-target organisms; and the gene spread from crops to surrounding vegetation. ARS will use the proposed increase to: determine the rates of gene flow, including transgenes, from crops to nearby vegetation; develop and test novel strategies to prevent pest populations from becoming resistant to plant incorporated protectants; and identify and develop gene technology that will limit transgene activity to specific tissues.

Invasive Species (\$4,202,000).—Invasive insects, weeds, and other pests cost the Nation well over \$137 billion each year. Weeds, including leafy spurge, melaleuca, salt cedar, water hyacinth, purple loosestrife, and jointed goat grass, currently infest at least 100 million acres in the United States. They reduce crop yields by approximately 12 percent and forage yields by 20 percent. Arthropods (insects and mites), such as the glassy-winged sharpshooter, silverleaf whitefly, Asian longhorned beetle, pink hibiscus mealybug, Russian wheat aphid, and Chinese soybean aphid, destroy 13 percent of crop production each year. With the proposed increase, ARS will perform research to develop attractants and biological control technologies for managing invasive insects/weeds. Research will also be conducted on the relationship of major invasive insects and their natural enemies.

Agricultural Genetic Resources (\$3,000,000).—Present support of the germplasm program is inadequate to prevent the risk of extinction and loss of genetic diversity. With the availability of new genomic tools, genetic diversity is extremely valuable for improving production. ARS will use the proposed increase to collect, identify, characterize, and maintain germplasm in centralized gene banks. ARS will also encourage germplasm exchange and distribute research quantities of healthy, pure, and adequately characterized germplasm.

Managing Wastes to Enhance Air and Water Quality (\$2,425,000).—The management of waste has become increasingly important because of its far-reaching impacts. Properly managed it can be used to improve soil properties, as a nutrient source for crops, and for alternative uses, such as energy production. Improperly used, the waste from 280,000 animal feeding operations around the country poses a threat to soil, water, and air quality, and human and animal health. With the proposed increase, ARS will continue to develop cost effective technologies and management practices which enable producers to capture the value of manure and other byproducts without degrading environmental quality or posing a threat to human and animal health.

Biobased Products and Bioenergy from Agricultural Commodities (\$6,400,000).—Widely fluctuating energy prices and depressed agricultural commodity prices have contributed to a renewed emphasis on expanding the use of biobased industrial products (including fuels) to improve the Nation's energy security, balance of payments, environment, and rural economy. By expanding the development of biobased products and bioenergy, increased demand will be created for agricultural commodities to strengthen farm product prices and raise farm income; new opportunities will be provided for business development and employment growth in rural America; dependence on imported oil will be reduced and U.S. security enhanced; and environmental quality will be improved by reducing air pollution and greenhouse gas emissions. With the proposed increase, ARS will improve the quality and quantity of agricultural biomass feedstock for production of energy and biobased products. The conversion of agricultural materials and wastes to biofuels will be improved. In addition, technologies will be developed to produce biobased products from agricultural commodities and byproducts.

Climate Change Research and Technology Initiatives (\$6,300,000).—Climate change encompasses global and regional changes in the Earth's atmospheric, hydrological, and biological systems. Agriculture is vulnerable to these environmental changes. The objective of ARS' global change research is to develop the information and tools necessary for agriculture to mitigate or adapt to climate change. ARS has research programs on carbon cycle/storage, trace gases (methane and nitrous oxide), agricultural ecosystem impacts, and weather/water cycle changes. ARS will use the proposed increase to develop climate change mitigation technologies and practices for the agricultural sector. Research will include land use and land management impacts on carbon sequestration; measurement, verification, and modeling of carbon storage; and assessing and managing risks to agricultural production and water supplies from weather variability.

Agricultural Information Services (\$2,000,000).—ARS will use the proposed increase to begin implementation of the digital library initiatives recommended by the 2001 Interagency Panel for Assessment of the National Agricultural Library. These initiatives will provide improved access to electronic resources, delivery of digital information to USDA customers, and archiving of USDA digital publications. The development of information technology to manage and deliver information will also be continued.

Information Technology Cyber Security (\$3,000,000).—Information technology is critical for the delivery of ARS' research programs. The use of web-based technology commonly referred to as "e-Government," offers ARS the opportunity to improve the way it conducts business and exchanges information in achieving its research mission and objectives. As technology has enhanced the ability to share information instantaneously, it has also made ARS more vulnerable to cyber security attacks.

ARS' mission critical information systems and networks are now exposed to an unprecedented level of risk. Of particular importance is the safety of pathogenic, genomic, and sensitive research information from being acquired or destroyed by unauthorized intruders through unprotected/undetected cyber links. ARS will use the proposed increase to increase the number of cyber security officers and improve and enhance cyber security tools, training and management plans. In addition, ARS' servers will be streamlined and centralized.

PROPOSED OPERATING COSTS

In addition to the requested program initiatives, the budget provides funding to cover costs associated with pay raises effective in fiscal years 2002, 2003, and 2004. These funds, \$31,567,000, are critically needed to avoid Agencywide erosion of base resources. The absorption of these costs would reduce the number of essential scientists and support staff needed to conduct the Nation's Federal agricultural research program. The absorption reduces funds available for costly laboratory equipment, materials, and extramural support essential to these programs.

PROPOSED PROGRAM DECREASES

The President's budget for fiscal year 2004 addresses a number of national needs and Administration priorities. Two issues of major concern to the President and the American people are national defense and domestic security. In this regard, the Department of Agriculture and ARS, along with most other Federal departments and agencies, are seeking a slower rate of growth to accommodate the more urgent needs facing the Country. Furthermore, as a result of additional emergency spending in fiscal year 2002 and fiscal year 2003, higher deficit spending is projected this year and in fiscal year 2004, requiring governmentwide fiscal belt-tightening and the imposition of budget constraints to curtail spending.

For these reasons the President's fiscal year 2004 budget proposes decreases in funds supporting ongoing programs in ARS. The program decreases recommended in the budget amount to \$137,006,000. Approximately 96 percent of this reduction is derived from Congressionally-designated earmarks appropriated in fiscal years 2001, 2002, and 2003. While these projects are considered to be important, they are less critical under the current fiscal and economic climate. The limited resources that are available are needed for higher priority initiatives. The Department is also proposing the termination of research currently carried out at Brawley, California; the Biotechnology Research and Development Corporation, Peoria, Illinois; and the Animal Health Consortium, Peoria, Illinois. The Department is also projecting savings associated with program and management efficiencies to be derived from enhanced information technology capabilities. The ARS budget also identifies resources from a number of research projects that will be redirected to meet higher priority research initiatives that target biosecurity, sequencing and bioinformatics, emerging and exotic diseases of plants and animals, and global climate change.

TRANSFER TO THE DEPARTMENT OF HOMELAND SECURITY

The Agency's budget reflects a decrease of \$9.1 million. These funds finance the operating costs and half the research program currently conducted at the Plum Island Animal Disease Center, Greenport, New York. These funds will appear in the DHS budget.

PROPOSED INCREASES FOR BUILDINGS AND FACILITIES

The fiscal year 2004 budget recommends an increase of \$24 million for ARS' Buildings and Facilities account. Most of this increase is for security at ARS' laboratories. Many of the Agency's laboratories are highly vulnerable to a terrorist attack.

In the aftermath of the September 11, 2001 terrorist attack, Congress provided supplemental funds to USDA to conduct security assessments and begin to upgrade security at all of its research laboratories. ARS has laboratories located at more than 100 sites throughout the United States and overseas. ARS laboratories which were most at risk—i.e., the agency's five containment laboratories at Plum Island, New York; Ames, Iowa; Laramie, Wyoming; Athens, Georgia; and Frederick, Maryland—had security assessments conducted in fiscal year 2002. The assessments identified possible threats and risks to known assets, and recommended countermeasures. ARS has initiated security measures at 24 research locations including all BSL-3 and BSL-2 facilities with inventories of select agents. Other security measures include background investigations, additional security guards, access control systems, etc. The proposed increase in fiscal year 2004 will be used to finance

additional security assessments and implement security countermeasures at ARS locations on a priority basis.

The National Agricultural Library is one of four national libraries and the largest agricultural library in the world. The library houses a collection of more than 3.2 million items in 50 different languages. It serves as a national resource for information on agriculture and related services. Constructed in 1968, NAL's building requires major renovation. Since fiscal year 1998, ARS has received funds for renovation of the library's first floor and other floors and systems. In fiscal year 2004, ARS is requesting \$2 million to continue addressing the major facility deficiencies.

Mr. Chairman, this concludes my statement. I will be glad to answer any questions the Committee may have.

PREPARED STATEMENT OF DR. COLIEN HEFFERAN, ADMINISTRATOR, COOPERATIVE STATE RESEARCH, EDUCATION, AND EXTENSION SERVICE

Mr. Chairman and Members of the Committee, I appreciate the opportunity to submit the proposed fiscal year 2004 budget for the Cooperative State Research, Education, and Extension Service (CSREES), one of the four agencies in the Research, Education, and Economics (REE) mission area of the United States Department of Agriculture (USDA).

The CSREES fiscal year 2004 budget proposal is just over \$1 billion. CSREES, in concert with the Secretary of Agriculture and the intent of Congress, works in partnership with the land-grant university system, other colleges and universities, and public and private research and education organizations to initiate and develop agricultural research, extension, and higher education programs. This partnership has a breadth of expertise that is ready to deliver solutions to problems facing U.S. agriculture today.

The broad portfolio of CSREES programs has supported scientific discovery from idea to application. Formula funds have leveraged dollars from other sources, provided the start-up funds needed for an investigator to establish a research program and build the capacity to compete successfully in a competitive program, and allowed for a rapid response to emerging problems. Competitively funded research from the National Research Initiative (NRI) has supported individual investigators undertaking basic research aimed at generating new knowledge. Research results are applied to real life problems through the Cooperative Extension System's educational efforts. Because these efforts occur primarily at universities, they contribute to an environment that prepares students to meet the ongoing needs of agriculture, the environment, human health and well-being, and communities.

CSREES continues to provide new opportunities for discoveries and advances in knowledge through our competitive programs such as the NRI and Integrated Programs. Funding for agricultural research, particularly that pursued at university campuses, has dramatically lagged behind funding for other disciplines. The \$46 million increase in fiscal year 2003 for the NRI was a step in reaching the full authorization level for the NRI. The fiscal year 2004 budget request of \$200 million is based on the same underlying policy objectives, but in a way that is consistent with increasing overall constraints on the Department's budget. The NRI will continue to support current high priority programs with an emphasis on critical areas. Increased partnerships with other Federal agencies on research topics of mutual interest will be possible. For example, we will be able to expand working relationships with the National Science Foundation and Department of Energy on research of the rice genome. The current contribution of this partnership has led to a high quality "draft" sequence of the rice genome several years ahead of schedule. The "draft" sequence is providing valuable information for researchers studying rice and other cereals and, through genomics technology and plant breeding, will lead to improved cereal productivity, quality, and nutritional value. With sequencing complete, it is anticipated that this collaborative work will continue in developing a functional genomics program for rice to associate sequence information with pathways or networks of genes with the goal of increasing our knowledge of disease resistance, nutritional qualities, growth and development, fiber quality, oil content and other agriculturally important traits of rice. The fiscal year 2004 budget request continues support of genomics with a \$10 million increase in animal genomics. NRI funds will be used to strengthen agricultural research at small and mid-sized institutions and in States that are less successful in the competitive grants arena. Innovative multidisciplinary research training will be provided for agriculture's future scientists in emerging areas such as agricultural biotechnology, agricultural bioinformatics and functional foods. The quality of science will increase as more of the best and brightest scientists from all areas of the United States, and all institutions, submit pro-

posals to the NRI on critical issues such as emerging diseases of plants and animals, biosecurity, air quality and food and nutrition.

CSREES is uniquely positioned to address research, education, and extension needs to meet the challenges to U.S. agriculture from new and emerging pests and diseases. Partnering with the University System, CSREES programs support a vast wealth of expertise in all fields of plant and animal sciences along with an immense extension and outreach capability that can be mobilized to provide an immediate response to critical issues. Program efforts will focus on early intervention strategies to prevent, manage or eradicate new and emerging plant and animal disease. Funding also will facilitate rapid response to the need for improved diagnostic tests for emerging disease agents by building on the expanding knowledge base of microbial genomics for both animal and plant diseases. The \$2 million increase in the Critical Issues Program will be used to address emerging plant and animal diseases and pests such as the Southern pine beetle which is spreading rapidly across the Southern United States, work on resistant strain genetics for karnal bunt, Circovirus of swine which causes a multisystemic disease in piglets, and chronic wasting disease which is now a major wildlife health crisis in several States, and may be a vector for human health concerns.

In continuing our efforts for agricultural security, CSREES, through cooperative efforts with the Animal and Plant Health Inspection Service, has established a unified Federal-State network of public agricultural institutions to identify and respond to high risk biological pathogens in the food and agricultural system. The core of the network is currently comprised of 5 hub animal diagnostic laboratories, 7 satellite animal diagnostic laboratories, and 5 plant diagnostic laboratories dispersed strategically around the country. The hub laboratories are responsible for deploying standardized diagnostic approaches for identification of exotic and domestic pests and pathogens that are of concern to the security of our food and agricultural production systems. The hub laboratories also serve as the repository for storing records of typical endemic and chronic pest and disease problems from the other diagnostic laboratories in their region. The budget proposal requests \$16 million to maintain the national diagnostic laboratory network.

Sustained support through our formula programs is providing the foundation for the Federal/State partnership that links science and technology development directly to the needs and interests of people. The formula programs provide discretionary resources that foster regional and national joint planning, encourage multi-state planning and program execution, and minimize duplication of efforts. Formula funding is the foundation from which a competitive grant funded program can be built by developing institutional infrastructure, supporting preliminary studies to strengthen competitive proposals and bridging gaps related to scope and continuity of grant supported programs. These funds, along with matching funds from the States, assure responsiveness to emerging issues such as foot-and-mouth disease, E. coli, Salmonella, Listeria, sorghum ergot, potato late blight, Russian wheat aphid, and swine waste. Formula funds also build and maintain a national base of scientists and extension educators who can quickly and effectively mobilize to address these types of critical issues. For example, the Nevada Cooperative Extension is increasing public awareness and education to motivate people to report infestations of tall whitetop, an invasive weed. The noxious weed looks like a delicate, harmless flower, but it is threatening water quality, wildlife habitat, and the economic stability of ranchers and farmers. Extension efforts in informing land-owners of the negative impacts of tall whitetop is a major step in controlling and eradicating the weed and preserving thousands of acres of Nevada's lands and waterways. Other important initiatives formula funds will be used to address include: financial security, child care, health, entrepreneurship, aquaculture and hydroponics, community revitalization, youth and youth-at-risk, and water management. In addition, formula funding supports training of future scientists and educators. Formula funds provide a platform to partner with other Federal, State, and county organizations for providing leadership, research, information, and education to meet the challenges facing communities.

CSREES continues to expand diversity and opportunity with activities under 1890 formula and educational programs, and 1994 and Hispanic-Serving Institutions educational programs. Funding for our 1890 formula programs provides a stable level of support for implementation of research and extension programming. Funding for the 1994 Institutions strengthens the capacity of the Tribal Colleges to more firmly establish themselves as partners in the food and agricultural science and education system through expanding their linkages with 1862 and 1890 Institutions. Sustained funding for the Hispanic-Serving Institutions promotes and increases the ability of the institutions to carry out educational training programs in the food and agricultural sciences. This proven path of research, extension, and educational pro-

gram development rapidly delivers new technologies, of all kinds, into the hands of all citizens, helping them solve problems important to their lives.

CSREES also will more effectively reach under-served communities through the Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers Program (OASDFR). Responsibility for this program was transferred to CSREES in fiscal year 2003 to award competitive multi-year projects to support disadvantaged farmers and ranchers. Increased funding for the OASDFR program will encourage and assist socially disadvantaged farmers and ranchers in their efforts to become or remain owners and operators by providing technical assistance, outreach, and education to promote fuller participation in all USDA programs.

The higher education programs respond to the development of human capacity and the need for a highly trained cadre of quality scientists, engineers, managers, and technical specialists in the food and fiber system. The fiscal year 2004 budget provides a \$1.7 million increase in CSREES higher education programs for the Food and Agricultural Sciences National Needs Graduate Fellowship and Tribal Education Equity and Endowment programs. The International Science and Education Grants program (ISEP) will support the land-grant community and other campuses in their efforts to be globally competitive by internationalizing their agricultural programs. ISEP is designed to assist land-grant and other campus faculty in bringing world issues and awareness into their agricultural teaching, research, and outreach programs. Other higher education programs will provide important and unique support to Tribal Colleges, the 1890 Land-Grant Colleges and Universities, and the 1862 Land-Grant Universities as they pilot important new approaches to expanding their programs.

Within the fiscal year 2004 budget request, is a proposed increase of \$2.3 million for the Expanded Food and Nutrition Education Program (EFNEP). This reflects the Administration's support for strong nutrition programs for a healthier America. The EFNEP program reaches low income youth and families, with a heavy focus on the minority population, with nutrition education that leads to sustainable behavior change. Since the requested level exceeds that of the 1995 level, 1890 Institutions will be eligible to receive funding under EFNEP, which reflects the Agency's commitment to more successfully reach minorities. Increased funding also will allow EFNEP to add a physical activity focus to help combat the rising problem of obesity in children and adults.

The Administration strongly believes that peer-reviewed competitive programs that meet national needs are a much more effective use of taxpayer dollars than earmarks that are provided to a specific recipient for needs that are not national. In order to ensure the highest quality research for these national needs within available funding, the fiscal year 2004 budget has therefore proposed to eliminate earmark projects.

In response to the university community's strong desire for Federal research agencies to support electronic grant activities, CSREES is committed to streamlining its grant award process and requests continued support in the fiscal year 2004 budget for this effort. Through participation in the development of a common Federal electronic application and reporting system, CSREES is implementing the capability to electronically receive and process the approximately 6,000 proposals submitted to the agency which will result in electronically awarding about 2,000 grants and cooperative agreements annually. The system also includes electronic distribution to reviewers nationwide, and support for electronic financial and technical reporting on awards. CSREES is examining how it can leverage its partnership with the land-grant university system to result in better access of research, education, and extension information products useful to the Nation as a whole. This concept, which has been termed e-Extension, could significantly extend the ability of these universities and the Department to provide synthesized and meaningful information to the public.

CSREES, in collaboration with university and other partners, nationwide, continually meets the many challenges facing the food and fiber system. The programs administered by the agency reflect the commitment of the Administration to further strengthen the problem-solving capacity of Federally-supported agricultural research, extension, and higher education programs. In addition, we continue to enhance our responsiveness and flexibility in addressing critical agricultural issues.

Mr. Chairman, this concludes my statement. I will be glad to answer any questions the Committee may have.

PREPARED STATEMENT OF SUSAN E. OFFUTT, ADMINISTRATOR, ECONOMIC RESEARCH SERVICE

Mr. Chairman and members of the Committee, I am pleased to have the opportunity to present the proposed fiscal year 2004 budget for the Economic Research Service (ERS).

Mission

The Economic Research Service informs and enhances public and private decision making on economic and policy issues related to agriculture, food, the environment, and rural development.

Budget

The Agency's request for 2004 is \$76.7 million, which includes increases for two initiatives and pay costs. The Agency is requesting a \$1.1 million increase to strengthen the economic information and analytical bases for genomics research, application, and education program decisions; and a \$1 million increase for developing the Security Analysis System for U.S. agriculture (SASUSA).

ERS Contributions to Mission Area Goals

ERS shares five general goals with its fellow agencies in the Research, Education, and Economics (REE) mission area: (1) a highly competitive agricultural production system, (2) a safe and secure food supply, (3) a healthy and well nourished population, (4) harmony between agriculture and the environment, and (5) enhanced economic opportunity and quality of life for all Americans. These goals are fully consistent with the U.S. Department of Agriculture mission.

Goal 1.—The U.S. agricultural production system is highly competitive in the global economy.

ERS helps the U.S. food and agriculture sector adapt to changing market structure in rapidly globalizing, consumer-driven markets by analyzing the linkages between domestic and global food and commodity markets and the implications of alternative domestic and international policies on competitiveness. ERS economists analyze factors that drive change in the structure and performance of domestic and global food and agriculture markets; provide economic assessments of structural change and competition in the agricultural sector; analyze the price impacts of evolving structural changes in food retailing; analyze how international trade agreements and foreign trade restrictions affect U.S. agricultural production, exports, imports, and income; and provide economic analyses that determine how fundamental commodity market relationships are adjusting to changing trade, domestic policy, and structural conditions. Policy makers and the food and agriculture industry benefit from research contained in reports such as *China's Food and Agriculture: Issues for the 21st Century* (March 2002) that analyze driving forces in global markets, in this case the factors underlying China's potential as a growing market and competitor; and *Vertical Coordination of Marketing Systems: Lessons from the Poultry, Egg and Pork Industries* (May 2002) that analyze the economic forces leading to closer coordination of economic activity across the food marketing chain and measure the consumer benefits.

ERS will continue to work closely with the World Agricultural Outlook Board (WAOB) and USDA agencies to provide short- and long-term projections of the United States and world agricultural production, consumption, and trade. In 2003, several initiatives will increase the accessibility, timeliness and breadth of the data and analysis. We are creating dynamic outlook pages that offer the latest outlook information, data, and links through a central location on the ERS website—In addition, USDA's agricultural baseline projections will be available on a more timely basis through the release of components as they are completed. ERS continues to work closely with the WAOB and other USDA agencies in developing a "commodity centers of excellence" initiative that would provide "one-stop shopping" for key USDA data. The breadth of data was expanded in 2002 when ERS launched a unique data series of average monthly retail prices for red meat and poultry based on electronic supermarket scanner data.

ERS continues to expand research on how the dynamics of consumer demand, notably growing consumption and trade in high value products, are shaping global markets. To date in 2003, ERS has organized workshops on global markets for high-value foods and specialized markets for grains. These workshops brought together international experts on the food system to discuss the economic implications of the growing importance of high value products and trade for the food and agricultural sector. A report analyzing the forces shaping trade in high value products will be released in 2003. These activities enhance our analytic understanding of these fun-

damental market relationships and continue to improve the analytical base for USDA's foreign market analysis and projections activity.

ERS continues to conduct research to improve understanding among decision makers of changes in the agricultural sector structure (for example, the implications for producers of the increasing replacement of open markets by contractual arrangements and vertical integration). ERS is currently examining the potential efficiency-enhancing motives for the increasing use of contracts by food manufacturers and processors. ERS released two reports, *A Comparison of Vertical Coordination in the U.S. Poultry, Egg, and Pork Industries* (2002) and *Vertical Coordination of Marketing Systems: Lessons from the Poultry, Egg, and Pork Industries* (2002) which concluded that vertical coordination and integration of marketing systems are designed primarily to help meet the quality standards of today's consumers. Hog production, highlighted in *Economic and Structural Relationships in U.S. Hog Production* (AER-818), provides a good example of how economic factors can change animal industry structure and practices, and how these changes might affect the environment. Following up on the 2001 reports, *Concentration and Technology in Agricultural Input Industries and Public Sector Plant Breeding in a Privatizing World*, ERS will publish *The Seed Industry in U.S. Agriculture in 2003*. This report reviews the factors affecting seed production, consumption, and seed markets, and summarizes the regulatory policy, including the intellectual property rights (IPR) relating to new plant varieties, the role of public and private R&D expenditures in plant breeding for U.S. agriculture, and the influence of concentration on market power and cost efficiency in the seed industry. At the farm level, the 2003 *Family Farm Report—Structural and Financial Characteristics of U.S. Farms*, which will be published later this year, documents the ongoing changes in farms' structure, financial performance, and business relationships in response to consumer demands, competitive pressures, and changing opportunities for farm families.

ERS analysis has supported implementation of the 2002 Farm Security and Rural Investment (FSRI) Act, and our ongoing research will provide objective analysis of the impacts of specific programs. Less than one week after passage of the new farm bill, ERS posted an extensive, provision-by-provision, "side-by-side" comparison of previous and new legislation that quickly became the most popular product ever posted on the ERS website. We also had major input into the analysis of the new farm bill for USDA's official impact analysis. This assessment provided the groundwork for an ERS report, *The 2002 Farm Act: Provisions and Implications for Commodity Markets* that analyzes the legislation's effects on agricultural production, commodity markets, and net farm income over the next 10 years.

In addition, ERS will continue to work closely with the Foreign Agricultural Service and the Office of the U.S. Trade Representative to ensure that ongoing negotiations in the Doha Development Agenda under the auspices of the World Trade Organization and regional trade agreements are successful and advantageous for U.S. agriculture. In the negotiations, the U.S. seeks to minimize farm trade distortions while maintaining some level of domestic support. Central to a successful agreement is domestic and international consensus on the trade distorting impacts of various types of domestic agricultural policies, and a recent ERS publication is the first output from ongoing research on the potential distortions caused by U.S. policies. The report, *Decoupled Payments: Household Income Transfers in Contemporary U.S. Agriculture*, released in February 2002, analyzes the production and trade impacts of the Production Flexibility Contract (PFC) payments enacted under the 1996 Farm Act. Using the data on farm households from the Agricultural Resource Management Survey (ARMS), the report provides the first data-based analysis of direct payments, and finds little evidence that the PFC payments distorted markets.

ERS analysis of global food security continues to be used by USDA, the Agency for International Development, and the Department of State in decisions about food aid. The analysis also supports decision-making to meet U.S. commitments to the World Food Summit, where 186 countries, including the United States, committed themselves to reducing the number of undernourished people by half by 2015. In June 2002, the Secretary of Agriculture joined Ministers and Heads of State from other countries to examine progress in meeting the goal. ERS analysis informed the delegation and was included in the official documents distributed on a CD to all participants. Included were ERS reports, *Food Security Assessment 2001* and *Issues in Food Security*, that provide projections of future levels of food security for 67 low income countries and an analysis of the determinants of food security.

Food price determination is increasingly important for understanding domestic and international market events and opportunities that promote the security of the U.S. food supply. ERS systematically examines the factors that help set retail prices, including an assessment of the roles of the transportation, processing, manufacturing, wholesaling and retailing sectors; the impact of imports and exports; and

linkages to the total economy. Also, ERS recently improved estimates of farm-to-retail price spreads to allow for a direct link between the demand for diverse products associated with today's modern food markets and the demand for marketing services.

ERS analyses can help guide and evaluate resource allocation and management of public sector agricultural research—a key to maintaining increases in productivity that underlie a strong competitive position for U.S. farmers. ERS continues to study the economics of adopting genetically modified seed, the role of patents and intellectual property rights in fostering innovation, and the potential for technology transfer to less developed countries.

Seed genetically engineered to control insects and weeds, initially introduced in 1995, now accounts for nearly 70 percent of U.S. soybean plantings and nearly half of major crop acreage (corn, soybeans, and cotton). ERS tracked the introduction of biotechnology into the agricultural production mainstream, published the first national data on adoption, and documented the impacts of adopting the technology on crop yield, pesticide use, production costs, and profits. The report, *Adoption of Bioengineered Crops*, issued in May 2002, examined the adoption pattern of bioengineered crops with input traits for pest management, and the farmlevel impacts of adopting bioengineered crops. Data from the ARMS were essential in completing this study.

In a related report due out in 2003, ERS estimates the total benefits from bioengineered crop adoption, and their distribution between producers, biotech companies, consumers, and other stakeholders. In addition to biotech crops that already have a significant market share, ERS has examined the economics of emerging biotech crops, such as wheat. Biotech marketing issues have not been neglected, including estimating the costs of segregating biotech crops, the ramifications of differing consumer preferences and national biotech policies on trade flows, the role of the Government in facilitating market differentiation, and the economics of food labeling. ERS has also examined consumer attitudes toward biotechnology and the role of consumer preferences in shaping market trends. Research anticipating the next wave of biotechnology products for crops modified to target consumer needs, such as food with altered nutritional qualities (such as canola with high beta-carotene content), crops with improved processing characteristics (such as naturally-colored cotton), or plants that produce specialty chemicals or pharmaceuticals (such as rabies vaccine in corn), is also being undertaken. This sound research base has been invaluable in tempering exaggerated claims of costs and benefits from both sides of the debate.

Recent innovations in agricultural biotechnology have raised significant policy questions concerning potential research delays, the optimal intellectual property design for maximizing dynamic innovation when innovation is sequential, and the potential effects of concentration of research and market power in the agricultural inputs industry. In cooperation with researchers at Rutgers University and the U.S. Patent Office, ERS is creating a classification system and on-line searchable database of agricultural biotechnology patents and licensing arrangements. This project will also identify who generates the innovations, who controls the innovations and, to the extent possible, who has access to the innovations.

ERS helped the Secretary develop a presentation on the role of technology transfer in 21st Century agricultural trade for the 5th Quint Agricultural Ministerial meetings in Nara, Japan, in July, 2002. The thrust of the presentation was that research and development of agricultural technologies in developed countries can help developing countries strengthen their agricultural markets, eventually becoming better customers for U.S. farm exports. The presentation, and the research behind it, were highlighted in an organized symposium at the American Agricultural Economics Association (AAEA) meetings in 2002 and are featured on the ERS website. The thesis is the rationale for an international trade and technology exposition planned by the Secretary in 2003.

ARMS data underlie important estimates of farm income and well-being, and constitute an essential component in much of ERS's research. In 2002, the popular farm financial management dataset, providing more than 5,000 tables covering farm businesses and the ERS farm typology for farms of all sizes and types across 9 ERS farm resource regions, was updated with 2001 data. Less well-known are the ARMS data on crop production practices, made available in 2002 for the first time in more than 180 tables on irrigation technology and water use, nutrient use and nutrient management practices, crop residue management practices, pest management practices and pesticide use, and crop seed variety.

ERS provides regular analysis, based substantially on ARMS data, of the financial status of the farm sector and farm households. In addition to informing Federal, State and local policymakers about the viability of the farm sector and farm house-

holds, ERS income estimates provide official input into U.S. economic estimates disseminated by the Department of Commerce (DOC) and the Council of Economic Advisors. In *Income, Wealth, and the Economic Well-Being of Farm Households*, published in July 2002, ERS examines the conventional wisdom of agricultural policy since the 1930's that transfers of money to the farm sector translate into increased economic well-being of farm families. The report showed that neither change in income for the farm sector nor for any particular group of farm business can be presumed to reflect changes confronting farm households. Farm households draw income from various sources, including off-farm work, other businesses operated and, increasingly, nonfarm investments. Likewise, focusing on a single indicator of well-being, such as income, overlooks other indicators, such as the wealth held by the household and the level of consumption expenditures. Using an expanded definition of economic well-being, the report showed that farm households as a whole are better off than the average U.S. household, but that 6 percent remain economically disadvantaged.

GENOMICS

The request for an increase of \$1,100,000 is necessary to strengthen the economic information and analytical bases for genomics research, application and education program decisions. ERS will play an integral part in the overall REE fiscal year 2004 genomics initiative by assuring that as biotechnological advances are made, the Department anticipates and understands their implications for consumer behavior, farm and food industry structure, and other social aspects of genomic developments. Experience with earlier applications of biotechnology to agriculture have demonstrated the importance of anticipating, monitoring and accommodating consumer demands and societal preferences to the extent science allows. The ERS initiative is designed specifically to complement collateral biological and bioinformatics research, and to serve as a basis for policy decisions likely to arise in the face of rapid genomics-based development in food and agriculture.

Goal 2.—The food production system is safe and secure.

ERS research is designed to support food safety decision-making in the public sector and to enhance the efficiency and effectiveness of public food safety policies and programs. The program focuses on valuing societal benefits of reducing and preventing illnesses, caused by microbial pathogens; assessing the costs of alternative food safety policies; studying industry's incentives, through private market forces and government regulation, to adopt food safety innovations; and analyzing consumer demand for food safety and the roles of consumer information, attitudes, and behaviors. ERS has worked closely with various USDA agencies and the Centers for Disease Control and Prevention (CDC) on various pathogen risk assessments and on analyzing the benefits and costs of implementing the Hazard Analysis and Critical Control Points (HACCP) rule. ERS and the Food Safety and Inspection Service (FSIS) work together to identify research projects and activities that address the needs of the Department.

In fiscal year 2002, ERS published *Consumer Food Safety Behavior. A Case Study in Hamburger Cooking and Ordering*, which found that promoting the benefits to consumers of following food safety recommendations appears to be influencing cooking and eating behavior. In fiscal year 2003, ERS will report the findings of the first nationally representative post-NAACP survey of meat and poultry slaughter and processing plants, designed to understand how NAACP has affected firms' costs and investments in food safety control technologies. The results will provide a baseline for FSIS' future efforts to monitor industry investments in food safety processes and technologies.

The ERS research program provides widely-cited quantitative estimates of the benefits of food safety risk reduction, such as reduced direct medical costs and indirect costs associated with productivity losses from foodborne illnesses caused by several major microbial pathogens. To be launched in fiscal year 2003, ERS has developed a web-based foodborne illness cost calculator—a tool that will allow users to explore and revise the assumptions behind the ERS estimates and develop their own cost estimates for specialized outbreak scenarios.

SECURITY ANALYSIS SYSTEM

The request for an increase of \$1,000,000 will fund the development, delivery and maintenance of a more extensive and systematic SAS-USA. SAS-USA supports assessment of potential and actual threats to U.S. agriculture, including analysis of spatial and economic consequences of threat scenarios such as a Foot and Mouth Disease outbreak. The development activities will integrate the data, analysis functions and supporting software to create the desirable system capabilities. SAS-USA

will provide policy officials with the information they need to respond effectively to many threats and crises in the food and fiber system. The system also provides spatial analysis and display capabilities for an integrated database covering food and fiber production, processing, transportation, and marketing as well as related agricultural inputs and natural resources. SAS-USA presents a framework for information and data integration across the Department and promotes the development and application of appropriate standards and methods for data integration.

Goal 3.—The Nation's population is healthy and well-nourished.

ERS helps identify efficient and effective public policies that promote consumers' access to a wide variety of high-quality foods at affordable prices. ERS economists analyze factors affecting dietary changes, and nutrient intakes; as well as trends in America's eating habits; assess impacts of nutrition assessments and the implications for the individual, society, and agriculture; and provide economic evaluations of food and nutrition assistance programs. In fiscal year 2002, ERS completed a major study of how the changing demographics of the Nation will affect 'Americans' future food choices and eating habits. America's Changing Appetite: Food Consumption and Spending to 2020 (2002) reported the impacts of aging, increased diversity, educational attainment, income growth, and population expansion on expenditures for different types of foods, commodity demand, and eating at home versus away from home. ERS also considers the implications of food consumption patterns and dietary choices for the structure of the food system. Farm Business Practices Coordinate Production with Consumer Preferences (2002) explains how consumer pressures placed on agriculture for variety, quality, and safety are affecting how the industry is organized, including the types of buying and selling arrangements within the food supply chain, and the application of information technologies.

In fiscal year 2003, ERS research has a major focus on the economic dimensions of obesity, including understanding the societal costs of obesity, explaining obesity trends among different demographic and income groups, and assessing the benefits and costs of alternative options for influencing Americans' food choices and dietary behaviors, including roles for nutrition education and food assistance programs. ERS research on economic incentives and food choices is developing rigorous empirical studies of food demand, to inform discussion of topical diet-related health policy issues.

Through the Food Assistance and Nutrition Research Program (FANRP), ERS conducts studies and evaluations of the Nation's food and nutrition assistance programs. FANRP research is designed to meet the critical needs of USDA, Congress, program managers, policy officials, USDA program clients, the research community, and the public at large, concerning the design and effectiveness of food and nutrition assistance programs, diet quality, and nutrition education. FANRP research is conducted through internal research at ERS and through a portfolio of external research. Through partnerships with other agencies and organizations, FANRP is enhancing national surveys by adding a food and nutrition assistance dimension. FANRP's long-term research themes are dietary and nutritional outcomes, food and nutrition program targeting and delivery, and program dynamics and administration. Two Congressionally mandated studies have been recently published: Assessment of WIC Cost-Containment Practices (2003) and Infant Formula Prices and Availability (2003).

ERS submitted to Congress a report that examined the effects of tiered meal reimbursement rates for family child care homes participating in the Child and Adult Care Food Program (CACFP). The study found that the family child care homes components of the CACFP became substantially more targeted towards low-income children, and the number and nutritional quality of meals and snacks in the homes with the lower reimbursements rates was maintained after tiering was introduced.

ERS published findings of the first comprehensive government study of the Emergency Food Assistance System (EFAS). The reports provide detailed information about the system's operations and its component organizations, such as food banks and food pantries. Findings from a follow-up survey of EFAS clients will be reported this year.

ERS has completed the Congressionally mandated study, Assessment of WIC Cost-Containment Practices: A Final Report to Congress. WIC State agencies adopt various cost-containment practices to reduce food costs, such as limiting food-item selection of WIC participants, limiting authorized food vendors, and negotiating rebates with food manufacturers or suppliers. The study found that cost-containment practices can be relatively inexpensive to operate, reduce food package costs, and have few adverse impacts on WIC participants in terms of participant satisfaction, program participation, and product availability.

The Nutrition Programs title of the 2002 Farm Act require ERS to conduct an evaluation of USDA's Fruit and Vegetable Pilot Program (FVPP) for the 2002–2003

school year. The FVPP provides free fruits and vegetables to children during nonlunch periods in 100 schools in 4 States and the Zuni Pueblo Indian Reservation. The evaluation is currently being fielded and is on schedule for delivery to Congress by May 1, 2003.

Goal 4.—Agriculture and the Environment are in Harmony.

In this area, ERS research and analytical efforts, in cooperation with the Natural Resource Conservation Service (NRCS), support development of Federal farm, conservation, environmental, and rural policies and programs. These efforts require analyses of the profitability and environmental impacts of alternative production management systems in addition to the cost-effectiveness and equity impacts of public sector conservation policies and programs.

With passage of the 2002 Farm Bill, USDA looked to ERS to provide comprehensive and detailed, yet understandable, information to public and private users, including information on the conservation title programs. In addition, ERS provided extensive support to other USDA agencies in developing rules for implementation of the 2002 conservation programs. ERS participated in the Farm Service Agency (FSA) and the Natural Resources Conservation Service (NRCS) working groups on the Environmental Quality Incentives Program (EQIP), the Conservation Reserve Program (CRP), the Conservation Security Program (CSP), and implementation of conservation technical assistance by third-party technical service providers. ERS contributed substantially to the NRCS benefit-cost assessments for EQIP, GSP and the third-party technical service provider rule. ERS assisted FSA with rulemaking for the CRP program by suggesting ways to decrease the complexity of the Environmental Benefits Index (EBI) used by USDA county office staff, as well as methods to expand the EBI to include program impacts on nutrient loadings in ground and surface waters.

ERS researchers have actively assisted USDA and the Environmental Protection Agency (EPA) in assessing the economic costs and benefits of changes to the rules governing confined animal feeding operations (CAFOs) under the Clean Water Act, signed on December 16, 2002, with revisions to the total maximum daily load (TMDL) provisions still being revised. Following up on the report *Confined Animal Production and Manure Nutrients*, published in 2001, a new report titled *Manure Management for Water Quality: Costs of Land Applying Nutrients from Animal Feeding Operations*, expected to be published in July 2003, analyzes the farm-, regional-, and national-level costs to the livestock and poultry sector of meeting manure management requirements similar to those in the December 2002 rule. Results indicate that meeting a manure nutrient application standard increases the costs of managing manure. Costs are a function of farm size, acres of cropland on the farm, regional land use, willingness of landowners to substitute manure nutrients for commercial fertilizer, and whether a nitrogen or phosphorus standard is met.

Public amenities provided by a rural agricultural landscape are important to many citizens and policymakers. Widespread development of farmland in some parts of the country is spawning an expanding array of farmland protection programs by county, State, and Federal governments, as well as by nonprofit organizations. All 50 States and the Federal Government have enacted farmland protection programs to help slow the conversion of farmland to developed uses. Following up on *Development at the Urban Fringe and Beyond. Impacts on Agriculture and Rural Land* published in 2001, ERS published *Farmland Protection: the Role of Public Preferences for Rural Amenities*, in October 2002. This report provides an overview of the rural amenities people care about that are related to preserving farmland in urbanizing areas. Because farmland protection programs can preserve only a fraction of land subject to urban conversion, understanding preference for rural amenities can be useful for program design. This report and its predecessor were of great interest to the NRCS Farmland and Ranchland Protection Program (FRPP) staff, as well as State and local farmland preservation officials. In consultation with FRPP staff, ERS is continuing research on farmland protection by examining the relative importance the public places on various rural amenities, looking at how farmland preservation effects land conversion rates, and analyzing the implications of FRPP's selection criteria.

The Department's implementation of the final rule for organic production and marketing in October 2002 ensured that the goals of the Organic Foods Production Act of 1990 were met, including certification by a State or private agency accredited under the national program of all but the smallest organic farmers and processors. ERS had a large impact on the program through its research and data collection on pre-existing State and private organic certifying organizations, organic production practices, and organic food marketing. The report *Recent Growth Patterns in the U.S. Organic Markets* was published in October 2002 and two new datasets on organic production practices and organic produce prices were published. Updating

the initial report of organic production statistics in 2001, the report *U.S. Organic Farming in 2001: Adoption of Certified System* will be published in 2003. In September 2002, ERS, the Agricultural Marketing Service (AMS), and the Agricultural Research Service (ARS) jointly hosted a workshop for the Organization for European Cooperation and Development (OECD) on organic agriculture that presented the latest research in this field to policy makers from European, Asian, and Latin American countries, as well as U.S. stakeholders. Participants also visited organic farms in Maryland and Virginia. The workshop also reviewed the market approaches and policies used to encourage, certify and regulate organic agriculture, and explored the trade effects of different policies.

Goal 5.—Enhanced economic opportunity and quality of life for rural Americans.

ERS research explores how investments in rural people, businesses, and communities affect the capacity of rural economies to prosper in the new and changing global marketplace. The Agency analyzes how demographic trends, employment opportunities and job training, Federal policies, and public investment in infrastructure and technology enhance economic opportunity and quality of life for rural Americans. Equally important is our commitment to help enhance the quality of life for the Nation's small farmers who are increasingly dependent on these rural economies for their employment and economic support.

ERS analyzes changing economic and demographic trends in rural America, with particular attention to the implications of these changes for the employment, education, income, and housing patterns of low-income rural populations. Analysis of the 2000 Census data help to provide the most up-to-date information on the current conditions and trends affecting rural areas. ERS published *Rural Economy at a Glance* (2002), the first in a series of reports that highlight the latest social and economic data for rural areas, to help policymakers in their efforts to enhance the economic opportunity and quality of life for rural people.

ERS researchers assess general approaches to economic development to determine when, where, and under what circumstances rural development strategies will be most successful. ERS analysts are leading a national research effort to assess the effectiveness of education as a rural development strategy, by analyzing the relationships between education and economic outcomes for the individual worker and the rural community. In addition, ERS researchers are working with USDA's Rural Development mission area to help design measurable performance indicators for its rural development programs.

For over 30 years, ERS has captured aspects of the broad economic and social diversity among rural areas in various county classifications. These typologies have been widely used by policy analysts and public officials to determine eligibility for and effectiveness of Federal programs to assist rural America. ERS held a national conference on measuring rural diversity in 2002 to identify economic, social, demographic, and policy themes that currently characterize rural places. ERS researchers are now addressing how these themes can be translated into a new or refined county classification system that will be useful to policy decisionmakers.

ERS also continues its long tradition of economic research on the welfare of disadvantaged population groups in rural areas; including low-income families, children, the elderly, and racial/ethnic groups, as well as the Federal assistance programs that serve them. Following the enactment of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, ERS led a national research effort to study the rural implications of welfare reform. A series of research studies, sponsored by ERS and published in a monograph, *Rural Dimensions of Welfare Reform* (2002), will help to inform the 2003 policy debate over reauthorization of welfare reform. Another study documents the reversal of the long-standing trend of Black migration loss from the South and connects these regional migration patterns to changes in economic development in the rural South. Other ERS research examines the rapid growth of Hispanics in rural areas and their role in affecting social and economic change in their local communities.

ERS will use 2000 Census data on population characteristics and information on local government finances to identify some of the most common problems associated with sprawl, such as crowded schools, shortages of affordable housing, traffic congestion, increased transportation costs, and strained local government finances.

The farm typology developed by ERS researchers, coupled with a new accounting stance that views the farm household as a more relevant decision unit than just the farm business, have been keys to greater insight into the factors affecting the well-being of farmers, reflected in the report *Income, Wealth, and the Economic Well-Being of Farm Households*, published in July 2002. Those insights lead to greater consideration of the roles of off-farm employment and wealth as factors in assessing farm household well-being and the importance and impact of farm safety net programs. A condensed version of the farm typology was an important feature in Sec-

retary Veneman's statement of principles for farm policy, and it continues to inform debates about the incidence of farm profits and government payments.

CUSTOMERS, PARTNERS, AND STAKEHOLDERS

The ultimate beneficiaries of ERS's program are the American people, whose well-being is improved by informed public and private decisionmaking, leading to more effective resource allocation. ERS shapes its program and products principally to serve key decision makers who routinely make or influence public policy and program decisions. This clientele includes White House and USDA policy officials and program administrators/managers; the U.S. Congress; other Federal agencies and State and local government officials; and domestic and international environmental, consumer, and other public organizations, including farm and industry groups interested in public policy issues.

ERS depends heavily on working relationships with other organizations and individuals to accomplish its mission. Key partners include: the National Agricultural Statistics Service for primary data collection; universities for research collaboration; the media as disseminators of ERS analyses; and other government agencies and departments for data information and services.

CLOSING REMARKS

I appreciate the support that this Committee has given ERS in the past and look forward to continue working with you and your staff to ensure that ERS makes the most effective and appropriate use of public resources. Thank you.

PREPARED STATEMENT OF R. RONALD BOSECKER, ADMINISTRATOR, NATIONAL AGRICULTURAL STATISTIC SERVICE

Mr. Chairman and members of the Committee, I appreciate the opportunity to submit a statement for this Committee's consideration in support of the fiscal year 2004 budget request for the National Agricultural Statistics Service (NASS). This Agency administers the U.S. agricultural statistics program, created in USDA in 1863, and, beginning in 1997, has conducted the U.S. census of agriculture, first collected in 1840. Both programs support the basic mission of NASS to provide timely, accurate, and useful statistics in service to U.S. agriculture.

The continual trend of American farms and ranches to make greater use of agricultural science and technology has increased the need for more detailed information. The periodic surveys and censuses conducted by NASS contribute significantly to the overall information base for policy makers, agricultural producers, handlers, processors, wholesalers, retailers, and ultimately, consumers. Voids in relevant, timely, accurate data contribute to wasteful inefficiencies throughout the entire production and marketing system.

Official data collected by NASS are used for a variety of purposes. Absence or shortage of these data may result in a segment of agriculture having to operate with insufficient information; therefore, NASS strives to continuously produce relevant and timely reports, while reviewing priorities to consider emerging data needs. Analyses based on NASS data were used extensively during development of the Farm Security and Rural Investment Act of 2002. Additionally, the Act requires several types of new agricultural data and reinforces the importance of existing data series to ensure the continuation of farm security and rural investments. For example, the counter-cyclical payments established by the Act are determined in part by market year average prices determined by NASS. Each \$0.01 change in the average corn price will result in a change of more than \$75 million in counter-cyclical payments. Similarly large amounts could be misdirected for the other program crops. Additional important data for the Act include data that assists farmers in implementing conservation programs, data on organic agriculture production, and data that supports socially disadvantaged farmers and ranchers in receiving and participating equitably in the full range of agricultural programs offered by the Department. These are only a few specific data needs critical to the Act's successful implementation, but they clearly highlight the importance of a strong, reliable agricultural statistics program.

NASS works cooperatively with each State Department of Agriculture throughout the year to provide commodity, environmental, economic, and demographic statistics for agriculture. This cooperative program, which began in 1917, has served the agricultural industry well and is often cited by others as an excellent model of successful State-Federal cooperation. This joint State-Federal program helps meet State and national data needs while minimizing overall costs by consolidating both staff

and resources, eliminating duplication of effort, and reducing the reporting burden on the Nation's farm and ranch operators. The success of this partnership is being demonstrated by NASS through its State-Federal cooperation during the planning, collection, and dissemination of the 2002 Census of Agriculture. Improved quality, efforts to increase total response, and professional customer service through the use of a toll-free number are direct results of the State-Federal partnership. NASS's 46 field offices, which cover all 50 States and Puerto Rico, provide statistical information that serves national, State, and local data needs.

NASS statistics contribute to providing fair markets where buyers and sellers alike have access to the same official statistics, at the same pre-announced time. This prevents markets from being unduly influenced by "inside" information which might unfairly affect market prices for the gain of an individual market participant. Empirical evidence indicates that an increase in information improves the efficiency of commodity markets. Information on the competitiveness of our Nation's agricultural industry has become increasingly important as producers rely more on the world market for their income.

Through new technology, the agricultural sector in the United States is changing rapidly. This also means that the agricultural statistics program must be dynamic and able to respond to the demand for coverage of newly emerging products and changing industries. For example, during 2002, NASS issued the U.S. Dairy Herd Structure report. This report provided a summary of the changes in the structure of the U.S. dairy herd by size of operation and geographic location. NASS also issued an update of the U.S. Hog Breeding Structure report. This report built on information provided in 2001 and included data on the changes in the makeup of the breeding herd by size of operation and the efficiency of the breeding herd in recent years.

Not only are NASS statistical reports important to assess the current supply of and demand for agricultural commodities, but they are also extremely valuable to producers, agribusinesses, farm organizations, commodity groups, economists, public officials, and others who use the data for decision making. Statistical data are used in decisions affecting agricultural policy, foreign trade, infrastructure, environmental programs, research, rural development, and many other activities.

All reports issued by NASS's Agricultural Statistics Board are made available to the public at previously announced release times to ensure that everyone is given equal access to the information. NASS has been a leader among Federal agencies in providing electronic access to information. All of NASS's national statistical reports and data products, including graphics, are available on the Internet, as well as in printed form. Customers are able to electronically subscribe to NASS reports by clicking on the appropriate release. A summary of NASS and other USDA statistical data is produced annually in USDA's Agricultural Statistics, available on the Internet through the NASS Home Page, on CD-ROM disc, or in hard copy. All of NASS's 46 field offices have Home Pages on the Internet, which provide access to special statistical reports and information on current local commodity conditions and production.

Beginning in fiscal year 1997, NASS received funding to conduct the census of agriculture on a 5-year cycle. The transfer of the responsibility for the census of agriculture to USDA streamlined Federal agricultural data collection activities and has improved the efficiency, timeliness, and quality of the census data. Data collection for the 2002 Census of Agriculture began in December 2002 and will culminate with the census release in February 2004.

Statistical research is conducted to improve methods and techniques used in collecting and processing agricultural data. This research is directed toward providing higher quality census and survey data with less burden to respondents, producing more accurate and timely statistics for data users, and increasing the efficiency of the entire process. For example, NASS has been a leader in the research and development of the use of satellite imagery to improve agricultural information through its continued expansion of the Cropland Data Layer program. The program now includes geographic information data layers for eight major crop-producing States. The NASS statistical research program strives to improve methods and techniques for obtaining agricultural statistics with improved levels of accuracy. The growing diversity and specialization of the Nation's farm operations have greatly complicated procedures for producing accurate agricultural statistics. Developing new sampling and survey methodology, expanding modes of data collection including Internet contacts, and exploiting computer intensive processing technology enables NASS to keep pace with an increasingly complex agricultural industry. Considerable new research has been directed at improving the 2002 Census of Agriculture, including the successful use of optical scanning and Intelligent Character Recognition systems. NASS is also making advancements in Electronic Data Reporting, with the goal of

giving the Nation's farmers and ranchers the opportunity to respond electronically to the 2007 Census of Agriculture.

Major Activities of the National Agricultural Statistics Service (NASS) The primary activity of NASS is to provide reliable data for decision making by conducting unbiased surveys each year and the census of agriculture every 5 years, to meet the current data needs of the agricultural industry. Farmers, ranchers, and agribusinesses voluntarily respond to a series of nationwide surveys about crops, livestock, prices, chemical use and other agricultural activities each year. Periodic surveys are conducted during the growing season to measure the impact of weather, pests, and other factors on crop production. Many crop surveys are supplemented by actual field observations in which various plant counts and measurements are made. Administrative data from other State and USDA agencies, as well as data on imports and exports, are thoroughly analyzed and utilized as appropriate. NASS prepares estimates for over 120 crops and 45 livestock items which are published annually in over 400 separate reports.

The census of agriculture provides national, State, and county data for the United States on the agricultural economy every 5 years. The census of agriculture is the only source for this information on a local level, which is extremely important to the agricultural community. Detailed information at the county level helps agricultural organizations, suppliers, handlers, processors, and wholesalers and retailers better plan their operations. Important demographic information supplied by the census of agriculture also provides a very valuable data base for developing public policy for rural areas.

Approximately 60 percent of NASS's staff are located in the 46 field offices; 24 of these offices are collocated with State Departments of Agriculture or land-grant universities. NASS's State Statistical Offices issue approximately 9,000 different reports each year and maintain Internet Home Pages to electronically provide their State information to the public.

NASS has developed a broad environmental statistics program under the Department's water quality and food safety programs. Until 1991, there was a serious void in the availability of reliable pesticide usage data. Therefore, beginning in 1991 NASS cooperated with other USDA agencies, the Environmental Protection Agency (EPA), and the Food and Drug Administration, to implement comprehensive chemical usage surveys that collect data on certain crops in specified States. EPA uses the state and national level actual survey chemical data, rather than worst case scenarios, in the quantitative usage analysis for a chemical product's risk assessment. Beginning in fiscal year 1997, NASS also instituted survey programs to acquire more information on Integrated Pest Management (IPM), additional farm pesticide uses, and post-harvest application of pesticides and other chemicals applied to commodities after leaving the farm. These programs have resulted in significant new chemical use data, which are important additions to the data base. Surveys conducted in cooperation with the Economic Research Service also collect detailed economic and farming practice information to analyze the productivity and the profitability of different levels of chemical use. American farms and ranches manage nearly half the land mass in the U.S., underscoring the value of complete and accurate statistics on chemical use and farming practices to effectively address public concerns about the environmental effects of agricultural production.

NASS conducts a number of special surveys as well as provides consulting services for many USDA agencies, other Federal or State agencies, universities, and agricultural organizations on a cost-reimbursable basis. Consulting services include assistance with survey methodology, questionnaire and sample design, information resource management, and statistical analysis. NASS has been very active in assisting USDA agencies in programs that monitor nutrition, food safety, environmental quality, and customer satisfaction. In cooperation with State Departments of Agriculture, land-grant universities, and industry groups, NASS conducted 164 special surveys in fiscal year 2002 covering a wide range of issues such as farm injury, nursery and horticulture, farm finance, fruits and nuts, vegetables, and cropping practices. All results from these reimbursable efforts are publicly available to benefit all of agriculture.

NASS provides technical assistance and training to improve agricultural survey programs in other countries in cooperation with other Government agencies on a cost-reimbursable basis. NASS's international programs focus on developing and emerging market countries in Asia, Africa, Central and South America, and Eastern Europe. Accurate information is essential for the orderly marketing of farm products. NASS works directly with countries by assisting in the application of modern statistical methodology, including sample survey techniques. This past year, NASS provided assistance to China, Dominican Republic, Ecuador, Ethiopia, Honduras, Kazakhstan, Mexico, Nicaragua, Russia, South Africa, and Ukraine. In addition,

NASS conducted training programs in the United States for 107 visitors representing 30 countries. These assistance and training activities promote better quality data and improved access to data from other countries.

NASS annually seeks input on improvements and priorities from the public through displays at major commodity meetings, data user meetings with representatives from agribusinesses and commodity groups, special briefings for agricultural leaders during the release of major reports, and through numerous individual contacts, especially those made at the grass roots level through NASS's 46 field offices. As a result of these activities, the Agency has made adjustments to its agricultural statistics program, published reports, and electronic access capabilities to better meet the statistical needs of customers and stakeholders.

FISCAL YEAR 2004 PLANS

The fiscal year 2004 budget request is for \$136,182,000, which includes the following major initiatives.

The 2004 budget includes \$25,279,000 for the census of agriculture, which reflects the decrease in staffing and activity levels to be realized due to the cyclical nature of the 5-year census program. The available funding includes monies to finalize analysis, summary, and dissemination of the 2002 Census of Agriculture. The request also includes funding for follow-on census activities for the critically important and timely Farm and Ranch Irrigation Survey, planning for the Census of Horticultural Specialties, and enhancing list maintenance activities between census data collection years to ensure a high level of coverage.

The budget requests an increase of \$5,413,000 and 29 staff years to fund restoration and modernization of NASS's core survey and estimation program. Funding will be directed at beginning to restore and modernize the core survey and estimation program for NASS to meet the needs of data users at an improved level of precision for State, regional, and national estimates. The program covers most agricultural commodities produced in the United States, as well as economic, environmental, and demographic data. This program has not received an increase in funding since 1990, leading to a reduction in the quality of survey data on which estimates are based.

The budget includes an increase of \$1,600,000 and 6 staff years to provide for data acquisition for the annual integrated Locality Based Agricultural County Estimates/Small Area estimation program. Local area statistics are one of the most requested NASS data sets, and are widely used by private industry, Federal, State and local governments and universities. This funding supports the NASS goal to incrementally improve statistically defensible survey precision for small area statistics. Proper follow-up data collection activities and redesign of survey systems will improve the valuable annual county-level data. The Risk Management Agency (RMA) uses these statistics in indemnity calculations for Group Risk Plans and the Group Risk Revenue Plans as part of the risk rating process, which affects premiums paid by producers. The Farm Service Agency uses county estimates to weight posted county prices to national loan deficiency payments, and as an input to assist producers to update their base acreage and yields as directed by the Farm Security and Rural Investment Act of 2002. In addition, financial institutions, agriculture input suppliers, agricultural marketing firms, and transportation companies who provide billions of dollars of goods and services to farmers and ranchers utilize county level data to make informed business decisions.

The budget also requests an increase of \$4,750,000 and 2 staff years for collaborative e-Government efforts within NASS and across the USDA. The increase supports NASS's electronic data reporting initiative which will provide producers and agri-businesses the option of submitting reports electronically in order to reduce burden and meet the mandate of the Government Paperwork Elimination Act. Additionally, data provided to the public must be made available in the easiest, most useful, and most versatile manner. In between data collection and summary data dissemination, electronic processing improvements within NASS are critical to timely and efficient data management while safeguarding the security and confidentiality of sensitive data. The funding also supports NASS's role as the lead agency for two of the USDA's eGovernment initiatives, Survey Capability and Data Management.

This concludes my statement, Mr. Chairman. Thank you for the opportunity to submit this statement for the record.

PAYMENTS TO PRODUCERS

Senator BENNETT. Thank you very much.

As I listened to all of this testimony together as a body, I have some reactions, and I apologize if they are a little bit ragged because I haven't had a chance to think them through and tighten them up. But let's go into this for just a minute.

Dr. COLLINS, it seems to me you were saying that payments go up in good times and payments go up in bad times. Is there ever any circumstance, any market situation where payments to the agriculture community can either level out or, glorious day for the taxpayer, start to come down because the market has taken over and farmers are prospering as a result of the market and payments don't need to be made? Could you address that?

Dr. COLLINS. Certainly, Mr. Chairman. What you have described is a rare experience in recent years, but it has occurred, you know, over the last decade. It did occur in 1996. We had a very strong global economy. It was growing at 3 to 3.5 percent, and I often see that 3 to 3.5 percent as sort of the threshold for which you see global economic growth effects on U.S. agriculture, and that is the way things were going in the mid-1990s. And we had a global drought. For example, the Australian wheat crop was cut in half, just like it was this past year. That led to record high farm prices, and we saw farmers' income from the marketplace was basically their total income. Government payments all but went to zero during that period.

But that has been a rare experience in the last 15 years, and over the last 15 years generally farm payments have been high. They have been particularly high since the Asian currency crisis in 1998 and the slow growing economy ever since then.

But 2 years ago, if you just looked on a calendar-year basis, we were paying farmers about \$22 billion or so a year in Government payments. I think this year in 2003 they will be \$17 billion or so. So they are still high, but they have come down, and they have come down because prices have come up a little bit, but nowhere near the levels they were in the mid-1990s.

Another factor in this as well is farm programs have changed since 1996 so that we are now making payments to farmers that are independent of prices, these so-called direct payments under the 2002 farm bill. Under the last farm bill, they were called—a great name—production flexibility contract payments. But those—

Senator BENNETT. Making it impenetrable for the non-informed to have any idea as to what you are doing.

Dr. COLLINS. Which some people probably take as an objective of their work up here. But in the 1996 farm bill, those payments were about \$4 billion a year. Now they are about \$5.2 billion a year. And those are independent of prices. We are always going to make those payments, at least under the current legislation. For lots of reasons we decided to do that. So even today, if prices get very strong and go above the so-called target prices that we have in law, we are still going to be making payments to farmers because of those direct payments that we have in law.

Senator BENNETT. Sometime when we are not under this kind of pressure, I will have to have you explain to me why that is a good idea.

Dr. COLLINS. I would be happy to do that.

GUARANTEED FARM LOANS

Senator BENNETT. Okay.

Dr. Penn, on the same theme, we come to you, and you are involved with loan guarantees. Now, that immediately creates in my mind the question: What is the default rate? Do we get any interest benefit for having made a loan guarantee? I remember the great debate over loan guarantees to Chrysler, for example, when that corporation was in default and headed for bankruptcy and the country decided that that was not a good idea. And the United States made millions, ultimately, from Chrysler as they paid back the fee for the loan guarantees. We didn't have to make good on any of those guarantees, and we made a little money.

Is that ever going to happen in agricultural loan guarantees? What is your failure rate, interest income? Help me understand how all that works.

Dr. PENN. Okay. There are two loan guarantee programs in the mission area that I look after. One set of loan guarantees is to farmers. We guarantee loans that farmers may take out for land ownership and for operating expenses. This loan program comes out of the old Farmers Home Administration that Under Secretary Dorr mentioned. These are loans that are made largely—

Senator BENNETT. I am going to get to him.

Dr. PENN. These are loans that are made largely to people who don't have an option in the commercial lending system for the most part. We make both direct loans and guaranteed loans, and the guaranteed loans are for people who have a little better credit rating than those for which we make direct loans. The loans are targeted in part to beginning farmers, minority farmers, socially disadvantaged farmers. And the thought is, of course, that the loans serve a social purpose, that they enable people to stay on the land and they enable people to stay in rural areas and to be engaged in agriculture.

Now, this program has had a pretty checkered history in times past. It had default rates that approached 50 percent, but I understand now that the default rates for these loan programs are down on the order of 12 or 13 percent in the current period.

And so this is thought to be a great improvement in the way these programs are operated, and they are very popular programs, as you can imagine. And I think that everyone acknowledges that they are run much more efficiently. They are run about as much like commercial loan programs as you can, recognizing, again, that these are for people who don't qualify for commercial loans and would have no other access to credit.

[CLERK'S NOTE.—The default rate that Dr. Penn refers to actually is more representative of the delinquency rate for the direct portion of the farm loan portfolio. Direct loans, and in particular emergency loans, experienced relatively high default/delinquency rates in years past, especially during the 1980's. The guaranteed loan program, on the other hand, has historically had a very low default rate. Over the last 5 years, losses paid vs. unpaid principal outstanding on the guaranteed portfolio have ranged from a low of 0.6 percent to a high of 1 percent.]

EXPORT CREDIT GUARANTEES

The second set of loan guarantee programs that we operate in this mission area are the so-called GSM credits, and every year we

guarantee something on the order of \$3.5 billion in agricultural product sales to foreign customers. And this is a program that we think is very effective in helping us expand exports, and the default rate on that program in a normal year is very minimal. We typically don't have very much default in that program. The defaults that we do have come about from very unusual circumstances. Iraq is a big creditor to that program because of hostilities in previous times, as you can imagine. Poland defaulted back at the height of the Cold War. And there are some other notable cases like that. But, by and large, this, too, is a pretty effective program, and it provides enormous benefits in that it helps us expand our sales abroad and it is operated at relatively little cost to the Government.

Unlike the loan to Chrysler, we don't make very much money on these, of course. We don't have an opportunity for that kind of revenue sharing.

Senator BENNETT. Well, first, you say that the default rate is at a minimum. What is your definition of a minimum?

Dr. PENN. I don't know that exact number. I will have to get that number for you.

Senator BENNETT. It is in the single digits?

Dr. PENN. Single digits. It is very small for that program.

Senator BENNETT. Low single digits?

Dr. PENN. Yes.

Senator BENNETT. And you say you don't make very much money. Do you make enough money to cover the default rate? In other words, do you break even? Do you have any idea about that?

Dr. PENN. I don't know about that. I will have to find that out for you.

Senator BENNETT. Could you find that out and let me know?

Dr. PENN. I will do that, and we will look over a sweep of time, like 10 years or some period like that.

[The information follows:]

EXPORT CREDIT PROGRAM DEFAULT RATE

The fiscal year 2003 default rate for the GSM Program is projected to be 7.7 percent. The average default rate for the last 5 years (1998 to 2002) is 6.7 percent.

The subsidy required to support the GSM program is relatively low, but USDA does not break even. If the Department broke even or made money on this program, the program would have either a zero or a negative subsidy rate. While we try to minimize losses in this or any other loan program, it should be noted that these loan guarantees are not issued for the purpose of making money for the Government. They are issued to encourage exports to buyers in countries where credit is necessary to maintain or increase U.S. sales, but where financing may not be available without such credit guarantees.

FARM PROGRAM POLICY

Senator BENNETT. You know, I sit on the Banking Committee in my other life, and a 12- to 13-percent default rate would not be considered progress.

Dr. PENN. Right.

Senator BENNETT. Now, I realize everything is relative. Coming down from 50, it is considered great progress. But the thought occurs to me, if these are people who would otherwise be unable to stay in farming if you didn't give them the money, and part of our problem is that we have surpluses, it is going to sound heartless

but the laws of economics say that one of the ways you could resolve some of the pressures on the farm situation as a whole would be to say you folks ought to find another line of work, and particularly, if I recall your testimony correctly, a very large percentage of them already have found another line of work and are getting—what was the number?—three-quarters of their revenue from something else.

Does it really make sense in terms of national policy for the Federal Government and the Federal taxpayer to be keeping excess capacity in place in this particular part of the economy to the tune of subsidizing bad credit risks at the rate of 13 percent? Now, this is a policy question, obviously, that the Congress has to answer. But as I get myself into these issues, coming from a businessman's background, this is the obvious question that comes out of the testimony we have had here this morning.

Do you have any comments? Or, Dr. Collins, you are sitting there at least paying attention.

Mr. Dorr, I am going to get to you because we have got the same kinds of situations where you are, and any comments that any of you might have.

Dr. PENN. Well, let me say that is the age-old dilemma—how do you allow resources to exit from any sector of the economy where new technologies are being introduced. And this is an age-old question in farm policy circles, keeping resources in when you have got an abundance of commodity on the market and people are always decrying low prices.

But, on the other side of the question, there is the thought that there is some benefit in keeping people in rural areas and maintaining the areas' viability. I am sure Mr. Dorr will tell you all about worrying about the vitality of rural communities and keeping a critical mass there. And so there are trade-offs, I think, in providing subsidies to keep people in certain parts of the country or providing subsidies when they move to another part.

So this has been an ongoing-old discussion, but I think it is one that the Congress has confirmed time after time. It is a decision made by the Congress, as you indicate.

RURAL DEVELOPMENT CREDIT PROGRAMS

Senator BENNETT. Well, let's get to Mr. Dorr. Here we have got people who, without this kind of assistance from the Federal Government, could not economically survive. So you are coming along and giving them Federal subsidies in the houses that they otherwise couldn't afford, and this becomes a double incentive for people to remain in an uneconomic kind of activity.

Now, is that a harsh summary of where we are? I am deliberately putting it in as stark terms as possible in order to provoke conversation. But I find it very interesting when we are talking about rural development to hear you discuss multi-housing family projects. One doesn't think of multi-housing family projects in terms of rural areas. One thinks of wide open spaces. And if we are talking about the social good of being out where the deer and the antelope play, the deer and the antelope don't require a multi-housing family portfolio.

So shifting the focus now to you and your area of responsibility, what is your default rate? What happens to any interest income that comes off of these loans? And is the Federal Government making enough money on the interest to cover all of its costs?

Mr. DORR. Well, they are obviously very thought-provoking questions, and as Dr. Penn has indicated, they are kind of age-old questions when it comes to what is occurring in rural America.

Our programs run the gamut from housing to utilities to community facilities to a number of things. Interestingly enough—and I have said this before—our programs historically deal with the other 62 or 63 million rural Americans who aren't directly impacted by the traditional Title I and Title II programs.

DELINQUENCY AND DEFAULT RATES

In our single-family housing program, in our direct program, our delinquency rate is running about 13.5 percent. The interesting thing about that is last January 30th, the Chase Home Finance folks made a major announcement of an additional commitment of a half trillion dollars of funds to the minority home ownership issue across the country. We were invited to attend, and at that particular event, we were told that one of the best places they liked to invest—and they have determined this over the last 6 to 8 years—is rural America. They made this announcement in front of a large group of folks, including a number of major money center bank officials. They said there are two reasons why they like to invest in rural America:

Number one, it is a great place to invest. There are significant opportunities.

And, number two, the default rate is less than what it is in urban areas. Low default rates in these rural, growing, regional, developing areas are, quite frankly, very intriguing.

When you make the jump, for example, over to our community facilities programs, we have very, very low default rates. Just the other day I was looking at some where we actually had a negative subsidy rate relative to the way it was scored. These funds are typically used for fire houses, day-care centers, medical facilities, those sorts of things. And they seem to be quite effective.

In our business and industry loan program, I think in 1983, our default rate was about 20.9 percent. In 2002, that default rate was down to a little over 10 percent. Our goal is to get it to 4 percent, and I think that we will make significant progress in that way.

One of the other things that we do, however, is that we are involved in a number of entrepreneurial, value-added development and loan and loan guarantee programs, in conjunction with the ability to finance the build-out of the kind of infrastructure that rural America needs to grow. There are a number of areas of rural America that are growing, and they are benefiting from these programs and they are creating other job opportunities not directly related to production agriculture.

So, in my view, there are a number of these programs that are quite successful, and have very reasonable default rates. We know that some of them have, at least at this time with the low interest rates we have, negative subsidy rates. So I think that there is some progress being made, quite frankly.

Senator BENNETT. The picture I am getting is that the Federal Government is doing everything it can to sustain people in an un-economic activity. Obviously, I am very interested in that because of the number of rural people in Utah, and when I visit the rural communities in my State, they all complain that there is not enough economic activity and they all complain that their kids can't find jobs and they have to migrate to the cities and isn't it awful that we are losing this wonderful rural way of life.

At the same time, I happen to have a steel mill in the State of Utah, and the steel mill is now closed. And they tried to get some Federal help to keep the steel mill alive, and the reality is that there is a world overcapacity for production of steel. And the world overcapacity of the production of steel is bringing the price of steel down. That is what happens.

I keep saying to my colleagues, if I could control what we carve in marble around here, along with all of the pleasant Latin phrases—maybe I ought to figure out how this reads in Latin. You cannot repeal the law of supply and demand. We keep trying in Government, with wage and price controls and all other kinds of things.

In the steel industry, people have finally resigned themselves to the fact that the law of supply and demand, which cannot be repealed, has decreed that some of these steel plants around the world are going to have to close until supply and demand come into equilibrium again. And some of them are going to be American plants. And, unfortunately, one of them happens to be in the State of Utah.

Now, that is a wonderful plant. It is modernized and it is environmentally friendly, and in many ways it is probably the low-cost producer in the United States. But it is closed, for a variety of reasons that I won't bore you with. And unless the demand for steel around the world—because we are, again, in a global market—firms up rather dramatically rather soon, it is going to stay closed. And the people who used to work in the steel plant are going to have to do something else.

The picture I am getting here is that the same forces would dictate that there are some farms that are going to have to disappear and, indeed, have been disappearing. But the Federal Government is going to stand here kicking and screaming to say we won't allow real market forces to take place here, and I guess we are back to Congress has made the decision that that would be just too socially disastrous to allow that to happen.

But setting that aside for a moment—it is probably a good thing I am all alone.

SUPPLY CONTROL

None of my colleagues will have any memory of this, but setting that aside for a moment, from a straight economic analysis isn't it true that the Federal Government has perpetuated oversupply and thereby a situation where, if people are going to continue to live in that world, they are going to have to be subsidized by taxpayers?

Dr. COLLINS. I will take a shot since you said from a straight economic point of view, and relieve my colleagues of having to answer that one.

I think you are right. I think that has been the long-term history of farm programs. Some people call it a cheap-food policy. Other people call it trying to expand production as a policy objective. Other people call it trying to have a policy of place, where we ensure that there is adequate production regionally dispersed across a varied array of commodities so we can ensure the rural infrastructure.

Whatever the policy objective that people put on it, I think the effect has been to cause production to be higher than it would probably otherwise be. That is demonstrated by 50 years of supply control programs that we had in place until 1996. And we still continue to have some forms of supply control programs, such as the Conservation Reserve Program, probably the single biggest one that we continue to have and have ever had in history.

And now we have marketing assistance loan programs which economists call "coupled." They are tied to production, they are tied to price, and they create distorted economic incentives.

So I agree with that. The terms that you used in your discussion so far have been terms like "economics" and terms like "social choice," and that is what a lot of this has come down to. It is the trade-off between the degree of efficiency you want in the agricultural sector versus social policy. To get efficiency in a sector like Dr. Penn described, one where technological change has caused rapid advances in production, then you are going to have resources leave the sector. You can define the word "crisis" by the speed with which resources have to leave the sector. And if they have to leave very rapidly, then people would call that a crisis. When there is a crisis, Congress addresses that with social policy, programs for places, and that is what we have had in agriculture.

But, fortunately, there has been a great debate about this in recent years. The old theory about agriculture was you had inelastic demand, so if you got a sudden increase in production due to technology or good weather, that caused prices to go way down and people couldn't withstand those low prices, and they would be driven unnecessarily out of agriculture, so you had to provide them support. And when prices went way down, because supply was also inelastic, they wouldn't cut back on their production.

So the old school story about agriculture was this inelastic supply and this inelastic demand prevented resources from leaving agriculture until people lost their farm and lost everything. And then a few years later, who knows? Demand might be better, and those people would unnecessarily have lost everything.

So that was sort of the logic that drove these programs. But the vision of agriculture has changed a lot over the last 20 years. Now we see an agriculture that is dominated by a small number of farms. They have highly skilled operators. They are well capitalized. There are all kinds of risk management tools available to them today. It is not the same farm that was there when these farm programs were designed.

So there is this new thinking about how well farmers can respond versus the old thinking about how farmers can respond, and Congress is sort of torn between those two views. It has been slowly over time reforming farm programs to move them toward the new view, and I think we were on a good path to do that—until

the last couple of years. The last couple of years have sort of knocked us off that path a little bit. And so where we go from here on out is going to be determined by people with vision like yours versus people who have other visions.

Senator BENNETT. You are making an assumption about me from my questions, but you are probably right.

Let me ask if those farmers, as you describe them, who are now very large and well capitalized and very efficient and take advantage of all of the research that comes out of Dr. Jen's effort and so on, do they receive the bulk of the payments?

Dr. COLLINS. They do. Payments historically are tied to production. They produce the most. They get most of the payments.

Senator BENNETT. That strikes me from an economic point of view as really quite perverse.

Dr. COLLINS. Well, that is—

Senator BENNETT. You do not have to comment if you do not want to, but—

Dr. COLLINS. No comment.

Senator BENNETT. Dr. Jen, let us get to you then. As you add to this over production by your research and demonstrate how people can get far better yield per acre and more nutrition per calorie or whatever it might be, what is the impact? I mean that is implied in my question. Is there in fact a significant impact towards this overall issue of imbalance between supply and demand? Are you fueling it, and does the money we put into research exacerbate the efficiency of everything, and thereby drive up the amount of support that taxpayers have to make?

Dr. JEN. Mr. Chairman, that is a very difficult question to answer. I would like to choose probably—

Senator BENNETT. I will send you the easy ones in writing.

RESEARCH AND AGRICULTURAL PRODUCTION

Dr. JEN. Thank you. Half a century ago, the U.S. agriculture's goal was mainly trying to win the war on hunger for this country, and I believe we pretty much have done that, and what we are trying to do now is eat better, and probably our next war is a war on obesity in this country.

However, from a researcher and educator point of view—throw away my economist hat—

Senator BENNETT. Your biochemist hat. Go on.

Dr. JEN. I think being the United States, being the most wealthy and number one country in this world, we probably should have a responsibility for trying to stamp out hunger in the world, and I do not believe that war is won. From that point of view, I think research and education and economic development, all those things that are in my mission area are probably needed. I think we have to try to balance how to help the developing countries, the rest of the world, to eat and stamp out hunger, yet at the same time how we can keep our producers on a competitive base and not lose money like you were saying. So I think from strictly an economic point of view, I would say that research is still needed.

Senator BENNETT. I am not implying that it is not.

Dr. JEN. The other thing also is that I think we are facing new challenges. Even in production in our country, we are facing more

challenges related to the environment, to limited resources. We are going to run out of water. We are going to run out of air, run out of land, as the population increases.

So how do you produce products, food, to feed a growing population in the world I think is also going to be a part of the picture, and we are adjusting our research program, toward that goal.

Lastly, it is interesting listening to my colleagues' and your discussion on the economy on the farm side. We deal with not only the production but also the value added, food processing and the consumer side on this. It just dawned on me that the U.S. food industry does not come to the Federal Government for any loans or grants, and they are competing fairly well on a worldwide basis.

AGRICULTURAL PRODUCT DISTRIBUTION

Senator BENNETT. Thank you very much. You see war on hunger and now a war on obesity. We have not solved the war on hunger in this country, not because we do not have the production capability to do so, indeed we do, and we have excess food sitting in silos various places. This is not the focus of the Department of Agriculture, but this is a distribution problem, not a production problem. We have hunger in the State of Utah, and I and my staff have gone down to the food bank and unloaded contributions that come from the Boy Scout drives when everybody leaves a couple of extra cans of tomatoes on their front porch and the Boy Scouts come and pick them up. At Christmastime everybody buys extra groceries. I have done it. I am sure everybody else has. You go to the supermarket, and standing out in front of the supermarket is somebody from the Salvation Army, and they do not just tinkle the bell and ask for quarters any more. They have shopping carts and say, "While you are in there, buy some extra milk, baby formula, whatever, whether you have any babies or not, and then as you leave the supermarket, take that extra sack of food and drop it in here." Then it goes to the food bank, and they need totally unskilled labor like mine to unload it from the trucks as it comes in and put it in the places that will ultimately get it into the hands of the people who need the food.

We underestimate the importance of a distribution system. The Russians used to be able to raise every bit as much wheat as they needed, and it rotted at the railhead because they did not have a distribution system to get it to their people in their cities, and they ended up importing wheat from the United States even though they could and did produce enough. This goes back to Mr. Lenin, who along with all of his other foolishness, foolishly assumed that the middle man was a capitalist tool and had to be eliminated, and Mr. Lenin had great efficiency in doing that. He shot them, and consequently doomed the Russian economy to 75 years of shortages because he would not pay the middle man for the value added that was involved in taking the product from the farm and delivering it to the customer. We still get some of that rhetoric as people say, "A bushel of wheat is worth x at the farm and it costs y at the supermarket when it is a loaf of bread, and is that not terrible that the farmer is not getting as much money as the customer is paying?" They do not realize that one of the reasons the farmer is not getting as much money as the customer is paying is because the

customer does not live on the farm. The customer lives in New York City and there has to be somebody who refrigerates it and stores it and packages it and puts it on the supermarket shelf, and gives you the convenience at 7-11 that you can walk in at 2:30 in the morning after the Senate has been in session and buy yourself a burrito or whatever it might be.

The efficiency of the distribution system is incredible, but there are elements of American society to which there is no distribution system and therefore there is hunger in the United States, so it is not a production problem. It is a distribution problem.

Dr. JEN. You are absolutely right, Mr. Chairman. I think I did say we have largely stamped out hunger.

Senator BENNETT. No, I am not quarreling with you. I am using your statement as a springboard to make another point for the record, and is this not really the problem in the world? Is there not really enough food being produced worldwide to feed everybody on the production side, and the difficulty is distribution? Is that not the problem? The French will not let genetically-modified food get into France and the Russians will not let chicken breasts get into Russia. There are political barriers. And then you get into the enormous problems of sub-Saharan Africa and certain parts of South America. It is not a production problem. We have the food. We would love to get rid of it under Public Law 480 or any other program. We would love to get rid of the surplus food around the world to feed people in the world. We cannot physically get it in there because of the distribution problem.

Am I off base with all of this? Help me. I am just exploring with you now that I have the advantage of talking to you with no competition on either side. Help me understand all of these issues.

Dr. PENN. I think you are right about the basic problem of world food supply and demand. I think there are 800 million people out of the 6 billion in the world today that suffer from hunger and malnutrition on an ongoing basis. We certainly have enough food in the world to feed those people. It is a matter of poverty and a matter of distribution, lack of physical infrastructure, lack of purchasing power, things of that nature.

Also there is an ample amount of technology in the world today to enable a lot of countries to increase their yields. Yields in many parts of the developing world are a fourth or a half of what they are in the developed world, and with a little bit of existing technology, they could improve their food production and be much more capable of feeding their own people. As you know, the problems are political. There are hostilities. The problems still have to do with lack of development and capital mobilization.

AGRICULTURAL TRADE

We are trying to address a lot of those problems on many fronts. Improved technology is an immediate one, a direct one. But this trade agenda that I mentioned is another way in which we are trying to indirectly get at the hunger and malnutrition problem. It is pretty clear that those economies around the world that develop, where consumer incomes grow and people get fed better, are ones that are open, are ones that are interconnected in the world, that

trade, that attract capital, that bring in new technology and new management practices.

That is what we think our trade agenda is all about, not only to expand trade and market opportunities in the short run for our farmers and ranchers. Over time as these economies grow, they become much better markets, as you said, for leg quarters rather than just number two yellow corn. They start buying meat and poultry products and dairy products and more processed foods, and that creates economic activity here at home. So it is sort of a win-win situation to both help combat hunger and malnutrition and at the same time to improve opportunities for people here at home.

Senator BENNETT. Then come around full circle, lest any of my rural friends who are listening or watching think I am willing to let rural America wither on the vine and die in the name of creative destruction, we could solve many of the problems in rural America of oversupply and thereby the requirement for Federal subsidy, if we could open up these markets. The farmers who are currently drawing Federal assistance and then creating some of the default rates that you were talking about, Dr. Penn, and that you were talking about, Mr. Dorr, those default rates would go down. And Dr. Collins, the Federal payments would go down if these world markets were opened up, because as the most efficient producer in the world, the American farmer, regardless of size, can compete very well with any other farmer anyplace else.

If we go back to my analogy of the steel mill, it is the low-cost, high-efficiency steel mills that are going to survive in the period of lower capacity, and the American farmer is the low-cost most efficient farmer in the world, and he is the one, she is the one increasingly, that will survive and do well if we can get rid of some of these barriers. Is that a fair statement?

PRODUCTIVITY INCREASES

Dr. PENN. That is very much a fair statement. And you make another important point, and that is that the world does not stand still. Dr. Jen and all of his fellow scientists are always out here trying to increase the productivity of American agriculture, and the 50-year trend in productivity growth in American agriculture is about 2 percent a year. So you can see in a 10-year span of time we will increase our capacity to produce food and fiber with a given set of resources by 20 percent, not taking account of compounding. When you look at the domestic market growth, our population grows relatively slowly, and we increase our aggregate food consumption each year by about eight-tenths of 1 percent, so over a 10-year span of time our aggregate consumption will increase about 8 percent while we have increased our production capacity 20 percent.

So we are constantly adding to this excess capacity which makes it all the more important that we get access to these growing markets, and it is in our best interest to see the developing countries of the world grow and mature so that they become better markets. It is a very dynamic situation.

Senator BENNETT. Mr. Dorr, access to these kinds of markets, would that not go a long way towards producing the sort of rural development that you are currently concerned about?

RURAL JOB GROWTH

Mr. DORR. I think that will clearly help manifest it. I think the other side of this issue is the fact that there was a recent report out of the Third District Federal Reserve Bank of Philadelphia, pointing out that much of the significant economic growth both in terms of new businesses as well as jobs and job growth opportunities during the course of the 1990s occurred in many of the rural areas in Pennsylvania. Clearly after having come in from the farm a couple of years ago and spending a great deal of time in these moving parking lots, I can understand why people are inclined to keep their rural residences. So I think there is a change in the economic structure that is attracting people to rural areas, and we are involved in building out the infrastructure and sustaining it. Once the things you discussed with Dr. Jen and Dr. Collins are manifested, with these other opportunities in which we are involved in terms of building out the infrastructure, I think the dynamics of rural America will change in many areas.

MAINTAINING RURAL AMERICA

Senator BENNETT. Thank you for this. This has been very helpful. I wanted just to close it off before I go into some of the specific questions, with the observation that people who live in rural areas are smarter than people who live in urban areas think they are, and one of the reasons they stay there is partly because of quality of life and partly because of an understanding that in the information age they can do the kind of things you just described. So a vibrant, rural America is important, but we should be doing what we can to see to it that it is vibrant because of its ability to compete in the future, rather than vibrant because of its nostalgia for the past.

If we ever did allow rural America to shrivel up and blow away, we would pay a very significant price for that. I want to make that clear. From all of my conversation about the economic side of it, I want to make it clear that the long-term impact of having rural America dry up and blow away would be very significant.

If I can just burden you with an observation from an entirely different circumstance, if you go back in history in the British Isles, there was a time when the English, for whatever geopolitical reason, decided it was in their national best interest to clear the highlands of Scotland. That is a very antiseptic term to describe what they did. Clearing the highlands meant literally driving everybody off the land. As a tourist now, if you go to Scotland 300, 400 years later after the clearing of the highlands, they are still clear. That is, you go through the highlands of Scotland and the scenery is wonderful, but the sense of desolation and barrenness from the fact that there has been no significant human inhabitancy there for all those years, since the English literally drove the Scots out of the highlands and into cities like Glasgow and Edinburgh, the sense of barrenness and desolation still hangs over the land. It is almost palpable as you walk around and say, what a price Great Britain has paid down through the centuries for the fact that people were driven out of this area.

Now, we are never going to be quite that dramatic if rural America sees people leave, but nonetheless, there is a lesson there that I think we can pay attention to.

Thank you for participating with me in this dialogue as I try to get my arms around what it is we are doing here and what it is you are doing. Now a few very parochial questions about some of the budget issues that you raised which is basically what we came to talk about.

PATENTS ON ARS PRODUCTS

Dr. Jen, the Agricultural Research Service obtains patents for products and procedures which result from taxpayer sponsored research. Then the ARS licenses private industry to produce consumer goods that allow the technology and resulting beneficial projects to get in the hands of consumers. We have been talking about that in the distribution thing. I understand now that there are more than 600 new patents. How much money are we talking about? What is the average annual receipt from licensing these patents, and are those funds just deposited into the Treasury or does ARS get to keep the money, or do you have a pizza party at the USDA? What do you do with the money that comes from the licensing?

Dr. JEN. I think—

Senator BENNETT. I am sorry. I should not be that light-hearted. Obviously, nobody has a pizza party on that.

Dr. JEN. No. Actually, sometimes those patents do produce unexpected results. One of the patents that ARS had was to develop a pear bar from pears, and it is very healthy, almost like a candy or granola bar, but it is a very, very small kind of commodity. It was actually picked up by a rural community in Oregon, a town that was going out of existence. ARS licensed them to put up a little processing plant to produce it. It is now available in the Northwest United States, the plant employs 90 or 100 people, and that little rural town is revived.

Senator BENNETT. But do you get any licensing fees from the pear bar?

Dr. JEN. I believe we do, I think. But I do not know the exact number. I am handed just a list here. I think, for example, in 2002, the total license income is about \$2½ million. The total income is about \$4 million. We do receive some funding out of licensing.

Senator BENNETT. Does that go into the General Fund or do you get to keep it?

Dr. JEN. I believe this money goes back into the ARS Research Fund. Am I correct? 25 percent goes to the inventor, and 75 percent back to supporting the administrative operation.

Senator BENNETT. Who is the inventor?

Dr. JEN. The scientist who has it.

Senator BENNETT. I am a private scientist and—

Dr. JEN. No, no, no. The ARS scientist who develops it.

Senator BENNETT. So you could have theoretically a scientist who earns more money than the President?

Dr. JEN. That certainly is possible. A lot of the faculty in the universities do that, too.

Senator BENNETT. So does the football coach.

Dr. JEN. But I think the number of patents that have been licensed has not been very, very overwhelming.

Senator BENNETT. Thank you very much.

LAMB MEAT ADJUSTMENT ASSISTANCE PROGRAM

Dr. Penn, last week 22 Senators sent Secretary Veneman a letter requesting that USDA continue for one additional year the Lamb Meat Adjustment Assistance Program, and in my State of Utah the lamb is very important, and this has benefited my producers. As you noted, all of you, that Utah is in the 5th year of a severe drought, and I understand you have stated that funding is not available to continue this program.

I have come down from the lofty area of talking about the overall economic circumstance to taking care of my own constituents. So you will understand where I am on this. As of May 6th there was \$298 million of uncommitted funds in Section 32, a sum that in all likelihood will not be fully expended in the remaining 4½ months of fiscal year 2003, and you can see where this is going. I would very much appreciate it if you would sit down with Secretary Veneman and consider all of the issues confronting the lamb industry and see if there might be some reprogramming requests or other activity with some of this money to help us out.

Dr. PENN. Mr. Chairman, I am aware of the program, and I am aware of the letter, and I am also very pleased to tell you that the responsibility for that program falls Under Secretary Bill Hawks' mission area, and you are going to be seeing Mr. Hawks next week, so I would hope that you would bring up that issue with him. I will make him aware—

Senator BENNETT. Approximately handed off, duly noted.

Dr. PENN. I will make him aware of your concern, so he will be prepared with a good answer for you.

FOOD SUPPLIES IN IRAQ

Senator BENNETT. Dr. Penn, just to give you an opportunity to make a statement for the record, because of the various press reports around this issue, let us talk about Iraq for a minute and the current need for food in Iraq, and there are those who say we are in a humanitarian crisis there. There are those who say we are not. There are those who say the Iraqis have more food now than they did before the Americans and the British and the Poles and the Australians went in, and that whatever humanitarian problems there are in Iraq are a holdover from the old regime that we have not caught up to yet, and there are those who say, no, no, no, it is all our fault.

I understand that these statements are against the backdrop of how people felt about the war prior to the war going in, but can we deal with this in a factual way? Can you give us some information with respect to food aid in Iraq? Do you believe that additional food is necessary? Is the distribution system adequate, and so on? Let us comment on this and try to help set the record straight.

Dr. PENN. Well, thank you very much for that opportunity. I have noted the same stories that you have and there is a lot of conflicting information in the public domain now. Let me start by saying before the hostilities, the Iraqi people were about 70 percent

dependent upon imported food, and this food was largely paid for through the Oil-for-Food Program, which is a program that was operated jointly by the United Nations and the Iraqi authorities, and various countries contracted with the Oil-for-Food Authority to provide this 70 percent of the food that the Iraqi people needed.

Before the hostilities started we of course were aware that they might begin, and were of course doing contingency planning to make sure that there was not a humanitarian crisis once hostilities began and once they ended. So there was a lot of activity to preposition food in the region, and we had reason to believe that there was a considerable amount of food in the country at the time hostilities started, that individual households would have had at least a month's supply and maybe more of food that was being distributed under the Saddam Hussein regime.

The U.S. Agency for International Development made available \$200 million to the World Food Program to preposition food, to get food in the region and have it available so that in that period when hostilities ended and before a new distribution system could be established, we could go in and make sure there was no humanitarian crisis.

In addition to that, the U.S. Government has made available a substantial amount of resources to provide food for Iraq, again, to prevent the very kind of humanitarian crisis that you have talked about. We have drawn upon the Bill Emerson Humanitarian Trust, which is a food reserve once known as the Wheat Reserve. It was some of this surplus production that we have been talking about this morning that was put in a special reserve for emergency situations like this. So we have made available wheat and wheat flour, and rice for the Iraqi people and have begun shipments of that. It is my understanding now, from all of the information that I see in my position, that there is more than ample foodstuffs available in Iraq. This is especially true for wheat, for rice and for sugar. I am talking about the foreseeable future, and the foreseeable future being until the end of summer, let us say.

There is a need for vegetable oil and pulses to round out the ration that the Iraqi families have received, and USAID is now in the process of purchasing pulses and vegetable oil to add to the rations that are being sent.

As far as the information that I have available to me shows, there is no humanitarian crisis. I do think some of these stories about major problems there, about famine in the offing, are somewhat self-serving. We know about the size of the Iraqi wheat crop. We know that crop is being harvested now. Provision has been made for funds to be available to purchase that crop from Iraqi farmers. We think it is important to do that because as we have talked here this morning, the Iraqi farmers need incentives to go plan the wheat crop for next year and to begin to plot the irrigated rice crop and other things.

So at the same time that we are trying to meet the immediate needs of the Iraqi people in terms of diet, we are also looking ahead to try to get as much production reinvigorated in the country as we possibly can.

The last part of this is that the Oil-for-Food Program, which uses Iraqi petroleum money to purchase imported food, is slated to ex-

pire on June 3rd, and it is uncertain whether that program will be extended or whether that program will be terminated and the purchasing authority shifted back to Iraq. We just simply do not know at this point. That is being discussed. But the Iraqi people do have resources. They have petroleum resources, and so they do have money to buy food. It is not like Afghanistan or a lot of other developing countries' situations.

Senator BENNETT. Thank you. I appreciate your sharing that with us, and that will go a long way with meeting with some of the rumors, and as you say, self-serving statements as people try to rewrite history in order to validate their own prejudices with respect to the American initiative in Iraq.

CONSERVATION PROGRAM TECHNICAL ASSISTANCE

Let us go back to the farm bill for just a minute, and there has been controversy over the funding for technical assistance for the mandatory conservation programs authorized in the 2002 farm bill, and in the fiscal year Omnibus Bill, the supplemental, we provided direction to USDA with respect to technical assistance funding, and I believe that there has been a partial fix at least as a result of the 2003 Omnibus Bill.

Now, Mr. Rey and Dr. Penn, do you support the idea that funding of technical assistance for CRP and the Wetlands Reserve Program should be borne by the individual programs, and if so, do either of you have suggestions as to how we could do that better?

Mr. REY. Our suggestion is embodied in our 2004 budget proposal for the creation of a Farm Bill Technical Assistance account, and I think if the Congress were to adopt that proposal, what you would see is a more equitable distribution of the technical assistance burden across all the programs.

Senator BENNETT. Do you have any—

Dr. PENN. I agree.

RURAL DEVELOPMENT FIELD OFFICE CONSISTENCY REVIEW

Senator BENNETT. Mr. Dorr, Rural Development has embarked on a consistency review of all of its field offices. Could you share with us why you chose to initiate this review and what the field structure will look like when it is over, or what you hope it will look like, if you indeed have a predisposition as to where you hope this will come out? And give us the time frame in which the review would be completed.

Mr. DORR. The consistency review that you are referring to was actually initiated by my predecessor back in 2001, which was as a result of the reorganization that had taken place at USDA in the mid 1990s. It was determined at that point by both my predecessor and his staff, as well as a large number of our appointed State Directors and their program directors, that there was a difference of job descriptions and structures that made a high level of inconsistency in administering our programs across the country. A team of 10 State directors were appointed and they reviewed the situation.

They concluded that there were two basic structures that could be implemented. One they called a two-tier structure and one a three-tier structure. After considerable evaluation their recommendations were accepted. The two-tier structure allows for a

State staff with regional locations to deliver programs. A three-tier structure allows for a State office and some regional locations, as well as some local locations. The purpose for the two structures is to allow the State Directors and their program folks, who understand best how to implement those programs at the State level, to do so in a way that effects a consistent and a efficient delivery of our programs across the States.

State plans were to be into our office by the end of April. They are undergoing review, and they will be evaluated in the context of the Secretary's overarching efforts, as well as in the context of appropriate civil rights, and national, State, and county organization review processes.

WATER AND WASTEWATER PROGRAMS

Senator BENNETT. Thank you. I have another question for you, Mr. Dorr, but first let me make a general observation about the State of Utah. Sixty-four percent of the State is managed by the Federal Government, and your colleague, Mr. Rey, oversees 13 percent of Utah's land through the Forest Service, and then over in the Department of Interior with the BLM, they have the bulk of the rest of it, but the Department of Defense owns a fairly large chunk of Utah land on which they drop bombs with a great regularity. In 18 of our 29 counties the Federal Government owns more than 50 percent of our land. There are some counties where the Federal Government or the State Government combined is up to something in excess of 90 percent of the land. So there is a constant day-in and day-out sense of the overwhelming presence of the Federal Government when you get out into rural Utah.

It may not be coincidental that in these counties where the Federal Government manages more than 70 percent, that is 13 of the 18 to which I referred, these are the counties with the highest percentage of people living below the poverty line, and they probably would not be impressed with my esoteric discussion of economics here this morning, as I switch hats and stop being fairly academic about it, and now get real with real people living in real situations. So I am leading to a discussion of the grant programs for water and wastewater in these communities. This is not a case of people being involved in an uneconomic situation where they ought to change. It is a case where the county does not get the property taxes, even though we have built funds, payment in lieu of taxes funds, they are inadequate in really many instances to meet the challenges of these counties, and your budget proposes to reduce the Water and Waste Disposal Grant program by approximately \$245 million.

That leads to the obvious question, if your mission is to support the infrastructure of rural America, but being very parochial right now, the infrastructure of rural Utah, how can we make sure that the counties in this kind of a situation will be able to maintain safe drinking water and sewer infrastructure when the Federal Government, which occupies so much of their county, is in a position where they are cutting back dramatically on it?

Mr. DORR. That is a very appropriate question. Congress, in the last farm bill added about three-quarters of a billion dollars of additional funds to increase these water and wastewater programs,

which our group at the Rural Utilities Service was able to get implemented and distributed to many of these communities by last August. We got the full sum out after we had utilized our 2002 appropriation.

Quite frankly, we had an opportunity, as a result of Congress's largesse on that particular issue to address a lot of the backlog that we were facing.

LOAN TO GRANT RATIO

Historically the loan and grant ratios of those programs, up until about the mid 1980s, had been in the 65 percent loan to 35 percent grant rate, perhaps 30/70. Over the last number of years they had migrated to a 60/40 loan to grant ratio. With the lowering of interest rates, the need to be careful with how the administration allocated resources, the decision was made in light of addressing the backlog of water projects last summer, that we would try to go with the 75/25 split on the loan to grant program, which does in fact maintain a total program approaching what we have this year of about \$1.6 billion.

Senator BENNETT. Thank you. I am just reminded that in Utah we get more grants than loans, so if the grants are cut off, we have a real problem, and I would appreciate it if you would pay a little attention to the problem.

Mr. DORR. We will look at it closely.

RESEARCH, PLANNING AND MANAGEMENT

Senator BENNETT. Get back to me on that. Thank you.

In that same vein, Dr. Jen, the 2004 budget requests \$67½ million for new ARS projects, emerging diseases, sequencing, bioinformatics, biosecurity and so on. On the one hand funding for waste management research in Mississippi is proposed for elimination, while on the other hand funding for managing wastes to enhance air and water quality is requested. Is there any coincidence or coordination between the fact that Chairman of this subcommittee is no longer from Mississippi? Is this sending a message that projects initiated by members of Congress is a direct result of the regional issues, like the one I have just raised with Mr. Dorr, is there the message that member projects are considered less important and that you say, well, it is nice that the member put that in, but we are going to do what we want? I am now asking a Senator Byrd type question.

Dr. JEN. Absolutely not, Mr. Chairman. I do not know the specifics that you are talking about. We could get an answer for you from the staff. But research projects do come and go. Once a project is finished, it should be removed from the books and new research started. Constant reprogramming is going on all the time in the ARS, so from year to year there will be changes. I doubt very much, that it was not coincidental, sir.

Senator BENNETT. You think it is coincidental; it is not causal?

Dr. JEN. That is right. No, it is not causal.

Senator BENNETT. In your 2004 budget request for ARS you assume the elimination of \$132.7 million worth of research projects around the country, projects, livestock, rangeland studies, biotechnology research, grain disease research, things of that kind,

and you get my attention when we are talking about bee research in my own State. We are "The Beehive State." It is in the State seal. Now, all of these research projects were designed to address real problems facing farmers and ranchers, and the research is not yet complete. I can understand if we are cutting funds for areas where the research is done and saying we cannot afford to initiate any new research. But it seems to me penny wise and pound foolish if we say, okay, we are halfway there and now we are going to cut the funding. Does that not mean that the money that has already gone in has been wasted if the research is not completed, and that it is a better use of taxpayer dollars to finish what you have done, and then, as I say, if resources are considered scarce, say, all right, we cannot afford to launch these new projects, but we have to get the dollars' worth for the money we have already spent to finish up these old projects? Could you comment on that?

Dr. JEN. In general I could say if we are trying to cut certain programs it does not necessarily mean that research may not be continuing. It may have been moved to another location to continue. Particularly I think in the beehive program there are five places in the United States that are doing that research. Given the multi-disciplined nature, oftentimes consolidating those research projects into just one or two places will give better efficiency of the research dollar than doing it in five different places. So part of these adjustments are on that basis. It does not mean that the research is cut.

And also I do not think research programs are normally terminated before they are completed. However, as research managers you do sometimes have to call the shots because if it is up to the researchers, generally, they find one result and create three more problems, so the researcher would continue on forever and expand for every single one of them. I think that is a general answer.

Senator BENNETT. That point is very well taken. I remember one university president said to me, about another project, he said: This is the perfect research project. The issue is too important and the solution can never be found.

COUNTRY OF ORIGIN LABELING

Finally, one of the most contentious issues that I have discovered since I assumed this position is country of origin labeling. I did not really know anything about that until I got this assignment, and now I am hearing all kinds of things about that from a wide variety of directions.

Dr. Jen, you oversee the Economic Research Service, and I think it would be very helpful for us to have some research on country of origin labeling, some research on the financial impact of it, some research on how customers will react.

I will burden you with an experience in another field that may or may not have relevance here. Some years ago in the automotive field there was an initiative that was successful, to put domestic content labeling on automobiles, and it was initiated primarily by United Auto Workers, who felt that American purchasers would buy more American cars or would buy more products on which the UAW worked if they knew what percentage of the content in that car came from America and what percentage came from other countries. And great, great debate, and tremendous difficulty in the

Congress getting domestic content legislation passed. I was familiar with that and all of the arguments about country of origin labeling come up. We had a discussion about that with Secretary Veneman.

Domestic content legislation did pass and pretty soon they were putting on the label on the cars what percentage of the car was produced in the United States, and which percentage came elsewhere. And then someone did some research and they asked customers if they paid any attention to the domestic content label, and if they did, if it made any difference in their purchases. The answer came back the majority of automobile purchasers did not pay any attention whatsoever to the label, and those that did were looking for German or Japanese content which made them more likely to buy the car.

Having gone through that experience and now being thrown into this country of origin labeling, if we can do it without a lot of money, I would like somebody to do some objective research to find out how customers will really react in the supermarket if they have country of origin labeling, and whether or not the reaction will be perverse to those who are pushing or the provision because the bureaucratic burden of country of origin labeling is turning out to be very substantial, and we had some of that discussion with Secretary Veneman in her testimony last week, and I think it is not going to go away as an issue. As I try to deal with the issue, I would be very grateful if I had some additional information that would come on the financial implications and the market implications of what this is going to do once it shows up on the supermarket shelf and is it all worth it.

Dr. JEN. I think I will take your suggestion. We will ask ERS and see if, within the funding we have, that study can be done. I do know that ERS has been doing quite a bit of research related to what they call traceability, tracing the product from its origin which would be needed for the country of origin type of label. They recently had a presentation within the Department showing that economically it makes absolutely no sense for doing that.

But what you are asking is if the consumer cares about the country of origin label, and I do not believe we have done that, but I could be wrong.

Keith, do you know if we have done that?

Dr. COLLINS. Mr. Chairman, yes, we have done some work on consumer valuation of label information like country of origin. Not only has USDA done some, but the university community has done a lot as well. I am not sure what you are going to see from that survey will satisfy you completely because economists take lots of different approaches and not surprisingly, they find lots of different answers.

For country of origin labeling, one approach that has been taken is the so-called contingent valuation, where you ask a consumer, through a series of questions, how much they would be willing to pay for such label information. Not surprisingly, they are willing to pay a fair amount. When you add that up across 280 million people, it turns out to be a very large number.

On the other hand, there are other studies that actually look at what consumers do pay when they have to pay for information like

that, and not surprisingly, it turns out they will pay a lot less than they say they are willing to pay.

So you get a range of benefit estimates. ERS has in fact done some work on a mandatory study we had to do a couple of years ago, that the Food Safety and Inspection Service did for the Congress on this issue, and they continue to work on this issue. I might say that the country of origin labeling proposed rule, being an economically significant rule, will have to have a very detailed cost benefit analysis in it. That is one that I will have to sign off on, so I would anticipate that that analysis will in fact be a state-of-the-art assessment of the benefits of country of origin labeling, as well as the costs that would be imposed on all of the different regulated commodities and entities that country of origin labeling would affect. Now, that may not come soon enough to satisfy your quest for the information, and I think if Dr. Jen is willing to ask ERS to help in that area, that would be very useful, I think.

Senator BENNETT. Thank you. In talking to meat packers, they say the cow does not care where it is born, that is, there is no DNA difference in the beef from a cow that is born on one side of an arbitrary geographic line than a cow that is born on the other side. If they come from exactly the same stock herd or stock background, and in most cases they do, that genetically there is absolutely no difference in the hamburger. You say the ground beef in this hamburger came x percent from Canada and x percent from the United States, this becomes maybe statistically true, but in terms of what the customer eats, there is absolutely no difference whatsoever.

Dr. COLLINS. I think this debate will play out on a number of fronts. It will be not only whether consumers value this information in making more informed choices. It will be debated over whether it is a food safety issue. There are a lot of aspects to this.

But as you say, we do have some experience with other industries. You mentioned automobiles. Another apparent one would be the Textile Labeling Act, which every time you look at the label on your shirt you know what countries your textiles and your clothes come from, and that has certainly not dissuaded people from now buying most of their apparel from overseas sources.

The question is, is it going to be different for food. And I think I would, rather than try and opine on that here today, I would wait to see what we develop over the next year as we develop that rule, but surely the example you gave of German and Japanese cars, we have seen some of that in food as well. Like your, earlier mention of the lamb improvement program, there are a lot of people that prefer New Zealand in the United States, and will look for New Zealand lamb. So even in food we have seen some of the examples that you gave.

SUBCOMMITTEE RECESS

Senator BENNETT. None of them live in Utah.

Thank you all. We appreciate this. I am particularly grateful to you for your willingness to participate in a dialogue aimed at trying to educate a new subcommittee chairman.

The hearing is recessed.

[Whereupon, at 11:31 a.m., Friday, May 16, the subcommittee was recessed, to reconvene subject to the call of the Chair.]

**AGRICULTURE, RURAL DEVELOPMENT, AND
RELATED AGENCIES APPROPRIATIONS FOR
FISCAL YEAR 2004**

THURSDAY, MAY 22, 2003

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 9:40 a.m., in room SD-192, Dirksen Senate Office Building, Hon. Robert F. Bennett (chairman) presiding.

Present: Senators Bennett, Cochran, Craig, Kohl, Dorgan, and Johnson.

DEPARTMENT OF AGRICULTURE

**STATEMENT OF ERIC M. BOST, UNDER SECRETARY FOR FOOD, NUTRI-
TION, AND CONSUMER SERVICES**

ACCOMPANIED BY:

**ELSA MURANO, UNDER SECRETARY FOR FOOD SAFETY
WILLIAM T. HAWKS, UNDER SECRETARY FOR MARKETING AND
REGULATORY PROGRAMS**

Senator BENNETT. The subcommittee will come to order. I apologize to our witnesses and to those who have come to hear them for the fact that we are a bit late. It reminds me, very early in my Senate career, we were having a meeting and I said to my secretary, "Unless the White House calls, we don't want to be interrupted." And a few minutes later, she came in and said, "You are not going to believe this, but the White House is calling."

So this morning, we had the President of the United States speaking to us and that is what caused the delay, and I assure you, it would require something of that level to cause us not to be prompt and we apologize to you.

We appreciate very much the witnesses who are coming. This will be our final budget hearing. We have heard from the other under secretaries of the Department of Agriculture as well as from Secretary Veneman and it has been a very interesting series of hearings, and for me, coming new into this assignment, very informative, and I am very grateful and expect we will have the same kind of exchange here this morning.

We do meet against the background of considerable concern, and I think we ought to use the hearing as a forum for addressing this concern. It has been on the front page of the newspapers and in the lead of various television shows, talking about bovine spongiform encephalopathy. For those that don't recognize that,

and I will refer to it from now on as BSE, that is what the press has labeled "mad cow" disease.

We should understand as we hold this hearing to talk about the safety of food in the United States that BSE has been discovered in a single cow in Alberta, Canada. We should applaud the USDA as well as the Food and Drug Administration for their diligence in monitoring this situation, and it is critical that USDA and FDA provide the public with a clear and consistent message. But I believe that message is being applied and we need to underscore it here today.

The disease has been detected, it is being monitored, and the determination of the various agencies involved is to see to it that the United States is protected from the disease. We should also understand that the way the animal who had this, had BSE, was disposed of guarantees that it will not get into human consumption. There may be some tiny, tiny risk to animals, but there is no risk whatsoever to human beings as a result of this situation. That is at least the way it has been explained to me. If there is any correction that needs to be made, I would appreciate it if our witnesses would correct it.

But the American consumer takes for granted that her food is safe. Sometimes they take for granted too much and do not give appropriate credit to people at the USDA and at FDA who continually monitor the safety of food and the domestic food supply. Their work goes unnoticed until some kind of emergency like this comes along. We should take this occasion, first, to assure the American people that their food is safe, and second, to pay tribute to those who monitor the situation 24/7 so that the American consumer can take it for granted that the food is safe.

We will spend more time on that in the hearing this morning. But as the hearing begins, I wanted to make that front statement so that those who come for the opening of the hearing and then rush to meet their deadlines will at least take away the understanding that the discovery of BSE in a single cow in Alberta, Canada, is not reason for everybody to panic, to give up hamburgers or whatever else might be on their agenda for their food consumption.

With that, Senator Craig, we would be happy to have whatever opening statement you might have.

Senator CRAIG. Mr. Chairman, I will be brief, but I do believe it is an opportunity to talk about the issue that you have opened with this morning and I think it is important that we visit it. I am pleased to see Dr. Murano here with Food Safety and that is appropriate that we talk about BSE.

I think it is important to say several things about it straight-away, and that is that we have been at the business of monitoring and watching this very, very closely for a long while. As we have been able to successfully declare our country clean of this, there is a reason for that, and I think the Department of Agriculture and USDA can be proud of that fact. We started a surveillance program in 1990, I believe, and moved forward and successfully banned when other countries have found that their herds were infected by it.

One animal in Canada now, destroyed, did not get into the food chain, and other animals apparently destroyed that were with or in the same herd.

Now, having said that, it is also important to say that BSE agent is not found in meat. Let me repeat that. It is not found in meat. It is found in the central nervous system tissue, such as brains and spinal cord and others. Those are not incorporated in hamburger or in a New York strip and it is important that we constantly repeat that. By the way, I had a nice piece of filet last night and it was well prepared and I enjoyed it.

It is not a time for this country to panic. It is a time for this country to express some concern and to review it, as you plan to, and for us to review our systems. I have several questions I want to ask as it relates to the ban that we moved quickly to do with Canada on products coming in until such time as determinations are made. That sounds to me like the action taken appropriately. It is not something that we have dawdled about. It is something we have been involved in for a long time.

What I think is important for this committee and for the record, Mr. Chairman, is that we at least affirm that and move forward based on what we know so that the American people can have a degree of confidence in, beyond current levels, their meat supply. What is important is for them to have a great deal of confidence in the broad sense that our foods in this country are safer and better prepared to arrive at the consumer's shelf than nearly any country in the world, and for that, we ought to be proud. Thank you.

Senator BENNETT. Thank you very much.

Senator Kohl.

Senator KOHL. Thank you, Mr. Chairman, for holding this propitious hearing this morning. I would like to welcome our witnesses again to this hearing, which turns out to be of some considerable importance, and a hearing that the American public will be very much interested in hearing what you have to say.

I don't plan on making a long opening statement, but considering the announcement of BSE from Canada just this past Tuesday, this is clearly an important moment. Three of the most important Federal agencies regarding this particular issue are all in the same room together today and each of you play a key role in keeping our food supply safe and preventing diseases, such as BSE, from entering our country.

Therefore, I would like to request that each of you address this issue in your opening statements and use this hearing as a forum to explain to the American eating public, which, after all, is everybody in our country, what this announcement means. Questions like how serious is this issue? What precautions are being taken? Should we, in fact, really be afraid? I think the American people need some answers, and this hearing will provide a unique opportunity for you to address them.

With that, I welcome you again and turn back to our chairman.

Senator BENNETT. Thank you, Senator Kohl.

Senator Johnson.

Senator JOHNSON. Thank you, Mr. Chairman and Senator Kohl. I want to welcome Under Secretary Hawks, Under Secretary Bost,

Under Secretary Murano today, as well as FDA Commissioner McClellan.

We have a lot of timely and important issues to discuss, including one, implementation of country of origin labeling with Under Secretary Hawks. Secondly, the recent case of BSE in Canada, which deals with food safety, Under Secretary Murano, and FDA's ban on animal parts in ruminant feed with FDA Commissioner McClellan.

Given the development of new drugs, advanced medical devices, and other products, I look forward to Commissioner McClellan's analysis of how these products can be made available to the public. And finally, the authorization of child nutrition programs are key.

Let me address just very briefly the country of origin implementation issue. I know that Under Secretary Hawks has personally attended a number of the USDA listening sessions and I hope that USDA keeps an open mind about finding a reasonable method to, in good faith, implement country of origin labeling, because as written, the law permits USDA to use a great deal of discretion to implement labeling and model existing programs—school lunch, USDA grading system, certified Angus beef system, and so on, that have proven effective, workable, and inexpensive.

Nevertheless, very frankly, there is a widely-held belief that is growing in rural America that the Department of Agriculture is not about to, in good faith, implement country of origin labeling and we need to disprove that and to make this system work, make it work effectively and inexpensively. I am concerned that some in USDA seem all too willing to create a new, unnecessary bureaucratic recordkeeping regime so that labeling will implode under its own weight before it is even implemented.

Some hard-working public servants in the USDA, especially in the Ag Marketing Service, are moving ahead in good faith to implement a common sense country of origin labeling program and I commend these officials. On the other hand, I am very disappointed that some seem to be trying to politicize this effort and to cancel out the progress as we attempt to make implementation work. I hope these strong anti-labeling forces will let the real experts, our career officials at AMS, write a sensible and workable final rule for implementation.

Let me say this about country of origin labeling and BSE. While country of origin labeling obviously does not prevent BSE, that is not the issue. The fact that consumers are unable to differentiate between U.S., Canadian, and beef from other nations is simply unacceptable. Country of origin labeling is not a food safety issue directly, but it is a consumer information issue and it is a consumer confidence issue. I was pleased that today, the Consumer Federation of America expressed their strong support for country of origin labeling.

Let me just quickly touch on the FDA feed ban issue. I worked with Commissioner McClellan about the 1997 rule that feed mills in the United States prevent the commingling of animal proteins in ruminant feed. This has been a concern of mine for some time, largely because contaminated feed consumed by cattle is what we believe is a key causation for BSE in the first place.

When I first began to examine the issue in 2001, I met with Dr. Steven Sundloft, Director of FDA's Center for Veterinary Medicine, and at our meeting, I learned at that time that 13 percent of the feed mills regulated by FDA did not have systems in place to prevent the commingling of animal parts and feed. Furthermore, 15 to 20 percent of the feed mills failed to properly label feed, "not approved for use with ruminants," as such. Moreover, 80 percent of feed mill inspections were handled at the State level. FDA was not even doing most of the inspections.

I believe FDA and the feed industry would agree with me that we should have improved the compliance rate with this rule since 2001. In fact, we ought to get 100 percent compliance. Unfortunately, that goal has not been reached. Consumer groups indicate that, currently, FDA has only ten of its own inspectors and still heavily relies on States to do the majority of the inspections of feed mills and rendering plants.

I hear and I have read reports that as of March 23, inspections revealed that 14 percent of rendering facilities handling material prohibited for ruminant feed still did not have a system to prevent commingling of prohibited and non-prohibited material. Inspections also revealed that 33 percent of non-FDA-licensed feed mills had not labeled their products with the required caution statement about not feeding prohibited materials to ruminants, and that is unacceptable.

GAO recently issued a report stating that FDA had not acted promptly to compel firms to comply with the feed ban rule. In fact, GAO identified some non-compliant companies that have not been reinspected for 2 or more years and instances where no enforcement action had been taken.

Today, I call upon FDA to demand 100 percent compliance and insist that FDA explain the rationale for failing to promptly compel these feed mills to comply. The FDA needs to clarify how many feed mills and renderers are complying with the ban and whether firms are properly labeling prohibited material as such. Furthermore, FDA needs to explain how they will ensure universal 100 percent compliance with the ban, and if the States and/or FDA need further assistance from this committee and from Congress for that purpose.

I look forward to discussion of the medical device and child nutrition issues.

Again, I share the comments of my colleague from Idaho that American consumers can take great confidence in meat products available to them and their families in this country. We have the highest quality, safest food in the world, bar none. There is no cause for panic. There is no cause for excessive concern.

But at the same time, we at the governmental level need to make sure that that confidence is strengthened and that there is no justification for a loss of confidence in the quality of American meat products won by more aggressive action, I believe, on the part of FDA, but secondly, also by empowering American consumers to be able to make knowing choices about whether they are consuming American meat products or not. That is a very simple, inexpensive, easily done effort and I think that we can get there.

I look forward to this hearing today and the insights shared with us by this very distinguished panel, Mr. Chairman.

Senator BENNETT. Thank you. Senator Dorgan.

Senator DORGAN. Mr. Chairman, thank you very much. I am going to have to go to the Commerce Committee, but I want to come back because I want to visit with the FDA. I believe that is the second panel.

Senator BENNETT. Yes, and we have asked the FDA Commissioner to be in the audience during the first panel because I think the combination of FDA and USDA in the present atmosphere is important. While it is an imposition on his time, I want him to hear the first testimony so that he can respond during the second panel.

Senator DORGAN. I think that is an excellent idea and I regret I can't be here during all of it, but we have a hearing I have to be at over at Commerce, so I will be coming back.

But I wanted to mention just one quick point on something I believe Senator Craig has said earlier, and I just heard my colleague from South Dakota say, about our food supply, about mad cow disease. Let me just say that what I heard in the last couple of days about this angers me for one reason. The head was cut off a slaughtered cow in January and we learn in the month of May that that cow had mad cow disease. Four months is an unforgivable amount of time.

I don't know the consequences of all of this, but in this country, we have taken great steps. We made 20,000 tests, examinations, pathologies last year in this country to make sure that we have a safe supply of meat. Nine hundred such examinations were made in Canada last year. I am not suggesting the Canadian meat supply is unsafe, but I am saying that if there is a cow that in January is killed that has mad cow disease, then our country and the Canadians and consumers and the beef industry ought not know about it 4 months later. They ought to know about it 4 or 5 days later.

There are only a couple of explanations for this. One, they knew about it earlier but didn't tell anybody. I doubt whether that is the case. I think that is not the case. It looks like the Canadians thought the cow had pneumonia and they either put the cow's head in a freezer or in some solution. Several months later, somebody drug it out and said, let us take a look at it, tested it, and then sent it off to Britain or to England for more testing.

I think that is gross incompetence. We need to make certain that if there are ever questions about this, that there is testing and it is done aggressively and routinely and we get answers quickly and take actions immediately.

I just got off the phone with the Agriculture Secretary, Ann Veneman, and I told her that yesterday I complimented her. She took exactly the right action. She was decisive and quick. We get a million head of cattle a year from Canada, a billion pounds of beef a year into this country from Canada. She shut it down right now, because at this point, we don't know all of the circumstances. And so I appreciate what she has done. She sent people to Canada immediately to be involved in this, and let us hope that this is one single isolated instance. Let us hope never again will we find that,

in Canada or anywhere else, there is a case of mad cow disease that no one knows about for 4 months. That is unforgivable.

So that is another side of this issue that I don't think my colleague mentioned, but I certainly agree with all of his comments. I did not hear all of Senator Craig's comments, but I think I agree with what I heard he said and I think this timing issue is just critical.

Senator CRAIG. I assure you, you always do agree with me, Byron.

Senator DORGAN. Well, almost always, especially when we are talking about beef.

Senator CRAIG. You have got it.

Senator DORGAN. When we get too far afield of beef, it is not always the case.

But Mr. Chairman, thank you very much for giving me the time.

Senator BENNETT. Thank you.

We will now go to our witnesses. We will hear first from Eric Bost, the Under Secretary for Food, Nutrition, and Consumer Services, followed by Elsa Murano, Under Secretary for Food Safety, followed by William Hawks, Under Secretary for Marketing and Regulatory Programs.

Thank you again for being here and for your service. Mr. Bost.

OPENING STATEMENT OF ERIC M. BOST

Mr. BOST. Good morning, Mr. Chairman, members of the subcommittee. Thank you for this opportunity to present the Food, Nutrition, and Consumer Services budget request for fiscal year 2004. I have two of my staff members with me, Suzanne Biermann, who is Deputy Under Secretary, and also George Braley, who is the Associate Administrator for the Food and Nutrition Service.

You have my written testimony, so I will try to be brief in terms of hitting some of the really important issues that I would like to talk about.

The President's budget for fiscal year 2004 requests \$44.2 billion in new budget authority for the Department's nutrition programs. The budget is a clear reflection of the Administration's commitment to the nutrition safety net and to the associated activities President Bush expects us to achieve. The budget is constructed for results and the expectations are very clear. One, ensure access for eligible persons to these critical programs. Two, improve performance and program integrity. Three, address nutritional issues related to the problem of overweight and obesity in this country.

Let us talk about ensuring access, more specifically, the Food Stamp Program. The Food Stamp Program request of \$27.7 billion will serve an average of 21.6 million persons each month, including restoration of eligibility to many legal immigrants as provided for in last year's Farm Bill. The Administration's budget continues the \$2 billion reserve appropriated last year.

The Child Nutrition Program's request of \$11.4 billion supports an increase in school lunch participation from 28 million children to over 29 million children and supports an increase in school breakfast participation of over one million children, from 8 million, which we are averaging this year, to about 9 million.

The President's budget proposes \$4.8 billion for the WIC Program to provide food, nutrition, and education and a link to health care to a monthly average of 7.8 million needy women and their children, a very clear sign of the President's commitment as he increased funding the second year in a row for this very critical program. The request also provides for a \$150 million contingency fund, which we believe is unprecedented.

One of the issues that is very important to the Secretary and I is to ensure program integrity in our programs. In terms of food stamps, funding to maintain our level of effort to reduce errors in the Food Stamp Program is also included in the President's proposal. The payment accuracy rate for the Food Stamp Program for fiscal year 2001 was 91.34, the best ever accuracy rate in the history of the Food Stamp Program. We will continue to work with our State partners to improve that.

In terms of the WIC Program, the President's request provides for \$30 million to support the enhancement and modernization of the WIC State Information Systems that will improve the management of this program, which I believe is long overdue. The President's request also provides for improving the eligibility determination system for the National School Lunch Program.

One of the major issues we face in terms of nutrition in this country is the issue of the number of Americans who are overweight and obese. Sixty-two percent of all Americans in this country are overweight, a significant increase over the course of the last several years. As a part of the President's HealthierUS Initiative, nutrition assistance programs play a critical role in promoting good health and preventing diet-related diseases.

As a part of the President's budget, this priority is clear. Some of the things we are interested in doing include: supporting breastfeeding promotion efforts and other activities in WIC; providing peer counseling and demonstration projects to evaluate how the program can be more efficiently used to combat obesity among our children; expanding the successful "Eat Smart and Play Hard" campaign to other nutrition programs; developing an integrated family-oriented approach to nutrition education that allows the Department to partner with multiple Federal agencies; promoting nutrition to all Americans, including resources to update and promote the Food Guide Pyramid; and one of our most popular programs, funding for both the WIC and Senior Farmers' Market Nutrition Programs.

In conclusion, the President's direction has been very clear. The Administration's request has priorities to ensure access, maintain and improve integrity, and support efforts to address a public health threat of overweight and obesity. And given that we have spent a lot of time this morning talking about it, we truly believe we have one of the safest food programs in the entire world in terms of the foods that we provide to approximately 27 million children every day, as a part of the National School Lunch Program. Also, I would like to note, too, that there is a concerted, coordinated effort among all three of us to ensure that occurs on a daily basis.

PREPARED STATEMENTS

Thank you for your time and attention and I would be happy to answer any questions that you may have.

Senator BENNETT. Thank you very much.

Mr. BOST. Thank you, Mr. Chairman.

[The statements follow:]

PREPARED STATEMENT OF ERIC M. BOST

Thank you, Mr. Chairman, and members of the Subcommittee for allowing me this opportunity to present our budget request for fiscal year 2004.

With your permission I would also like to introduce three members of the FNCS team accompanying me today. Suzanne Biermann, the Deputy Under Secretary for Food, Nutrition, and Consumer Services, Roberto Salazar, Administrator of the Food and Nutrition Service, and Dr. Eric Hentges, the Executive Director of the Center for Nutrition Policy and Promotion.

The President's Budget for fiscal year 2004 requests \$44.2 billion in new budget authority, reflecting the Administration's commitment to the nutrition safety net that protects the Nation's children and low-income households from hunger and malnutrition and motivates them to make smart food choices and engage in physical activity to promote their health and well-being. The purposes to which we will put this substantial commitment are clearly defined and tightly focused on the achievement of three critical outcomes. First, we intend to do our part to address both within nutrition assistance programs and, through the Center on Nutrition and Policy Promotion, in the general population, the growing public health threat of obesity. Secondly, we seek not just to maintain, but to improve the access of eligible persons to our programs. Finally, we will continue our pursuit of improved performance and program integrity.

COMBATING OBESITY

The choices that consumers make related to their diet and physical activity have a major impact on their health. Poor diets and sedentary lifestyles cost this Nation dearly in medical costs, in lost productivity, and most sadly, in the premature deaths of over 300,000 citizens annually. We are committed to do our part, within the larger framework of President Bush's HealthierUS initiative, to combat this epidemic. Nutrition assistance programs play a critical role in fostering good health and preventing diet-related health problems by ensuring access to nutritious food to those who need it, and by promoting better diets and physical activity through nutrition education to program participants.

This budget request reflects this priority. We have requested \$25 million for peer counseling to enhance our breastfeeding promotion efforts in the WIC Program and demonstration projects to evaluate how WIC can be used to combat obesity among our children. We are also seeking to expand our very successful Eat Smart. Play Hard. campaign to other FNS programs beginning with WIC and Food Stamps. Finally, we are seeking resources to develop an integrated, family-oriented approach to nutrition education that cuts across all our programs. These activities allow the Department to partner with other Federal agencies as we work across Departments to meet the President's challenges for a HealthierUS.

The need to improve diets to fight overweight and obesity extends to the general public as well. Our request also supports USDA's Center for Nutrition Policy and Promotion, which works with the Department of Health and Human Services and other agencies to promote good nutrition to all Americans. Within this budget request are resources to update and promote the Food Guide Pyramid, one of the foremost nutrition education tools in the Nation, to develop the next revision of the Dietary Guidelines for Americans and to support obesity prevention efforts for the general public as part of the President's HealthierUS initiative.

ENSURING PROGRAM ACCESS

Ensuring access to the nutrition assistance programs is a top priority of this Administration. Our commitment is to ensure that every eligible person has access to the benefits they need. The Department's new Strategic Plan includes strategies to improve access to a number of underutilized programs and to pursue education and outreach efforts to make eligible people aware of nutrition assistance. At the most basic level, we have consistently designed the budget to ensure that the Programs are adequately funded to meet the demand for services. This includes proposing

record funding levels over the past 2 years for the WIC Program and reinforcing that funding with a contingency fund. A similar reserve in the Food Stamp Program prevented any disruption in the flow of benefits to 19.8 million food stamp recipients last September when program needs exceeded the base appropriation. We are requesting the continuation of the Food Stamp reserve in fiscal year 2004.

As is clear in this budget request, we are committed to access as a key principle in our effort to improve the design and administration of the nutrition assistance programs.

STRENGTHENING INTEGRITY AND PROGRAM MANAGEMENT

We are ever conscious of our responsibility to protect the American taxpayer's investment in the nutrition safety net. To maintain the public's trust, we are committed to the sound stewardship of those resources. This budget funds efforts to improve program management and integrity both at the Federal level and by our State partners. Also included is funding to maintain our level of effort to reduce errors in the Food Stamp Program. Our payment accuracy rate for fiscal year 2001, the most recent year with data available, was 91.34 percent. This is the best payment accuracy rate that the Food Stamp Program has ever experienced. We will continue our efforts and work with State partners to reduce errors even further.

We are proposing targeted investment in new efforts to enhance program management and stewardship. For example, in the WIC Program, the President's request provides \$30 million to support the enhancement and modernization of the State-level information systems that have become so important to proper management of the Program. This kind of improvement is essential to strengthening program management, maintaining a high level of program integrity and, to the extent possible, preventing errors and other problems before they occur.

In the remainder of my remarks, I would like to highlight a few key components of our request.

FOOD STAMP PROGRAM

The President's budget requests \$27.7 billion for the Food Stamp Program, enough to serve an average of 21.6 million people each month. The request includes sufficient funds to support the changes enacted in last year's Farm Bill including the restoration of eligibility to many legal immigrants. Included in this amount, we also propose to continue the \$2 billion benefit reserve. The importance of this reserve is especially critical in fiscal year 2004. While we anticipate a return to strong economic growth, predicting the turning point of program participation is challenging. The proposed contingency reserve will ensure the availability of benefits for eligible households should participation or food costs exceed current estimates.

CHILD NUTRITION PROGRAMS

The budget requests \$11.4 billion for the Child Nutrition Programs, which provide millions of nutritious meals to children in schools and in child care settings every day. This level of funding will support an increase in daily School Lunch Program participation from the current 28 million children to over 29 million children. This funding request also supports an increase in daily School Breakfast Program participation from the current 8 million to over 9 million children. Requested increases in these programs also reflect rising school enrollment, increases in payment rates to cover inflation, and higher levels of meal service among children in the free and reduced price categories.

WIC

The President's budget includes \$4.8 billion for the Special Supplemental Nutrition Program for Women, Infants and Children, the WIC Program. This year's request will allow local communities to provide food, nutrition education, and a link to health care to a monthly average of 7.8 million needy women, infants and children during fiscal year 2004. The request provides for a contingency fund of \$150 million. These resources can be used as needed if food costs or participation exceed current estimates.

COMMODITY SUPPLEMENTAL FOOD PROGRAM (CSFP)

The budget requests \$95.0 million for CSFP, which serves elderly people and women with infants and young children. The funds requested plus anticipated carry-over from fiscal year 2003, surplus donations and commodities currently in inventory will be sufficient to maintain this program in States that currently participate and those that join the program in fiscal year 2003.

THE EMERGENCY FOOD ASSISTANCE PROGRAM (TEFAP)

As provided for in the Farm Bill, the budget requests \$140 million for food in this important program. Our request for States' storage and distribution costs, a critical form of support for our Nation's food banks, is \$50 million. Secretary Veneman has committed to ensuring the continuing flow of surplus commodities to TEFAP. Such donations significantly increase the amount of commodities that are available to the food bank community from Federal sources.

NUTRITION PROGRAMS ADMINISTRATION (NPA)

We are requesting \$144.8 million in this account, which includes an increase of \$8 million and 13 staff years in our administrative budget. This increase supports the child nutrition program integrity initiative described earlier, as well as a number of initiatives under the Center for Nutrition Policy and Promotion designed to combat obesity and improve the dietary quality of all Americans. Our total request for Federal administrative resources represents only about 0.5 percent of the program resources for which we have responsibility and sustains the program management and support activities of our roughly 1,700 employees nationwide. I believe that we need these modest increases in funding in order to maintain accountability for our \$44 billion portfolio and to assist States to effectively manage the programs and provide access to all eligible people.

CHILD NUTRITION ACT REAUTHORIZATION

As I stated in my testimony before this Committee last year, I personally feel very fortunate to have the opportunity to participate in the reauthorization of important programs such as the school breakfast and lunch programs, the WIC Program, and the summer feeding program. Congress and the Administration face a range of important challenges in this reauthorization cycle. Among these is combating obesity among our youth, ensuring access to our programs, improving the nutritional content of meals, and enhancing program integrity and administration.

Toward meeting these challenges, the Administration has established a set of principles to guide the reauthorization process. Key among these are:

- Ensuring that all eligible children have access to program benefits—including streamlining the administration of programs to minimize burdens and increase meal reimbursements to provide support for quality program meals.
- Supporting healthy school environments—providing financial incentives to schools that promote good nutrition, including serving meals that meet the dietary guidelines, offer healthy-choice alternatives, and provide nutrition education.
- Strengthening program integrity—the budget also makes clear that if there are any savings resulting from integrity initiatives these funds would be reinvested into the Program to ensure the best outcomes for those in need.

In sum, our request sets the right priorities to ensure access to the Federal nutrition assistance programs for the children and low-income people who need them, while maintaining and improving their integrity and supporting our efforts to address the growing public health threat of obesity. Thank you for your attention; I would be happy to answer any questions you may have.

PREPARED STATEMENT OF ROBERTO SALAZAR, ADMINISTRATOR, FOOD AND NUTRITION SERVICE

Thank you, Mr. Chairman, and members of the Subcommittee for allowing me this opportunity to present the budget request for the Food and Nutrition Service for fiscal year 2004.

The mission of the Food and Nutrition Service is to increase food security and reduce hunger together with cooperating organizations by providing children and low-income people access to food and nutrition education in a manner that inspires public confidence and supports American agriculture. We are requesting a total of \$44.2 billion to fulfill this mission through the Federal nutrition assistance programs.

As the Under Secretary noted, the request for FNCS focuses on the accomplishment of three critical outcomes:

- To address the emerging epidemic of obesity, especially among America's youth, by improving our programs' ability to support healthy eating and physical activity, including better integration of nutrition education into Federal nutrition assistance.
- To improve access to these programs, to ensure that all those eligible are able to participate.

—To enhance performance and integrity in the programs, to strengthen their operation and maximize their ability to serve eligible children and low-income people while safeguarding the taxpayer's investment in nutrition assistance. I'd like to offer you some details from our request that provide the link between the investments we intend to make and these important goals.

COMBATING OBESITY

The budget request includes funding to promote healthy eating and physical activity to prevent nutrition related illnesses in America. These are core objectives of the nutrition assistance programs, as they represent a unique opportunity to reach populations that experience a disproportionate share of diet-related problems and risk factors including overweight and obesity.

FNS is working on a number of fronts to harness the power of the nutrition assistance programs to combat obesity, such as:

- As part of the President's HealthierUS initiative, we are pursuing a vigorous nutrition promotion campaign, Eat Smart. Play Hard. The campaign is designed to motivate healthy eating and more physical activity;
- We are working to improve the nutritional content of school meals, food packages and other benefits to ensure that they continue to contribute to a healthful diet;
- We are expanding and improving program-based nutrition education, such as Team Nutrition, and other nutrition services to improve healthy eating skills of participants;
- We have made significant improvements in the nutritional quality of school meals, lowering the percentage of calories from fat and saturated fat as well as reducing levels of sodium and cholesterol; and
- We are enhancing our support of breastfeeding, a proven strategy to reduce the early incidence of obesity, through peer counseling and exploring other ways in which WIC can assist in the battle against childhood obesity.

In addition, FNS and the Center on Nutrition Policy and Promotion are working in partnership with other USDA agencies, the National Cancer Institute and the Centers for Disease Control and Prevention, to increase the consumption of fruits and vegetables to 5 to 9 servings per day for a healthier eating pattern.

ENSURING PROGRAM ACCESS

The budget request includes funding to support initiatives to ensure access for low-income individuals who are eligible to participate in our programs. While the Food Stamp Program reaches tens of millions of low-income Americans every month, many others who are eligible for benefits, including many seniors and the working poor, do not participate. To better reach these eligible nonparticipants, we have launched a major new public information campaign, "Food Stamps Make America Stronger", awarded grants to 33 local and state organizations over the last 2 years to assist the working poor, elderly, legal immigrants, and other low-income families and individuals, and are prepared to award another \$5 million in grants this year to help States improve the food stamp application process as authorized by the Farm Bill.

To meet our commitment to improve access for all who are eligible, we must work closely with our program partners—individuals and organizations in communities across America who deliver the nutrition assistance programs, and work to make them accessible and effective. Faith-based organizations have long played an important role in raising community awareness about program services, assisting individuals who apply for benefits, and delivering benefits. President Bush has made working with the faith-based community an Administration priority, and we intend to continue efforts to reach out to that community in fiscal year 2004.

STRENGTHENING INTEGRITY AND PROGRAM MANAGEMENT

We are requesting additional funding in the President's budget to strengthen integrity and program management both at the Federal and State levels. In the Food Stamp Program, FNS administers a quality control system that encourages payment accuracy by establishing fiscal liabilities and incentives based on State performance in benefit determinations. In fiscal year 2001, the rate of overissuance was 6.47 percent (\$1 billion) and the rate of underissuance was 2.19 percent (\$340 million) for a combined payment error rate of 8.66 percent, the lowest in the history of the program. We expect performance to have improved in fiscal year 2002. But continued vigilance will be needed to sustain and to continue to improve on this record. One factor as we continue our commitment to performance is that food stamp caseloads

in virtually every State are rising, while at the same time many States face significant budget deficits.

Another focus of our integrity efforts is improving the accuracy of certifications for free and reduced price school meals. As you know, FNS has been analyzing this problem for a number of years; while we do not have a measure of its full extent, the indications are clear that the problem is real, and may have worsened in recent years.

Inaccurate certifications represent a risk that free and reduced price meals could be provided to ineligible participants. Furthermore, certifications are used to distribute billions in Federal, State, and local education aid; errors can undermine targeting of aid to those most in need.

USDA has been working for a number of years to collect additional information to learn more about the problem, and to identify potential solutions. Current efforts include pilot-tests of alternative free and reduced-price eligibility determination systems, administrative reviews of the current verification process in a number of school districts, and a study to assess the eligibility status of families selected for income verification.

The President's Budget proposes to improve the accuracy of eligibility decisions and to reinvest any savings from improved payment accuracy in ways that strengthen the program, ensure the access of all eligible children and improve the nutritional quality of meals. We have had a continuing dialogue with the Congress, the school food service community and program advocates trying to find a solution to this problem that does not deter eligible children from participation in the program and does not impose undue burdens on local program administrations. This will be an issue in the upcoming reauthorization of the Child Nutrition Programs. In the meantime, we will soon be issuing a final regulation that will require local agencies to report certification verification results to State agencies. The States, in turn, will use this information and meal data to target technical assistance activities to school food authorities with the highest levels of verification errors.

FNS is addressing Child and Adult Care Food Program (CACFP) management weaknesses identified by Federal and State reviews and in OIG audits. A regulatory proposal published in September 2000, proposed changes to State and local monitoring and training requirements. An interim rule that implemented statutory changes to the CACFP was published in June 2002, and training on the rule was provided to State and Federal CACFP staff during the fall of 2002. A second interim rule will be published during the summer of 2003 to implement the remaining provisions.

Now, I would like to review some of the components of our request that relate to these outcomes under each program area.

FOOD STAMP PROGRAM

We are requesting \$27.7 billion for the Food Stamp Program, including a \$2 billion benefit reserve as appropriated in fiscal year 2003. This proposed reserve would be available for eligible households in case participation exceeds current estimates. Participation is estimated to increase by 871,000 to a level of 21.6 million participants in fiscal year 2004. This level of funding will also support approximately 200,000 new recipients covered under the 2002 Farm Bill changes to eligibility requirements for legal immigrants and other individuals.

CHILD NUTRITION PROGRAMS

For these programs, we are requesting a total of \$11.4 billion. The budget request will support the daily participation of over 29 million children in the School Lunch Program and over 9 million children a day in the School Breakfast Program. The cost of snacks served under the after school National School Lunch Program is also included in this request. We estimated 41 million meals above the fiscal year 2003 estimate in the Child and Adult Care Food Program. The request also includes additional funding to support increases in school enrollment, increases in payment rates to cover inflation, a higher proportion of meals served to children in the free and reduced price categories and to support efforts to improve integrity.

SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS AND CHILDREN (WIC)

The President's request of \$4.8 billion will enable us to provide benefits to a monthly average of 7.8 million needy women, infants and children during fiscal year 2004. This is a record-level request that shows the Administration's commitment to this effective and critical program for mothers and their young children. We believe this funding will provide benefits and services to all who are eligible and wish to

participate. In October of 2002, WIC participation reached a record high of over 7.66 million participants. Since then, participation has fallen, consistent with historical trends toward lower participation in the winter months than during the rest of the year. We expect program demand to grow throughout the spring and summer. This request supports a \$150 million contingency fund to allow WIC to serve all eligible persons seeking benefits should funding be insufficient for any reason.

THE EMERGENCY FOOD ASSISTANCE PROGRAM (TEFAP)

We are requesting \$140 million, as provided for in the Farm Bill, to purchase commodities for this program. Our funding of States and local agencies costs associated with the distribution of commodities is a vitally important part of our support of the TEFAP community and we are requesting \$50 million for this purpose. As Under Secretary Bost has noted in his testimony, Secretary Veneman has committed the Department to a continuing flow of surplus commodities to TEFAP at levels comparable to recent years. These surplus commodities are an essential resource to the food banks and significantly enhance their ability to serve the needy in their communities.

NUTRITION PROGRAMS ADMINISTRATION

Our Nutrition Programs Administration (NPA) request for fiscal year 2004 is \$144.8 million, an increase of approximately \$8 million over the fiscal year 2003 enacted level. We are requesting approximately \$2.9 million for pay cost increases and \$1 million to fund 13 additional staff years to enhance program integrity in the Child Nutrition Programs. The request also includes an increase of \$4.0 million to enable us to expand our initiatives to combat obesity, reduce diet-related disease among all Americans, and support the President's HealthierUS initiative. The Center for Nutrition Policy and Promotion, also included in this budget request, will continue the process of updating the Food Guide Pyramid, one of the Nation's most important nutrition education tools; updating the Interactive Healthy Eating Index; working jointly with the Department of Health and Human Services on the updated Dietary Guidelines for Americans; and begin development of an obesity prevention campaign. As noted by Under Secretary Bost, FNS will be expanding its very effective Eat Smart. Play Hard. campaign to WIC, Food Stamp and possibly other nutrition assistance programs. The agency will also initiate development of family-oriented, nutrition education messages that are useful and relevant across the full range of our programs.

Thank you for the opportunity to present this written testimony.

Senator BENNETT. Dr. Murano.

STATEMENT OF ELSA MURANO

Dr. MURANO. Good morning, Mr. Chairman, members of the subcommittee. We have the safest food supply in the world, and I say that with all confidence because I know when one looks at the rates of illness per 100,000 people in a population in any country, we do have the lowest. So I am very proud to say that unequivocally here.

The safety of our food supply, as you have all stated, is one of the most important issues that we face. The public expects its food to be safe, and as a public health official, I take very seriously my job to meet that expectation. I came to Washington to do that job.

Providing consumers with a safe food supply is an ongoing challenge, however. On the one hand, we must rapidly respond to day-to-day events, such as product recalls, outbreaks of foodborne illness, and reports of potential food safety hazards, like we have this week. On the other hand, we must have a solid food safety infrastructure, strong policies in place, and the appropriate expertise available to handle these day-to-day events. These cannot be developed in days, weeks, or even months. They require long-term efforts and resources. In other words, it is not enough to say that we

are doing everything we can to protect the public health. We must be able to back up such statements with concrete actions.

So let me use BSE as an example. Our efforts to guard against BSE in the United States began in 1989, as you know, when FSIS, in cooperation with other government agencies that are appearing before you today, APHIS and FDA, took a series of preventive actions to protect against this animal disease, which can potentially have human health implications. Mr. Hawks, I am sure, will mention some of these, and certainly Mr. Johnson has mentioned the ban on the use of ruminant materials in animal feed, and also the ban on the import of animals from countries that are known to have BSE.

In addition, FSIS is finalizing a rule to ban the use of air-injected stunning and has also implemented a rigorous process verification program of beef that is produced by advanced meat recovery systems to ensure that high-risk materials are absent from our beef supply.

So in the same manner, while outbreaks of foodborne illness continue to occur, we have made significant improvements to our food safety programs to minimize their occurrence and their effects. For example, we are now using epidemiological evidence to link cases of foodborne illness to specific products that we regulate. This means that an outbreak can be traced to its source more quickly, potentially reducing the number of illnesses.

In March of 2003, the Centers for Disease Control and Prevention reported that the rate of foodborne illness across the board is down 16 percent over the last few years, and this is good news, indeed.

The behind-the-scenes work that FSIS carries out is detailed in my statement for the record, but let me just point out a few highlights of our accomplishments this last year and a half. We have introduced more highly skilled scientific experts into our workforce, including consumer safety officers and Public Health Service commissioned officers, and we have taken the first steps towards revitalizing our training and education programs to better prepare our inspectors, and our employees, to function in a public health agency, which is what FSIS is.

Recognizing that *E. coli* O157:H7 is more prevalent than previously thought, we directed establishments to reassess their HACCP plans for this pathogen, and we are verifying that these reassessments have taken place.

We completed our risk assessment on *Listeria monocytogenes* and issued a directive stating that FSIS would intensify its testing program for this pathogen in instances where plants either don't have adequate controls or have these controls but don't share their data with us.

To improve the security of the food supply, we hired 20 new import surveillance officers. We assessed vulnerabilities from farm to table, developed and distributed guidelines to industry on plant security, and have done many, many other functions that I will be happy to visit with you about.

We are carrying out our reorganization of the Food Safety and Inspection Service to better prepare the agency to meet its public health goals. This includes a new internal review office. It is our

own quality control office, if you will, so that we don't wait for OIG reports or GAO reports to tell us where our vulnerabilities or weaknesses may be.

And last but not least, to take our food safety message directly to the people who need it, we are sending our new USDA Food Safety Mobile to strategic locations throughout the country.

PREPARED STATEMENTS

Mr. Chairman, in the interest of time, I will not go on and tell you the specifics of our budget request. I think you have them before you. So I will close my comments and pledge to you that we continue to do everything that we can to show the public that they do have a safe food supply and that they can rely on that fact, and so with that, I will yield to Mr. Hawks.

Senator BENNETT. Thank you very much.

[The statements follow:]

PREPARED STATEMENT OF DR. ELSA MURANO

Mr. Chairman and Members of the Subcommittee, I am pleased to appear before you today to discuss the fiscal year 2004 budget for food safety within the Department of Agriculture (USDA). I am Dr. Elsa Murano, Under Secretary for Food Safety. With me today are Dr. Merle D. Pierson, Deputy Under Secretary for Food Safety; Dr. Garry McKee, Administrator of the Food Safety and Inspection Service (FSIS); and Ms. Linda Swacina, Associate Administrator.

The safety of our food supply is one of the most important issues we face not only at USDA, but as a nation: there is nothing more personal or vital to all of us than the food we provide to our families. President Bush's budget for fiscal year 2004 includes record-level support for USDA's food safety programs and their basic mission of providing continuous food safety inspection in each meat, poultry, and egg products establishment in the country. The additional \$42 million requested for FSIS will be used to fund several important initiatives that I would like to review with you in a moment.

Before I cover those initiatives that will be implemented from the additional \$42 million requested for FSIS, I want to discuss what has happened in the past year, our progress on the five goals to improve food safety, our efforts to improve international food safety, and our plans for the future.

What Has Happened During the Past Year

We have the best food production and processing systems in the world, providing consumers with the most abundant and safest food supply. However, last year was a testament that maintaining the safety of our food is an ongoing challenge. We faced two major recalls, one caused by *Listeria monocytogenes*, another caused by *E. coli* O157:H7.

We take our public health mission very seriously, and we will do what is necessary to accomplish that mission. According to the Centers for Disease Control and Prevention (CDC), over the past decade, there has been a major Listeriosis outbreak associated with ready-to-eat products in the United States every 2 to 4 years. In addition, *E. coli* O157:H7 outbreaks due to consumption of undercooked hamburgers are almost an annual occurrence.

Despite these challenges, we have made significant improvements to our food safety program. We believe that the Pathogen Reduction/Hazard Analysis and Critical Control Point (PR/HACCP) rule in 1996 has made food safer. In May 2002, the CDC reported that the rate of foodborne illnesses, across the board, is down 21 percent.

We have also made great strides in improving the technical and scientific knowledge of our inspection force. With the introduction of the Consumer Safety Officer corps we have introduced highly-skilled, scientific experts into the field to reinforce our veterinarians and front-line inspectors. We are driven by the fact that the enormity of our responsibility cries out for a science-based system and we continue to incorporate state-of-the-art science into the inspection process at every opportunity.

Those strides are great, but we need to address how we are going to protect public health further. Throughout my career as a researcher, I have become keenly aware of the importance of sound scientific studies and how these can help provide us with

the critical information and practical application of science we need to make decisions that will truly reduce the risk of foodborne illness. I have also observed the need for a proactive approach, one that does not simply react to food safety crises, but rather anticipates risks and prepares to mitigate their potential for harm. We need to improve across the board in everything we do including our public education campaigns; laboratory testing; inspector training; and in-plant inspection.

The Five Goals To Improve Food Safety

I want to review some of the achievements we have made in improving food safety. Last year when I testified before this Committee, I outlined to you five goals that I intended to pursue in the coming year to ensure that we are proactive in protecting public health. We have pursued these goals with vigor, and we continue to do so. I am proud to report that much has been accomplished over the last year in our pursuit of these goals to ensure the safety of the nation's food supply.

Before I cover our accomplishments under each of the five goals, I would like to review them quickly. They are:

- Ensure that policy decisions are based on science;
- Improve the management and effectiveness of FSIS programs;
- Improve coordination of food safety activities with other public health agencies;
- Protect meat, poultry, and egg products against intentional harm; and
- Enhance public education efforts.

Goal #1: Ensure that Policy Decisions are Based on Science

My first goal is to ensure that policy decisions are based on science. As I mentioned earlier, employing science is the only way we are going to break the cycle of foodborne illness. My background as a researcher in food safety has shown me the importance of utilizing science in formulating regulatory policy.

If we take a look at two of the pathogens that have recently been on our radar screen—E. coli O157:H7 and *Listeria monocytogenes*—then we see that these organisms are representative of the universe of microbial hazards that pose the biggest threat to the safety of our food supply.

The first one, E. coli O157:H7, comes to us through live animals that may have the organism on their bodies or in their intestinal tracts. Thus, its control hinges on minimizing its presence in the intestinal tract of food animals and in preventing its contents from reaching raw products derived from these animals.

The second pathogen, *Listeria monocytogenes*, is an environmental pathogen carried by personnel, equipment and water, which can spread the pathogen when they contact food. Thus, its control hinges on finding where it might be harbored in the environment of the food processing plant and eliminating it so as to prevent contamination of food-contact surfaces.

Risk assessments help give us a picture of the pervasiveness of these organisms. Risk assessments are scientifically-based processes of estimating the likelihood of exposure to a hazard and the resulting public health impact. They provide a solid foundation from which we base policies on science.

The benefits of using them can be seen in our initiatives on E. coli O157:H7 and *Listeria monocytogenes* last year. We learned from our risk assessment on E. coli O157:H7 that the pathogen was not the proverbial needle in a haystack we once believed. On the contrary, it was much more prevalent than previously thought, which meant that we had to take a hard, new look at our strategies to address its occurrence. Not all establishments were implementing HACCP systems that were effective for controlling E. coli O157:H7. Others were not correctly validating the interventions used to control the pathogen. We realized that simply focusing on grinding operations was not effective; therefore, in order to be efficient, we also needed to focus on the production process, the slaughter process, and trimmings as contributors to the problem.

In November, we issued a directive to our inspectors to make sure that establishments producing ready-to-eat meat and poultry products are preventing *Listeria monocytogenes* contamination. This directive was absolutely necessary given the gravity of the Northeastern Listeriosis outbreak in the fall. Furthermore, we recently completed a draft risk assessment on *Listeria*, which evaluates the factors that may contribute to the overall risk to public health. The information developed during the risk assessment process is critical to exploring a variety of risk management scenarios and we plan to examine different combinations of testing and intervention that present possibilities for future policy making. We used the risk assessment as we worked on a final rule to reduce *Listeria* in processing plants producing ready-to-eat meat and poultry products. We have moved as rapidly as we can to develop this final rule while using sound science as the basis and expect to publish it in the Federal Register soon.

In a perfect world, risk assessments would be completed before risk management strategies are developed. But in the real world, we may not have this luxury. We must design risk management strategies based on what we know today and improve them as more information becomes available.

Another way we have based policy decisions on science has been through a series of scientific symposia we hosted on specific issues ranging from applied epidemiology, pathogen reduction, and Listeria. These symposia offer an opportunity to hear from experts in academia and government and allow for a dialogue on how we can improve the scientific basis for our food safety programs and policies.

Most recently, on April 29, FSIS sponsored the Second Scientific Symposium on Applied Epidemiology. This meeting was the second in a series of meetings aimed at aiding FSIS in developing a framework for how the agency will conduct public health investigations and integrate the scientific principles of applied epidemiology into its food safety activities. The successful meeting served as an open forum to discuss the agency's approach to investigations of foodborne illnesses associated with meat, poultry, and egg products and the progress the agency has made using epidemiology as a basis for regulatory decision making.

Goal #2: Improve the Management and Effectiveness of FSIS Programs

The second goal I'd like to discuss is improving the management and effectiveness of FSIS programs. In order to fulfill this goal, we needed to select a leader to head FSIS through one of its most profound transformations toward a public health mission.

I was looking for certain traits in this individual. These included a scientific background, strong management skills, a sense of accountability to everybody in the organization, and most important, a proven track record of public health service and commitment. This person would also have to be a motivator.

I am truly proud to say that I have found all these traits in the selection of Dr. Garry McKee, who started with FSIS on September 1, 2002. In this very short time he has made a very positive impression on agency employees and constituents alike. Dr. McKee is a committed public health professional with over 30 years of public health experience and a proven leader in managing public health programs and personnel. He brings unparalleled enthusiasm, determination, and commitment toward public health to the helm of FSIS and I certainly believe that his tenure will be regarded in the future as a significant turning point in FSIS' long history.

The selection of an Administrator was critical, but so too was the reorganization of the agency that began last year. This reorganization will prepare the agency to better meet its public health and food safety goals. The purpose for this reorganization is to increase accountability, enhance communication, and improve overall efficiency.

This reorganization will also ensure that the principles of public health and food safety cut across the entire spectrum of FSIS' work. We have added four assistant administrators for Food Security; Program Evaluation, Enforcement, and Review; Communications, Outreach and External Review; and International Coordination to strengthen the working relationship between our various offices.

With Dr. McKee's leadership, we are already seeing increased accountability for all FSIS employees; improved communication and cooperation that flows smoothly and quickly throughout the organization, as well as laterally across all divisions and to outside agencies; and increased efficiency in the agency's programs. As a public health agency, lives depend on our programs and operations to work as a well-oiled machine.

Another key to enhancing the consistency and effectiveness of FSIS inspection entails a revitalization of training and education programs conducted by the agency to instruct our workforce on HACCP sanitation procedures and other regulatory measures. The agency is in the process of redesigning current training programs to enhance distance learning opportunities and improve hands-on training methods. We realize that our workforce is the backbone of FSIS. We rely on our field employees to be in every meat, poultry, and egg products plant, ensuring that the plants are producing products that are safe, wholesome, and accurately labeled. Our front-line employees are responsible for making the critical determination that products are not adulterated and are safe to eat. They are also responsible for identifying and preventing intentional threats to the food supply. As a result, we believe that it is absolutely necessary to have a scientifically- and technically-trained workforce that is dedicated to ensuring a safe supply of meat, poultry, and egg products. FSIS is refocusing and retooling its training efforts because a well-trained and competent workforce is a key element to the success of our critical food safety and public health mission.

We have also strengthened our workforce's ability to enforce the HMSA. All of the over 7,600 FSIS inspection personnel are expected to enforce the Humane Methods of Slaughter Act (HMSA) and take enforcement action for humane handling and slaughter violations. FSIS has inspection personnel trained in humane methods of handling and slaughter in all of the nearly 900 federally inspected U.S. livestock slaughter establishments. In addition to their food safety-related inspection responsibilities, these veterinarians and inspectors are charged with observing the methods by which livestock are slaughtered. FSIS inspectors and veterinarians, who provide continuous inspection in every slaughter facility, are required to take immediate enforcement action when a violation is observed. FSIS personnel who fail to enforce the HMSA are considered negligent in their duties and are subject to disciplinary action. FSIS has taken, and will continue to take, enforcement actions against plants that do not follow humane handling requirements.

In addition, FSIS used funding allocated in the fiscal year 2001 Supplemental bill to hire 17 veterinarians to serve as District Veterinary Medical Specialists (DVMS) in each of the agency's districts. The DVMS reported for duty on December 30, 2001. The DVMS have been trained in all aspects related to humane handling and slaughter, including antemortem inspection, humane handling regulations, the HMSA, stunning methodologies, assessing consciousness, enforcement procedures related to humane handling, and workplace violence. They also serve as the program coordinators for all humane handling issues within their districts and are providing training to newly hired in-plant Veterinary Medical Officers on the agency's humane handling and slaughter responsibilities.

In addition to our reorganization and training efforts, FSIS is continuing the pilot inspection system, known as the HACCP-based Inspection Models Project, or HIMP, to address the online slaughter process. I view HIMP as a means of increasing the effectiveness of our inspection force and the efficiency of our food safety systems, while in no way compromising food safety or our process control system.

Under HIMP, one FSIS inspector inspects each carcass at the end of the line, while other FSIS inspectors are given the freedom to move throughout the facility and the slaughter line to ensure that the plant's critical control points in its food safety system are effectively preventing and stopping pathogens and other food safety hazards, resulting in more intense and effective inspection and verification activities. In June 2002, FSIS made data from the National Alliance for Food Safety (NAFS) available comparing HIMP and traditional inspection, which indicate that HIMP is at least equal to the traditional inspection system. In September 2002, an independent review of the HIMP data concluded that "the HIMP system compared favorably to the traditional system of inspection." FSIS is encouraged by this data and we intend to use these results to further modernize our inspection system to most effectively prevent and control food safety hazards.

Goal #3: Improve Coordination of Food Safety Activities with Other Public Health Agencies

We have also made progress with the third goal to improve coordination of food safety activities with other public health agencies. I am a strong believer that by working together, all the agencies with public health responsibilities can best utilize our resources to ensure a safe food supply.

An example of our progress in this area was an unprecedented investigation that we coordinated with the CDC and other State and local public health agencies on the Northeastern listeriosis outbreak last year. FSIS dispatched seven teams beginning in early September to affected Northeastern States and used information provided by CDC to test products and visit plants that were suspected of being linked to the outbreak. More than 400 tests were taken in the course of the investigation. When we first suspected that a turkey product caused the outbreak, we took the necessary steps to identify the plant. When the plant was identified, FSIS immediately conducted a recall and sent a team of specialists to the establishment to identify and help correct any problems in the plant. We spent an enormous amount of time and resources investigating this outbreak including creating a team of more than 50 laboratory scientists, regional epidemiologists, consumer safety officers, compliance officers, field personnel and headquarters management to work closely with CDC and State and local public health officials to locate the source.

This effort was enhanced by our cadre of FSIS epidemiologists, many of which are Public Health Service (PHS) Commissioned Officers. We believe so strongly in the significant role the PHS can play in helping FSIS carry out its food safety mission that on April 17, 2003, we signed a Memorandum of Agreement (MOA) with the U.S. Department of Health and Human Services' PHS Commissioned Corps, to expand the role and number of PHS Officers detailed to FSIS. The addition of these

PHS Commissioned Officers will enhance FSIS' capabilities for rapid response during heightened security alerts or an actual threat to food security.

Another example is our very close working relationship with the Food and Drug Administration Commissioner, Dr. Mark McClellan. We have established regular meetings with Dr. McClellan's office to increase our interaction on issues of mutual concern and to discuss policy positions of common interest.

States are also an integral part of the U.S. food safety system. We are working to update and strengthen the Federal State review process through a number of means. FSIS is working diligently to address the congressional mandate in the 2002 Farm Bill requiring us to carry out a comprehensive review of State Meat and Poultry Inspection programs. The agency has also published voluntary security guidelines to help State-inspected plants that produce meat, poultry, and egg products in identifying ways to strengthen their security plans to protect against acts of bioterrorism.

Another area in which we are making major strides is our cooperation with States through the sharing of recall information. In July 2002, FSIS published a final rule allowing the agency to share a firm's distribution list with State and Federal agencies in the event of a meat or poultry recall through a Memorandum of Understanding. This change allows for better communication and coordination between FSIS and the numerous State and Federal agencies that are involved in product recalls.

Goal #4: Protect Meat, Poultry, and Egg Products Against Intentional Harm

Close coordination with other public health agencies is also very important in protecting the food supply against intentional harm, which leads me to the fourth goal. Since the attacks on September 11, 2001, FSIS has strengthened coordination and preparation efforts to prevent, detect, and respond to food-related emergencies resulting from acts of terrorism, and ensure the safety of meat, poultry, and egg products that come to us from other countries. With a strong food safety infrastructure already in place, FSIS has been able to focus on strengthening existing programs and improving lines of communication, both internally and externally.

We have implemented several measures to protect the public from contaminated product entering the United States from abroad. In addition to reinspecting imported product, FSIS continually assesses foreign establishments to make sure their sanitation and inspection procedures are equivalent to those in the United States.

To augment the efforts of traditional FSIS import inspectors, FSIS has also added 20 new import surveillance liaison inspectors who are on duty at ports-of-entry. Where traditional USDA import inspectors examine each shipment and conduct reinspection activities, these new import surveillance liaison inspectors conduct a broader range of surveillance activities at each import facility and serve as liaisons to improve coordination with other agencies concerned with the safety of imported food products, such as the Department of Homeland Security.

Furthermore, FSIS introduced the new Automated Import Information System (AIIS), which focuses on a foreign country's inspection system as a whole, rather than on individual plants. This system, using statistics, chooses imports for reinspection based on the annual volume of shipments from the exporting country. Previously, for all countries except Canada, reinspection was randomly assigned based on an establishment's compliance history. The new system is user-friendly and allows inspectors at all ports-of-entry to share data. It also allows managers to have easier access to inspection reports. The new AIIS also provides better tracking of shipments once they enter the United States, and FSIS' next step is to integrate the system with USDA's Animal and Plant Health Inspection Service (APHIS) and the U.S. Customs systems to further strengthen the food safety system against intentional attacks.

Besides our initiatives to screen imported products, we have conducted a vulnerability assessment to be used as a tool for determining the most vulnerable products, likely agents, and potential sites for deliberate adulteration of domestically produced meat, poultry, and egg products. The assessment was conducted using a farm-to-table approach based on current knowledge of the industrial processes used in the production of these products and the potential biological and chemical agents that could be introduced. The assessment was concluded in June 2002 and the information obtained is being used to develop risk management strategies, including ensuring that our laboratories are equipped with the methods and personnel necessary for detecting agents of concern.

We are also developing a vulnerability assessment of the import system to identify points in the production of imported products where biological, chemical, and radiological contaminants could be intentionally added to foods being brought into the United States. FSIS used the risk analysis framework to conduct a relative risk

ranking to be used to allocate resources to monitor U.S. ports-of-entry for those food commodities that pose the greatest risk, examine different intervention strategies for preventing or reducing risks, develop biohazard identification protocols, and target training of personnel and develop educational campaigns to increase awareness. This assessment is expected to be completed in September 2003.

We have taken preparation for food safety emergencies to a higher level with simulation exercises. Earlier this year, we conducted an exercise known as "Crimson Winter" to familiarize our managers and staff with the operating environment that would exist during an outbreak of foodborne disease—the cause being intentional or unintentional. This exercise was very constructive for our senior management, emergency response team, our partners in the Food Threat Preparedness Network, and other relevant Federal and State agencies.

Goal #5: Enhance Public Education Efforts

Finally, goal number five is to engage in proactive education programs. Food safety education is a critical element of the risk analysis framework, which includes risk assessment, risk management, and risk communication. It is a risk management strategy because educating food preparers is an important way to reduce the risk of foodborne illness. Education is also a risk communication function because it serves to alert the public about a hazard that exists and can be addressed by safe food handling and food selection.

As we continue to examine emerging and existing food safety problems, it is important that we remember that reducing foodborne illness requires numerous interventions all along the farm-to-table chain. We must consider all the strategies available to us—and education is one of them—to make the food supply safer. That is why we continually look for the most cost-effective ways to get the food safety message out to all food handlers from coast to coast.

I have been busy travelling around the Nation conducting media interviews and delivering food safety education messages through an aggressive campaign. This is why we have pursued an even greater amount of coordination among government, industry, and consumer groups to deliver food safety messages to all food handlers and preparers.

One of FSIS' key public health missions is to educate the public about the hazards of foodborne illness, as well as to teach safe food handling techniques to ensure the safety of meat, poultry, and egg products. Since we are trying to share our food safety message with all segments of the population, such as consumers, food preparers, educators, children, physicians, public health officials, and industry, this is a formidable task.

Because we are tasked with spreading our food safety message to so many people with a limited amount of resources, FSIS is developing a comprehensive and sustainable mass media campaign that leverages traditional and non-traditional media outlets throughout the country to get this important message out. To carry out this function, FSIS has requested \$1.5 million in the fiscal year 2004 budget for the development of this food safety education campaign. Some of the funds will be used to consult expert assistance on the design of a mass media food safety campaign. The agency intends to combine the expertise of the consultant with that of its traditional food safety education partners, as well as others with expertise in the delivery of public health and food safety messages.

The development of this food safety campaign is the next step in the agency's efforts to continuously enhance the delivery of important and life-saving food safety messages to the public. Currently, FSIS Food Safety Education staff is working with traditional media sources, food handlers and preparers, as well as other "food safety education audiences" to refine food safety messages and lay the groundwork for future development of a wider mass media education campaign.

To this end, the agency is sending the USDA Food Safety Mobile to strategic locations throughout the country to research and develop this important food safety education campaign. While delivering important food safety messages to the public, the Mobile is providing valuable first hand insight on how future mass media messages and education campaigns should be constructed and delivered. FSIS will combine this research with the expert consultation it will seek in fiscal year 2004 from food safety education professionals and develop a much broader and sustainable mass media campaign.

Also last year, FSIS partnered with the Food and Nutrition Service to provide new educational materials to schools and child care facilities. We are also actively engaged in the Partnership for Food Safety Education, which is a public-private coalition dedicated to educating the public about safe food handling preparation to help reduce foodborne illness.

We all have to realize as well that education is not just about the basics of food handling. There are many new effective products and technologies in the marketplace that can be used to reduce pathogens and food preparers need to be educated about them. Basic and thorough education is needed to inform and change possible misconceptions about their applications.

Irradiation is a good example of a technology that is misunderstood by the public. We were charged by Congress in the recent Farm Bill to conduct an education program on the availability and safety of new technologies, including irradiation, that eliminate or substantially reduce the levels of pathogens in meat and poultry products. Last year we convened a meeting with a group of the foremost experts on pasteurization/irradiation to start developing an education program. We expect much to come out of this group as we continue to develop and deliver an effective education program for pasteurization/irradiation.

Efforts to Improve International Safety

The U.S. food safety system is the gold standard for the world. Because we have the same safety requirements for the U.S. meat and poultry produced for export and for products entering the United States, our efforts to continually improve our food safety system have a global impact.

We are fully committed to working with our international partners in ensuring a safe global food supply. Under my direction, the Office of Food Safety leads the U.S. office of the Codex Alimentarius Commission, which is an international standard-setting body for food safety. Our active leadership in Codex contributes to decisions that have profound effects on national economies and the health and well being of citizens around the world. That is why FSIS strives to educate the public, our U.S. partners, and interested partners around the world about the important role Codex plays in developing science-based global food safety standards. It is in our national interest to maintain our leadership role in Codex in order to ensure food safety regulations around the world are reasonable, equitable, and achievable.

Another example of our commitment to international food safety is through education. Last year, we cosponsored with the U.S. Department of Health and Human Services the "Thinking Globally—Working Locally: A Conference on Food Safety Education." The conference included breakout sessions, workshops, and tours focusing on the food safety education implications of the global food supply. Over 600 participants from the United States and abroad attended.

We also reached out to rural women worldwide through participation in the Third International Congress on Women in Agriculture held in Spain last year. We delivered our food safety education message at this conference to help strengthen our message throughout the world.

Risk Assessment

While FSIS has been able to use risk assessments to better shape our policy, we also need to make sure that the risk assessments that we carry out address the agency's needs. Our talented and dedicated leadership team has made it clear to the FSIS workforce and to industry that science will dictate our food safety programs. At the moment, there is no formal infrastructure for science-based policy making. We are working hard to rectify this. You cannot craft a solution in this highly complex food production world if you have not specifically identified the problem.

We need a central, state-of-the-art source for the development of risk assessment models. We are working now on designing such a plan. It is getting increasingly difficult to manage a threat when we are unsure of its pervasiveness. Risk assessment provides this vital data. The benefits of using risk assessments can be seen in our recent initiatives on *E. coli* O157:H7 and *Listeria monocytogenes* that I discussed earlier. This process needs to be strengthened, formalized, and continually supported in order to be used to its full potential. By strengthening the agency's reliance on risk assessments to shape future policy, we will be better prepared to fight the war on pathogens.

To be effective, we need to both analyze current threats to the food supply and anticipate problems that may arise. There are times when we work in a completely reactive mode and I do not think this serves us well when we try to anticipate new challenges.

I am well aware that there are gaps in our current universe of food safety research and until we close the gaps we will not be able to fully understand, or control, the farm-to-table continuum. We need to bring the brightest food safety minds from throughout the country together in a way that will help the Federal government, industry, foodservice and the American people.

Validated Decontamination Methods

We need to focus on the application of validated decontamination methods in order to reduce pathogens. A conscious effort has been made when drafting FSIS' Notices and Directives to encourage industry to utilize new decontamination technologies. Scientific and technical innovation that keeps our food safer should be encouraged. Therefore, we intend to consider further ways to validate these technologies in order to ensure their ability to reduce foodborne pathogens.

We believe that new technology provides a great opportunity to enhance the safety of meat, poultry, and egg products. Thus, the agency continues steps to encourage and provide opportunities for technological advances and innovation under the PR/HACCP rules. We recently announced new procedures for new technology intended for use in establishments. These procedures were designed to encourage innovation by eliminating undue delays in the development, testing, and use of new technology. This will allow FSIS to respond efficiently and expeditiously when technological innovations become available and help, not hinder, in the implementation of these food safety tools.

Initiatives from the fiscal year 2004 Budget Request

At this time, I would like to focus on the initiatives of the fiscal year 2004 food safety budget request and indicate how this additional funding will help us reach our goals. I firmly believe these resources will help us make the necessary improvements aimed at protecting the health and safety of the public we serve.

The fiscal year 2004 budget request supports FSIS' basic mission of ensuring continuous inspection in each meat, poultry, and egg products establishment in our country and reinspection of imported product. It also reflects President Bush's deep concern about ensuring a strong food safety system. His record level budget request for food safety programs will allow FSIS to continue working to fully implement the goals we have laid out, but will also allow us to pursue new initiatives.

USDA's food safety budget requests a program level of \$899 million, an increase of \$42 million over the enacted level for fiscal year 2003. This funding represents a \$148 million, or 23 percent, increase for USDA food safety activities since fiscal year 2000. The \$42 million increase in the fiscal year 2004 budget to strengthen FSIS' food safety program encompasses \$23.6 million in increases to cover raises in employees' salaries and benefits, the costs of inflation, and FSIS' support of State-inspection programs.

The other part of the budget increase covers \$19.3 million in initiatives to fund the hiring of more food safety inspectors, provide specialized scientific and technical training for the inspection workforce, increase microbiological testing and sampling, strengthen foreign surveillance programs, and increase our public education efforts.

As I mentioned, it is absolutely necessary that we use science to improve food safety. One of the ways the President's budget helps us do that is through the \$1.7 million to do baseline studies on a variety of pathogens, including E. coli O157:H7. This funding will strengthen the backbone of effective policy making by allowing us to collect data on the presence of microbial hazards, which is a crucial component used in developing risk assessment models.

Another means of employing science is the strategy of equipping our frontline workforce with scientific and technical expertise. The \$5.7 million requested in the President's budget will help us expand our in-depth HACCP and Sanitation Standard Operating Procedure (SSOP) training to all of our veterinarians and inspectors. With these resources, we will be able to increase consistency, effectiveness and accuracy of food inspection, thus making our food safer.

Along with this notion of a well-trained inspection workforce, is the fact that FSIS needs to have a full complement of inspectors. For this purpose, the President's budget requested \$4.3 million in funding to increase our workforce to 7,680 in-plant staff by adding 80 new positions. These 80 positions are necessary to ensure continuous inspection of all meat, poultry, and egg products plants.

When a foodborne outbreak occurs, it is essential to identify the source of the outbreak so that the agency can take swift action to prevent further illnesses and warn the public of the adulterated product. Therefore, the fiscal year 2004 budget request includes \$4.5 million to provide additional microbiologists, chemists, laboratory technicians, and other personnel to increase the agency's ability to identify adulterants in meat, poultry, and egg products. This funding will help the agency develop analytical methods to test food products for chemical, biological, and radiological contamination. This initiative will also increase sampling of ready-to-eat products for the presence of bacteria such as *Listeria monocytogenes* and *Salmonella*. With this funding, FSIS will increase sampling of these products from 10,000 to 15,000 annually and will add the capability to conduct 5,000 *Listeria monocytogenes* environmental samples annually. The agency also plans to increase sampling of raw ground

beef and raw ground beef ingredients for *E. coli* O157:H7 from 7,000 to 15,000 samples annually.

Additionally, the President's budget includes \$1.8 million to increase the number of foreign program auditors, thereby strengthening our oversight at the location where the food is actually produced or manufactured for export to the United States. This augments our existing strong system of ensuring that imported food is safe.

Our public education effort, which I discussed earlier in our five goals, is one avenue we are aggressively taking to make sure that all food handlers and preparers follow safe food handling practices to reduce foodborne illness. The President's budget request for an additional \$1.5 million for food safety education will allow the agency to continue to research and develop a sustainable and comprehensive mass media campaign across the country.

Finally, the fiscal year 2004 budget request includes a proposal to recover the costs of providing inspection services beyond an approved eight-hour primary shift. FSIS already collects \$102 million in reimbursable fees to recover the costs associated with overtime, holiday, and voluntary inspection services. FSIS has submitted legislation to Congress to allow the agency to collect user fees for inspection services beyond one approved eight-hour shift per day. If approved by Congress, it will enable the agency to collect approximately \$122 million in user fees and reduce our appropriated request from \$797 million to \$675 million. This will result in a savings for the American taxpayer.

Closing

In closing, I want to emphasize that we already have a strong food safety infrastructure in place. We have made great progress in achieving the goals we have set for ourselves. We have a strong leadership team to direct us toward improving our ultimate goal of protecting public health.

The President's budget for fiscal year 2004 provides us with a historic opportunity to—not only do what is right—but to do what is needed, which is to employ science to its fullest potential to make food in the United States as safe as possible. With the support and assistance of this Administration and Congress, I am confident we can do just that.

This concludes my written statement. I want to thank the Chairman and Members of the Subcommittee for the opportunity to testify on behalf of USDA's Office of Food Safety. I welcome your questions.

PREPARED STATEMENT OF GARRY L. MCKEE, ADMINISTRATOR, FOOD SAFETY AND INSPECTION SERVICE

Mr. Chairman and Members of the Subcommittee, I am pleased to have the opportunity to provide a statement on the current status of Food Safety and Inspection Service (FSIS) programs and on the fiscal year 2004 budget request for food safety within the U.S. Department of Agriculture (USDA).

Before I move into the details of my statement, I'd like to take this opportunity to introduce myself, since this is my first time before the Subcommittee. I've been with FSIS for a short period of time. Although I came to FSIS from the Wyoming Department of Health, I am a proud Oklahoman at heart. I graduated from Southwestern Oklahoma State University and the University of Oklahoma, concentrating on microbiology and public health. Having been in the public health field for more than 30 years, I am very comfortable with the public health mission of FSIS.

Today I would like share with you the steps FSIS is taking to become a world-class public health agency. These will include:

- FSIS' Year in Review;
- Three Functions of a Successful Public Health Model;
- FSIS Accomplishments Towards Becoming a World-Class Public Health Agency;
- FSIS Partnerships; and
- The proposed fiscal year 2004 FSIS Budget.

FSIS' YEAR IN REVIEW

If you would allow me a moment, I would like to share some of FSIS' accomplishments over the past year so you can gain a better understanding of the way our budget is structured. As you know, under the Federal Meat Inspection Act, the Poultry Products Inspection Act, and the Egg Products Inspection Act, FSIS inspects meat, poultry, and egg products sold in interstate commerce and reinspects imported products, to ensure that they meet U.S. food safety standards.

It is FSIS' mission to ensure that all meat, poultry, and egg products for use as human food are safe, secure, wholesome, and accurately labeled. More than 7,600

inspection personnel verify that regulations regarding food safety, and other consumer protection concerns, such as labeling, are met in over 6,300 Federal meat, poultry, and egg processing plants, each and every day they are in operation. FSIS has jurisdiction over products that generate more than \$120 billion in sales, which represents one-third of all consumer spending on food. In addition, since September 11th, our workforce has been on heightened alert and is diligently monitoring all of these plants to ensure that there is no intentional biosecurity breach that could harm our Nation's food supply.

Throughout 2002, FSIS was hard at work, protecting the safety of meat, poultry, and egg products. In fiscal year 2002, FSIS inspectors monitored the processing of 92.6 billion pounds of meat and poultry and inspected 3.7 billion pounds of liquid egg products. Inspectors at our 110 import inspection stations monitored the importation of 3.9 billion pounds of meat and poultry products from 27 of 33 foreign countries meeting U.S. equivalency requirements and choosing to import to the United States last year. FSIS also facilitated the exportation of over 11 billion pounds of meat and poultry products worth \$7.5 billion to over 100 countries. In addition, FSIS spread the food safety message to approximately 90 million people through the media, the FSIS web site, and the USDA Meat and Poultry Hotline. FSIS also diligently continued its duty of protecting the public health, by overseeing the voluntary recall of any meat, poultry, and egg products that may have been potentially contaminated. As you can see, we have had quite a busy year.

IMPROVING PUBLIC HEALTH

I have spent my entire career in this field and am devoted to administering under its protocols and scientific foundations. Public health is my number one priority. Thus, we are building FSIS into a recognized, credible, world-class public health agency that is a model for all other public health institutions.

What does a "world-class" public health agency mean? Frankly, it means that we need to be the experts in improving the safety of meat, poultry, and egg products for the American people. We must also ensure that our food supply is safe and secure from bioterrorist attacks, intentional tampering, or other forms of adulteration. While I believe that FSIS has made considerable progress towards these goals, more can be done to make this agency the top-notch public health regulatory agency we envision it can be. All of the nearly 10,000 employees at FSIS are committed to achieving this vision.

Three Functions of a Successful Public Health Model

In order to make FSIS a world-class public health agency, there are three parts of a successful public health model that FSIS must implement. First, FSIS must assess public health problems using science, such as surveillance, data collection, monitoring, risk assessment, and forecasting trends. Dr. Murano and I believe that science is the absolute best and most reliable tool we have to address the public health issue of food safety. In order to accomplish our goals, we must continue to make significant, science-based policy improvements that can measurably improve public health. By relying on science in our decision-making, we take the guesswork out of our policy-making process. Science is the weapon that will lead our workforce to victory in our declared war on pathogens.

Our assessment activities will help FSIS carry out the second part of a successful public health model, which is policy development. FSIS must continue to develop and implement policies to reduce the risk of foodborne illnesses using science-based knowledge. Once we identify a problem or hazard, we need to craft an effective solution. As a public health agency, we are equipped for this problem-solving role with our technical knowledge and expertise. Policy development activities include planning and priority-setting, the development of regulations, directives, and other policy vehicles, mobilizing resources, training, constituency building, distribution of public information, and encouragement of public and private sector cooperation.

Finally, FSIS must assure the American public that we are carrying out our jobs effectively through enforcement of established statutory and regulatory responsibilities. We will hold industry, as well as ourselves, responsible for ensuring that meat, poultry, and egg products are safe, wholesome, and accurately labeled. By successfully carrying out our food safety mission, we are assuring the public that the USDA mark of inspection found on meat, poultry, and egg products means what it says.

By carrying out these functions, FSIS is protecting the public from foodborne illnesses. But, protecting public health also means ensuring the security of our food, which is a vital component of Homeland Security—a growing source of concern. The tragic events of September 11th, as well as current threat assessments, have made Americans more aware that the unthinkable could become a reality. Biological, chemical, and radiological threats to our Nation's food supply are plausible from

those intent on harming our Nation through any possible means. Since the terrorist attacks on America, food security has been the highest priority at FSIS and we continue to take steps to ensure that we are prepared to prevent and respond to any potential or actual threats to our Nation.

Now I'd like to share with you some specific examples of how FSIS is ensuring the safety of our meat, poultry, and egg products.

BETTER ADDRESSING PATHOGENS

E. coli O157:H7

The issue of *E. coli O157:H7* in ground beef emerged in the 1990s and FSIS' microbiological testing program to detect *E. coli O157:H7* in raw ground beef began in October 1994. Since then, over 57,000 raw ground beef samples have been analyzed. Each month, a random sample from the approximately 1,700 establishments that produce ground beef under FSIS inspection and the 100,000 retail stores that grind beef on a regular basis, are selected for sample collection. In 2002, over 7,000 samples were analyzed for *E. coli O157:H7*. Since FSIS' *E. coli O157:H7* testing program began, it has been continuously amended to incorporate the most up-to-date data and technologies.

Data from the Agricultural Research Service (ARS) and the Centers for Disease Control and Prevention (CDC), as well as FSIS' draft risk assessment of *E. coli O157:H7*, indicated that *E. coli O157:H7* was more prevalent than previously believed. The data led FSIS to further strengthen its *E. coli O157:H7* policies and implement additional safeguards to increase food safety. In an October 2002 Federal Register Notice, FSIS published a series of new measures designed to reduce the incidence of *E. coli O157:H7* contamination in raw ground beef. For instance, all facilities handling raw ground beef must reassess their Hazard Analysis and Critical Control Point (HACCP) plans and decide whether *E. coli O157:H7* is a pathogen reasonably likely to occur in their products. In addition, establishments that receive product for grinding may determine that no additional steps are necessary at grinding facilities to address *E. coli O157:H7*, but only if appropriate purchase specifications are built into their food safety system. However, these specifications require that all suppliers must have one or more validated critical control points to eliminate or reduce *E. coli O157:H7* below detectable levels and some means to ensure that these specifications are met.

FSIS has set deadlines for completion of the reassessments, in order to ensure that all plants have reassessed their HACCP plans to account for *E. coli O157:H7*. Large plants, those with 500 or more employees, were required to comply by December 6, 2002; small plants, or those with less than 500, by February 4, 2003; and very small plants, those having fewer than 10 employees or annual sales of less than \$2.5 million, were required to comply by April 7, 2003. FSIS Consumer Safety Officers (CSO) are completing extensive scientific reviews of plant HACCP plans and Sanitation Standard Operating Procedures (SSOPs) to ensure the reassessments are successfully addressing *E. coli O157:H7* concerns, as well as all other aspects of HACCP regulations.

FSIS is also modifying its current *E. coli O157:H7* sampling and testing program to include all plants. In the past, FSIS did not typically collect raw ground beef samples at establishments that conducted their own *E. coli O157:H7* testing. However, FSIS has found that, in spite of this private-sector testing, some of these establishments have had problems with *E. coli O157:H7* contamination. In response, FSIS issued a notice on April 18, 2003, to revise its current directive to discontinue all exemptions from FSIS sampling and testing for *E. coli O157:H7*.

FSIS is also developing a risk-based verification program that takes into account factors such as volume of production and effectiveness of interventions in determining testing frequencies. In addition to continuing to test for *E. coli O157:H7* in ground beef, FSIS is considering testing for *E. coli O157:H7* in trimmings and other intact materials used in non-intact product and beef carcasses and parts that will be processed into non-intact product. We believe that controls to reduce the risk of *E. coli O157:H7* on intact product may be among the most effective ways to control the hazard overall and that these changes are critical to protecting public health.

Listeria Monocytogenes

Following a recent voluntary recall of ready-to-eat poultry products due to potential contamination with *Listeria monocytogenes*, FSIS implemented a new policy to improve testing programs for *Listeria monocytogenes* in the environment of plants producing ready-to-eat products, such as deli meats and hot dogs. In November 2002, the agency released a directive announcing that plants producing high- and medium-risk, ready-to-eat products that do not have a scientifically-based, validated

program in place for the control of *Listeria monocytogenes*, will be subject to an intensified FSIS testing program. In December 2002, the agency completed a survey to identify plants that will be considered for intensified testing. This new risk-based policy will allow FSIS to confirm an establishment's commitment to zero tolerance for *Listeria monocytogenes* on product and product contact surfaces.

On February 14, 2003, FSIS released its draft risk assessment that provides a vital tool to estimate the public health impacts of various control measures for reducing the risk of *Listeria monocytogenes*. This draft risk assessment suggests that a combination of testing, sanitation, and other interventions exhibited greater benefits than when each step was used alone. It also suggests that product contact testing, used in conjunction with enhanced sanitation procedures, can lead to a reduction in *Listeria*-related illness. In addition, the risk assessment demonstrated that the use of intervention steps, such as post-packaging pasteurization or the introduction of growth inhibitors, showed dramatic public health benefits.

FSIS utilized information gained from the risk assessment to proceed on an effective regulatory approach to reduce *Listeria monocytogenes* in processing plants producing ready-to-eat meat and poultry products. FSIS is working to publish a final rule for *Listeria monocytogenes* in ready-to-eat products and hopes to have it ready as quickly as possible.

Scientific Symposia

We have also greatly increased our efforts to incorporate a broad range of scientific thinking on food safety issues in order to effectively combat harmful pathogens. In 2002, FSIS initiated a series of nine scientific symposia aimed at generating dialogue on important issues among public health experts, industry, advocacy groups, consumers, academia, and the public. These meetings allowed the agency to gather input on what scientific solutions would best address public health concerns. For example, FSIS held a scientific symposium on pathogen reduction in May 2002, to discuss the appropriate role of microbial testing in food safety and other food safety concerns. In November 2002, the agency held a *Listeria* summit to discuss the public health impact of *Listeria monocytogenes*. In February, the agency held a meeting to discuss the results of the draft risk assessment on *Listeria monocytogenes*. And just last month, we held a public meeting to discuss the agency's use of epidemiology as a basis for regulatory decision making. We believe the symposia allowed us to be as inclusive as possible, as well as gain valuable information and insight. Therefore, the agency has planned additional symposia in fiscal year 2003 on such topics as risk analysis, and HACCP and poultry processing.

PUBLIC HEALTH MANAGEMENT

A world-class public health agency must run like clockwork in order to quickly and successfully prevent or respond to food safety emergencies. This requires a common dedication and focus at all levels, from headquarters management to the front-line employees in plants in the most rural parts of America. Therefore, FSIS has implemented an array of measures over the past year to enhance accountability, build professionalism, and ensure a coordinated public health approach to food safety.

FSIS Reorganization

On our way to becoming a world-class public health agency, it became apparent that the structure of FSIS needed to be reorganized to efficiently and effectively meet our goals, carry out our critical functions, and protect public health. I have made it a top priority to restructure the agency in a way that prepares FSIS to meet its public health and food safety goals in a logical and streamlined fashion. This reorganization will increase accountability for all FSIS employees and refocus the duties of many employees.

The reorganization will ensure that the principles of public health and food safety cut across the entire spectrum of FSIS' critical public health mission. We have added four assistant administrators in key areas—for Food Security; Program Evaluation, Enforcement, and Review; Communication, Outreach, and External Affairs; and International Coordination. These additions will strengthen the bonds between our various offices and make our operational models more coherent and responsive. For example, the assistant administrator of Food Security will tie together all Homeland Security activities within the agency, so that our policy makers, our scientists, our field staff, and our management are all working together to ensure that we are prepared to prevent and respond to any bioterrorist attack.

Program Evaluation, Enforcement and Review

In fiscal year 2002, FSIS created the Program Evaluation, Enforcement and Review (PEER) office to serve as the agency's quality control team. This office's mission is to ensure that effectiveness, efficiency, consistency, and accountability become the rule at FSIS. This new office will ensure that FSIS functions such as reviews of plants for compliance and food safety investigations are carried out in a way most conducive to protecting the public health. This office also conducts program audits, reviews, assessments, and evaluations in an effort to ensure that they are performing as needed or uncover difficulties early on, before they reach the problem stage. Lastly, this office also helps ensure that the agency has an effective, efficient, timely, and aggressive program for dealing with those who violate the meat and poultry laws.

Improved Communications

Our food safety message is most effective when every person along the farm-to-table continuum is aware of its importance and, just as importantly, understands it. As part of the FSIS reorganization, we created the Office of Communication, Outreach, and External Affairs. This office is tasked with spreading the food safety message to our many constituents whether in Congress, industry, advocacy groups, the public, or the media. We devote a great deal of energy and resources into translating highly technical food safety information and making it accessible and understandable at many different levels. But communication is a two-way street and we make every effort to receive and process input from our constituents so that we are aware of, and sensitive to, their range of viewpoints. We are always looking to improve our public health mission and communication is one of our most critical tools.

Automated Import Inspection System

FSIS is also improving its management effectiveness on the international level. All imported meat and poultry is inspected in its country of origin, as well as visually reinspected by FSIS before being released in the United States. Additionally, FSIS tests imported products for residues, microbiology, and food chemistry. In fiscal year 2002, FSIS introduced the new Automated Import Information System (AIIS). This system focuses on a foreign country's inspection system as a whole, rather than on individual plants, to statistically choose imports for reinspection based on the annual volume of shipments from the exporting country. Previously, for all countries except Canada, reinspection was randomly assigned based on an establishment's compliance history. The new system is user-friendly and allows inspectors at all ports-of-entry to share data. It also allows managers to have instant access to inspection reports. The new AIIS system also provides better tracking of shipments once they enter the United States. The next step is for FSIS to integrate our system with USDA's Animal and Plant Health Inspection Service (APHIS) and the U.S. Customs systems to further strengthen the food safety system against intentional attacks.

WORKFORCE AND TRAINING INITIATIVES

Our workforce is the backbone of FSIS. We rely on our field employees to be in every meat, poultry, and egg products plant, ensuring that the plants are producing products that are safe, wholesome, and accurately labeled. Our frontline employees are the ones we rely on to make the critical determination that products are not adulterated and are safe to eat. They are also responsible for identifying and preventing intentional threats to the food supply. For this reason, I have made training my top priority as FSIS Administrator. I am personally overseeing the changes the agency is implementing in our training programs and believe it is absolutely critical that we have a scientifically- and technically-trained workforce that is dedicated to ensuring a safe supply of meat, poultry, and egg products. A well-trained and competent workforce is a key element to making any institution successful. I am committed to achieving the aggressive public health goals we have set at FSIS through improving our employees' skill level, which will in turn, make us better guardians of the public health and safety.

Consumer Safety Officers

Let me give you an example. To achieve our public health goals, FSIS recognized the need for frontline employees to have a scientific and technical background. Therefore, the agency created the Consumer Safety Officer (CSO) series to reflect our increasing reliance on science and technology. CSOs have a scientific and technical background and receive additional agency training that enables them to assess and verify the design of food safety systems. FSIS trained 104 employees as CSOs in fiscal year 2002, and plans to train an additional 105 in fiscal year 2003. The

agency is extending CSO training to its Veterinary Medical Officers (VMOs) to raise scientific and technical knowledge within the agency.

Humane Handling and Slaughter Initiatives

We have also strengthened our workforce's ability to enforce the HMSA. All of the over 7,600 FSIS inspection personnel are expected to enforce the Humane Methods of Slaughter Act (HMSA) and take enforcement action for humane handling and slaughter violations. FSIS has inspection personnel trained in humane methods of handling and slaughter in all of the nearly 900 federally inspected U.S. livestock slaughter establishments. In addition to their food safety-related inspection responsibilities, these veterinarians and inspectors are charged with observing the methods by which livestock are slaughtered. FSIS inspectors and veterinarians, who provide continuous inspection in every slaughter facility, are required to take immediate enforcement action when a violation is observed. FSIS personnel who fail to enforce the HMSA are considered negligent in their duties and are subject to disciplinary action. FSIS has taken, and will continue to take, enforcement actions against plants that do not follow humane handling requirements.

In addition, FSIS used funding allocated in the fiscal year 2001 Supplemental bill to hire 17 veterinarians to serve as District Veterinary Medical Specialists (DVMS) in each of the agency's districts. The DVMS reported for duty on December 30, 2001. The DVMS have been trained in all aspects related to humane handling and slaughter, including antemortem inspection, humane handling regulations, the HMSA, stunning methodologies, assessing consciousness, enforcement procedures related to humane handling, and workplace violence. They also serve as the program coordinators for all humane handling issues within their districts and are providing training to newly hired in-plant VMOs on the agency's humane handling and slaughter responsibilities.

Chief Veterinarian

In fiscal year 2002, FSIS established a Chief Veterinary Medical Officer position to promote the education, training, and professional development of the agency's approximately 1,100 veterinarians. In addition, FSIS veterinarians have completed a survey to determine what skills they possess and to help the agency assess how it can harness their skills to help meet its ever-evolving goals.

Inspection Coordinator Training

Becoming a world-class public health agency requires that FSIS increase technical training and the scientific expertise of our workforce. Inspection Coordinators (ICs) in each District were trained to increase their HACCP expertise, particularly with respect to HACCP plan design and scientific support for HACCP plans. The ICs often participate in, or lead, in-depth verification reviews (IDVs) to assess whether an establishment is carrying out activities that meet requirements of the FSIS Pathogen Reduction (PR)/HACCP rule. This training will enhance their ability to do a more effective job and will also provide Districts with an additional resource capable of conducting comprehensive food safety assessments. In response to a Government Accounting Office recommendation that FSIS strengthen basic training for its inspectors, the agency has begun to reinforce HACCP, SSOPs, and Sanitation Performance Standards knowledge, through training of its entire in-plant workforce. In April 2003, the agency's Consumer Safety Inspectors began this food safety regulatory essentials training. I will discuss in greater detail this key aspect of our fiscal year 2004 budget request in a moment.

Compliance Officer Training

In fiscal year 2002, FSIS conducted a Compliance Officers (COs) training program at the Federal Law Enforcement Training Center in New Mexico. Nineteen Federal and three State COs completed the three-week course on basic safety training. In addition, sixty-one COs and three CSOs completed three specialized one-week safety courses, especially designed for FSIS. Also, twelve COs completed a one-week Instructor Verbal Judo Course designed to instruct them how to teach other employees how to better handle stressful situations they may encounter as part of their jobs. All of these training programs are the building blocks to the model public health agency I envision for FSIS.

In-Plant Performance System In October 2002, FSIS implemented the In-Plant Performance System (IPPS), which puts in place a formal process so frontline supervisors can be sure that inspection personnel carry out their assigned job responsibilities. All field supervisors have been trained to use this system. Performance reviews have resulted in several letters of caution and instruction to employees who were not performing at the expected level. More importantly, the reviews have high-

lighted what we are doing right, as well as steps we can take to make even more improvements.

HIMP

As you know, in 1997, FSIS initiated the HACCP-based Inspection Models Project (HIMP) pilot program. The goal of HIMP is to improve public health by enabling FSIS to maintain the same level of consumer protection with fewer inspectors tied to the slaughter line, thus resulting in more intense and effective inspection and verification activities. In June 2002, FSIS made data from the National Alliance for Food Safety (NAFS) available comparing HIMP and traditional inspection, which indicate that HIMP is at least equal to the traditional inspection system. In September 2002, an independent review of the HIMP data concluded that “the HIMP system compared favorably to the traditional system of inspection.” FSIS is encouraged by this data and we intend to use these results to further modernize our inspection system to most effectively prevent and control food safety hazards. Homeland Security Training FSIS has also initiated a comprehensive 2-year training and education effort designed to ensure that every FSIS employee fully understands his or her role and responsibility in preventing or responding to an attack on the food supply. In addition, FSIS has developed multimedia tools covering food security initiatives, emergency response procedures, and guidelines for food processors for use in training all frontline supervisors. These have been shared with our State and local partners, as well as industry, to address their biosecurity awareness and training needs.

In addition, FSIS personnel have been trained in the application of the agency’s voluntary food security guidelines. This guidance promotes an exchange of information between FSIS, industry, and other agencies such as the Food and Drug Administration (FDA), on the subject of food security, as well as heightens industry’s awareness of food security practices. FSIS is also working in cooperation with other Federal and State agencies such as APHIS, CDC, the Environmental Protection Agency, and the Department of Defense to develop biosecurity plans and training programs to identify and minimize food security risks.

HOMELAND SECURITY EFFORTS

The events of September 11th and subsequent vulnerability assessments revealed the need for a more integrated and coordinated plan to protect meat, poultry, and egg products. Immediately following September 11th, FSIS established the Food Biosecurity Action Team (F-BAT), charged with coordinating all activities pertaining to biosecurity, countering terrorism, and emergency preparedness within the agency. These activities are coordinated with USDA’s Homeland Security Council, other government agencies and industry.

Office of Food Security and Emergency Preparedness

The creation of the Office of Food Security and Emergency Preparedness took over F-BAT’s role as the centralized office within the agency that serves as an interface with USDA’s Homeland Security Council and represents the agency on all food security matters throughout the Federal government as well as State and local activities. The Office’s mission is to prepare for, prevent, and coordinate a response to intentional acts and other major events threatening the U.S. food supply. It is comprised of two staffs, an External Relations and Emergency Preparedness Staff, in addition to a Scientific and Technical Support Staff. The External Relations staff’s primary responsibility is to develop and maintain the extensive network of Federal and State relationships necessary to mobilize for a food-related emergency. The Scientific staff provides science-based support for emergency response and prepares contingency plans for minimizing risk to the safety and security of the food supply, as well as to first responders.

Tabletop Exercises

FSIS has conducted a number of simulation exercises at the Federal, State, and local levels to test its preparedness and response to an attack on the food supply. These exercises give agency employees the opportunity to simulate their actions in response to a threat on the food supply. One exercise earlier this year, “Crimson Winter,” proved very successful because it allowed the agency to recognize and correct vulnerabilities in its Homeland Security response plans.

Bioterrorism Vulnerability Assessment for Domestic and Imported Products

FSIS has conducted a food security vulnerability assessment to be used for determining the most vulnerable products, likely agents, and potential sites for deliberate adulteration of domestically produced meat, poultry, and egg products. The assess-

ment was conducted using a farm-to-table approach based on current knowledge of the industrial processes used in the production of these products and the potential biological and chemical agents that could be introduced. The assessment was concluded in June 2002, and the information obtained is being used to develop risk management strategies, including ensuring that our laboratories are equipped with methods and personnel for detecting agents of concern.

A vulnerability assessment of the import system is also being developed to identify points in the production of imported products where biological, chemical, and radiological contaminants could be intentionally added to foods being brought into the United States. FSIS used the risk analysis framework to conduct a relative risk ranking to be used to allocate resources to monitor U.S. ports of entry for those food commodities that pose the greatest risk, examine different intervention strategies for preventing or reducing risks, develop biohazard identification protocols, and target training of personnel and develop educational campaigns to increase awareness. This assessment is expected to be completed in September 2003.

Import Surveillance Liaison Inspector

Soon after the terrorist attacks on the United States, FSIS inspectors nationwide were placed on heightened alert, a condition that remains in effect today. Using funds provided by the fiscal year 2001 Homeland Security Supplemental Appropriations bill, FSIS created a new position, that of the import surveillance liaison inspector. As of March 1, 20 new import inspectors are on duty at ports of entry to augment the efforts of traditional FSIS import inspectors assigned to the 146 import establishments in the country. Where traditional USDA import inspectors examine each shipment and conduct reinspection activities, these new import surveillance liaison inspectors conduct a broader range of surveillance activities at each import facility, as well as extensive records review. These inspectors not only improve the agency's ability to ensure the safety of imported meat, poultry, and egg products, but as liaisons, they also improve our coordination with other agencies (e.g., U.S. Customs, APHIS) concerned with the safety of imported food products. We are looking at ways, in the future, to both increase the number of liaison officers and to expand and enhance their roles.

FSIS Food Security Initiatives

In early February 2003, FSIS released a report titled, Protecting America's Meat, Poultry and Egg Products. The report, prepared by the Office of Food Security and Emergency Preparedness, outlines FSIS' food security initiatives. Some of the initiatives included in the report are assessing potential vulnerabilities along the farm-to-table continuum, enhancing security features at all FSIS laboratories, and strengthening FSIS coordination and cooperation with law enforcement agencies.

FSIS PARTNERSHIPS

FSIS plays an essential role in ensuring that the meat, poultry, and egg products that we eat are safe. While we mainly focus on the processing of these products, we have a responsibility to the American people to make sure that the entire food chain is strong. Food safety is a team effort and we are always working to strengthen all the links in this food chain. However, it requires that everyone involved in the process, from the farmer to the consumer, carries out his or her responsibility in ensuring that the food we eat is safe and safely prepared. FSIS works with industry, consumers, and our sister agencies on a daily basis in this effort to reduce to the greatest extent possible foodborne contamination.

Industry Outreach

FSIS strives to maintain a healthy and direct relationship with the meat, poultry, and egg products industries. We work with industry to prevent harmful pathogens from entering the food supply. FSIS was there to provide guidance when the HACCP program was first implemented, and we continue to provide guidance to help plants correctly implement the program through our veterinarians, on-line inspectors, and consumer safety officers. But now that HACCP has been introduced and implemented, we are in the next phase, which is enforcement. We will hold industry, and ourselves, responsible for successfully operating under the PR/HACCP model.

In fiscal year 2002, FSIS made significant achievements in its Small and Very Small Plant Outreach Program. This program, introduced in 1998, was designed to develop and provide technical guidance and assistance to meet the specific needs of small plants, with ten or more employees, but fewer than 500, and very small plants with fewer than 10 employees, or annual sales of less than \$2.5 million. FSIS held more than 30 courses targeting these segments of the industry across the country.

The courses focused on HACCP food safety systems and were provided through cooperative agreements with nine universities.

Part of the agency's outreach effort also includes keeping the meat, poultry, and egg products industry informed of changes and innovations in food safety, as well as the standards and requirements they must meet to operate a safe food production facility. In fiscal year 2002, FSIS made improvements to the agency's labeling and standards policy web site, which was introduced in 2002 as a new, business-friendly web site providing essential information to small and very small plants. The site is geared towards helping small businesses understand the fundamentals of labeling and standards and to provide a key contact on our staff to answer related questions. FSIS also provides a staff liaison charged with facilitating resolution of small business issues on a one-on-one basis. The Labeling Policy Staff receive over 400 inquiries a month for labeling guidance.

In May 2002, FSIS published voluntary security guidelines to assist Federal- and State-inspected meat, poultry, and egg products plants in identifying ways to strengthen their security plans to protect against acts of bioterrorism. FSIS provided these guidelines to field employees who will assist plants that seek further clarification or advice. They were designed for plants that may not have access to specialized security planning advice. These voluntary guidelines are available in English, Spanish, Vietnamese, Korean, and Mandarin Chinese, both in print and on the FSIS web site.

Food Safety Education

While a meat processing plant might produce a perfectly safe hamburger, innocent mistakes made by a food preparer could taint a product with harmful bacteria and create a potentially unsafe meal. Food can become contaminated at any step in the food chain. Thus, FSIS is committed to spreading the food safety message in order to further reduce the incidence of foodborne illness. Food safety education is certainly not a substitute for, but rather a complement to, science-based food safety policies. I would like nothing better than to tell people that they do not need to worry about how they handle and prepare their food because the government has taken care of the problem. But, as I said before, food safety is a team effort and must be carried out at all stages of the food production and preparation chain.

We will continue to strive for greater reductions in harmful pathogens in meat, poultry, and egg products production facilities. But regardless of what we can accomplish, food preparers always will have an important role in keeping food safe. Because of this, we have designed our FSIS food safety education programs to increase consumer knowledge and change behaviors in order to prevent foodborne illness. The agency develops educational materials based on up-to-date scientific and consumer research. Our programs target the general public, as well as those groups who face increased risks from foodborne illness—the very young, the elderly, pregnant women, people with chronic diseases, and people with compromised immune systems.

One of FSIS' key public health missions is to educate the public about the hazards of foodborne illness, as well as to teach safe food handling techniques to ensure the safety of meat, poultry, and egg products. Since we are trying to share our food safety message with all consumers, food preparers, educators, children, physicians, public health officials, and industry, this is a formidable task.

Because we are tasked with spreading our food safety message to so many with only a limited amount of resources, FSIS is developing a comprehensive and sustainable mass media campaign to most effectively utilize the agency's scarce resources. FSIS has requested \$1.5 million in its fiscal year 2004 budget to seek expert assistance from an outside professional public relations firm to further develop and carry out this campaign.

FSIS has already started to develop this campaign with the new USDA Food Safety Mobile. The Food Safety Mobile is traveling the country to educate the public about the importance of food safety, but at the same time, we are learning important lessons about the best way to get our message across in order to reach the most people through events and the media. We will use the information that we learn from this new campaign to determine how to best utilize our resources and best meet our food safety education goals in the future.

FSIS also carried out a number of other food safety education campaigns in fiscal year 2002. In September, the agency held the "Thinking Globally—Working Locally: A Conference on Food Safety Education." The conference included breakout sessions, workshops, and tours focusing on the food safety education implications of the global food supply. Over 600 participants from the United States and abroad attended.

During its 18th year in existence, the USDA Meat and Poultry Hotline handled nearly 86,000 calls concerning safe food handling practices in the home. Last year,

the Hotline expanded its service to include recorded messages and live assistance in Spanish. In addition, the agency's two main e-mail addresses received over 5,200 inquiries and comments about food safety.

Coordination on International Activities

As one of several key U.S. agencies responsible for food safety, FSIS actively participates in developing international food safety standards through the Codex Alimentarius Commission. The U.S. Codex Office, under the leadership of the Office of Food Safety, is located within FSIS. The agency served as the head of U.S. Delegations to the Executive Committee of the Codex Alimentarius Commission meeting and to the Codex Committee on General Principles. In 2002, FSIS announced 17 public meetings on Codex standard setting activities and hosted foreign government officials at various workshops about important Codex issues.

Our leadership at Codex is instrumental in realizing global food safety standards are reasonable, equitable, and achievable. America is the gold standard for food safety programs. Successful participation in the Codex leadership is a vital national interest and will raise food safety standards around the world. FSIS remains committed to working through Codex to continue to stress the role of science in international standard setting.

Other Public Health Agencies

Because food safety is important at each stage in the entire farm-to-table continuum, FSIS works with other government agencies to make sure the U.S. produces safe meat, poultry, and egg products. We have partnerships with other Federal public health agencies, regulatory agencies, State governments, and research institutions, in order to share ideas and concerns, and maintain an open dialogue concerning food safety. By doing so, we are helping each agency achieve its respective vision, which ultimately helps us paint the big picture—improving public health.

Ensuring public health depends on scientific research. Food safety research carried out by ARS plays a critical role in assisting FSIS to evolve into a model public health agency. This is especially true because our environment is certainly not static. We constantly need to study the factors that change the prevalence rate of pathogens. These factors could be on the farm, around the farm, in transportation, at the plant, or en route to the consumer. ARS and FSIS work cooperatively to ensure that food safety research is appropriately addressed in USDA's research agenda.

An integral part of the fight against foodborne illness is early detection. In fiscal year 2002, FSIS completed its seventh full year of a partnership with the Department of Health and Human Service's CDC and FDA to track and respond to foodborne diseases in five States and parts of four more. This effort, called FoodNet, serves as an early warning system for foodborne illnesses. FoodNet, for the first time, identified a downward trend in the incidence of foodborne disease from 1996–2001. We look forward to continuing this partnership and learning more about foodborne illnesses in order to strengthen our efforts against them.

On April 17, 2003, FSIS signed a Memorandum of Agreement (MOA) with the U.S. Department of Health and Human Services' Public Health Service (PHS) Commissioned Corps, to expand the role and number of PHS Officers detailed to FSIS. PHS Officers are highly-trained health experts who bring diverse backgrounds and experience in support of the FSIS public health mission. Flexible deployment rules allow the PHS Officers to instantly respond to emergencies, such as a foodborne illness outbreak, and shifting priorities within the agency. This enhances FSIS capabilities for rapid response during heightened security alerts or an actual threat to food security. The new agreement will incorporate approximately 30 additional PHS Officers nationwide across all program areas in the agency where there is a greater demand for scientific knowledge and judgment. The PHS Officers will work as permanent staff members alongside their agency counterparts as veterinarians, scientists, dietitians, environmental health officers, physicians and nurses.

In fiscal year 2002, FSIS initiated eight cooperative agreements with States to raise awareness and understanding of the risks of handling meat, poultry, and egg products by retail stores and food service establishments. These agreements benefit those State and local agencies responsible for inspecting these establishments, as well as managers and owners. Additionally, FSIS field epidemiologists assisted local and State health departments with over 30 outbreak or emergency-related investigations due to such causes as *E. coli* O157:H7, *Listeria*, and *Salmonella*. Many of these investigations involved multiple States and localities.

In addition, as of July 31, 2002, FSIS can now share product distribution lists of establishments conducting recalls with State and Federal agencies with which the agency has negotiated memoranda of understanding. This new policy will allow

FSIS to better work with its partners throughout the Nation to more quickly and effectively carry out recalls of potentially contaminated product.

FISCAL YEAR 2004 BUDGET REQUEST

Now that I have provided a synopsis of FSIS' progress, I would like to present an overview of the fiscal year 2004 budget request for FSIS. The budget request for fiscal year 2004 would fund those programs previously discussed and will help FSIS reach the goal of becoming a world-class public health agency. By incorporating the principles of public health into all of our operations, we will be modernizing our inspection system to meet the goals and challenges of food safety in the 21st century. Implementation of these budget initiatives is imperative to helping us attain the public health vision we have set for FSIS. In fiscal year 2004, FSIS is requesting a program level of \$899 million, a net increase of about \$42 million over the enacted level for fiscal year 2003. Under current law, we are requesting an appropriation of \$797 million and \$102 million in existing user fees.

Supporting FSIS' Basic Mission

The FSIS budget request for fiscal year 2004 supports the agency's basic mission of providing continuous food safety inspection in each meat, poultry, and egg products establishment in the United States. The fiscal year 2004 budget includes \$23.6 million in increases to cover pay and employee benefit costs, inflation, and the agency's support of State-inspection programs. The budget reflects the proposed fiscal year 2004 pay raise of 2.0 percent for Federal and State program personnel and the annualized cost of the 4.1 percent pay increase for 2003. These costs also include a total net increase of approximately \$853,000 for state food safety and inspection. This includes Federal control of the Commonwealth of Virginia's inspection program beginning in July 2003, as well as the initiation of Maine's State inspection program.

New Initiatives

The fiscal year 2004 request includes a \$19.3 million increase for new initiatives that support the Department's goals for FSIS. While the implementation of the HACCP system has provided a solid base for FSIS to carry out its goal of protecting the Nation's food supply, more can be done to strengthen this foundation. Thus, the fiscal year 2004 budget requests an increase of \$5.7 million to enhance the agency's ability to train its workforce, which I mentioned earlier is my top priority. This will allow FSIS to re-tool and expand its existing training programs by incorporating a public health focus and integrating scientific and technical principles, including HACCP validation, with training on technical and regulatory approaches to inspection. In addition to increasing the technical skills of our employees, the agency intends to use training opportunities to strengthen the management capabilities of our workforce as well. Additionally, the agency plans to enhance training by taking the training opportunities we offer into the field. Employees would have a variety of training options, including the ability to take courses taught by university professors near their work sites.

The fiscal year 2004 budget includes an increase of \$4.3 million to cover costs associated with funding 7,680 in-plant personnel in meat, poultry, and egg products plants. This is an increase of 80 slaughter inspectors and is necessary due to industry growth. The increase will allow the agency to ensure continuous inspection in each meat, poultry, and egg products establishment.

To achieve the agency's goal of applying science to all policy decisions, the fiscal year 2004 budget includes a new \$1.7 million initiative to establish a continuous baseline program for risk assessments and performance measurement. While the agency has previously conducted baseline studies using its internal laboratory resources, this new initiative would include laboratory analyses using outside laboratories, would repeat each baseline study every 3 years to provide longitudinal data to track performance, and would provide scientific data needed for ongoing risk assessments. The use of nationwide microbiological baseline studies will improve data quality and help us further incorporate risk management into all regulatory and policy actions.

When a foodborne outbreak occurs, it is essential to identify the source of the outbreak so that the agency can take swift action to prevent further illnesses and warn the public of the product adulteration. Therefore, the fiscal year 2004 budget request includes \$4.5 million to provide additional microbiologists, chemists, laboratory technicians, and other personnel to increase the agency's ability to identify adulterants in meat, poultry, and egg products. This funding will help the agency develop analytical methods to test food products for chemical, biological, and radiological contamination. This initiative will also increase sampling of ready-to-eat

products for the presence of bacteria such as *Listeria monocytogenes* and *Salmonella*. FSIS will increase sampling of these products from 10,000 to 15,000 annually and will add the capability to conduct 5,000 *Listeria monocytogenes* environmental samples annually. The agency also plans to increase sampling of raw ground beef and raw ground beef ingredients for *E. coli* O157:H7 from 7,000 to 15,000 samples annually.

As I mentioned earlier, education and outreach have always been important aspects of FSIS' mission and this is again reflected in the fiscal year 2004 budget request. The agency is requesting a \$1.5 million increase to design a mass media campaign aimed at improving safe food handling practices of consumers at home. Emphasis will be placed on a program that communicates with under-served groups and uses mass media outlets to leverage limited education funding. Performance measures will be incorporated to evaluate the effectiveness of the campaign at spreading the food safety message.

It is important that foreign products meet U.S. standards. Therefore, the fiscal year 2004 budget request includes \$1.8 million to increase FSIS equivalence reviews in exporting countries. In recent years, FSIS has experienced a rise in applications from foreign countries to export meat and poultry products to the United States. This funding is necessary for the agency to hire additional foreign auditors to meet the demands of increased foreign inspection system audits. This will help ensure that foreign meat, poultry, and egg products establishments are shipping product to the United States that meets the same standard of safety required in U.S. establishments.

User Fee Proposal

FSIS' fiscal year 2004 budget also includes a legislative proposal to recover the costs of providing inspection services beyond an approved 8-hour primary shift. FSIS collects \$102 million in user fees annually to recover the costs of overtime, holiday, and voluntary inspection. If enacted, the level of appropriated funds needed would be reduced from \$797 million to \$675 million to reflect an increase in user fee funding of \$122 million. This will result in savings for the American taxpayer.

CLOSING

Let me restate that we all have a role to play in improving public health. We will continue to hold ourselves and industry to a higher standard. This is not a pain-free process, but there will be tangible, and measurable, benefits for the American people. Our workforce has been reinvigorated by this challenge and we will deliver.

Mr. Chairman, this concludes my prepared statement. Thank you for the opportunity to submit testimony to the Subcommittee on how FSIS is working with Congress and other partners to become a first class public health agency. It is my hope that we can work together to make further improvements to our food safety system and continue to have the safest food supply in the world. I look forward to working with you to ensure that the vision of FSIS as a world-class public health agency is realized.

Senator BENNETT. Mr. Hawks

Mr. HAWKS. Thank you, Mr. Chairman, members of the Committee. It is a pleasure to be with you today to present the Marketing and Regulatory Programs' budget for 2004 [sic]. That budget represents the Animal and Plant Health Inspection Service, Agriculture Marketing Service, and Grain Inspection, Packers and Stockyards Administration. I am pleased to have with me today my deputy, Dr. Chuck Lambert. I have Kevin Shea representing the Administrator's Office from APHIS; Donna Reifschneider, the Administrator of Grain Inspection, Packers and Stockyards; and A.J. Yates, the Administrator of AMS.

We have a motto in MRP and that is "Working together works." In doing that, we have set several goals. The number one goal is to build broader bridges. When we say build broader bridges, we mean to help the outreach with the members of this committee, members of Congress, and our constituents to work through the issues that we have to deal with.

The next goal is to move more product. That one is pretty self-evident. And the next one is, invest in infrastructure. We feel that a healthy agriculture is an exportable and a saleable agriculture.

The next one is to grow our people. We feel that we must recruit, retain, and reward well-qualified people for our mission area within USDA as well as all of USDA.

The last goal is to sell agriculture as a profession. So we feel that that is very important, and I personally feel that agriculture is a great profession.

The budget that we have presented to you is approximately \$1.2 billion. Three-hundred-and-eighty-two million dollars of that is funded by user fees. I will, in light of your request, this morning, deviate from my prepared remarks and address some of the issues that you had raised.

The actions that we have taken, the reaction to the finding of the BSE case in Canada, were immediate. I had an opportunity to do an opening session for the Office of International Epizootics in Paris on Sunday afternoon. We were there with the chief veterinary officers from around the world. We, I think, took appropriate action, immediate action. As you know, the borders were closed at 1:30 Eastern Daylight Time on Tuesday. We found out about the BSE case, the confirmed BSE case, earlier that morning.

We in APHIS are doing an extensive surveillance program. We had started that surveillance program last year. We tested 20,000 samples of the most likely candidates for BSE. That is actually over four times what the Office of International Epizootics recognizes as the standard.

So we feel that within APHIS, within USDA, we have a well-coordinated effort and are moving forward to address this situation, and I would concur with my colleagues and all of you here. We do have the safest food supply anywhere in the world and beef is what is for dinner tonight.

With the Grain Inspection, Packers and Stockyards, it is our intent to have fair and competitive trade in grain and poultry and meat. For Agriculture Marketing Service, it is our goal to help market more products and to find ways to improve the profitability of farmers.

PREPARED STATEMENTS

Mr. Chairman, in light of our time, I would like to close with that and say I would be happy to respond to any questions that this Committee has. Thank you, sir.

Senator BENNETT. Thank you.

[The statements follow:]

PREPARED STATEMENT OF WILLIAM T. HAWKS

Mr. Chairman and members of the Committee, I am pleased to appear before you to discuss the activities of the Marketing and Regulatory Programs of the U.S. Department of Agriculture and to present our fiscal year 2004 budget proposals for the Animal and Plant Health Inspection Service (APHIS), the Grain Inspection, Packers and Stockyards Administration (GIPSA), and the Agricultural Marketing Service (AMS).

With me today are Dr. Charles Lambert, Deputy Under Secretary for MRP; Mr. Bobby Acord, Administrator of APHIS; Mrs. Donna Reifschneider, Administrator of GIPSA, and Mr. A. J. Yates, Administrator of AMS. They have statements for the record and will answer questions regarding specific budget proposals.

Under my leadership, the Marketing and Regulatory Programs have addressed several broad goals and objectives which demonstrate that working together works.

Building Broader Bridges.—We strengthened cooperation and strategic partnerships with farmers and ranchers, States, foreign governments, congressional offices, agricultural commodity and industry associations, agricultural scientific groups, and other interested parties. We want to ensure that our policies and programs provide the most benefits they can to the affected people.

Moving More Product.—We expanded domestic and international market opportunities for U.S. agriculture products including value enhanced products and products of biotechnology. We have worked closely with the Foreign Agricultural Service and the U.S. Trade Representative to aggressively and creatively resolve sanitary, phytosanitary, biotechnology, grain inspection, commodity grading and other trading issues that limit our potential for growth in international trade.

Investing in Infrastructure.—We invested in stronger border security, pest and disease surveillance and monitoring, bricks and mortar such as the National Veterinary Science Lab in Ames, Iowa. We increased market news on export markets, made improvements in e-Government, enhanced investigations of anti-competitive market practices and provided greater support for biotechnology. Agriculture that is healthy, both biologically and economically, is a marketable agriculture.

Growing Our People.—We made a concerted effort to recruit, recognize and reward accomplishment and inspire current and future leaders within MRP. We are making MRP a place where the best and brightest want to be, including promising men and women in diverse fields such as journalism, accounting, and economics.

Selling Agriculture as a Profession.—We are creatively marketing the vital role that agriculture plays in every American's life to assist our efforts to recruit and retain the highest calibre workforce for MRP and USDA.

FUNDING SOURCES

The Marketing and Regulatory Program activities are funded by both the taxpayers and beneficiaries of program services. The budget proposes that they carry out programs costing \$1.2 billion; with \$382 million funded by user fees paid by the beneficiaries of the services.

On the appropriation side, under current law, the Animal and Plant Health Inspection Service is requesting \$694.9 million for salaries and expenses and \$5 million for repair and maintenance of buildings and facilities; the Grain Inspection, Packers and Stockyards Administration is requesting \$41.7 million, and the Agricultural Marketing Service is requesting \$102.9 million.

Legislation will be submitted, which if enacted would recover \$36.5 million more in user fees. This legislation would authorize new license fees to recover the cost of administering the Packers and Stockyards (P&S) Act, additional license fees for facilities regulated under the Animal Welfare Act and additional grain inspection fees for developing grain standards. I will use the remainder of my time to highlight the major activities and their budget requests for the Marketing and Regulatory Programs.

ANIMAL AND PLANT HEALTH INSPECTION SERVICE

The fundamental mission of APHIS is to anticipate and respond to issues involving animal and plant health, conflicts with wildlife, environmental stewardship, and animal well-being. Together with their customers and stakeholders, APHIS promotes the health of animal and plant resources to facilitate their movement in the global marketplace and to ensure abundant agricultural products and services for U.S. customers. The APHIS mission satisfies five strategic goals. They include:

- Safeguarding plant and animal resources from foreign pests and diseases;
- Minimizing production losses and export market disruptions by quickly detecting and responding to outbreaks of agricultural pests and diseases;
- Minimizing risks to agricultural production, natural resources, and human health and safety by effectively managing pests and diseases and wildlife damages;
- Ensuring the humane care and treatment of animals; and
- Developing safe and effective scientific pest and disease control methods.

APHIS builds bridges by working in concert with its stakeholders—States, industry, and the public—to maintain and expand export market opportunities and to prevent the introduction and/or to respond to new threats of plant and animal pests and diseases. APHIS invests in the agricultural marketing infrastructure that helps protect the agricultural sector from pests and diseases while at the same time helping move more U.S. product.

APHIS' charge is a difficult one to meet and their excellence has been recognized. Progressive Farmer, one of America's best known agricultural publications, has always selected an individual as its "Person of the Year." This year, however, Progressive Farmer selected 8,700 of them—all the men and women of APHIS—to receive the 2003 People of the Year award. I am proud of their efforts, and appreciate the recognition bestowed upon them.

I would like to highlight some key aspects of the APHIS programs:

Homeland Security and Agricultural Border Protection.—Traditionally, APHIS' Agricultural Quarantine Inspection (AQI) program has had responsibility for excluding agricultural health threats. Annually, thousands of inspectors have inspected hundreds of thousands of cargo shipments and tens of millions of passengers' baggage arriving in the United States. They have intercepted tons of materials whose entry could jeopardize the agricultural sector. They have successfully excluded such threats as foot-and-mouth disease (FMD) and bovine spongiform encephalopathy (BSE), which could have devastated not only the agricultural sector, but other sectors of the economy as well.

That responsibility is now shared with the Department of Homeland Security (DHS). While most AQI staff are reassigned to the new Department, USDA retains the responsibility for promulgating regulations related to entry of passengers and commodities into the United States. We intend to work closely with our counterparts in DHS. USDA retains the direct role of ensuring that passengers and cargoes traveling from Hawaii and Puerto Rico comply with specified regulations to protect the health of the agricultural sector on the Mainland, including necessary quarantines. We retain responsibility for collecting the user fees and will be periodically reimbursing DHS for their inspection services.

Emergency Pest and Disease Programs.—The Administration is concerned about rising Federal costs of emergency pest and disease control activities, and the budget request assumes cost-sharing for such outbreaks. Cost-sharing levels are set by consideration of several factors applied to specific outbreaks. A proposed rule is expected to be published which will improve the Federal/cooperator partnership by establishing consistent criteria for determining Federal and non-Federal responsibilities, providing a more equitable and justifiable allocation of responsibility among all parties, and permitting State and local governments to better anticipate and plan for future needs. Without additional support on the part of cooperators in some programs, however, program operations could be reduced.

Moving More Product.—The Trade Issues Resolution and Management efforts are key to ensuring fair trade of all agricultural products. APHIS' staff negotiates sanitary and phytosanitary (SPS) standards, resolves SPS issues, and provides clarity on regulating imports and certifying exports which improves the infrastructure for a smoothly functioning market in international trade. Ensuring that the rules of trade are based on science helps open markets that have been closed by unsubstantiated SPS concerns. APHIS' efforts contributed to the opening or retention of \$1.1 billion in export markets in fiscal year 2001 by helping resolve individual trade issues abroad. In 2002, APHIS resolved problems facing shipments of about \$52 million of U.S. agricultural products held at ports of entry in foreign countries. This included about \$16 million for fruit; \$10 million for grain; \$10 million for oilseeds and oilseed products; \$5 million for animals and animal products; \$4 million for cotton; \$2 million for vegetables; and \$5 million in other products.

Biotechnology.—Recent developments in biotechnology underscore the need for effective regulation to ensure protection of the environment and food supply, reduce market uncertainties, and to encourage development of a technology that holds great promise. APHIS has recently established a new Biotechnology Regulatory Services unit to consolidate and better coordinate our services and activities in this area. The new unit focuses on both plant-based biotechnology and transgenic arthropods. We also will be examining ways to regulate transgenic animals. By consolidating these activities into one unit, we will bring greater focus to our domestic and international policy coordination and development as well as our risk assessment, permitting, and compliance programs.

APHIS' 2004 BUDGET REQUEST

In a year of many pressing high-priority items for taxpayer dollars, the budget request proposes about \$695 million for salaries and expenses. Notable shifts in budget priorities include:

A total of about \$156 million for Foreign Pest and Disease Exclusion.—Efforts will be enhanced to exclude Classical Swine Fever from the United States and to improve our means of tracking animal and animal products entering and leaving the country. Decreases include those in Agricultural Quarantine Inspection activities

and, in keeping with cost-sharing provisions, reductions in fruit fly exclusion and detection activities.

A total of about \$142 million for Plant and Animal Health Monitoring.—Experience gained from abroad about FMD and BSE highlights the need for rapid detection and response to agricultural health threats. Long-standing efforts have kept those diseases and others out of the United States, and vigilant surveillance and monitoring will still be done by APHIS. Increases would boost the availability of FMD vaccines from 19.5 million doses to 20.75 million doses, and support efforts to address increased incidence of smuggling and other threats from regulatory violations.

A total of \$302 million for Pest and Disease Management Programs.—Once pests and disease are detected, prompt eradication reduces overall damages. In cases where eradication is not feasible (e.g., European gypsy moth), attempts are made to slow the advance, and damages, of the pest or disease. APHIS provides technical and financial support to help control or eradicate a variety of agricultural threats.

The budget includes a doubling of funding for efforts against chronic wasting disease, and other increases for low-pathogenic avian influenza and golden nematode activities. The budget also proposes a slight increase for wildlife services operations to enhance control over hazardous materials used in wildlife control activities.

Successes in boll weevil eradication and plum pox efforts allow some program reductions. The decrease stems from greater cost-sharing expected to be provided by cooperators and a 35 percent reduction in the estimate of planned program acres. Such cost-sharing would reduce Federal funding by about \$32 million for efforts against Asian Longhorned Beetle, citrus canker, Mediterranean fruit fly (as mentioned above), plum pox virus, scrapie, and tuberculosis. However, the Federal Government would still pay over 50 percent of the cost of these programs.

A total of \$15 million for the Animal Care Programs.—APHIS will maintain its animal welfare and horse protection programs. The budget includes a proposal, similar to fiscal year 2003, to collect \$7.8 million in additional fees charged to facilities and establishments required to be registered under the Animal Welfare Act but not currently subject to a fee. This includes research facilities, carriers, and in-transit handlers of animals.

A total of about \$69 million for Scientific and Technical Services.—APHIS develops methods and provides diagnostic support to prevent, detect, control, and eradicate agricultural health threats, and to reduce wildlife damages (e.g., coyote predation). It also works to prevent worthless or harmful animal biologics from reaching consumers. The request would enhance biosecurity activities, the national animal health laboratory network, and physical security at select facilities.

Increased funds of \$6.6 million for Biotechnology.—The budget includes a cross-cutting trade-related and biotechnology proposal in the Office of the Secretary. The Department anticipates a growing demand for trade negotiating efforts and biotechnology activities, including regulatory, market access and removal of trade barriers. Increased APHIS efforts related to biotechnology may be funded from these appropriations.

GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

GIPSA's mission is to facilitate the marketing of livestock, meat, poultry, cereals, oilseeds, and related agricultural products and to promote fair and competitive trade for the benefit of consumers and American agriculture. It helps move more U.S. product both domestically and abroad by investing in domestic infrastructure that supports marketing within the grain and livestock industry. GIPSA fulfills this through both service and regulatory functions in two programs: the Packers and Stockyards Programs (P&SP) and the Federal Grain Inspection Service (FGIS).

Packers and Stockyards Programs. The strategic goal for the Packers and Stockyards Programs (P&SP) is to promote a fair, open and competitive marketing environment for the livestock, meat, and poultry industries. Currently, with 169 employees, P&SP monitors the livestock, meatpacking, and poultry industries, estimated by the Department of Commerce to have an annual wholesale value of over \$115 billion. Legal specialists and economic, financial, marketing, and weighing experts work together to monitor emerging technology, evolving industry and market structural changes, and other issues affecting the livestock, meatpacking, and poultry industries that the Agency regulates.

We conducted over 1,400 investigations in fiscal year 2002 to enforce the Packers and Stockyards Act for livestock producers and poultry growers. More than 90 percent of identified violations were corrected (or issues resolved) within one year of the investigation's starting date.

The Swine Contract Library, mandated in the 2000 Appropriations Act, is in the final testing stage. The web-based computer system will be capable of receiving contracts, extracting unique contract provisions and posting summary information. GIPSA is making the necessary revisions to the final rule which would implement the Swine Contract Library. It is a sizable and complex undertaking to assure that the confidentiality requirements of the Act are maintained. For example, a single type of contract, received from less than 10 packers, can include more than 300 unique contract provisions to capture all of the ledger contracts priced off swine or pork market prices.

Federal Grain Inspection Service.—GIPSA's Federal Grain Inspection Service (FGIS) facilitates the marketing of U.S. grain and related commodities under the authority of the U.S. Grain Standards Act (USGSA) and the Agricultural Marketing Act of 1946 (AMA). As an impartial, third-party in the market, we advance the orderly and efficient marketing and effective distribution of U.S. grain and other assigned commodities from the Nation's farms to domestic and international buyers. We are part of the infrastructure that undergirds the agricultural sector.

GIPSA created a long-term temporary assignment in Malaysia to assist the Southeast Asian agricultural attaches and cooperator organizations by providing technical assistance and education to customers of U.S. grain which would maintain and expand U.S. grain markets. This and other technical trade assistance, such as that provided to Mexico, facilitate the marketing of U.S. grain exports.

GIPSA works with government and scientific organizations to establish internationally recognized methods and performance criteria and standards to reduce the uncertainty associated with testing for the presence of biotechnology grains and oil seeds.

GIPSA received almost 3,000 comments on the advance notice of proposed rule-making regarding how USDA can best facilitate the marketing of grains, oilseeds, fruits, vegetables, and nuts in today's evolving marketplace. A Process Verification Program is being considered for applying internationally-recognized quality management standards to verify that a biotech related quality control process has been used to produce a product rather than relying on end product testing. This would allow producers, marketers, suppliers, and processors to assure customers of their processes to provide consistent quality products.

Our efforts to improve and streamline our programs and services are paying off for our customers, both in terms of their bottom lines and in greater customer satisfaction. FGIS' service delivery costs (adjusted for inflation), decreased from \$0.29 per metric ton in fiscal year 1998 to \$0.26 per metric ton in fiscal year 2002. With the USDA export certificates that grain exporters received at this cost, exporters marketed over \$15 billion worth of cereals and oilseeds. Likewise, here at home, buyers and handlers requested over 1.8 million domestic inspections that facilitated the trading of more than 131 million metric tons of cereals and oilseeds.

One indicator of the success of our outreach and educational initiatives is the number of foreign complaints lodged with FGIS regarding the quality or quantity of U.S. grain exports. In fiscal year 2002, FGIS received only 9 quality complaints and no quantity complaints from importers on grains inspected under the U.S. Grain Standards Act. These involved 197,423 metric tons, or about 0.2 percent by weight, of the total amount of grain exported during the year.

GIPSA'S 2004 BUDGET REQUEST

For 2004, the budget proposes a program level for salaries and expenses of \$41.7 million. Of this amount, about \$18.1 million is devoted to grain inspection activities for standardization, compliance, and methods development and approximately \$23.5 million is for Packers and Stockyards Programs. The 2004 budget includes:

An increase of about \$1 million to implement a new Pilot Audit Program.—The P&SP has never audited a large packer. As a pilot, this initiative would audit the top four steer and heifer meatpackers who handle 80 percent of the slaughter. The audits are anticipated to result in substantially better understanding of their financial operations to the regulated industry and lead to better financial protection of producers.

An increase of \$500,000 to enhance compliance and review the Packers and Stockyards Act.—Efforts will respond to a GAO recommendation to provide industry participants with clarification of GIPSA's views on competitive activities. Further, given changes in the livestock sector, the P&SP is preparing to undertake a complete review of the Packers and Stockyards Act and its regulations. These activities may result in a future increase in the number of investigations conducted and monies recovered or returned to the regulated industries. Biotechnology Funds. Some of the \$6.6 million requested to support crosscutting trade and biotechnology activities in

the Office of the Secretary may be applied to GIPSA's trade and biotechnology efforts.

New User fees.—New user fees, similar to those proposed for fiscal year 2003, would be charged to recover the costs of developing, reviewing, and maintaining official U.S. grain standards used by the grain industry. Those who receive, ship, store, or process grain would be charged fees estimated to total about \$5 million to cover these costs. Also, the Packers and Stockyards program would be funded by new license fees of about \$24 million that would be required of packers, live poultry dealers, stockyard owners, market agencies and dealers, as defined under the Packers and Stockyards Act.

AGRICULTURAL MARKETING SERVICE

The mission of AMS is to facilitate the marketing of agricultural products in the domestic and international marketplace, ensure fair trading practices, and promote a competitive and efficient marketplace to the benefit of producers, traders, and consumers of U.S. food and fiber products. We accomplish this mission through a variety of voluntary fee-based services and publicly funded activities that help our customers find ways to better market food and fiber products and improve their profitability.

AMS continually monitors the needs of the agricultural industry, develops strong partnerships with cooperating State agencies, and identifies new technology that can be used to improve their effectiveness. AMS depends on strong cooperative partnerships with State programs and other Federal agencies to facilitate the collection and dissemination of information, provide inspections, and otherwise maximize the value of State and Federal programs by sharing and coordinating the use of available resources. Through increased cooperation, AMS has been able to achieve a number of programmatic goals.

Global Agricultural Marketing.—AMS offers a range of services that give sellers of agricultural products a competitive advantage in the global marketplace. In 2002, AMS initiated the Global Market Expansion program to strengthen the support of export marketing for U.S. agricultural products. Under this activity, AMS experts served on, and in several cases headed, U.S. delegations to meetings of international food and fiber standards-setting organizations. AMS also provided technical expertise to the U.S. trade officials in negotiations on international standards. As an example of the critical role AMS plays in the development of international standards, AMS provided the technical support necessary to dissuade China from adopting cotton standards that lack recognized measurement technologies and could have posed a barrier to U.S. cotton exports. AMS also led the development of lamb and poultry quality standards that will serve as models for government and industry throughout Europe. Through such participation, AMS is able to influence the design of food quality standards and model inspection protocols so that they are fair to U.S. shippers and they do not become barriers to U.S. agricultural trade. In 2004, AMS will continue to do its part in helping to reduce trade barriers relating to commodity standards and product testing by serving as delegates and by leading international committees and organizations.

Science and Technology Programs.—Through cooperative relationships with the States, AMS is in a unique position to effectively and efficiently develop scientific data that is needed to support domestic and export marketing of U.S. food products. The Pesticide Data Program (PDP) is a unique and valuable source of statistically valid data on pesticide residues in food and water. The program provides information to the Environmental Protection Agency that is vital for realistic assessments of dietary risk from pesticides on food commodities available in the marketplace. PDP is instrumental in providing data that addresses domestic and international public concerns about the effects of agricultural pesticides on human health and environmental quality. Exporters use PDP data to verify for foreign governments and buyers that U.S. agricultural commodities are safe for consumption. Importantly, PDP is built on Federal-State partnerships with 10 States—California, Colorado, Florida, Maryland, Michigan, New York, Ohio, Texas, Washington and Wisconsin. These States collect and test commodities for pesticide residues.

AMS' experience with PDP provided the foundation for initiating the Microbiological Data Program. MDP is designed to gather baseline data to assess the risks of microbial contamination of fruits and vegetables, if any. Using the PDP programmatic framework, AMS collects information regarding the incidence, number and species of foodborne pathogens and indicator organisms on domestic and imported fresh fruits and vegetables. In fiscal year 2002, AMS worked with cooperating States and interested industry parties to initiate microbiological data collection and testing. AMS developed operating procedures with FDA, the Centers for

Disease Control and Prevention, and State laboratories. During 10 months of sample testing, approximately 19,000 analyses were performed on 9,400 samples. The first report will be published this year with calendar year 2002 data. The data will be provided to public health agencies and the food industry for decision-making and evaluation of procedures intended to reduce or eliminate harmful microorganisms from foods.

National Organic Certification Program.—On October 21, 2002, the Secretary launched the implementation of AMS' National Organic Standards Program, which for the first time provides consistent labeling of agricultural products coast to coast. The organic standards were developed with extensive industry input and hundreds of thousands of public comments. Thanks to this effort, any organic agricultural product must meet USDA standards in order to be sold as "organic." Today, consumers know the exact organic content of the food they buy. Consumers can tell organically produced food from conventionally produced food by looking at package labels and watching for signs in the supermarket.

On August 23, 2002, AMS announced that Federal funds appropriated in the Agriculture Risk Protection Act of 2000 and those made available by the Farm Bill were available to defray the cost of organic certification. AMS has entered into cooperative agreements with 45 States to distribute the funds. The remaining 5 States do not charge fees for organic certification and are not eligible for cost-sharing funds.

As directed by the Farm Bill, AMS is drafting a report to Congress on the availability of key inputs into organic production, including the availability of organically produced feedstuffs for the organic production of livestock. AMS has contracted with Iowa State University to survey grain producers and dealers in Midwestern States to ascertain planting and harvesting intentions for the years 2002–2004. This report should be completed this spring.

Country of Origin Labeling.—The 2002 Farm Bill requires USDA to issue country of origin labeling guidelines for use by retailers who wish to voluntarily notify their customers of the country of origin of beef, lamb, pork, fish, perishable agricultural commodities, and peanuts. AMS published the guidelines for voluntary country of origin labeling in October 2002 and is collecting comments on their utility through April of this year. We have already conducted six of the twelve listening sessions held throughout the country regarding the implementation of these guidelines. After these comments are evaluated, the program will begin developing the mandatory requirements, which are to be published by September 30, 2004.

AMS' 2004 BUDGET REQUEST

For AMS, the budget proposes a program level of \$297 million, of which over 65 percent will be funded through user fees. The budget requests an appropriation of \$76 million for Marketing Services and Payments to States, including increased funding for paycosts, in order to maintain existing program operations. The budget includes a request for \$26.4 million in Section 32, including increases for paycosts, associated with administering marketing agreements and orders and commodity procurement programs.

CONCLUSION

This concludes my statement. I am looking forward to working with the Committee on the 2004 budget for the Marketing and Regulatory Programs. We believe the proposed funding amounts and sources of funding are vital to protecting American agriculture from pests and diseases and for moving more product to foreign markets. It will provide the level of service expected by our customers—the farmers and ranchers, the agricultural marketing industry, and consumers. We are happy to answer any questions.

PREPARED STATEMENT OF BOBBY R. ACORD, ADMINISTRATOR, ANIMAL AND PLANT HEALTH INSPECTION SERVICE

Mr. Chairman and members of the Subcommittee, it is indeed a pleasure for me to represent the Animal and Plant Health Inspection Service (APHIS) before you today. Since appearing before you last year, APHIS continued its vigilant effort to prevent foreign agricultural pests and diseases from entering the United States. We also heightened our efforts to keep American agricultural products moving overseas. It is in the context of these two broad objectives that I want to report on our fiscal year 2002 highlights, and our fiscal year 2004 budget request.

APHIS' mission has been constantly evolving—right along with the evolution of food production and marketing practices of the past 100 plus years and the Federal

government's involvement in protecting and serving U.S. agriculture. APHIS currently relies on a set of interlocking protection strategies to meet the expectations of its traditional agricultural stakeholders and to ensure that it has the capacity to address the needs of non-agricultural stakeholders. These strategies enable us to achieve our two main goals—to safeguard the health of animals, plants, and ecosystems in the United States and to facilitate safe agricultural trade. Hence our mission—To protect the health and value of America's agricultural and natural resources.

SAFEGUARDING THE HEALTH OF AMERICA'S AGRICULTURAL AND NATURAL RESOURCES

American Agriculture can produce abundantly and export food and fiber to the rest of the world only if it is healthy and free of the many pests and diseases that plague most of the world. Other countries will accept our exports only if the products are believed to be free of pests and diseases. It is APHIS' responsibility to provide leadership in agricultural health. There are five components in this first goal of our mission. The first component is to keep foreign pests and diseases far away from the U.S. border.

Conduct Offshore Threat Assessment and Risk Reduction. APHIS is building bridges with foreign countries to prevent the import of pests and diseases by allowing only healthy plants and animals and related products to the United States. APHIS' staff is a vital link between U.S. markets and foreign businesses that want to trade in these commodities.

Our Foreign Animal Diseases (FAD) and Foot-and-Mouth Disease (FMD) program works to detect and control outbreaks of animal diseases in foreign countries, again far from our shores. APHIS' key strategy to prevent the movement of FMD northward from South America is to maintain an FMD-free area along the Colombia-Panama border. Our efforts have effectively prevented a reintroduction of FMD into Mexico and the United States. That Central America has never had an outbreak of FMD demonstrates the effectiveness of the prevention activities throughout the region. Also, the FAD program has been expanding to address additional geographical areas and diseases. For example, animal health experts have been stationed in China and southern Africa to address potential threats from those regions.

Our Fruit Fly Exclusion and Detection program is working towards establishing and maintaining a fly-free barrier in Central America to prevent the spread of Medfly into the United States. In 1999, program personnel quickly and effectively responded to an emergency situation in Mexico that could have resulted in the establishment of Medfly in the United States by 2005. Since then, APHIS has been working in cooperation with Mexico and Guatemala to carry out Medfly eradication and control activities in those countries to prevent the spread of Medfly through Mexico into the United States. The economic significance of keeping this foreign pest at bay is apparent from the costs that could result from the establishment of Medfly into the United States. For example, the total cost to Florida's agricultural producers if Medfly were to become established in that state could total \$33 million annually.

We continue significant progress towards protecting the United States from overland transmission of screwworm, a parasite that produces flesh-eating larvae. Screwworm infestations decrease the value of and can eventually even kill livestock. The Screwworm program consists of cooperative programs with Mexico, countries of Central America, and Panama. The goal of eradicating the pest to the Darien Gap in Panama is nearly complete, and the time has come to establish a permanent barrier against the pest. Once the barrier is in place, U.S. livestock producers will be securely protected against this costly pest.

APHIS works closely with foreign countries to set up preclearance programs. These preclearance programs facilitate the smooth trade of agricultural products to U.S. markets and ensure that the products are pest- and disease-free before they touch U.S. shores. One of the most successful of these preclearance programs is in Holland, where APHIS officials have been inspecting tulips, daffodils, and other flower bulbs since 1951. In Chile, APHIS has been inspecting all fruits and vegetables destined for U.S. consumers since 1981.

APHIS is participating in the first passenger pre-departure inspection program with a foreign government in the Dominican Republic to mitigate the risk of Classical Swine Fever. Working with the government of the Dominican Republic, APHIS inspects air and ferry passengers destined for the United States mainland and Puerto Rico to ensure they are not carrying prohibited plant and animal products or animal byproducts. So far, the program has been an effective means of protecting the multi-billion dollar U.S. pork industry. By performing inspections off shore, we reduce the chance of the disease being brought to the United States mainland.

In our Tropical Bont Tick program, APHIS employees are preventing the introduction of heartwater and increased levels of dermatophilosis into the livestock industry and wildlife populations of the United States from Caribbean islands infested with tropical bont ticks. The cooperative program has eradicated ticks from 6 of the 9 islands involved so far, towards a goal of eradicating this pest from the Western Hemisphere.

Regulate and monitor to reduce the risk of introduction of exotic invasive species While our first component includes offshore activities, the second component requires vigilant monitoring efforts at first points of entry into the United States. We must have intensive searches and aggressively enforce our regulations.

To reduce the threat of agricultural pests and diseases reaching the mainland United States, APHIS screens passengers and passenger baggage in Hawaii and Puerto Rico prior to departure. In fiscal year 2002, APHIS inspected over 1.5 million passengers before their departures from Hawaii and Puerto Rico. Again, by inspecting passengers offshore, we reduce the chance of them bringing pests or disease from those areas. In addition, passenger preclearance programs exist in Canada, the Bahamas, Bermuda, and Aruba. Program activities include inspecting aircraft and passenger baggage for prohibited agricultural products and ensuring passengers and crew departing from these foreign locations are in compliance with our regulatory requirements. APHIS works in coordination with the other U.S. Federal Inspection Service (FIS) Agencies—Customs and Immigration—to insure all passengers are in compliance with the U.S., FIS laws and regulations at these locations. Because these passengers go through the thorough FIS inspection, they arrive in the United States at a domestic terminal; they are not subject to FIS inspectional activities upon arrival. Operations of these programs were transferred to the Department of Homeland Security, along with other FIS components. APHIS also cooperates with the U.S. Department of Defense in inspecting military passengers and equipment prior to their returning from overseas. During fiscal year 2002, the military preclearance program expanded to include personnel stationed overseas in Afghanistan and Uzbekistan as part of Operation Enduring Freedom. In total, APHIS inspectors cleared over 9 million passengers en route to the United States.

Part of APHIS' strategy is to respond to threats of intentional introduction of illegal products. We have increased the capacity of the Smuggling Interdiction and Trade Compliance (SITC) staff and field personnel. The staff analyzes pathways, prosecutes smugglers, and provides outreach to increase industry compliance with our regulatory requirements. APHIS personnel have worked closely with other Federal agencies and local cooperators, focusing specifically on the illegal movement of agricultural plant and animal products into the United States. SITC began expanding their activities in fiscal year 2001 to respond to the spread of foot-and-mouth disease worldwide.

The program used supplemental funding in fiscal year 2002 to further increase staffing and apply new methods towards smuggling reduction. APHIS seized nearly 2.7 million prohibited plant and animal products, at markets, warehouses, and ports of entry. When we detect a prohibited item, we identify the item's origin and the responsible shippers, importers, and broker. By maintaining relevant information in databases, the program can target specific commodities and importers. SITC also worked with private industry on five national recalls of prohibited commodities, including South African and Argentine lemons and Mexican lemon grass and mangoes.

APHIS, through its Animal and Plant Health Regulatory Enforcement program ensures uniform compliance with Federal laws and regulations through a combination of sound enforcement and strong educational efforts. We investigate violations, collect evidence, issue and collect civil penalties, and develop alleged violation cases for formal prosecution.

APHIS continues to work to improve the timeliness and quality of investigations despite a continuing increase in the number and scope of violations. APHIS personnel conducted 927 investigations involving plant quarantine violations in fiscal year 2002 resulting in 139 warnings, 363 civil penalty stipulations, 21 Administrative Law Judge decisions, and approximately \$508,000 in fines. APHIS also conducted widespread market surveillance activity to intercept prohibited foreign fruits and vegetables illegally smuggled into the United States. Significant cases involved the illegal importation of Mexican avocados into the United States and tracing the distribution of Spanish Clementine oranges infested with Mediterranean fruit fly.

We conducted 413 investigations involving animal health programs in fiscal year 2002, resulting in 114 warnings, 34 civil penalty stipulations, 9 Administrative Law Judge decisions, and approximately \$46,000 in fines. In addition, APHIS took several hundred administrative actions on animal health program violations disclosed at the border ports by agricultural quarantine inspectors. The alleged violations

were concentrated in veterinary accreditation, animal identification, brucellosis, pseudorabies, and import/export programs. We provided significant enforcement support during the Avian Influenza eradication effort in Virginia poultry and at New York live bird markets.

Using supplemental funds, APHIS hired additional investigators to address the growing threats to our nation's agriculture and food supply from bioterrorism threats, illegal activities such as smuggling, and violations of the Swine Health Protection Act, principally in Puerto Rico, Arkansas, Hawaii, and Florida. Violations of the Act can have huge ramifications—foreign officials identified illegal practices associated with prohibited feeding of garbage to swine as the source of the devastating Foot-and-Mouth Disease outbreak in the United Kingdom in fiscal year 2001.

Ensure safe research, release, and movement of agricultural biotechnology events, veterinary biologics, and other organisms The third component of our safeguarding goal addresses the rapidly moving advances in laboratory practices and biotechnology. The United States leads the world in the safe development and commercialization of biotechnology-derived crops. Along with the Environmental Protection Agency and the Food and Drug Administration, APHIS works to ensure that these products will not harm agriculture, the environment, or human health. Specifically, APHIS regulates the movement, importation, and field testing of bioengineered plants and microorganisms through permitting to ensure that field testing of transgenic plants does not lead to unwanted environmental effects.

APHIS has recently established a new biotechnology unit and is proposing a shift in the program line item structure to consolidate and better coordinate our services and activities in this area. The new unit and program line item, Biotechnology Regulatory Services, is responsible for programs focusing on both plant-based biotechnology and transgenic arthropods. We also will be examining ways to regulate transgenic animals. By consolidating these activities into one unit, we will bring greater focus to our domestic and international policy coordination and development and our risk assessment, permitting, and compliance programs.

Our Veterinary Biologics program works to provide pure, safe, potent, and effective veterinary biological products in the United States. Program activities include licensing veterinary biological products, inspecting licensed manufacturing facilities, testing statistically based samplings of licensed products, and issuing permits for product importation. In fiscal year 2002, APHIS issued 106 product licenses. Veterinarians and animal owners now have 19 new products for the diagnosis, prevention, or treatment of animal diseases. The Agency also terminated 76 product licenses for obsolete products.

APHIS provided oversight to over 2,512 active licensed or permitted products for the control of 196 animal diseases in fiscal year 2002. APHIS approved 16,796 serials of veterinary biologics in fiscal year 2002, while rejecting 28 serials for failing to meet Agency requirements. The Agency conducted 831 tests on 228 of the 12,059 serials eligible for testing. APHIS performed 58 regulatory actions and 28 investigations of possible regulation violations. APHIS shipped 4,272 vials of reagents to facilitate testing consistency and quality by biologics manufacturers and other regulatory authorities. In addition, APHIS developed 4 new reagents.

In APHIS' Plant Methods Development Laboratories program, the Center for Plant Health Science and Technology provides advanced scientific and technological capabilities to protect and improve our nation's agriculture and public health. Methods development supports APHIS programs by optimizing existing pest management practices and by developing new technologies for pest exclusion, detection, survey, and management. We accomplish this by evaluating biocontrol organisms, evaluating new biological and chemical materials, adapting or inventing equipment, providing technical consultation and training, collecting and disseminating pertinent information, participating in strategic and tactical planning, serving as a liaison with the research community, and integrating technological advancements into integrated pest management systems. This system maintains both rapid response and long range capabilities for serving APHIS and stakeholders.

Manage issues related to the health of U.S. animal and plant resources and conflicts with wildlife. The fourth safeguarding component involves diligent control and eradication efforts relating to pest, disease, and wildlife conflicts that already exist in the United States. In cooperation with the States, APHIS works to improve the general health of our Nation's multi-billion dollar agriculture industry through management techniques designed to eradicate harmful pests and diseases, or, if eradication is not feasible, minimize their economic impact. We monitor endemic diseases and pests through surveys to detect their location and through inspections aimed at preventing their spread into noninfested parts of the country. We also monitor and enforce compliance with requirements of the Animal Welfare Act and the Horse Protection Act.

The Boll Weevil Eradication Program (BWEP)—which has been a model of cooperation between Federal and State regulatory officials, extension and research personnel, and cotton producers—continued reducing and ultimately eliminating losses caused by the boll weevil. This program's fiscal year 2002 performance target was 7 million cumulative weevil-free acres of the 16 million acres of U.S. cotton produced. The actual number of weevil-free acres in fiscal year 2002 was 6.5 million. This result was attributable to a slight reduction in acres planted and interruptions in aerial treatments resulting from the events of September 11, 2001. The 6.5 million acres are in the program's post-eradication phase, while 9.2 million acres are in the active phase, and the remaining 300,000 acres are expected to join the BWEP by fiscal year 2005.

The cooperative pink bollworm exclusion program continued protecting 700,000 cotton acres in the San Joaquin Valley of California through extensive surveys and preventative sterile moth releases. As a result of the efforts of local growers and APHIS personnel, no new infestations have been found outside the regulated area since fiscal year 2000. APHIS is continuing to work with collaborators in universities, industry, and the Agricultural Research Service to refine a biologically based pink bollworm eradication system. In addition, APHIS began a cooperative area-wide Pink Bollworm/Boll Weevil Eradication Program with growers, State, and Federal cooperators in parts of New Mexico, Texas, and northern Mexico, where the pests are still present.

The State-Federal Cooperative Brucellosis Program works to eradicate *Brucella abortus* from the bovine population and *Brucella suis* from the swine population of the United States. This program protects the cattle and swine industries. In fiscal year 2002, the National Brucellosis Eradication Program continued to center around finding and eliminating the last vestiges of brucellosis in the United States. The program increased emphasis on surveillance and the testing of adjacent, contact, and community herds. There were 9 affected cattle herds disclosed in fiscal year 2002, compared to 6 in fiscal year 2001, and 14 in fiscal year 2000. The nine affected herds were in Texas, Missouri, South Dakota, Oklahoma, and Idaho.

We also continued the Accelerated Pseudorabies Eradication Program, Scrapie Flock Certification Program, and Bovine Tuberculosis Eradication Program, among other animal health programs.

Before I move on to describe our Wildlife Services program, let me emphasize how important APHIS' relationships are with our State and Tribal partners in conducting these eradication and control programs. Federal-State-Tribal cooperation is essential for these types of programs to succeed, in addition to the support we receive from academia and industry.

APHIS' Wildlife Services (WS) operation provides Federal leadership in managing wildlife conflict. Part of the program's mainstay is protecting American agricultural resources. In fiscal year 2002, APHIS carried out various activities related to Bovine Tuberculosis (TB) in wildlife populations. We began a pilot project providing fencing around feed storage areas on farms to prevent the transmission of bovine TB between cattle and deer. The goal of the pilot project is to determine fencing designs that are both effective and practical. Additionally we recorded observations of wildlife patterns on many of the bovine TB positive farms to determine what activities may contribute to transmission.

Protecting human health and safety also is a part of APHIS/WS operations. APHIS assisted the Colorado Division of Wildlife and the Wisconsin Department of Natural Resources with surveillance and disease management strategies to reduce the prevalence of Chronic Wasting Disease (CWD) in wild cervid populations. APHIS worked closely with State wildlife agencies, the U.S. Fish and Wildlife Service, and local governments in addressing increased problems with non-migratory, resident Canada geese in fiscal year 2002. With the current population exceeding 2 million geese and increasing exponentially, this growing bird population is a primary concern in the eastern and the central United States and increasing in the west. Problems include threats to public safety at airports and air bases, contamination of water supplies and recreational beaches, and damage to lawns, turf areas, and agricultural resources such as seed production.

To protect both humans and livestock, APHIS/WS also continued an oral rabies vaccination (ORV) program. The goal of this program is to establish and maintain immunization barriers to contain specific strains of rabies in wildlife populations. To stop the spread of raccoon rabies westward, APHIS extended an older ORV barrier in the northeastern States and Ohio into West Virginia, through western Virginia, and into eastern Tennessee. Program officials also continued to distribute ORV baits in the Northeast. To stop the disease's spread in coyotes and gray foxes in Texas, program officials also continued the ORV program in that state.

APHIS also works to protect natural resources and property. In Maryland, APHIS is cooperating with several governmental and private partners in managing nutria. Nutria are non-native to North America and are impacting sensitive marshes of the Chesapeake Bay. APHIS continues to cooperate with various State and Federal agencies to protect reintroduced black-footed ferrets from predators and to monitor for diseases that may impact ferrets in Montana, Wyoming, Colorado, and other States where they have been reintroduced. The Agency's beaver damage management activities in Alabama, Florida, Georgia, Kentucky, Louisiana, Maine, Mississippi, North Carolina, South Carolina, Tennessee, Wisconsin, and Virginia throughout fiscal year 2002 averted impending beaver damage to forest and agricultural resources, waterways, and highway infrastructures. Humans and wildlife continue to compete for habitat as both populations increase. In fiscal year 2002, APHIS provided technical assistance to approximately 60,000 individuals in urban and suburban areas concerned with wildlife damage to property; we now have a 1-800 Nuisance Wildlife Hotline services in cooperation with State Agencies in four States.

APHIS' Wildlife Services (WS) Methods Development program conducts programs to develop new or improved methods for reducing wildlife/agriculture conflicts. The National Wildlife Research Center (NWRC) of APHIS' Wildlife Services program provides scientific information for the development and implementation of effective, practical, and socially acceptable methods for wildlife damage management. This helps ensure that high-quality technical and scientific information on wildlife damage management is available for the protection of crops, livestock, natural resources, property, and public health and safety.

WS methods development activities include methods to manage and resolve wildlife disease impacts on agriculture and methods to reduce invasive species damage to agriculture and natural resources. For example, the program has developed methods to mitigate blackbird damage to sunflowers and rice, methods to reduce bird hazards to aviation, techniques to control mountain beaver and bear damage to western forests, methods to reduce rat damage to sugarcane and macadamia nuts, methods for reducing cormorant depredation at aquaculture facilities; and approaches to reduce coyote damage to livestock. APHIS develops analytical chemistry methodology to support the registration and re-registration of chemicals for small mammals, for bird and predator control, and for the identification of potential repellents to support non-lethal wildlife damage management control strategies. During fiscal year 2002, approximately 75 percent of WS methods development resources went toward non-lethal approaches to wildlife damage management.

APHIS' Animal Welfare program continues to focus its resources on conducting quality inspections under the Animal Welfare Act at USDA licensed and registered facilities. The use of the program's risk-based inspection system concentrates activities on facilities where animal welfare concerns are the greatest. With the funding increase in fiscal year 2002, APHIS hired 16 new animal care inspectors who, by the end of the fiscal year, were being trained and had started to conduct inspections. As a result, the number of inspections increased by 1 percent, continuing the upward trend in inspections that began in fiscal year 2001, following a sustained period of decline throughout the 1990s. By the end of fiscal year 2002, the number of animal care inspectors stood at 98, an increase of 53 percent from the low of 64 at the end of fiscal year 1998.

In the Horse Protection program, APHIS has been working for nearly a decade with Horse Industry Organizations (HIOs) certified under the Horse Protection Act to develop a partnership whereby the HIOs can assume greater responsibility for self-regulation. The current plan began with the 2001 horse show season and ends in December 2003. APHIS plans to continue offering the plan in fiscal year 2003, possibly with some modifications, for those HIOs wishing to use it.

Respond to emergencies and emerging issues—surveillance, quick detection, containment, and eradication. The fifth component of APHIS' safeguarding system requires that we move quickly when an outbreak or other emergency situation does occur. Quick action will help safeguard other resources and will reduce adverse trade implications for our products. APHIS' Emergency Management System (EMS) is a joint Federal-State-industry effort to improve the ability of the United States to deal successfully with animal health emergencies, ranging from natural disasters to introductions of foreign animal diseases. In addition to unintentional introductions of foreign animal diseases, the EMS addresses intentional introductions and emerging diseases that could pose a threat to animal agriculture. With full readiness to deal with animal health outbreaks, we can reduce the threat of the outbreak on the Nation's food supply and economic well-being. While APHIS conducts the majority of its work related to animal emergency management within this program, ac-

tivities such as foreign animal disease investigations and training are funded within the animal health monitoring and surveillance program.

In fiscal year 2002, APHIS developed and participated in many State-level test exercises to increase the confidence and capability of the first responders to an animal health emergency in the United States. APHIS also participated in the development and implementation of an international animal health test exercise in Australia.

In addition, APHIS initiated the distribution of \$18.5 million in Homeland Security Supplemental funds to States and Tribal Nations to help bolster their emergency preparedness and surveillance efforts. Of this, \$11 million went to States and Tribal Nations to enhance emergency preparedness efforts, \$4.5 million went to States to enhance animal health surveillance, and \$3 million is going toward the purchase of carcass disposal systems for three States: California, Wisconsin, and Texas.

Through the Pest Detection program, APHIS and the States participate in the Cooperative Agricultural Pests Survey (CAPS) program, which provides the domestic infrastructure necessary for early detection of plant pests and weeds that enter into the United States or expand into new areas. Survey targets include weeds, plant diseases, insects, nematodes, and other invertebrate organisms. Program activities include evaluating pest risks, conducting detection surveys, responding to detections in a timely manner, collecting and reporting data, developing State Pest Lists, assessing risk and analyzing pathways, and communicating with the public.

Using funds provided in the fiscal year 2002 Homeland Security Supplemental appropriation, APHIS has begun efforts to significantly strengthen our pest detection capabilities. We are in the process of hiring 26 personnel trained in pest detection technologies at key U.S. locations to coordinate and oversee early detection surveys in cooperation with the States. In addition, we obligated \$4 million in fiscal year 2002 to expand cooperative agreements for implementation of the CAPS surveys within all the States. We have also begun to train identifiers and procure up-to-date surveillance equipment to ensure that data are of high quality and standardized across the country. This equipment will also allow us to conduct research to develop better survey tools and techniques and undertake pathway analyses to facilitate interception. We obligated an additional \$4.5 million from the Homeland Security supplemental appropriation for fiscal year 2003 CAPS agreements to sustain these efforts. The States are using this money to build survey infrastructure. These activities include hiring survey coordinators and purchasing equipment.

APHIS' Animal Health Monitoring and Surveillance program maintains a cadre of trained professionals to quickly detect potential animal health emergencies. APHIS continually evaluates its means and methods for safeguarding American agriculture from foreign animal disease, such as bovine spongiform encephalopathy (BSE). To date, no case of BSE has ever been detected in the United States although more than 46,475 samples have been tested. This program also surveys for poultry, miscellaneous equine, and other animal diseases.

Through early detection and rapid response programs, APHIS is prepared to respond immediately to potential animal and plant health emergencies. In fiscal year 2002, APHIS took quick action on the following plant and animal situations: Asian Longhorned Beetle, Low Pathogenic Avian Influenza, Chronic Wasting Disease, Citrus Canker, Classical Swine Fever, Infectious Salmon Anemia, Karnal Bunt, Mediterranean Fruit Fly, Pierce's Disease/Glassy-winged Sharpshooter, Rabies, and Scrapie. The Secretary used her authority to transfer in 2002 over \$200 million to battle these pests and diseases. Without the quick detection and early, rapid response, the cost to control the outbreak would have undoubtedly been higher. As of May 2, 2003, the Secretary has transferred over \$276.67 million to quickly detect, control the spread of, and eliminate pests and diseases such as tuberculosis, exotic Newcastle disease, Mediterranean fruit fly, chronic wasting disease, and Glassy-winged Sharpshooter, Spring Viremia of Carp, and Emerald Ash Borer.

Facilitate Safe Agricultural Trade

The second goal in our mission is to facilitate agricultural trade. The key to assuring trading partners of the health of our products is a credible system to assess American agriculture and document that it is healthy and that other countries have nothing to fear from our exports. This is the first component in facilitating trade. We must also certify the health of our agricultural exports, resolve trade barriers, and provide expertise and training in animal and plant health.

Document the health status of U.S. agriculture and related ecosystems. The World Trade Organization and the North American Free Trade Agreement commit countries to recognizing disease- and pest-free areas within a country even if a particular pest or disease exists elsewhere in the nation. This concept of regionalization is

founded on the long-standing idea that import requirements should be based on geography and science rather than on politics.

APHIS' Pest Detection program provides documentation of our pest status in plant resources. Examples of observations include taking grain samples for Karnal bunt, setting traps for fruit flies, or checking trees for citrus canker and plum pox. A "negative" observation is registered when we do not find the plant pest; a "positive" observation is recorded when we do. Both positive and negative results yield valuable and useful information for trade discussions, as can be seen with Leek moth, which affects onions and garlic. We continue to show that the United States does not have this pest based on continuing negative survey results.

We also conduct delimiting surveys for plant pests that have invaded the United States and may be expanding their range. These include apple ermine moth, cereal leaf beetle, citrus leaf miner, pine shoot beetle, and several other bark beetles. The program manages data for other species including gypsy moth, imported fire ant, Mediterranean fruit fly, pink bollworm, giant Salvinia, golden nematode, and other regulated, cooperative program pests. Surveys for these pests also assist in the export of U.S. agricultural commodities.

APHIS continued using the CAPS network to conduct the Karnal Bunt (KB) National Survey in response to the 1996 detection of the disease in Arizona and the 2000 detection in northern Texas. By collecting extensive survey data demonstrating the limited distribution of KB in the United States, APHIS provides assurance to all trade partners that KB is not present in major wheat-producing areas of the United States, thereby insuring annual agricultural exports of up to \$3.5 billion. Plum pox is another project in which the collection of national data has helped to keep budwood markets open by showing the absence of the pest from various areas around the United States.

The Agency's proactive National Animal Health Monitoring and Surveillance (NAHMS) program produced and interpreted scientifically valid information for policy makers, producers, and consumers. NAHMS delivered objective information addressing animal health as it pertains to U.S. trade, agricultural productivity, public health, and on-farm quality assurance. Collaborative information sharing and producer confidentiality are cornerstones of the program. Through effective partnerships with animal commodity producer groups, State governments, university researchers, and other Federal agencies, the program met producers' and the U.S. public's information demands in a cost-effective, collaborative manner while minimizing duplication of effort.

Certify the health of animals and plants and related products for export and interstate commerce APHIS' Import/Export program regulates the importation of animals and animal products and promotes markets abroad by ensuring that U.S. origin animals and animal products meet health and welfare requirements of recipient countries. The program issued point of origin certificates for the export of approximately 909 thousand head of livestock, 30.2 million live poultry, 74.8 million eggs, 30 million day-old chicks, 9.3 million live fish, 103.2 million aquatic embryos and eggs, 10.3 million doses of semen, and 11,908 non-aquatic embryos.

Because international standards are science-based, several countries—including Argentina, Brazil, the Dominican Republic, Ecuador, Mexico, and Peru—placed restrictions on U.S. horses and birds in fiscal year 2002 due the presence of West Nile Virus in the United States. Other disease events, such as the diagnosis of Low Pathogenic Avian Influenza in several Eastern states in fiscal year 2002 and Exotic Newcastle Disease in California, Nevada, and Arizona in late 2002 and early 2003, also resulted in restrictions, significantly impacting live animal exports.

Through the Agricultural Quarantine Inspection program's EXCERT (export certification) system, APHIS facilitates the export of agriculture shipments. Over 4,000 certifying officials can access the information on certification requirements online. In fiscal year 2002, APHIS issued over 380,000 certificates for agriculture shipments. APHIS export certifications ensure that U.S. products meet the agricultural requirements of the country of destination. In fiscal year 2002, APHIS began the pilot phase of the Phytosanitary Certificate Issuance and Tracking database. This database captures export application information, documents inspection and certification information, and prints an original phytosanitary certificate on secure paper. The pilot phase involves 10 field locations, representing several State and County cooperators. APHIS will retain this certification responsibility while inspection operations are transferred to the Department of Homeland Security.

In fiscal year 2002, APHIS' Veterinary Biologics program issued 4,385 official certificates that indicate licensed production and testing facilities and products have met or exceeded marketing requirements. The regulated industry used these certificates to register their products for sale in foreign countries. The confidence that foreign regulators have in the U.S. veterinary biologics licensing, testing, and inspec-

tion system is reflected in their readiness to accept our products. Center for Veterinary Biologics (CVB) officials provided informational presentations at international conferences to bolster foreign regulators' confidence.

Resolve trade barrier issues related to animal and plant health. As modern trade agreements prohibit onerous tariffs and similar trade barriers, some countries may resort to "sanitary and phytosanitary" concerns—that is, claims that American agricultural exports carry pests and diseases not present in their countries. Those claims may not be science-based. APHIS fills the crucial role of gathering and analyzing the scientific evidence to refute such claims or recommend measures to reduce the impact of other country's SPS concerns.

Officials with the Trade Issue Resolution and Management program work to minimize trade disruptions caused by animal and plant health issues. Personnel overseas participate in negotiations, work with standard-setting organizations, and facilitate the capacity of countries to recognize and respond to agriculture health issues that restrict trade. They coordinate these activities with domestic staff who resolve issues that trading partners may have with U.S. products or handle negotiations on bilateral or multilateral issues. APHIS' efforts contributed to the opening or retention of \$1.1 billion in export markets in fiscal year 2001, the latest data available. These accomplishments related to products as diverse as cherries, tobacco, and poultry.

The job of ensuring that animal and plant health issues are not used unfairly as barriers to trade gets more complicated as trade increases. Recent agreements and the efforts of the World Trade Organization have reduced the traditional barriers to trade in agricultural products. Countries wishing to protect their markets from competition may turn to sanitary and phytosanitary (SPS) barriers. To retain or open markets, APHIS technical experts must be ready to respond to challenges involving new animal and plant health issues.

Even though USDA, with APHIS assistance, persuades other countries to accept American exports in principle, the importing country may attempt to stop the entry on actual shipments. Attachés are uniquely positioned to respond to day-to-day problems with individual shipments that are detained in ports overseas. Sometimes the problems arise from a misunderstanding of a regulation, or the problem may be as simple as an incorrect notation on a phytosanitary certificate. Having these shipments detained could be costly for the exporter, whose product may spoil while the importing country is deciding on what to do with it. In fiscal year 2002, attachés' actions saved more than \$53.2 million worth of products for agricultural exporters. For example, in May 2002, an APHIS attaché resolved an issue causing the detention of a \$3 million shipment of rice to Costa Rica.

During fiscal year 2002, APHIS negotiated 44 new or revised export protocols for exporting poultry, livestock, and germplasm to numerous countries in the Americas, including Argentina, Bolivia, Brazil, Chile, the Dominican Republic, Ecuador, Guatemala, Mexico, Panama, and Peru. In addition, APHIS negotiated protocols with the Czech Republic for bovine semen and embryos, and with Lithuania, Hungary, and Estonia, for bovine embryos. Currently, APHIS is negotiating protocols with Peru and Nicaragua.

Increased trade in and concerns over genetically engineered products—particularly crops—have heightened international initiatives to harmonize and address assessments of products from both environmental and food safety perspectives. This has also led to discussion of mechanisms to address trade in these products, both bilaterally and multilaterally. A primary objective of APHIS' harmonization efforts is to maintain and enhance the use of science-based decision making, and to promote the credibility of U.S. regulatory bodies as independent, objective evaluators of product safety. APHIS has participated in the development of guidance and technical approaches in the Codex Alimentarius, the International Plant Protection Organization (IPPC), the North American Plant Protection Organization (NAPPO), the Cartagena Protocol on Biosafety, and the Organization for Economic Cooperation and Development (OECD). APHIS continued a joint project under the Transatlantic Economic Partnership (TEP) aimed at European Union and U.S. regulatory authorities accepting common data requirements as the basis for approval of biotechnology products. Success in the TEP process will facilitate a harmonized approval process for genetically modified organisms between North America and Europe.

Provide expertise and training in animal and plant health To facilitate agricultural trade, APHIS must provide technical services and information about animal and plant health to USDA's Foreign Agricultural Service and the U.S. Trade Representative, who have primary responsibility to negotiate trade agreements with other countries. We also need to help developing countries meet SPS Agreement requirements—which include having regulatory mechanisms in place to ensure the safe release and movement of agricultural products—and we need to help these

countries build better animal and plant surveillance capacity. Only through actively helping build health infrastructures can we be assured that other countries are sending healthy agricultural products to the United States. With the increasing volume of trade and movement of passengers, APHIS will likely have to rely more on the sanitary and phytosanitary export certificates of our trading partners. Trade is a two-way street; we cannot increase exports and simultaneously engage in protectionist practices. APHIS must protect U.S. agriculture from incursions of foreign pests and diseases without restricting trade. Trade agreements and the World Trade Organization oblige us to move quickly on foreign countries' requests to import into the United States. We also put together or participate in technical assistance projects with trading partners and potential trading partners. These technical assistance projects serve two roles. First, they assure trading partners that U.S. products are safe because they clearly explain U.S. sanitary and phytosanitary procedures. Secondly, they help other countries develop a regulatory infrastructure that will make it possible to safely take part in trade. Particularly aimed at developing countries, these projects aim to build new markets for U.S. products while helping those countries build their own agricultural industries.

The technical assistance projects we administer vary worldwide in terms of the means of information dispersal. Examples include epidemiology training for visitors from overseas or distance learning modules on SPS principles. The modules, which are available in a variety of media, are administered via attachés worldwide. APHIS also participates in the Foreign Agricultural Service's Cochran Fellowship program, which funds training programs for senior- and mid-level agriculturists from middle income countries and emerging democracies. In recent years, the Cochran program has funded numerous training programs related to the SPS issues of food safety, animal health, and plant quarantine.

The Veterinary Biologics program continued efforts to reduce trade measures limiting the sale of veterinary biological products overseas. Program officials continued technical and harmonization discussions with representatives of the American, Asian, European and U.S. biologics industries and regulatory officials. APHIS held individual meetings with regulatory officials from Australia and New Zealand to facilitate exchange of information and encourage discussions of regulatory issues.

A part of APHIS' Veterinary Diagnostics program assists foreign governments in the diagnosis of animal diseases by maintaining national and international laboratory recognition with the highest quality reference assistance and by conducting developmental projects for rapidly advancing technologies.

In fiscal year 2002, the Agency's National Veterinary Services Laboratories (NVSL) continued efforts in the veterinary diagnostics program to safeguard the United States from adverse animal health events. APHIS, along with the Cooperative State Research, Education, and Extension Service, the American Association of Veterinary Laboratory Diagnosticians Executive Board, and State laboratory directors, developed a pilot program of the National Animal Health Laboratory Network. The network is a national strategy to meld the nation's Federal, State, and local resources in order to respond to any type of animal health emergency, including bioterrorist events, newly emerging diseases, and foreign animal disease agents that threaten the nation's food supply and public health. During fiscal year 2002, USDA provided a total of \$15.25 million in Homeland Security funding to 12 State diagnostic laboratories to use for improving biosecurity of facilities, communicating results, buying equipment, standardizing methods, and quality assurance.

During fiscal year 2002, NVSL provided training to 798 State, Federal, private, and foreign participants for a total of approximately 303 training days. This included 13 formal APHIS training courses focusing on scrapie, tuberculosis, equine infectious anemia, blue tongue, bovine leukosis virus, brucellosis, leptospirosis, and lab biosafety. Six foreign animal disease training schools were also conducted at the Foreign Animal Disease Diagnostic Laboratory on Plum Island for a total of 197 participants. In addition to the formal courses, NVSL also provided bench training in EIA, brucellosis, Johne's, Salmonella, pseudorabies, scrapie, avian influenza (AI), West Nile virus, and contagious equine metritis.

FISCAL YEAR 2004 BUDGET REQUEST

American agriculture is a tremendous resource. To protect this resource, we must safeguard the health of our animals, plants, and ecosystems. The value of this resource is increased when you consider the economic benefits of trading our agricultural products overseas for other goods and services. Safeguarding our agricultural wealth and facilitating safe agricultural trade go hand in hand and require several activities. To carry out these activities, we request \$694.9 million for the salaries and expenses account. We request a pay increase of \$9.3 million and a decrease of

slightly more than \$1 million because of information technology procurement efficiencies. Our requested program level changes are outlined below. In our building and facilities account, we request \$5 million, a decrease of \$5 million for a one-time project from fiscal year 2003 level, to carry out basic maintenance and repair activities.

The proposed funding for the Agricultural Quarantine Inspection (AQI) appropriated program reflects funding of future activities for the Automated Targeting System through mandatory, rather than discretionary funding. In addition, the \$21.3 million request for AQI excludes the border inspection programs that have been transferred to the Department of Homeland Security (DHS). The fiscal year 2004 budget also recognizes the transfer of the Plum Island Animal Disease Center to DHS, which will receive some program funds and necessary funding to operate the facility. Both USDA and DHS will share program funds to reflect their needs, working closely to keep agricultural pests and diseases out of the United States.

Funding for ongoing programs to combat pests and disease is based on the recognition that the Federal Government, and affected States and localities, as well as producers and other private cooperators benefit from eradication. Therefore, we will be proposing a rule in the Federal Register to solicit public comment prior to finalizing before October 1, 2003 which establishes criteria to share program responsibilities in a reasonable manner. For that reason, the fiscal year 2004 budget allocates funding among the Federal Government and cooperators based on consistent program criteria which recognizes a significant Federal responsibility, and takes into account cooperator ability to pay as well as other risk based factors. Federal funding for these ongoing programs would still range from 57 percent to 70 percent, and could in other circumstances be as great as 100 percent.

The budget includes a total of \$26.7 million for the boll weevil program, based on a 20 percent Federal cost share and a reduction of 35 percent in program acres based on long-term program goals.

To successfully safeguard the health of agricultural animals, plants, and ecosystems in the United States, we must begin overseas where those pests and diseases currently exist. To enhance our offshore threat assessment and risk reduction activities, APHIS requests a total of \$1 million for classical swine fever eradication in the Dominican Republic and Haiti and \$2.9 million to eradicate tropical bont tick from Antigua and prevent its spread to other islands.

To reduce the risk of introduction of exotic invasive species, we must enhance our regulatory enforcement and monitoring activities. We request \$881,000 for an aerial sterile Medfly preventive release program in California and Florida. A total of \$9.6 million is proposed for the animal and plant health regulatory enforcement program including funds to continue Homeland Security Supplemental funded investigations of alleged violations, search garbage feeding operations, and document enforcement actions. An import/export program increase of \$2.8 million will allow us to complete and maintain an animal tracking system and place database managers to identify pathways of exotic animal disease. We request \$2.9 million to make a number of improvements associated with biosecurity. These include connecting field activities electronically to our Emergency Management Operations Center, enhancing identification protocols and analytical capabilities, developing a network of Foreign Animal disease diagnosticians, and conducting biosecurity awareness campaigns. We are proposing a total of \$6.3 million to continue increased security at mission critical facilities.

To address the threat of biological terrorism directed at the nation's animal food supply, the Agency proposes an increase of \$1.4 million in the veterinary biologics program and an increase of \$3.3 million in the veterinary diagnostics program for enhanced laboratory network activities, anthrax diagnostics, and security clearances.

To prepare for the unlikely event of foot-and-mouth (FMD) entering the United States, we request \$560,000 to increase the North American FMD vaccine bank doses by 1.25 million to 20.75 million.

The continued existence of pests and diseases in the United States hurts the American producer in several ways. First, their existence reduces yields and increases costs. Second, other countries will cite them as reasons to prohibit or place restrictions on our exports. APHIS has requests to address some of the most devastating pests and diseases. We propose \$15 million in our chronic wasting disease program to increase grants to States and to assist in surveillance, disease management, diagnostic testing, communications, and information management. We need an additional \$329,000 in the golden nematode program for increased surveillance, equipment, and cooperative agreement funding. We request \$2 million to assist States in a long-range low pathogenic avian influenza control and prevention program. To ensure we can account for all hazardous materials used in our wildlife

services operations program, we request \$1 million to create a hazardous materials database. We request a total of \$3.5 million in the plum pox virus program to continue recent program success in eliminating and not finding any more disease.

The APHIS request does not contain an increase in the trade issues resolution and management program to enhance our ability to resolve trade barrier issues related to animal and plant health or in the biotechnology regulatory services program to improve existing products and spawn new technologies. The Office of the Secretary requests \$6.6 million to be allocated among USDA Agencies for negotiating and monitoring trade agreements and for technical trade support in the areas of biotechnology regulatory services and sanitary and phyto-sanitary issues.

We also propose a reduction of \$7.7 million associated with animal welfare user fees. This will allow the industry to cover an estimated 50 percent of the cost of enforcing the animal welfare regulations.

CONCLUSION

Simply stated, APHIS' mission is to protect the health and value of America's agricultural and natural resources. This mission carries two goals—to safeguard the health of animals, plants, and ecosystems in the United States and to facilitate safe agricultural trade. Our safeguarding goal requires us to: (1) conduct offshore threat assessment and risk reduction, (2) regulate and monitor to reduce the risk of introduction of exotic invasive species, (3) ensure safe research, release, and movement of agricultural biotechnology events, veterinary biologics, and other organisms, (4) manage issues related to the health of U.S. animal and plant resources and conflicts with wildlife, and (5) respond to emergencies and emerging issues—surveillance, quick detection, containment, and eradication. Our facilitating trade goal requires that we: (1) document the health status of U.S. agriculture and related ecosystems, (2) certify the health of animals and plants and related products for export and interstate commerce, (3) resolve trade barrier issues related to animal and plant health, and (4) provide expertise and training in animal and plant health. There is a continuum between the goals and a connected, inseparable relationship among the objectives. We cannot improve, or strengthen one goal without improving or strengthening the other.

I am proud of the APHIS mission, its goals, and its objectives. I also am proud of all of the men and women of APHIS who have dedicated their careers to improving the health and profitability of America's animal and plant resources. Their dedicated efforts, coupled with the Committee's unwavering support, have truly helped American agricultural producers overcome pests, diseases, and economic uncertainty. I will close by saying that *Progressive Farmer*, one of America's oldest and most widely circulated agricultural publications selected "The People of APHIS" as winners of the 2003 People of the Year recognition. Since 1937, this is the first time the award has gone to a group of people. This indeed is quite an honor and recognizes the character and dedication of everyone at APHIS.

On behalf of APHIS, I appreciate all of your past support and look forward to even closer working relationships in the future. We are prepared to answer any questions you may have.

PREPARED STATEMENT OF A.J. YATES, ADMINISTRATOR, AGRICULTURAL MARKETING SERVICE

Mr. Chairman and Members of the Committee, I am pleased to have this opportunity to represent the Agricultural Marketing Service—AMS—in presenting our fiscal year 2004 budget proposal.

MISSION

AMS activities support agricultural marketing. Formally stated, the Agency's mission is to facilitate the marketing of agricultural products in the domestic and international marketplace, ensure fair trading practices, and promote a competitive and efficient marketplace to the benefit of producers, traders, and consumers of U.S. food and fiber products. We accomplish this mission through a variety of voluntary fee-based services and publicly funded activities that help our customers find ways to better market food and fiber products and improve their profitability. AMS helps to make the Nation's agricultural markets work efficiently by making sure that all producers and traders have equal access to market information; by assuring them that quality and other product representations are accurately described; by providing pesticide residue and microbiological data that support science-based risk assessment; by providing "how to" technical expertise to growers, shippers, and mar-

ket facilities; by helping to develop improved or alternative market outlets; and by helping producers adjust to consumer trends.

To be successful, we continually monitor the needs of our customers in the agricultural industry, develop strong partnerships with cooperating State agencies, and adopt new technology to improve our effectiveness. Since most of our user-funded services are voluntary, we always remain conscious of cost while being responsive to customer needs.

AMS depends on strong cooperative partnerships with States and other Federal agencies. Our Market News, Shell Egg Surveillance, Pesticide Data, Microbiological Data, Pesticide Recordkeeping, and Federal Seed programs all depend on their State partners to help collect and disseminate information, provide inspections, and otherwise maximize the value of State and Federal programs by sharing and coordinating the use of available resources.

One of the ways we continue to improve our service is through public electronic access to information and services. AMS offers online application for services, filing for protection under the Perishable Agricultural Commodities Act, public comment on rulemaking, and bidding on Federal commodity purchases. Market news users can now access all current market news reports through the AMS Internet home page (www.ams.usda.gov), use search engines to retrieve recent historical data from an 18-month archive, and link to other Internet sites that carry related information.

For fiscal year 2004, AMS will maintain a high level of program delivery while continuing to implement program enhancements without an increase in funding. Therefore, I would like to describe some of AMS' significant accomplishments during fiscal year 2002 and our activities in 2003.

GLOBAL AGRICULTURAL MARKETING

AMS offers a range of services that give sellers of agricultural products a competitive advantage in the global marketplace. For example, our Transportation Services and Pesticide Data Programs provide information to facilitate agricultural commodity exports. Our AMS grading and laboratory testing programs offer product, production process, and equipment certifications to support compliance with export specifications.

We initiated our Global Market Expansion program in fiscal year 2002 to strengthen our support of export marketing for agricultural products. Under this activity, AMS participates in international standards organizations such as United Nations Codex Alimentarius Commission committees, International Dairy Federation Standing Committees, U.N. Economic Commission for Europe, Organization for Economic Cooperation and Development Seed Scheme, International Standards Organization, International Seed Testing Association, North American Free Trade Agreement Working Groups, World Meat Congress, International Calibration Cotton Standards Committee, International Textile Manufacturers Federation, U.S. National Committee for the International Institute of Refrigeration Working Committees, and several bilateral Consultative Committees on Agriculture. AMS experts served on, and in several cases headed, U.S. delegations to meetings of these international food and fiber standards-setting organizations.

AMS also provides technical expertise in negotiations on international standards. In 2002, we worked with U.S. trade officials to delay China's adoption of cotton standards that lack recognized measurement technologies and could have posed a barrier to U.S. cotton exports. AMS led the development of lamb and poultry quality standards that will serve as models for government and industry throughout Europe. We actively participated in developing a model export certificate for milk and milk products, international dairy standards and a code of hygienic practices for milk and milk products. We provided expertise on finalizing the technical requirements for testing meat products for hormones and veterinary drugs destined for export to the European Union and helped develop the U.S./Chile free trade agreement that will make U.S. beef eligible for export to Chile.

Through such participation, AMS is able to influence the design of food quality standards and model inspection protocols so that they are fair to U.S. shippers and they do not become barriers to U.S. agricultural trade. The Agency will continue to do its part in helping to reduce trade barriers relating to commodity standards and product testing by serving as delegates and by leading international committees and organizations.

For fiscal year 2003, AMS is expanding Market News reporting on international markets so that U.S. growers and traders have the information they need to make informed production and sales decisions. Market news reports provide access to a centralized, consistent, public source of timely information on international prices and trade volume. The foundation for enhanced reporting from Western Hemisphere

countries has already been laid through AMS' initiation of the Market Information Organization of the Americas (MIOA). The MIOA brings together market reporting services from 18 countries in North, South, and Central America to harmonize product definitions, reporting formats, and information exchange.

PESTICIDE DATA

AMS supports domestic and export marketing of U.S. food products through its Pesticide Data Program (PDP). PDP is a unique and valuable source of statistically valid data on pesticide residues in food and water. The program provides information to the Environmental Protection Agency that is vital for realistic assessments of dietary risk from pesticides on food commodities available in the marketplace. The data collected benefits growers by enabling regulators to make better-informed decisions on pesticides. Furthermore, PDP is instrumental in providing data that addresses domestic and international public concerns about the effects of agricultural pesticides on human health and environmental quality. Exporters use PDP data to verify for foreign governments and buyers that U.S. agricultural commodities are safe for consumption.

Over the past 11 years, the program has tested 57 commodities, including fruit and vegetables, grains, milk, peanut butter, poultry, beef, juices, and drinking water. The results from PDP testing provide comparative pesticide residue data between fresh versus processed commodities, and an in-depth comparison for selected domestic versus imported commodities. Of the more than 12,000 samples tested in calendar year 2001, 82 percent were domestically produced and 18 percent were imported. PDP procedures are designed to detect, verify, and report low-level pesticide concentrations. Pesticide residues only exceeded established tolerance levels in three-tenths of 1 percent of the samples, although residues were detected on 56 percent of all samples. In fiscal year 2002, the program performed over 100,000 analyses on 13,000 samples.

In March 2001, the program began testing finished drinking water samples. During fiscal year 2002, the drinking water survey was expanded to include sampling in Colorado, Kansas and Texas, while continuing sampling of municipal water systems in California and New York.

Importantly, PDP is built on Federal-State partnerships with 10 States—California, Colorado, Florida, Maryland, Michigan, New York, Ohio, Texas, Washington and Wisconsin. These States collect and test commodities for pesticide residues. In 2003, AMS received additional funding for PDP. Most of the increase will be used to offset rising operational costs at the State level. These funds will support infrastructure improvements and allow the Pesticide Data Program to add data on new commodities and residues. We also plan to complete the effort to achieve International Standards Organization accreditation for our PDP laboratories.

MICROBIOLOGICAL DATA

Our experience in establishing a successful data collection program was of enormous assistance in initiating our Microbiological Data Program. MDP is designed to gather baseline data to assess the risks of microbial contamination of fruits and vegetables, if any. The program collects information regarding the incidence, number and species of foodborne pathogens and indicator organisms on domestic and imported fresh fruits and vegetables.

In fiscal year 2002, AMS worked with cooperating States and interested industry parties to initiate microbiological data collection and testing. AMS developed operating procedures with FDA, the Centers for Disease Control and Prevention (CDC), and State laboratories. Samples of five commodities were collected in the ten cooperating States and were tested in State and Federal laboratories. During 10 months of sample testing, approximately 19,000 analyses were performed on 9,400 samples. The first report will be published during 2003 with calendar year 2002 data. The data will be provided to public health agencies and the food industry for decision-making and evaluation of procedures intended to reduce or eliminate harmful microorganisms from foods.

NATIONAL ORGANIC CERTIFICATION PROGRAM

The purpose of AMS' National Organic Certification program is to facilitate trading of organic products by verifying for buyers and consumers across the United States and internationally that U.S. organic food labeling is accurate and consistent. The program established national standards for organic production and handling, and is accrediting certification agents who can now conduct annual on-site inspections to verify that organic products meet these standards. The program has received 134 applications for accreditation. Fifty-three of the applicants were private

domestic certification agents; 20 were State certification agents; and 61 were foreign. Through March 14, 2003, AMS has accredited 84 applicants, 37 of whom have been site-evaluated for compliance with the program. AMS has also implemented a program to approve State organic programs for production and handling operations within that State. State organic programs will administer a compliance program for enforcement of the National Organic Program and any more restrictive requirements approved by the Secretary. Six States have applied and are under review or are providing more information.

AMS entered into cooperative agreements with 14 States to distribute to organic producers the cost share funds authorized under the Federal Crop Insurance Act. The National Organic Certification Cost-Share Program, authorized by the Farm Security and Rural Investment Act of 2002, made funds available to assist certified organic producers and handlers in all States. To date, we have agreements with 44 States to distribute these cost share funds.

As of October 21, 2002, use of the official USDA organic seal is permitted for certified organic fresh and processed products. Also, during 2002, AMS developed procedures for enforcement, appeals, international recognitions, and authorization to issue export certificates. Consequently, the organic seal can be used as a marketing tool for exported products. AMS has recognized the conformity assessment programs of four foreign governments, worked with the Foreign Agricultural Service to negotiate recognition of the U.S. organic program by the Japanese Ministry of Agriculture and begun equivalency negotiations with the European Union.

MANDATORY PRICE REPORTING SYSTEM

AMS' Livestock Mandatory Price Reporting (LMPR) program addresses concerns about market concentration in the livestock industry and resulting price discovery problems in the marketplace. On April 2, 2001, AMS implemented the LMPR system to meet the requirements of the Livestock Mandatory Reporting Act.

Mandatory reporting provides marketing information on 80 to 95 percent of the volume of all cattle, boxed beef, slaughter hogs, sheep, lamb meat and imported lamb meat traded. Large volume packers and importers report the details of their transactions to AMS. Mandatory reports include information on pricing, contracting for purchase, and other market transaction data for livestock and livestock products. Specifically, mandatory market news covers the prior day swine market; forward contract and formula marketing arrangement cattle purchases; packer-owned cattle and sheep information; and sales of imported boxed lamb cuts.

LMPR is an ambitious effort to provide livestock market information on a near real-time basis over the Internet. Packers submit data by lot, several times a day to AMS via a secure Internet connection. AMS' automated system processes thousands of pieces of market information from the livestock industry and generates market news reports within one hour after receipt of the data. During 2002, AMS was able to release data through the electronic system within an hour of receipt 95 percent of the time.

The system is designed to protect the confidentiality of packers. No data has been released that compromised the identity of source packers. The confidentiality provisions were modified in August 2002, which resulted in the release of 95 percent, or 86 of the originally anticipated 91 mandatory reports. The remaining reports represent thinly traded items and we continue to search for ways to report the data while maintaining confidentiality. In addition to the original set of reports, AMS has developed and begun releasing 16 new reports that improve the marketing information available on the cattle and boxed beef markets. In November 2002, the program began releasing cattle reports utilizing new formats to provide the industry with more regional information and volume accumulation data. AMS developed the new formats based on incoming data and feedback from the industry concerning the data most important in assessing market conditions. AMS continues to work to improve security and expand or improve on existing reports. Authorization for mandatory reporting expires at the end of fiscal year 2004.

COUNTRY OF ORIGIN LABELING

The 2002 Farm Bill (Farm Security and Rural Investment Act of 2002) required USDA to issue voluntary country of origin labeling guidelines for use by retailers who wish to notify their customers of the country of origin of beef, lamb, pork, fish, perishable agricultural commodities, and peanuts. The voluntary country of origin labeling guidelines were published in October 2002 and comments on their utility were received until April 2003. Over 1000 comments were received.

The country of origin labeling provisions of the 2002 Farm Bill also require USDA to publish regulations implementing a mandatory country of origin labeling program

by September 30, 2004. AMS has begun the process of developing the mandatory regulations. To assist in this process, USDA has scheduled a series of 12 listening and education sessions across the United States to receive input from interested parties. USDA plans to publish the regulations implementing the mandatory program as a proposed rule and will provide a 90-day comment period for interested parties.

WHOLESALE, FARMERS AND ALTERNATIVE MARKETS

AMS supports direct marketing to help growers sell their farm products directly to consumers, enhancing the farmers' ability to thrive in their businesses. Direct marketing includes farmers markets, pick-your-own farms, roadside stands, subscription farming, community-supported agriculture, and catalog sales. Direct marketing has been gaining in popularity and especially benefits small and medium-sized farm operators. Farmers markets, for example, are an integral part of the urban/farm marketing chain. In 2002, the National Farmers Market Directory listed over 3,100 farmers markets in the U.S. AMS has been working with FNS to coordinate AMS' farmers market development activities with FNS' nutrition programs. A report on this effort is nearing completion and will be forwarded to Congress upon final approval.

SECURITY INITIATIVES

In cooperation with Departmental planners, AMS has developed a comprehensive strategy to address homeland security issues. AMS has a fully-developed and tested Continuity of Operations Plan and two fully equipped emergency relocation sites. We have identified our mission critical facilities and have strengthened the security of those facilities by installing emergency power generators, access control systems, intrusion detectors, and additional exterior lighting. The Agency has expanded its written instructions and is developing a training program for inspectors, auditors, and graders on monitoring for and reporting contamination or tampering of food products. AMS is currently establishing a small office of safety and security to focus on these issues and to coordinate improvements in security measures.

ELECTRONIC GOVERNMENT

AMS has taken a leadership role in the transition to electronic government. We are working closely with USDA partners to establish electronic access to core services. AMS led the business case for the Department's web portal project and is conducting an Agency portal pilot for market news information. We have also worked to create real-time interaction with our customers. A system known as e-Work allows customers to electronically submit information forms to AMS. The system then processes the forms and generates messages to the customer advising them of the status of their request. In other initiatives, AMS was one of the first agencies in USDA to use electronic authentication in its Livestock Mandatory Price Reporting system. Our Food Quality Assurance program is creating a website for use by institutional food service professionals to learn about sources of new products or find locations approved to further process USDA-purchased commodities. In addition, AMS is working with FNS and FSA to modernize the current commodity purchase management system to a web-based supply chain management system. We will continue to look for ways to provide our customers with better access to our services.

BUDGET REQUEST SUMMARY

AMS has proposed no funding increases for program activities for fiscal year 2004. Instead, we will continue our efforts to improve our efficiency and customer service with the funding currently available. Our total budget request includes \$75 million for Marketing Services, which includes an increase for pay costs, partially offset by a decrease for savings associated with information technology centralization and improvement. We also include a decrease of \$1 million for the Pesticide Data Program. This funding was provided in fiscal year 2003 for increased testing of drinking water.

We are requesting the current funding level of \$1.3 million for Federal-State Marketing Improvement Program grants under Payments to States and Possessions. Our request for \$26.4 million in Section 32 Administrative funds includes an increase for pay costs.

AMS will continue its mission to assist the agricultural industry by facilitating domestic and international marketing. Thank you for this opportunity to present our budget proposal.

PREPARED STATEMENT OF DONNA REIFSCHNEIDER, ADMINISTRATOR, GRAIN
INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION

Mr. Chairman and Members of the Committee, I am pleased to highlight the accomplishments of the Grain Inspection, Packers and Stockyards Administration (GIPSA), and to discuss the fiscal year 2004 budget proposal.

GIPSA is part of USDA's Marketing and Regulatory Programs, which works to ensure a productive and competitive global marketplace for U.S. agricultural products. GIPSA's mission is to facilitate the marketing of livestock, poultry, meat, cereals, oilseeds, and related agricultural products, and to promote fair and competitive trading practices for the overall benefit of consumers and American agriculture.

GIPSA serves in a regulatory capacity, with an emphasis on service to the regulated industries. The Packers and Stockyards Programs promote a fair, open, and competitive marketing environment for the livestock, meat, and poultry industries. The Federal Grain Inspection Service provides the U.S. grain market with Federal quality standards, a uniform system for applying these standards, and impartial, accurate grain quality measurements that promote an equitable and efficient grain marketing system. Overall, GIPSA helps promote and ensure fair and competitive marketing systems for all involved in the merchandising of livestock, meat, poultry, and grain and related products.

ORGANIZATION

GIPSA supervises 14 State and 43 designated private agencies for grain inspection and weighing services at domestic locations; provides supervision and other services from 20 field offices; and handles appeals of grain inspection services in Kansas City, Missouri. GIPSA also maintains 3 Packers and Stockyards Programs regional offices that specialize in poultry, hogs, and cattle/sheep.

For fiscal year 2004, the budget proposes a program level for salaries and expenses of about \$42 million. Of this amount, \$18 million is devoted to grain inspection activities for standardization, compliance, and methods development, and \$24 million is for Packers and Stockyards Programs.

The 2004 budget includes two program increases. I will mention these now, but expand on these increases when I discuss the budget in more detail.

About \$1 million of the increase is to implement a new pilot program to audit the steer and heifer meatpackers. The Packers and Stockyards Programs have never audited a large packer. We anticipate that an audit of large meatpackers will result in substantially better protection to the regulated industries. \$0.5 million of the increase is to conduct a comprehensive, industry-wide review of the Packers and Stockyards Act and regulations. Given dramatic structural changes in the industries covered under the P&S Act, the Packers and Stockyards Programs are preparing to undertake a complete review of the Packers and Stockyards Act and its regulations, something that has not been done to date.

In addition to these increases, the Administration proposes an increase in the budget of the Office of the Secretary to support crosscutting trade and biotechnology activities of the Department, including regulatory, market access and trade barrier removal activities. Increased GIPSA efforts related to biotechnology may be funded from the proposed Office of the Secretary funds.

The Administration also proposes that GIPSA implement two new user fee proposals. New user fees would be charged to recover the costs of developing, reviewing, and maintaining official U.S. grain standards used by the grain industry. Those who receive, ship, store, or process grain would be charged fees estimated to total about \$5 million to cover these costs. Also, the Administration proposes that the Packers and Stockyards Programs be funded by new license fees of about \$24 million that would be required of packers, live poultry dealers, poultry processors, stockyard owners, market agencies, and dealers, as defined under the Packers and Stockyards Act.

I would like to discuss the activities of the Packers and Stockyards Programs and Federal Grain Inspection Service relative to the fiscal year 2004 budget.

PACKERS AND STOCKYARDS PROGRAMS

GIPSA's Packers and Stockyards Programs (P&SP) administers the Packers and Stockyards Act (P&S Act) to promote fair and open competition, fair trade practices, and financial protection in the livestock, meat packing, meat marketing, and poultry industries. The objective of the P&S Act is to protect producers, growers, market competitors, and consumers against unfair, unjustly discriminatory, or deceptive practices that might be carried out by those subject to the P&S Act. To meet this objective, GIPSA seeks to deter individuals and firms subject to the P&S Act from

engaging in anti-competitive behavior, engaging in unfair, deceptive, or unjustly discriminatory trade practices, and failing to pay livestock producers and poultry growers. GIPSA initiates appropriate corrective action when there is evidence that firms or individuals have engaged in anti-competitive, trade, payment or financial practices that violate the P&S Act.

The livestock, meatpacking, and poultry industries are important to American agriculture and the Nation's economy. With only 169 employees, GIPSA regulates these industries, estimated by the Department of Commerce in fiscal year 2002 to have an annual wholesale value of \$118 billion. At the close of fiscal year 2002, 6,024 market agencies and dealers, and 2,064 packer buyers were registered with GIPSA. In addition, there were 1,510 facilities that provided stockyard services, with an estimated 6,000 slaughtering and processing packers, meat distributors, brokers and dealers, and 205 poultry firms operating subject to the P&S Act.

Our regulatory responsibilities are the heart of our mission to administer the P&S Act. To this end, GIPSA closely monitors practices that may violate the P&S Act. Our top priority continues to be investigating complaints alleging anti-competitive, unjustly discriminatory, or unfair practices in the livestock, meat, and poultry industries. Last year, GIPSA conducted over 1,400 investigations. As a result of these investigations, the Packers and Stockyards Programs helped restore over \$37 million to the livestock, meatpacking, and poultry industries. This is the largest amount GIPSA has ever reported to Congress and constitutes more than double the amount that P&SP received in appropriated funding.

GIPSA divides its regulatory responsibilities into three areas: financial protection, trade practices, and competition. In the area of financial protection, GIPSA continued to provide payment protection to livestock producers and poultry growers in a year where the livestock, meatpacking, and poultry industries faced tremendous financial pressures. Financial investigations last year resulted in \$4.3 million being restored to custodial accounts that are established and maintained for the benefit of livestock sellers. Livestock sellers recovered over \$3.2 million under the P&S Act's packer trust provisions. During fiscal year 2002, 81 insolvent dealers, market agencies and packers corrected or reduced their insolvencies by \$26.6 million. In addition, GIPSA's financial investigator analyzed eight complex packer trusts and one poultry trust in which filed claims exceeded \$15 million; GIPSA also analyzed more than 800 bond claims exceeding \$30 million. I would note that GIPSA provides its analysis as a courtesy to the industry; it has no statutory authority to compel payment by the trustee or bond surety.

In its Trade Practices Programs, GIPSA continued to promote fair trading between industry participants and, in fiscal year 2002, targeted its resources at working with industry members to secure appropriate bonding levels. While the overall numbers of individuals required to be bonded under the P&S Act dropped, the total value of bonds available to unpaid sellers increased by \$13 million. Much of GIPSA's work in the Trade Practices Program focuses on insuring accurate weights and prices. GIPSA continued to work with local States weights and measures programs to provide scale training and to secure State assistance in testing every scale used to weight livestock or live poultry twice a year. In addition, GIPSA initiated or completed 63 investigations of weight and price manipulation of livestock. Some of these investigations are on-going. GIPSA also investigated the operations of 53 live poultry dealers; most of these investigations examined whether live poultry dealers were in compliance with contracts entered into with poultry growers. We are continuing to work with members of the regulated industries to develop industry standards on new technologies that are entering the marketplace to evaluate and price livestock purchased on a carcass merit basis.

GIPSA continues to develop its Competition Program, and GIPSA's Competition Program is starting to yield results. Last year, GIPSA hired a new Competition Branch Chief who works very closely with the Deputy Administrator, the Office of the General Counsel, and the competition units in the field office to fully implement the recommendations contained in the September 2000 General Accounting Office report. During fiscal year 2002, the Competition Branch evaluated complaints regarding attempted restriction of competition, failure to compete, buyers acting in concert to purchase livestock, apportionment of territory, unlawful price discrimination, and predatory pricing. Of these complaints, two resulted in a letter of notice that brought the firm into compliance with the P&S Act; the remaining complaints were not supported by evidence. In addition to these investigations, the Competition Program, with the Commodities Futures Trading Commission (CFTC), investigated the sharp decline of livestock prices that followed the events of September 11, 2001 to determine if packers were taking advantage of the situation in violation of the P&S Act. GIPSA and the CFTC also conducted a joint review of the cash and futures markets based on rumors of foot and mouth disease in Kansas. GIPSA con-

tinues to work closely with the CFTC, attending CFTC Commissioner briefings on the cattle, hog, and meat markets.

Competition investigations are complex, and the results are not immediately visible. P&SP often attempts to resolve competitive issues informally, rather than go through the litigation process because of the resources, cost, and time involved. For example, the USDA's Judicial Officer just issued a decision in which he found that a major packer violated the P&S Act as we alleged in a complaint filed in 1999. While this may seem like a long time to resolve a complaint, it is comparable to private litigation. The competition program currently has several major investigations on-going. In addition to these investigations, the Competition Program is working more closely with the regulated industries, especially packers, to address the competitive implications of new practices prior to their implementation.

GIPSA's Rapid Response Teams remain a powerful tool to address urgent industry issues that place the industries in imminent financial harm. For example, after one of the major meatpackers declared bankruptcy on a Friday afternoon, we had rapid response teams in place at each of its plants and in its corporate offices on Monday morning to ascertain the financial condition of its slaughter operations. Last year, GIPSA rapid response teams investigated 40 situations across the Nation. During fiscal year 2002, these rapid response investigations contributed to returning \$4.2 million to livestock producers and poultry growers.

GIPSA continues to work with violating firms to achieve voluntary compliance, and GIPSA continues to initiate appropriate corrective action when we discover evidence that the P&S Act has been willfully violated. During fiscal year 2002, GIPSA, with assistance from the Office of the General Counsel, filed 23 administrative or justice complaints alleging violations of the P&S Act. This represents more than a 50 percent increase over the number of complaints filed in fiscal year 2001.

GIPSA also has cooperative agreements with qualified researchers and research institutions that contribute valuable information to GIPSA's economic understanding of the livestock, meatpacking, and poultry industries. Two reports were completed in fiscal year 2002. Four cooperative agreements remain on-going.

GIPSA completed three additional reports that were submitted to Congress: "Assessment Report of the Cattle and Hog Industries, Calendar Year 2001," "Captive Supply of Cattle and GIPSA's Reporting of Captive Supply," and "Packers and Stockyards Programs Statistical Report 2000." Each of these reports is available on the GIPSA website.

To ensure that producers and growers are aware of the protections the P&S Act provides, the Agency provides a hotline (1-800-998-3447) by which stakeholders and others may anonymously voice their concerns. Last year GIPSA responded to and investigated issues raised by 118 callers. These calls were in addition to calls received in our regional offices. GIPSA also increased its outreach activities. GIPSA conducted 32 orientation sessions for new auction market owners and managers and 12 feed mill orientations to educate them about their fiduciary and other responsibilities under the P&S Act. GIPSA's Deputy Administrator met with top officials from the largest six steer and heifer packers to discuss issues of concern to the Agency and to the packers. These visits protect livestock producers and poultry growers who rely on P&SP to promote a fair, competitive, and financially sound marketplace. GIPSA personnel regularly participate in meetings with industry associations at the local, State, and national levels. During these meetings, GIPSA officials share our concerns, and listen to the concerns expressed by industry participants to ensure that we continue to remain abreast of problems and concerns in the livestock, meat, and poultry industries, and to better understand the marketing options and constraints these industries face. On the front lines, GIPSA's resident agents, situated at 28 locations across the Nation, maintain open communications with State officials to discuss areas of overlapping jurisdiction.

GIPSA is now in the process of updating memoranda of understanding with all 50 States to ensure that we maintain solid working relationships with our State partners. GIPSA recognizes that it is essential to stay in touch with growers, producers, and Federal and State representatives to understand, stay abreast of, and anticipate issues confronting the industries it regulates. To this end, GIPSA officials participated in several committees, including a commission established by the Governor of Missouri to address marketing issues on livestock and a task force established by the National Pork Producers Council to address hog marketing issues. GIPSA's outreach efforts have fostered a broader base of understanding with those we regulate and those intended to benefit from the protections of the P&S Act. We will continue and expand this effort.

FEDERAL GRAIN INSPECTION SERVICE

The Federal Grain Inspection Service (FGIS), provides the U.S. grain market with Federal quality standards and a uniform system for applying these standards. FGIS has both service and regulatory roles, and was founded to provide impartial, accurate quality and quantity measurements to create an environment that promotes fairness and efficiency. GIPSA administers uniform, national grain inspection and weighing programs established by the U.S. Grain Standards Act, as amended.

Under provisions of the Grain Standards Act, most grain exported from the United States must be officially weighed. A similar requirement exists for inspection, except for grain which is not sold or described by grade. Inter-company barge grain received at export port locations also must be officially weighed. And, the Act requires that all corn exported from the United States be tested for aflatoxin prior to shipment, unless the contract stipulates that testing is not required.

Mandatory inspection and weighing services are provided by GIPSA on a fee basis at 38 export elevators, including 5 floating elevators. Under a cooperative agreement with GIPSA, the Canadian Grain Commission provides official services, with GIPSA oversight, at seven locations in Canada exporting U.S. grain. Eight delegated States provide official services at an additional 19 export elevators under GIPSA oversight.

Grain exporters shipping less than 15,000 metric tons of grain abroad annually are exempt from mandatory official inspection and weighing requirements. Grain exported by train or truck to Canada or Mexico also is exempt from official inspection and weighing requirements.

Official inspection and weighing of U.S. grain in domestic commerce are performed upon request and require payment of a fee by the applicant for services. Domestic inspection and weighing services are provided by 58 designated agencies that employ personnel licensed by GIPSA to provide such services in accordance with regulations and instructions.

Under the Agricultural Marketing Act of 1946, GIPSA administers and enforces certain inspection and standardization activities related to rice, pulses, lentils, and processed grain products such as flour and corn meal, as well as other agricultural commodities. Services under the Agricultural Marketing Act are performed upon request on a fee basis for both domestic and export shipments by either GIPSA employees or individual contractors, or through cooperative agreements with States.

GIPSA knows that customers also want more information about the products they are purchasing and consuming. Some of the attributes that they want are impossible, impractical, or expensive to be determined by traditional testing. That is why GIPSA is developing a process verification program that should help us mirror some of the identity preservation and marketing systems currently used in the private sector.

Field dried corn would be one example of a quality attribute that can't be determined by testing. Process verification is one way that GIPSA could meet the demand for this kind of information. That does not eliminate the need for our traditional testing, but adds important information to the marketing of the product.

In a recent customer survey, 20 percent of industry folks consider the need to handle identity preserved grain important today. But more than two-thirds of the same folks think this will be important in five years. The message here is clear. The changing market demands a way to document and validate product differentiation in the very near future.

We have received inquiries from a wide range of agri-businesses. We have been contacted by individual producers, national and State producer associations, feed manufacturers, coop and multi-national grain companies and others. The underlying theme is that they're seeking to preserve their differences in the marketplace by getting third-party verification of their quality management systems.

Today, protecting the identity of a specialty corn or other process has some value. In the future, this ability will be very important to a growing part of the marketplace.

The change in customer wants and needs leads us to continually examine how we support and facilitate the grain markets. As the grain markets evolve in response global trade, increased consumer demands, and technological advances, GIPSA is working with market participants to ensure that the inspection system and grain standards best reflect the overall market needs.

To achieve this, we will introduce new internet-based services to improve the internal efficiencies of our operations and to deliver our customers with high speed, quality grain inspection results. At the touch of a button, buyer and seller will have the necessary quality information to process sales transactions effectively and efficiently. Our aim is to be able to provide internet-based service that connects us, the

official system, and our customers in an electronic business environment where we can interact with greater speed and efficiency.

We are also working with market participants to determine how best the grain standards can reflect the market value of future products. Breeders are working with end users to tailor corn for specific end uses. These advances have already created value-added markets, such as nutritionally dense corn and high extractable starch corn. Further developments could lead to the subdivision of traditional commodity corn into multiple end-use types, such as poultry, swine or cattle feed corn. The standards will help the market assess the value of the commodity in light of specific end uses.

And most of all, our aim is to be flexible, so that we can serve a larger portion of the grain markets. Reacting to market conditions that we face today is insufficient. Anticipating what the market will need tomorrow is necessary. Our efforts are focused on the future as we work to anticipate marketing needs in a rapidly changing environment.

Further, from the almost 3,000 comments received on our advance notice of proposed rulemaking that sought public comment on how USDA can best facilitate the marketing of grains, oilseeds, fruits, vegetables, and nuts in today's evolving marketplace, GIPSA is considering proposing a Process Verification Program to apply internationally-recognized quality management standards to verify the quality process, whether related to biotechnology or not, used to supply a product rather than testing the actual grain itself (e.g., non-genetically-modified corn). This would allow producers, marketers, suppliers, and processors to assure customers of their processes to provide consistent quality products.

2004 BUDGET REQUEST

To fund these initiatives, GIPSA's budget request for fiscal year 2004 is \$41.7 million under current law for salaries and expenses and \$42.5 million for our Inspection and Weighing Services. There is an increase of \$612,000 for pay costs contained in the budget. GIPSA will also be submitting legislation to collect \$28.8 million in new user fees in fiscal year 2004, \$5.2 million for the grain standardization activities and \$23.5 million for the Packers and Stockyards Programs.

The President's fiscal year 2004 budget proposes a current law request for grain inspection of \$18.1 million. The only changes from fiscal year 2003 budget levels are an increase of \$282,000 for pay costs and a decrease of \$56,000 for Information Technology savings.

The President's fiscal year 2004 budget proposes a current law request for Packers and Stockyards Programs of \$23.5 million. As I mentioned before, there are proposed increases of \$994,000 to implement a pilot program to audit the steer and heifer meatpackers to be offset by proposed user fees, and \$500,000 to enhance compliance and review the Packers and Stockyards Act. Additional changes from fiscal year 2003 budget levels are an increase of \$330,000 for pay costs and a decrease of \$67,000 for Information Technology savings.

A credible auditing program is an essential and cost-effective tool that P&SP needs to successfully administer the Packers and Stockyards Act. A credible auditing program is one that audits submitted financial information to determine whether: (1) the information is supported by the firm's records, (2) the firm is in compliance with the P&S Act's reporting and financial requirements, and (3) the financial information raises any concerns under the P&S Act's competition provisions. This is why P&SP proposes to do this by establishing a more formal "Task Force to Audit the Annual Reports of the Steer and Heifer Meatpackers," as a pilot program.

Although P&SP's monitoring program results in correcting many bonding and solvency problems, it is critically important to note that P&SP has never audited a large packer. Since the four largest packers account for more than 80 percent of the steers and heifers purchased for slaughter annually, this represents a significant vulnerability in the program's resident expertise. As a result of this, the industry is vulnerable to repercussions that can follow from any incorrect reporting submitted by a large packer, whether or not intentional, that P&SP does not have the ability to address.

To fill this void, P&SP proposes to hire a specialized group of eight staff, consisting of seven accountants and one economist, which will develop a program to conduct these audits within two fiscal years. During the first fiscal year, P&SP will focus on identifying, hiring, and training individuals with the necessary expertise. The training will be obtained from a credible accounting firm with expertise in the meatpacking industry.

Through our increasingly frequent and substantive conversations with industry, we have been able to build relationships that allow us the opportunity to help firms

steer clear of difficulties they may encounter with the P&S Act. Too often, our intervention in a firm's financial difficulties comes at a stage too late for us to protect the interests of the producers. Through a credible audit program, GIPSA can help industry avoid larger problems later on, as well as better protect producers.

P&SP does anticipate that this pilot program will result in a small increase in the number of investigations and an increase in the monies recovered or returned to the regulated industries. But that is not the goal of this proposal. It is not our intent to engage in these audits just to see what we can find. Even if P&SP is unable to show actual monies returned to the industry, the audits are anticipated to result in substantially better financial protection to the regulated industries through heightened scrutiny of the financial instruments that these meatpackers have in place to protect producers in the event of financial failures.

The second increase is for \$500,000 to allow GIPSA to engage in a comprehensive internal and external review of the Packers and Stockyards Act and regulations.

The Packers and Stockyards Act of 1921 has not undergone any significant reviews since its enactment, despite substantial and controversial structural changes experienced by the regulated industries during the same time period. To conduct a comprehensive review of the P&S Act, P&SP must incorporate individual industry members and industry groups in the process. P&SP will sponsor industry-wide meetings to hear more about the challenges, concerns, and problems facing those directly involved in the livestock, meat, and poultry industries within the context of the Packers and Stockyards Act.

Packers and Stockyards Programs anticipates that building bridges and reviewing the Packers and Stockyards Act with market participants will result in a better understanding of the P&S Act and regulations by industry, as well as offer the Agency a better understanding of the industry's needs in the changing marketplace. By working with all segments of the regulated industry, P&SP feels it can be better positioned to meet the current and future needs of market participants, and help the Agency become more relevant to current and future industry operations.

In a September 2000 report to Congress by the General Accounting Office titled "Actions Needed to Improve Investigation of Competitive Practices" (GAO/RCED-00-242), a recommendation was included that GIPSA provide industry participants with clarification and views on competitive activities. P&SP responded rapidly to that recommendation, dramatically increasing its presence and participation at industry events and meetings. The requested funds will further allow P&SP to meet this demand for clear, concise information that can be shared with industry stakeholders.

CONCLUSION

Mr. Chairman, Members of the Committee, I would like to conclude my testimony on the fiscal year 2004 budget proposal for the Grain Inspection, Packers and Stockyards Administration with an observation.

Technological advances in new products and in business practices create remarkable opportunities and challenges for producers, marketers, and consumers. GIPSA is uniquely situated to facilitate the marketing of products at a time when assurances of product content or production processes are in demand. Further, GIPSA helps ensure that market power by some is not abused. Responding effectively to the needs of our stakeholders requires dynamic activity.

We continue to adapt our efforts, look toward our capabilities, work to understand and accommodate the changes, and serve American agriculture through our efforts to ensure a productive and competitive global marketplace for U.S. agricultural products.

I would be pleased to address any issues or answer any questions that you may have at this time.

Thank you.

Senator BENNETT. Senator Cochran

Senator COCHRAN. Mr. Chairman, I simply wanted to join you in welcoming this panel of witnesses and congratulating them for the fine work they are doing to help assure that we do maintain the safest food supply in the world. I am convinced they are doing a good job and I am here to find out if the budget request is adequate to enable them to continue their fine work. Thank you.

Senator BENNETT. Thank you very much.

OBESITY IN AMERICA

Mr. Bost, you told us that combatting obesity was one of the three main issues you were addressing and gave a statistic that I had not heard before, that 62 percent of Americans are obese. Now, I hesitate to do this, but I am going to do it anyway because I think there is a great deal of confusion, and frankly, it includes some members of this subcommittee. I have mentioned that I am going to do this to some members of the subcommittee and they said, good.

The pyramid that you and—I say “you,” I mean the USDA—has been pushing among school children, it is on display everywhere. It is on just about every cereal box that gets sold. It is, if I can mix metaphors a little, the Good Housekeeping Seal of Approval for the way to eat, and it calls for a substantial consumption of carbohydrates.

We have got the Atkins diet that has millions of people believing that carbohydrates make you fat. Recently, the Zone came out. That got introduced in my family and there are members of my family who follow the Zone and have lost substantial amounts of weight as they have cut down on their consumption of carbohydrates.

I have brought along, perhaps as the most provocative one, a recent one that has come to my attention called the Schwartzbein Principle. Not to tout this particular one, but to outline the claims that are being made, lose body fat and transform body composition. Improve metabolism. Prevent and correct chronic conditions and diseases. Reverse accelerated metabolic aging. Quit addictions and food cravings and cure depression and mood swings.

The doctor who started out, as she says in her opening chapters, urging people to follow the food pyramid and discovered that her patients were getting sicker, and then went in a different direction and now attacks the food pyramid as the problem, gives case studies here, admittedly anecdotal, of how cutting back on carbohydrates and increasing consumption of the right kinds of fat and protein did, indeed, all of the things that are listed on the front of this book.

Now, I am not going to in any sense suggest that this is, indeed, the patent medicine to solve all those problems. But coming again and again from a wide variety of folks who look at our eating habits, the assertion that Americans consume too many carbohydrates and that too many carbohydrates are, in fact, responsible for Americans' obesity is something that I think needs to be examined.

Now, you are talking about sending out the pyramid for comment, and I think that is a salutary thing because it implies that you are open-minded about the pyramid and open to further evidence with respect to it. Dr. Murano, you talked about getting the best science possible to deal with food safety, and what I am raising with you here this morning is can we get the best science to deal with this issue of how we eat.

If, in fact, we as Americans have been moving in the direction of the food pyramid starting in the very early years of grade school, and it is included in all of the literature around and Americans do, indeed, go in this direction, and if, in fact, 62 percent of us are

obese, I think there is at least an indication that we ought to look for the possibility of a cause-and-effect relationship here.

As I say, there is a member of this subcommittee, and I will let him speak for himself when he returns if he decides to get into this, who has accepted the notion that carbohydrates make you fat and has himself lost 20 to 30 pounds as he has gone in that direction and says he feels better than he has felt for a long time.

I don't think this is a trivial issue and I don't think it is an issue of fad diets, because there is empirical evidence in the millions of people who have abandoned a high-carbohydrate diet in favor of more protein and more fat in their diet who have, in fact, conquered the obesity situation. Are they endangering their lives? I know there are some physicians who say they are by moving in this other direction.

This is the bottom line of what I am saying. The place where I would like to be able to go to get a definitive answer to this question based on the soundest science, the most comprehensive tests over the widest range of people, so that it is not anecdotal, it is not a doctor saying, "I treated 12 people and produced this kind of result," but a test that stands or passes the challenge of being scientifically sound says, this is the way to eat in order to avoid obesity.

Now, do you have enough budget flexibility to address this kind of challenge and do you have access to the kinds of scientists who would do these sorts of tests, or are these sorts of tests out there so that we can, in fact, turn to USDA and say, you are the final word and if you eat the way USDA says to eat, you won't get fat and you won't get sick. You will improve your metabolism. You will quit addictions and food cravings and whatever and you don't need to buy a fad diet book.

Mr. BOST. Mr. Chairman, this is a highly complex and a significantly difficult issue, but let me respond to some of the things that you talked about. First and foremost, the statistics would indicate that 62 percent of all Americans are overweight. That means over their ideal body weight. Thirty percent are obese. The troubling thing about the 30 percent figure is that it took us almost 15 years to go from 20 to 30 percent. We are anticipating that it is only going to take us about 5 or 6 years to go from 30 to 40 percent which is essentially 30 pounds over our ideal body weight.

Senator BENNETT. Thank you for correcting me on that. I got the wrong statistic.

FOOD GUIDE PYRAMID AND DIETARY GUIDELINES

Mr. BOST. Right. In terms of the Food Guide Pyramid itself, it is a guide along with the Dietary Guidelines—they go hand-in-hand. The Dietary Guidelines are summarized in a book, that has as many as 20 or 30 pages and is currently in the review process. The request to nominations to the Review Board just went to the Federal Register. The Secretary of Health and Human Services and Secretary Veneman will essentially appoint scientists, the leading experts in the field, to start the process now of reviewing the Dietary Guidelines. That process will flow into a review of the Food Guide Pyramid itself, which essentially will come under review the latter part of 2004 and 2005.

With that said, I think it is really important to note that you made reference to three or four different diets. If we go into a bookstore today, you will see hundreds of books in terms of diets, and the thing that it says to me is the fact that one specific diet does not work for everyone. There are some people that talk about the Atkins diet, and that works for some people. That diet doesn't work for everyone.

If you decrease what you eat, increase your level of physical activity, increase your consumption of fresh fruits and vegetables, you will lose weight and you will move toward a healthy lifestyle.

The problem with us as Americans is this. We love to eat. We love a good deal—super-size it. We don't like for people to tell us what to do, and we don't exercise enough. Instead of walking up one flight of stairs, we will catch the elevator. Instead of parking at the farthest parking lot when we go to the mall, we will drive around for 30 minutes to try to get the closest one.

All of those things contribute to the types of health problems that we are experiencing. Last year alone, we spent \$117 billion in terms of obesity-related health problems because we are overweight in this country.

There are some steps that we are taking, but it comes down to essentially this. We need to look at doing some things that will result in a behavioral change among all of us, especially among adults who essentially make purchases for our children, so they can provide healthier alternatives in the National School Lunch Program.

In terms of the Dietary Guidelines, they are currently under review. We will bring the best scientists the world has to offer to come to the table to have this discussion and to provide us with recommendations.

But the problem is this, and I use this example all the time when I go around the country and talk about it. We could do a survey this morning in this room and I would guarantee you that at least 95 percent of all the people in this room could answer this question. What has more calories and fat, a doughnut or an apple? But, what are you going to eat?

The issue is us making informed decisions, striking that balance in terms of what we can do to start this issue. It has to be a behavior change. All of the diets that you have, all of the guidebooks, all of the information that USDA provides, all of the information experts provide, is not going to do any good unless we follow it, and that is what it comes down to.

OVERWEIGHT CHILDREN

One final point, and specifically regarding our children. When we look at the statistics in terms of what has significantly contributed to the issues of our children being overweight, it comes down to a couple of things, increased TV watching and increased computer use. There is only one State in the country right now that has mandated physical education in schools K through 12, Illinois. Our kids don't go outside and play and there is a limited level of physical activity among them. They don't walk to school anymore and they eat all the wrong things. As parents, we have to take some responsibility for that because we buy the food that our children eat at

home. All of those factors contribute to the types of health problems that we are experiencing.

I don't want to paint the picture that we are not doing some things and that we are not taking some steps to address this issue because in the National School Lunch Program and the reauthorization of the Child Nutrition Programs, we put some recommendations forward to Chairman Cochran's committee that I know they are considering. But it starts with adults taking some personal responsibility for addressing this issue, and that is what we are trying to achieve in terms of having that behavioral change.

A personal example, 3 years ago, I lost 70 pounds. I could not do the Atkins diet. It did not work for me. I went to a low-calorie diet where I decreased the amount of calories that I took, and increased my physical activity. Not everything works for everyone, and that is why it is called Dietary Guidelines.

In the Food Guide Pyramid itself, it says serving size. There was an article just this week alone talking about the average serving size for some things is less than 2 or 3 ounces, but as an American—the perfect example, and I promise I will be quiet on this, is people say, well, I have stopped eating that doughnut for breakfast. I eat a bagel now. Have you seen the size of bagels in this country?

Five hundred, 600 calories. You are not going to lose any weight by eating a 700-calorie bagel in the morning as opposed to a doughnut. In some instances, it would be better for you to eat the one doughnut.

Senator BENNETT. I can see that—

Mr. BOST. I know more about this subject than I want to know.

Senator BENNETT. I can see that I touched a hot button.

I want to observe the time limit more strictly than I did in my previous hearing, so I will wait for a later chance to follow up, but thank you for your attention to this issue and for your personal passion to see to it that we address it. Again, my only closing comment is I want to be able to look to USDA as the real expert rather than the bookshelf, where there are dozens of experts shouting for my attention. I would hope that the pyramid and the guidelines would be based on the very best information and that people would be open-minded to some of the suggestions that we take a look at how many carbohydrates we do have recommended.

Senator Kohl.

CHRONIC WASTING DISEASE

Senator KOHL. Thank you very much, Senator Bennett.

Mr. Hawks, in February of 2002, chronic wasting disease was discovered, as you know, in Wisconsin deer, and today, we have more than 200 positive cases identified. Last year, this subcommittee provided nearly \$15 million in APHIS funding to respond to this disease all across the country, and Wisconsin's share of it was a little bit more than \$800,000 out of the \$15 million.

Wisconsin officials are in constant contact with us here and they have informed us that they need over \$5 million in fiscal year 2004 for continued chronic wasting disease testing and monitoring. Do you intend to respond to their needs? Particularly now with the outbreak of something like mad cow, we understand how important it is to ensure the safety of our animals in this country, and test-

ing, diagnosis, and research, as you know, are the most critical factors here. Money is what it takes to get that done. How do you respond?

Mr. HAWKS. Senator Kohl, I certainly enjoyed being in Wisconsin with you last year and doing a press conference with you there in Madison as this became high on all of our radar screens. As you are aware, we worked with you and other members of the delegation from Wisconsin, with Wisconsin being a high prevalent State, a State that causes great concern to all of us.

We will take the appropriate action, but the amount of funds that we have, the resources, Wisconsin will certainly—we will respond to your needs.

Senator KOHL. I know it is hard for you to be specific and I know how tight money is, but you can expect, and I am sure you can appreciate, how I will be on you and at you with a sense of urgency to try and find some way to increase the amount of funding that we can get in Wisconsin.

Mr. HAWKS. I certainly understand and certainly appreciate that, Senator, and I look forward to working with you. As this Committee goes through the appropriation process, we will make sure that it is appropriately addressed.

Senator KOHL. Thank you, Mr. Hawks.

BSE

Mr. HAWKS. Thank you.

Senator KOHL. To get back to BSE, exporting beef from Canada into the United States is a huge industry up there. In fact, almost 80 percent of the beef that they raise winds up getting exported to the United States for our consumption. So their testing procedures, of course, are critical, and now we have found out that a test that was administered in January finally evidenced a result in May, that there is at least one case up there of mad cow disease. But how they test and how frequently they test, how accurately they test is of enormous importance to us. It is at the same level of importance to us as how we test here in the United States.

So Mr. Hawks, you must have some great concerns about that, and perhaps you do also, Dr. Murano, and I think we would like to hear about your thoughts and what your intentions are with respect to ensuring the American eating public that the beef that is imported here from Canada, which is, as I said, an enormous quantity, is safe. Mr. Hawks?

Mr. HAWKS. Yes, sure, Senator Kohl. We do have concerns which obviously show in the actions that we took just the day before yesterday. From USDA, we have five veterinarians that are in Canada or that will be there today. Four of them is from APHIS. One of them is from FSIS to try to work with our counterparts in Canada to look at their testing protocols and to make sure that we are doing everything we can to assist in this situation.

So we do have those concerns, but the fact of the matter is, here in this country, we feel extremely confident of our testing regimens, our protocols that we have in place. As I stated in my opening comments, last year, we did a little over 20,000 tests on the most likely candidates for BSE, and they were all negative. We are on track to do a few more tests than that this year. Compared to standards

recognized by the Office of International Epizootics, we are testing four times the amount.

So we feel real confident, but also recognize that we must work with our Canadian counterparts to make sure that their testing is appropriate, as well. I will ask Dr. Murano to address the food safety issue because I deal with the animal disease component, so I will get Dr. Murano to answer that.

Senator KOHL. Dr. Murano.

IMPORT REINSPECTION

Dr. MURANO. Senator Kohl, certainly, you know that import inspection, or reinspection, as we call it, of meat and poultry that is imported into the United States is an extremely high priority with us at FSIS.

When this incident happened this week, I will tell you that I was on the phone with our counterparts in the Canadian Food Inspection Agency telling them, first of all, to explain to us what took so long to get that test result, and the basic answer for them is that it was in the pipeline for them to get the sample analyzed. So it wasn't that they held onto it or anything to that effect, but that is not good enough. If they have a backlog with their testing, they have got to do something about it, and if we need to help them, then that is what we need to do. That is on the animal testing.

On testing that we do to ensure that there is no central nervous system tissue in products, they are also responsible for doing that and this is something that I have personally spoken to them about to say, this is something you must do. You must be on top of it. We will lend you all the assistance that we can. If you need us to help you with the training of your laboratory people so that you have more people to do this, whatever it takes is what we will do.

Senator Kohl, in our budget request, for example, for this year, we have requested \$1.8 million to increase the number of foreign program auditors from FSIS. It is because of that commitment that we have to ensure that it shouldn't matter where your food came from that is at your table at dinnertime. It is the USDA's responsibility to make sure that the food supply is as safe as possible, and that includes, obviously, making sure that what is imported undergoes the same rigorous oversight and scrutiny as the food that we make for ourselves right here in the United States.

FOREIGN FOOD SAFETY SYSTEMS

Senator KOHL. I would agree, no question as a matter of principle. Would you say, based on all the information you have, that the beef that is imported from Canada undergoes the same safety inspection as the beef that we raise here?

Dr. MURANO. It does, and I can tell you that because we audit their program on at least annual basis, not only in Canada but other countries. We are in Mexico this week, for example, as part of our regular auditing function.

So that is our responsibility, to make sure that these countries that export meat and poultry to the United States have equivalent systems. That means they have to have an inspector in every plant, every day. They have to have a HACCP-based system, which is a preventative system that our meat and poultry plants here in the

United States have to have, with our verification being conducted through microbiological testing and so forth. They have to have all of that the same as we have here in the United States, and they do in Canada.

Senator KOHL. Well, not to pursue it unduly, but we have a testing system that gives us a result in how many days? Mr. Hawks.

Mr. HAWKS. Yes, sir, Senator Kohl. I probably should have responded to that one. Eight days, and we have no backlog, so when—

Senator KOHL. That is great.

Mr. HAWKS [continuing]. We take a sample here, we get the result within 8 days.

BSE TESTING

Senator KOHL. But they apparently have a testing procedure that yields a result in several months? Or is there something here that we are not tracking?

Dr. MURANO. No, as I was explaining, and Mr. Hawks can tell you more, the test that you are referring to is on the animal. It is not something we do at FSIS. It is akin to the APHIS surveillance that they do on animals.

So my understanding from the Canadians is that they had a backlog of samples to analyze. It is not that their test is any different than ours. It is the same test. But their backlog caused their delay in having that sample collected in January, not analyzed until now.

Senator KOHL. But that kind of a backlog would not be tolerated by you here.

Dr. MURANO. No.

Senator KOHL. So that the fact that they have it up there is as intolerable as it would be if it were true here in the United States, because as I said, 80 percent of the cattle that they raise winds up being exported to us. So whatever problems they have are our problems, isn't that true?

Dr. MURANO. I think you are absolutely right. The testing of the products, of the meat and poultry that I referred to, they have the same systems that we have, with no backlog. This is a testing of the animal, and I will defer to Mr. Hawks to get his comments as to what he believes in terms of their programs in animal health, what should be the equivalence that is expected of other countries.

Mr. HAWKS. Yes, sir. I think they have adequate testing in place, but obviously, this cow was actually slaughtered on the 31st of January. The conditions of the cow—it was not suspected, it was not showing neurological signs—so it was a routine surveillance method.

Having said that, I will back up and say again that we do our routine surveillance within 8 days of the sample being taken. So it is something that obviously we should be addressing with our counterparts in Canada.

Senator KOHL. Thank you. Thank you, Mr. Chairman.

Senator BENNETT. Thank you. Senator Cochran?

FSIS BUDGET REQUEST

Senator COCHRAN. Mr. Chairman, I am impressed with what we have heard this morning, particularly with respect to food safety issues. I am interested to know, however, whether or not the budget request is going to be sufficient for us to continue to maintain the high-quality procedures and processes that we now have in place and are using to ensure that our food supply is safe and wholesome and fit for human consumption. Mr. Bost, I guess we should ask you that, or Dr. Murano.

Dr. MURANO. Certainly, Mr. Chairman, you know that this 2004 budget request is really a record-level increase in our budget that the President is requesting. It is \$42 million over what we had before, and so in these times of budgetary constraints and fiscal conservatism, if you will, it shows a commitment of this Administration that we are putting so much importance in food safety that we are asking for record level funding for the Food Safety and Inspection Service.

It has to do not only with adequately being able to pay the salaries of our inspectors, who do the work of food safety out in the field and are the ones who deserve all the credit for our accomplishments.

But also, we are requesting money to conduct baseline studies, to continue the science-based policy making that we have been undertaking over the last couple of years and money to really overhaul the training of our inspectors, which is very much needed. That is money that is so crucial to have because it will ensure that our inspectors continue to be the best trained and that they continue to avail themselves of the state-of-the-art knowledge in food safety implementation so that they can continue to do a good job. We are also requesting money for additional microbiologists and laboratory personnel so that we can continue to do all the work that needs to be done in laboratory sample analysis and so forth.

So, we are very confident that these requests are certainly what we need to meet the challenges that I mentioned in my opening remarks.

Senator COCHRAN. Thank you.

FOOD SAFETY

Mr. BOST. And Senator Cochran, let me add to that. We all have a very important part of the food safety picture in this country and we want to ensure that all the food, that is supplied to our school children is safe. For my piece of it, by the time we get it, most of the issues are directly related to the handling of the food itself.

As I testified in front of you, I guess about a month or so ago, what we want to do is to ensure that staff who work in the National School Lunch Program receive a high level of training so that they can ensure that the food that they receive remains safe. And so our request is to ensure that we do that. We believe that we have the resources to do that. We can always—I am not going to say that you ever have enough, but we could always use more, but we think we have adequate funding to start that process for food safety persons.

Senator COCHRAN. Mr. Hawks.

Mr. HAWKS. Yes, sir, Senator Cochran. It is certainly a pleasure to be here and to respond to questions from a friend from Mississippi. We feel like this Committee and this Congress have been extremely generous with us over the past 2 years. Since coming here for the supplemental defense appropriation, we were able to take those funds to improve our laboratory conditions, to improve our surveillance methods. We were able to work with the States. So we think that we have adequate funding. The President's budget is adequate to continue this process.

I would like to, if I may, take the time to go back just a little bit to the BSE and say that, for the record—

Senator COCHRAN. Can you tell us how to pronounce what that stands for?

Mr. HAWKS. Bovine spongiform encephalopathy, you have got it, Senator. I pronounced that in Paris on Sunday and my staff that was with me told me that I need to practice, so I have been practicing before coming here today.

But that particular animal did not go into the food chain. While there was a delay in testing, that animal did not go in the food chain, so I think that is important for me to point out. It's just an oversight on my part earlier.

Senator COCHRAN. Thank you very much. I appreciate the good job you continue to do, as well.

Senator BENNETT. Senator Johnson?

CANADIAN LIVESTOCK PROHIBITION

Senator JOHNSON. Thank you, Mr. Chairman.

Would it not make sense to maintain the prohibition on Canadian livestock and meat exports into the United States until the United States can be comfortable that they have eliminated their backlog and that their inspection regime is essentially on a par with that in the United States?

Dr. MURANO. Well, Senator, let me make sure that everybody understands. Their inspection of products, beef and poultry products, is the same as the United States. The issue at hand here is on the live animal, and the animal disease surveillance program that they have. And certainly, we need to make sure that there is no question in anybody's mind as to whether all the facts have been ascertained in terms of any cases of BSE anywhere in the world, Canada, or any other countries.

And so I will venture to say that the Secretary of Agriculture will certainly be very cautious in lifting that ban. She will take all the information that is available as it comes in terms of the samples that are still in the backlog and other information that is appropriate and will not do anything until she is confident that it is safe to lift that ban, and I will guarantee you that that is exactly what she is thinking.

Senator JOHNSON. Well, it concerns me that they may use the same science ultimately as we use in the United States, but if there is a 4-month backlog in this particular instance, that gives rise to great concern that what would have happened if that animal had been exported into the United States during that interim period.

Dr. MURANO. Well, that animal would not have, because remember, it was an animal that had pneumonia and when the animal was put down, the normal thing that happens, just like we do here in the United States, those animals are condemned. Any animal that is diseased is not allowed in the food supply, whether it is BSE, pneumonia, or anything. So that animal would not have entered the food supply anyway. It just so happens that as they tested it, it came out positive for BSE.

Senator JOHNSON. When we say the animal is not in the food supply, just so I understand this, it is my understanding that the carcass of this animal was, in fact, ground up and used as animal feed. Is that correct or not correct?

Dr. MURANO. I understand, that it did not enter the human food supply. So let me allow Mr. Hawks to tell you more about that.

Mr. HAWKS. Senator, I am under the impression that that animal, as we said, did not go into the food chain. I would have to clarify what actually happened, in the rendering process. So I apologize for not having that answer.

Dr. MURANO. But it certainly did not—

Senator JOHNSON. One of my concerns would be if that did, in fact, wind up as animal feed, that, in turn, then, was—whether there are animals that could have fed on that.

Dr. MURANO. I follow you, and that would not happen because Canada has a feed ban, just like we do.

Senator JOHNSON. All right. I appreciate your response here. It would appear to me that because of the 4-month backlog, however, our Canadian friends have some work to do—

Dr. MURANO. Yes, they do.

Senator JOHNSON [continuing]. In order to allow our consumers to have the confidence they deserve to have, and I would hope that our USDA will be very aggressive in working with Canada in that regard.

COUNTRY OF ORIGIN LABELING

Mr. Hawks, on the country of origin labeling issue, in general terms, the United States only imports around 2 million head of live cattle but slaughters 28 million head. Obviously, most of the cattle we slaughter are of U.S. origin. Doesn't it make sense to USDA that tracking of 2 million imported cattle would be less costly than keeping track of the 28 million within the United States?

Mr. HAWKS. Senator, I certainly understand your question, and having been through several of these country of origin listening sessions, I will say to you that I am committed. I will personally be at those sessions, or my Administrator of AMS will be at every one of those to listen and to hear the comments.

But to be very candid with you, it is the assessment of our attorneys that we could not do that as the law is written simply because it requires all products to be labeled with country of origin. So the law does not allow us to do that, as written.

Senator JOHNSON. It would seem—many of my constituents have suggested if you label imported animal, then it is obvious that the other animals are, in fact, United States animals.

Mr. HAWKS. That is understood, but as we have had numerous sessions with our attorneys to help us interpret the law as written,

it requires every product in the retail market to be labeled. And then it is the specificity of the law—born, raised, and slaughtered. It is giving us great difficulty to look at it from that perspective.

Senator JOHNSON. The country of origin labeling law gave USDA discretion to create an audit verification system, but not a mandatory system, to help verify the origin of livestock. We included many existing industry practices and USDA programs to model in order to achieve voluntary audits. Some of these models include the USDA grade stamp program, that is to say, “choice,” “select,” et cetera, “certified Angus beef” and other breed programs, beef quality assurance, Hazard Analysis Critical Control Points, HACCP, the National School Lunch Program, the Market Access Program, and the voluntary born and raised in the USA label used by Carolyn Kerry of California.

To what extent is USDA looking at using these existing models rather than reinventing the wheel to implement country of origin labeling?

Mr. HAWKS. Senator, as I said, as we go around the country, we are listening to all of the concerns, the issues that are being raised. So we are evaluating everything that is out there. However, the requirement is a retail labeling law, so it is controlled more from the retail, and the law also goes on to say that everyone that is supplying product into that retail market is required to provide the verifiable information as to the country of origin.

So we will be continuing to look at all of these and try to come up with something that is reasonable, but it is actually the retail market that is going to drive that.

ANIMAL IDENTIFICATION

Senator JOHNSON. Would you agree that the law prohibits on-farm mandatory animal identification and does not permit third-party mandates by packers?

Mr. HAWKS. I will agree that it absolute prohibits mandatory identification for the purpose of country of origin labeling. As to the third-party audits, I would say that that is a proven practice. It is something that is not unreasonable and I would say the retailer would have the right to require that in that case.

Senator BENNETT. The time is expired—

Senator JOHNSON. My time is expired. I will continue with some other questions and we may submit at a later time, as well. Thank you, Mr. Chairman.

Senator BENNETT. We can come back to this. I want to pursue this same question on a quick second round because I think Senator Johnson is focusing on one of the most contentious problems we deal with. A number of producers are in favor of a system that would allow farmers to self-certify. In your opinion, is self-certification legal?

Mr. HAWKS. In my opinion, self-certification in and of itself would not fulfill the requirement.

Senator BENNETT. Congress made the law. Congress can unmake the law. If we should amend the law to allow self-certification, do you think that would be adequate to achieve the goals that we are looking for here?

Mr. HAWKS. Senator, as you say, Congress makes the law. It is my job to implement it. So as you move forward, any decisions that you make, I would be happy to work with you to help implement those provisions that you put in.

Senator BENNETT. You are beginning to sound a little bit like Mr. Greenspan who testified before us yesterday at the Joint Economic Committee.

But let us assume that Congress changes the law and allows self-certification. Do you have any idea of how farmers' would handle animals that are commingled?

Mr. HAWKS. The animals that are commingled would cause a real serious problem as I see it. If you have animals coming in from Canada, if you have animals coming in from Mexico and then you have a self-certification, I think it would be very difficult because it is ultimately the farmers responsibility to provide that chain of custody, that information up through the system to the retailer. So it could potentially be problematic.

Senator BENNETT. And the \$10,000 fine per violation, it is the retailer, not the—

Mr. HAWKS. The fine would hit the retailer, that is correct, but that fine would also fall back on the supply chain as you go up, as well, because the law also requires those in the chain to provide information to that retailer—it actually mandates that they provide that information to the retailer. So then they would be subject to fines, as well. So it is sort of like a domino effect.

Senator BENNETT. I see. So the retailers probably would not accept self-certification?

Mr. HAWKS. It would be probably difficult. If I was a retailer, I would be very cautious in accepting that.

Senator BENNETT. Okay. Thank you.

Does anyone else want a second round on this panel?

FRESH FRUIT AND VEGETABLE PILOT PROJECTS

Senator KOHL. I would just like to ask Mr. Bost one quick question, Mr. Chairman. Mr. Bost, the 2002 farm bill provided \$6 million for a fresh fruit and vegetable pilot program for the 2002–2003 year. The program provided fresh fruits and vegetables free to children in 107 elementary and secondary schools across four States. Preliminary evaluation of the program by USDA indicated that it was a very successful program and that, overwhelmingly, the schools hope that it could be continued as well as expanded to other schools. Do you have plans to do that?

Mr. BOST. The formula, as you noted, essentially provided us with the authority to do it this year and it was supposed to end. I believe that both the House and the Senate have approved an extension of the \$6 million that was appropriated, so the program will go on until it is complete.

As a part of the Child Nutrition reauthorization, as I testified in front of Chairman Cochran about a month or so ago, we are looking at the possibility of extending these pilot projects in those existing States and also adding two or three additional States. The question is going to be where we get the money from. It was very well received by administrators, educators and teachers. The children loved it. It has been one of the most successful nutrition programs

that we have implemented since I have been Under Secretary in terms of the positive feedback that we have received.

In addition the program is also being implemented and carried out on one of our Indian reservations, and very well received there, too.

Senator KOHL. If you are as enthusiastic as you say you are, and I believe that is true, I would like to work with you to see that we get some additional funding, not only to continue with the program but to expand it and grow it.

Mr. BOST. We are always happy to work with you.

Senator KOHL. Thank you.

Mr. BOST. Thank you.

Senator BENNETT. Senator Johnson, do you want to——

Senator JOHNSON. No.

Senator BENNETT. Thank you all. We appreciate, again, your testimony and we appreciate your willingness to render public service to the citizens of the country.

Mr. BOST. Thank you, Mr. Chairman.

Dr. MURANO. Thank you.

Mr. HAWKS. Thank you.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

FOOD AND DRUG ADMINISTRATION

**STATEMENT OF HON. MARK B. McCLELLAN, COMMISSIONER
ACCOMPANIED BY JEFFREY WEBER, ASSOCIATE COMMISSIONER FOR
MANAGEMENT AND SYSTEMS**

Senator BENNETT. We will now proceed to hear from the Commissioner of the Food and Drug Administration, who has been very patient with us listening this morning.

We are happy to welcome the Honorable Mark McClellan, who is the Commissioner of Food and Drugs, accompanied by Jeffrey Weber, the Associate Commissioner for Management and Systems at the Food and Drug Administration.

Mr. McClellan, thank you very much for your willingness to sit through the earlier conversation. I am grateful to you for your willingness to do that. I think given the concern about food and safety that is currently highlighted in the news, it is important that we demonstrate that FDA and USDA are both on the same page. We need to have something of a calming effect, if we can, on some of the hysteria that seems to arise whenever the media gets something of this kind.

Thank you for being with us and we look forward now to your testimony.

Dr. McCLELLAN. Thank you, Mr. Chairman. I am happy to be here. I enjoyed the opportunity to sit with very capable staff from USDA that we work with very closely.

It is a pleasure to be here with you today, Mr. Chairman, Senator Kohl, Senator Johnson, for my first Senate Appropriations hearing on FDA's budget, and I understand it is your first as Chairman of the subcommittee, as well. Hopefully, this is the start of a great new tradition. I am sure that you are enjoying your new responsibilities as much as I am enjoying mine. We are all making a very real difference in people's lives.

FDA is a vitally important public health agency. All Americans have long depended on us to have confidence and the safety and security of many products they use every day and many that they depend on for improving or even saving their lives.

Mr. Chairman, you have a detailed statement for the record. This morning, I would just like to highlight some of my top priorities for the agency. These priorities are from the FDA's new strategic action plan, which reflects the ideas of our own staff, the public health priorities of the Secretary and the President, and special concerns that I have heard about from many of you and your very capable staffs.

First, to do the most effective job possible, FDA must base its regulatory work on the principle of efficient risk management. That is kind of a mouthful for a principle, but the idea is to use the lat-

est biomedical science and risk management science to find the best ways to reduce the risk facing the public and to do it as efficiently as possible. Since our challenges and the new opportunities we face are greater than ever, this use of up-to-date science is essential in enabling the agency to fulfill its mission.

We are regulating more and more complex food products than ever before. Over the past decade, the number of food import shipments has increased more than four-fold. We are expecting over six million shipments in 2004. Americans are eating more diverse fresh, uncooked products than ever, and we have got to focus not just on the safety of our food supply, but on its security against deliberate attack.

We are facing a broader array of more complex medical products than ever before. The traditional distinctions between drugs and devices are breaking down as we see more products that include both. The traditional methods of bringing blockbuster drugs to market are in the process of being replaced with more sophisticated methods based on new breakthroughs in genomics and proteomics that will lead to more individualized patient treatments in the years ahead. The doubling of the NIH budget over the past 5 years promises the development of even more valuable treatments going forward.

The products that we regulate, including foods and medical treatments, are increasingly important in international trade negotiations and in steps to make the global markets for medical products more efficient. This is all potentially very good news for Americans. More diverse and innovative products hold the promise of better, longer, more fulfilling lives, but that promise will only be fulfilled if the agency continues to fulfill its responsibilities to help make sure that all of these products are safe and can do what they are supposed to do.

As we face these increasing responsibilities, it is critical for the agency to get the most out of our limited resources through regulatory processes that do as much as possible to reduce the risk facing the public and to get the most bang for our regulatory buck. Recent legislation supported by your appropriations in the 2003 budget provide new opportunities for us to do this through our expanded food security authorities and personnel, through newly implemented legislation on pharmaceutical and medical device user fees, and through other new initiatives on such critical topics as patient safety. We owe it to the American public to make the most of these new opportunities.

We are seeking to improve the quality and efficiency of the process of developing new medical technologies. We are also conducting a major overhaul of our oversight of the processes that medical manufacturers rely on to help ensure that medical products are safe and effective and of high quality. We are implementing a new risk-based import security strategy. We are taking new steps on many other pressing issues, ranging from bioengineered products, to dietary supplements including ephedra, to generic drugs, to veterinary medicines, in all cases using the best science and our statutory authorities to make sure the agency is having the maximum impact on the public health that is possible under the law.

At your request this morning, I want to add some remarks about bovine spongiform encephalopathy, BSE. It is a good example of our use of risk management techniques quickly and effectively to be prepared for new public threats. Since the early days of this disease, FDA and USDA have worked aggressively to protect Americans from BSE and to develop and evaluate contingency plans for further developments in the course of the disease. With the most recent news of a single BSE-positive cow in Northern Alberta, we are responding immediately with additional steps for the protection of the American public.

These include, first, adding Canada to the list of countries in FDA's import alerts related to BSE. Under these alerts, FDA stops a wide variety of products, such as animal feed and human food with bovine-derived materials from being imported into the United States from BSE countries.

Second, we are using the FDA's BSE response plan, which has already been developed, for guidance on responding to this threat quickly and effectively.

Third, we are communicating closely with Canadian officials. We have offered to send FDA experts to Canada, as well, to assist them in their investigation and to learn from this case. As we learn more of the facts of this incident in Canada, we will continue to act promptly to assure that scientifically-appropriate safeguards in place in the United States will protect the public health as effectively as possible.

As you know, BSE does not spread naturally from cow to cow. Instead, the infectious agent is passed only when a BSE prion-infected protein from a rendered BSE-infected animal is added to animal feed and subsequently fed to cows. So fourth, and most importantly in our response, our animal feed rule prohibits the use of most mammalian protein in feeds for use in ruminant animals, such as cow. This rule has become one of the essential firewalls against the spread of BSE in the United States, as Senator Johnson noted. Even if an infected animal were ever to be found in the United States, and none have been, this rule would prevent the spread of the disease.

In the past several years since the data was collected that the GAO report relied on, the report that Senator Johnson mentioned from 2002, we have taken a number of steps to respond to the concerns raised there. I agree with you, Senator Johnson, that we need to be extremely vigilant on this issue.

So we have ramped up our inspections of animal feed manufacturers, feed mills, all other firms responsible for keeping—that use ruminant protein to make sure that it stays out of cattle feed, and at this point this morning, I can report to you that we have 99.3 percent compliance. That is 0.7 percent of the inspections of all of these firms, this entire universe of firms handling the bovine material related to feed, that may be out of compliance, and for those small fraction that are out of compliance, we are following up very quickly. We have had follow-up visits within 30 days to these firms. We have issued 59 warning letters involving 42 product recalls involving 241 products.

So we are very much concerned with making sure this program works effectively. We are spending \$22 million on this program this

year. Our inspectors are working with the States closely. We have conducted a number of training sessions. We have developed a standardized form. We are implementing checks to make sure that all of the inspectors doing these activities, the Federal inspectors from FDA as well as our State partners, are following consistent and appropriate procedures in their inspectional activities.

And just to be clear, these inspections cover all of the issues that you raise. There can be no commingling of materials, no mislabeling of foods containing prohibited materials in order for a firm to be in compliance, and we expect 100 percent compliance. We are pushing and aiming for full compliance. We are inspecting every plant every year to make sure they are in compliance and we are doing rapid follow-ups on the small number of plants that are not.

Our work on BSE underscores the fact that FDA is, above all, a public health agency. So let me mention again a few of the other top priorities here at FDA.

One of these areas is patient safety, preventing adverse events. Improper use of pharmaceuticals alone accounts for thousands of deaths, millions of hospitalizations, and many billions of costs and avoidable medical complications each year. FDA has recently announced a set of new programs to reduce preventable adverse events involving the products that we regulate, and that includes preventable food illnesses and reactions as well as medical adverse events.

A third priority for us is getting better information to consumers about how they can improve their own health, and you all have already touched on that in the previous panel this morning. We all know that informed consumers are our greatest public health asset. By making the right decisions, individual Americans can do more to improve their health and their quality of life than the newest medical technology can do for them overall from a public health standpoint, as powerful as those new technologies may be. And we are taking many new steps to help the public get the best science-based information about the health consequences of the products that we regulate.

The fourth priority involves protecting the country against terrorism. There is no challenge more urgent in this post-September 11 world than to engage in the steps needed to protect our citizens from deliberate attacks that may involve the food supply and to provide good medical countermeasures for the agents of terrorism. We are putting in extra hours in many of our medical products centers to make available safer, more effective treatments and prevention methods for biological, chemical, and radiological attacks. We are also an integral part of the President's proposal for Project Bio-Shield to create the next generation of better, safer medical countermeasures as quickly as possible.

Of course, our largest anti-terrorism program involves the security of our food supply. Through new statutory authorities and new regulations that we are in the process of issuing right now, as quickly as possible, and new personnel as well as new strategies to make our food supply not only safer, but more secure, we are trying to provide a new level of security for the American food supply against deliberate kinds of attacks on it.

Finally, the most important resource our agency possesses is its talented and dedicated professional staff. Some of our most important dedicated professionals are with me here this morning a couple rows behind me. There are some new faces in our program. There is Jeff Weber's face, which is not new but is a very effective one in working with us and working with your Committee. We are working hard to attract support and retain highly qualified professionals in order for the agency to be able to adapt and carry out all of the activities that I have outlined. We need to provide the most public health protection for every public health dollar invested and our staff is the first and the most important part of fulfilling that mission.

So I appreciate your attention this morning to FDA. I can assure you that the priorities that we discuss are going to guide our agency's actions during my tenure as Commissioner. We have a budget request of \$1.7 billion to support these top priorities as well as our other safety and security mission activities. It includes a set of proposals, new initiatives that I won't go through in any more detail now. You have got them in front of you.

But I want to conclude by saying that I very much look forward to continuing to work with this subcommittee to achieve our mutual goal of moving FDA forward, because that is so important for protecting and promoting the health of Americans. Thank you for your time this morning.

PREPARED STATEMENT

Senator BENNETT. Thank you very much and for your response to the issue that we discussed in such detail with the first panel. That is very helpful.

[The statement follows:]

PREPARED STATEMENT OF MARK B. McCLELLAN

Mr. Chairman and distinguished members of the Subcommittee, I am honored to be with you today as we discuss FDA's 2004 budget request. I want to thank you for your interest in the Food and Drug Administration and to reaffirm the importance of the FDA and its enormous contribution to our nation's health.

As a practicing internist and a former professor of both economics and medicine I was well aware of the importance of the FDA and its enormous contribution to our nation's health. Now, as the Commissioner of FDA, I have quickly come to understand that ensuring adequate and properly targeted resources is vital to the continued success of the agency and the success of the President's efforts to promote quality health.

I find it a rewarding and exciting time to be at the FDA. The challenges we face in promoting and protecting the public health are greater than ever. The agency is charged with regulating activities which have increased in volume and complexity, a trend likely to continue. There are additional drugs and medical devices available to save and improve lives, and even more to come. There are increasingly diverse food products—giving consumers more food options to meet their needs more productively than ever. And we are adding to these choices by importing a larger volume and greater diversity of foods than ever before. There are also broader choices in cosmetics.

The result is, Americans have more opportunities to improve and enjoy their lives—and these are good things for Americans. At the same time, however, they present unprecedented challenges for FDA in meeting our regulatory responsibilities. Even as the complexity of these products increases, we must continue our commitment to making sure safe and effective new food and drug products reach consumers in a timely fashion. We have responsibilities over 20 percent of the consumer economy—an amount that's growing every year. All of this has immensely complicated FDA's mission. The FDA also must think critically and carefully about

how it uses its resources to improve the public health. Mastering this great responsibility in the 21st Century requires FDA to meet some unprecedented challenges.

I believe there are five major steps we need to take to conquer the challenges we face. A strong FDA that attracts and retains the most talented scientists; dynamic and responsive regulation utilizing new and better ways to reduce risks to the public health; promoting quick access to new medical technologies that are safe and effective thus helping to reduce adverse events involving FDA-regulated products; helping consumers get truthful and non-misleading information about the products they use; and, quick responses to the more pressing challenges of bioterrorism and food security. These are among the many critical steps the agency must take as it looks forward into the 21st century. I would like to first cover the challenges and our strategic planning effort, which include these steps, and then will discuss the specifics of FDA's budget request.

Strategic Planning

To meld it all together—the new challenges, the new opportunities and the steps to be taken, we have undertaken a major strategic action plan within the agency utilizing creative thinking from inside and around the agency we have undertaken a major strategic action planning effort. Under the leadership of FDA's Executive Council we established five broad strategic goals to frame the Agency's future. FDA's leadership is now finalizing a strategic framework to identify objectives and strategies within each of these goals. Cross-cutting work groups, led by members of the senior management team, were established for each goal area. Each group initiated its work based on the Secretary's and my priorities, proposed initiatives, and a broad range of objectives and strategies that are already underway or proposed in recent planning initiatives. Our steps have included leadership development of agency strategic objectives; development of the long-range strategic plan based on the framework; and translation of the strategic plan into a specific action plan for the remainder of fiscal year 2003 and 2004. This effort encompasses the 5 critical challenges and lays the foundation for our action plan. I look forward to discussing this with you as this effort matures. Now lets review the steps we are taking to address the challenges ahead.

Strong FDA

The critical challenge for a strong FDA remains. Essential to the success of the agency is its professional workforce and their ability to maintain a high level of public trust in FDA's activities. Two-thirds of the money we're appropriated each year is spent on our highly-skilled workforce to carry out FDA's complicated mission. Our contributions are primarily a reflection of our professional services.

An organization that can keep up with the rapid changes in the industries it regulates, and one capable of developing and implementing effective and innovative public health measures, requires a very special workforce. So our mission depends more than ever on a solid cadre of experienced physicians, toxicologists, chemists, statisticians, mathematicians and other highly qualified and dedicated professionals. Their expertise is essential for making our regulatory decisions balanced and fair, and for keeping us on the cutting edge of the technology and sciences used by industry. A clear sense of mission is not enough to attract and keep the best and brightest, highly motivated employees who are essential to meeting the challenges that the FDA faces in the 21st century. As FDA Commissioner, it is one of my foremost goals to make sure that the FDA's working environment encourages creativity, efficiency, and superior performance—an environment which attracts and retains top-quality scientists, and enables them to do top-quality work as part of an effective team.

To attract and keep high-caliber employees who are responsive to the changing needs of the agency, we need to be responsive to their diverse needs. FDA is already leading the way with many such workforce initiatives already. Our employees can take advantage of flexible work schedules, including an "any-80" program that can fit the difficult schedules of two working parents, sick kids and sick parents, and other outside commitments. About one-fifth of our employees take advantage of our flexi-placing program, which permits telecommuting. And we support employees with child care, elder care, and other distinctive needs.

In a recent survey conducted by OPM to gauge how Federal employees feel about their jobs, FDA did very well compared to other government agencies and the private sector, especially in how our employees feel that their individual work here relates to Agency's core mission. About 73 percent said that they found FDA a friendly place to work, 82 percent said their supervisor supports their need to balance work and family issues, and 65 percent said they would recommend the FDA as a place to work. We're doing well. We want to do better.

We must reward employees who distinguish themselves and who remain committed to our agency despite attractive outside job offers. On the one hand, I'm glad that so many of our employees have other good options. That tells me that we are attracting very talented people. On the other hand, I don't want to lose them. We therefore offer a range of programs to help recruit and retain talented staff, including expansions of retention bonuses for employees in fields with a particularly high turnover. In collaboration with the National Treasury Employees Union, we are also working to provide additional financial rewards for high performing workers.

FDA must encourage fresh perspectives and plan for transitions as well. For some of our workers, spending time here as well as in academics or industry is the most rewarding career path, because it is the best way to keep up with rapid scientific change. And more than 30 percent of our workforce will be eligible for retirement in less than 5 years. So we are working to develop succession plans and career development plans. And we are expanding career options, such as new fellowships and part-time appointments at our devices center, to support combining work at FDA with work in an academic agency.

We will continue to find better ways to support our work environment. The enormity of our task also compels us to seek new ways to augment our available resources. One such opportunity is to use the accumulated experience of FDA alumni. I'm very pleased that scores of alumni from around the country have come together to establish the FDA Alumni Association. The FDAAA can offer much to help us meet our challenges.

Risk Management

Second, to strengthen our agency's ability to meet the challenges of food and drug regulation in the 21st century, we must rely on the best science available. Risk management is one of the many areas of regulatory science FDA has long used in addressing risks to public health and finding the best science for managing them. We must use creative thinking and science-based risk management to increase public health benefits while minimizing the public health risks. We must work to ensure that our regulations and our decisions are firmly anchored in the latest science; that they are fair; that they are dynamic; that they are focused on public health risks; that they are cost-effective; and above all, that they are responsive to the changing circumstances we face.

We must do all we can to ease the regulatory burden. We need to adjust our policies, methods and practices to the increasing volume, variety and complexity of products under our purview, as well as to increased threats—such as bioterrorism. We have to broaden the application of the science of risk management through a committed, constant and consistent effort to find ways to reduce health risks and increase health benefits to the public as efficiently as possible.

Earlier this year as part of our response to this challenge—to make sure we have regulatory processes that are as efficient and up-to-date as possible—we announced a major new medical technology development initiative with three main elements. The new initiative includes a detailed plan for an overhaul of the practices on which the FDA as well as manufacturers rely on to ensure that pharmaceutical products are safe. The new initiative will encourage manufacturing innovation while continuing to assure the highest drug quality.

First, we are conducting a "root cause analysis" of recent "multiple cycle" product approvals—products that required two or more "rounds" of review before they could be approved. An extra round means at least an extra 10 months or more, which can add many millions to the cost of new products. It also delays availability to patients who might benefit from the product. Second, we are developing "quality systems" for our review procedures. The idea is to apply best management practices internally to our review processes, such as using peer review programs for reviewers to exchange ideas and use each others' experience to learn about best practices. Third we will work to publish new guidance documents. These new guidances will be in areas we think the regulatory pathways could be improved or better defined. We expect to learn something from outside experts in the open process of developing guidances. The new guidances will include product guidances for treating obesity, diabetes, and cancer. We think that new regulatory standards can reduce the time and cost of product development.

We are already advancing changes that will help us achieve these three new goals. For example, we have developed a detailed plan for an overhaul of the practices on which the FDA as well as manufacturers rely on to ensure that pharmaceutical products are safe. GMP policies haven't been updated in 25 years. Meanwhile, best practices in manufacturing technologies and methods have undergone significant progress over that time. We are developing new GMPs based on the latest science of risk management and quality assurance. The new standards are being

designed to encourage innovation in manufacturing and technology; coordinate submission review and inspection programs; and ensure their consistent application by all three FDA centers that regulate pharmaceutical products. This includes new guidance from CBER on the manufacturing requirements for novel technologies such as cell processing and gene therapy operations. The medical device user fee act also significantly expands FDA's informal policy of allowing third parties to conduct facility inspections under more closely supervised conditions, to give some manufacturers the flexibility to have their inspections carried out more quickly without sacrificing stringent safety standards.

For food, there are several issues that are very much at the center of our attention. One of them is ensuring the safety of genetically modified feed and foods, and strengthening the public's confidence in these new products. Genetically engineered crops are increasingly common. Field tests of new plants in the United States have increased more than eight-fold in the last 8 years, and bioengineered crops are now grown on 130 million acres world-wide. The public's concern about these food products is also strong, as was recently illustrated by the media coverage of the commingling of small amounts of bioengineered corn with soybeans that had been intended for consumption.

In the last 10 years, the FDA has evaluated more than 50 new varieties of bioengineered plants submitted to our agency. The basis of this cooperation was an FDA policy, supported by the industry, of voluntary consultation before the bioengineered products are marketed. To help expand similar protections beyond the U.S. borders, FDA's scientists have worked with the Codex Alimentarius Commission of the World Health Organization/Food and Agriculture Organization, WHO/FAO to draft guidelines for the assessment of safety of foods derived from rDNA plants. And to get the best outside advice on food biotechnology issues, the FDA has established a new Food Biotechnology Subcommittee of its Food Advisory Committee.

Currently, as part of a project organized by the White House Office of Science and Technology Policy, we are preparing draft guidance for industry to provide early food safety evaluations for new proteins in bioengineered crops for food or feed. If developers establish that these new proteins are safe for consumption—meaning, that they do not raise questions about their allergenicity and toxicity—then the foods containing low levels of these innovative plants could be marketed without comprehensive review. We will remain vigilant in addressing concerns about genetically modified food and feed.

Next, I want to bring you up-to-date on the FDA's progress in addressing an issue that has stirred great interest among food scientists. I am referring to the studies released that show that baked, fried or roasted foods rich in carbohydrates—including such dietary staples as bread—contain acrylamide, which, at high doses, is a known animal carcinogen. In soft bread, the reported levels of acrylamide range from 30 micrograms to 162 micrograms per kilogram, and in potato chips, to mention another example, the range is from 1.4 micrograms to 100 micrograms per ounce.

Acrylamide is well known to manufacturers who use it for water treatment and production of dyes and plastics, but it is largely a terra incognita for food scientists. Given the key role of carbohydrates in our diet, it's been incumbent on our scientific community to subject acrylamide to a close scrutiny. Some of the questions that need to be answered are, for example, is it genotoxic? How is it formed? What is its level of exposure in the general population? What is its bioavailability in food? And what are the biomarkers of acrylamide exposure? And, what steps can be taken to reduce the levels of acrylamide in food?

FDA is making a significant contribution to this research. Our agency has developed a method for measuring levels of acrylamide in foods, and used it so far on about 300 types of products, including cereals, breads, and chips. We're developing an understanding how acrylamide is formed, which is very important for finding ways how to keep it out of food; and we are probing the chemical's toxicity. Recently, we reported these and other findings to our Food Advisory Committee.

With regard to chronic wasting disease, CWD, it has now been found in farmed or wild deer and elk in 12 states and two provinces in Canada. CWD belongs to a group of transmissible spongiform encephalopathies, or prion diseases, which also includes BSE in cattle, scrapie in sheep and goats, and classical and variant Creutzfeldt-Jacob diseases in humans. There are currently no vaccines or treatments available for these diseases which are invariably fatal. Compared to other TSEs, CWD spreads readily between susceptible species. However, because CWD's route of transmission is poorly understood, there is considerable uncertainty whether CWD poses a threat to humans or livestock is high, also not be used in animal feed.

In order to minimize any risk to public health, FDA publicly announced last November that material from CWD-positive animals should not be rendered for use in feed for any animal species. FDA further recommended that animals from positive captive herds and animals from high risk areas, such as those parts of Colorado, Wyoming and Wisconsin where the prevalence of CW is high, also not be used in animal food. FDA is also collaborating with other Federal agencies in studies of the risk of CWD in the food supply, and the transmissibility of CWD to humans.

These are but a few of the initiatives that are on our agenda, as you will here there are several more projects such as, preparing good manufacturing practices for dietary supplements; trying to improve the food labeling with respect to allergens; doubling our food inspections at the ports of entry; and we are stepping up our enforcement against potentially harmful nutritional supplements. We even test typical home-cooked meals for residues of pesticides and other contaminants.

Medical Errors/Patient Safety

A third critical step of our agency is to reduce adverse health events involving the products we regulate. Health problems associated with adverse events are far too common, carry a staggering economic tab and a large number of them are preventable. The statistics on the prevalence of avoidable health complications that often involve the use of FDA-regulated products presents a huge challenge for our agency and for all of us.

One type of an often preventable adverse events results from foodborne disease. According to a 1999 survey by the Centers for Disease Control and Prevention, CDC, foodborne diseases cause annually 76 million cases of illness, 325,000 hospitalizations, 5,000 deaths, and an economic damage of up to \$23 billion. In addition, inadvertently consumed food allergens result in thousands of avoidable emergency room visits.

Another often preventable adverse event is the misuse of pharmaceuticals which is associated with thousands of deaths and about 3 million hospital admissions a year. It is estimated that our pharmacists will fill 3.1 billion prescriptions by the end of this year, 60 percent more than 10 years ago. Manufacturers worldwide are increasingly presenting their new pharmaceuticals for FDA's review and approval: 60 percent of the world's drugs are introduced first in the United States. In 2000, the economic cost of drug-associated errors alone was estimated to reach over \$75 billion a year. Finding creative ways to prevent even a fraction of the preventable medical errors, will improve the lives of hundreds of thousands of Americans, and greatly reduce the burden on our health care systems.

The FDA's MedWatch program is a system of voluntary reporting of adverse events associated with the use of agency-approved products. The agency's MedWatch program receives about 250,000 voluntary adverse event and medical product problem reports each year, mostly from health care professionals and consumers. Our Vaccine Adverse Event Reporting System, VAERS is shared with CDC and includes participation by large health plans. The Centers for Education and Research on Therapeutics, CERTs, which was authorized by the FDA Modernization Act and is administered through grants from AHRQ, is helping collect information on safe and effective use of FDA-approved medications. And we see the most promising emergence of increasingly sophisticated electronic databases that make possible public-private collaboration in learning more about the ways to improve the safety of medical treatments. Another bright spot is MedSun, FDA's pilot program for devices that requires rapid adverse event reporting on medical devices by a group of hospitals and nursing homes. The system advances the public's health by giving FDA quicker and more detailed information, without identifying involved individuals, on potential problems with health care products in actual medical practice. FDA's VAERS received more than 14,000 reports of adverse reactions in fiscal year 2002, most of which were volunteered by health care providers, patients and their parents. I am looking forward to the debut in June of the newest adverse event reporting system in FDA, the Center for Food Safety and Applied Nutrition Adverse Events Reporting System, CAERS will track voluntary submitted food and cosmetic adverse reports and incorporates some of the latest technology.

But that's not all FDA is doing. Recently, FDA made some additional major patient safety announcements. These included a proposed rule to require a universal barcoding system for prescription medications, to support the development of better systems to support health professionals. The proposed barcode rule would apply to all prescription drug products, including biological products and vaccines, except for physician samples, as well as over-the-counter drugs that are commonly used in hospitals. The proposed rule, if finalized, could reduce by half or more the large number of medication errors that occur at the dispensing and administration stage, by helping to make sure that the right patient gets the right drug at the right time.

A second proposed action the FDA recently announced—revamping of our manufacturer reporting requirements for adverse events—aims to enhance the agency's ability to effectively monitor and improve the safe use of medications including drugs and biologics. Among other things, the proposed rule would improve the quality and usefulness of safety reports submitted to the agency, by giving us more detailed information on serious actual and potential adverse events, especially those involving new products where toxicities are not yet thoroughly understood. It also uses standards that we have developed with regulatory agencies around the world to develop, so that manufacturers can submit one accurate and complete report to agencies rather than many. The proposal will require the submission of all suspected serious reactions for blood and blood products, not just deaths. These provisions would provide FDA with more useful, timely, and extensive information to support quicker, more effective actions by the agency to prevent adverse events.

FDA is also working to reduce adverse events associated with dietary supplements. With new evidence in the medical literature and in adverse event reports there are reasons for the heightened concern that dietary supplements containing ephedra, consequently FDA and HHS announced a series of steps recently to protect Americans from the potentially serious risks of these dietary supplements. The law governing dietary supplement requires us to prove, scientifically and legally, that a supplement presents an unreasonable risk in order for us to take regulatory action. Thus, we are seeking rapid public comment on the new evidence on health risks associated with ephedra to establish an up-to-date record as quickly as possible, to support restrictions on ephedra-containing products and the need for a strong new warning label on any ephedra products that continue to be marketed. We are also executing a series of actions against ephedra products making unsubstantiated claims, for example about sports performance enhancement, and against manufacturers that are marketing street drugs not dietary supplements.

To help consumers continue to get unadulterated dietary supplements, we also proposed a major new regulation to require good manufacturing processes in their production, packing, and holding. The proposed rule would, for the first time, establish standards to help ensure that dietary supplements and dietary ingredients are produced without contaminants or impurities.

I intend to expand the use of new information technology, IT, to improve our understanding of what causes preventable adverse events. In medical care, it is conceivable to develop of an electronic network that would provide automatic updates on adverse events and the circumstances that may have contributed to their occurrence. Such information network could also enable the FDA to disseminate automatically updated, relevant information on medical labels and warnings, and thereby help prevent the adverse events from happening again. Our agency is already conducting pilot IT programs in our centers for medical devices, drugs, and biologics.

Potential health benefits can result from an effective use of today's IT. For example, IT can help professionals monitor the patient's progress and deliver a health care that "gets it right." Many of the new, complex treatments have an inherently higher potential for toxicity, and their use requires careful monitoring for liver, kidney and other toxicities, as well as for interactions with the patient's conditions and other medical treatments. The technology can also aid in the sophisticated monitoring and support required by many seriously ill patients who have undergone complex and sometimes lifesaving surgical procedures. Used comprehensively IT would form the backbone of a National Health Information Infrastructure, a system capable of rapidly and securely transmitting significant health-related data to institutions and public health professionals who need them to ensure better care for patients. My vision is for the FDA to support and use these new tools of health information technology and their incorporation in this system, and pen new opportunities for advancing our mission of promoting the public health. The Administration's Consolidated Health Information E-Government initiative, to which FDA is contributing, is working to establish broad health data information standards that will apply to all agencies.

These and other advancements are part of a vision of what can be accomplished if all of us in government, the health professions, academia and industry continue to work toward better health information systems—and more generally, toward a health care system that helps patients and health professionals make better decisions supported by safer and more effective medical treatments.

We have a major opportunity to help people improve their health by providing them with the up-to-date information they need to choose a healthy way to live. As the Secretary pointed out this is a human tragedy and a shocking result of a failure to realize many of the potential benefits of modern medical treatments. In my new post, I look forward to supporting FDA's efforts to fulfill its important role in this process, and to help secure the benefits of a robust 21st century health care system.

Consumer Information

A fourth step to address FDA priorities is to help consumers get reliable, accurate, and relevant information about the FDA-regulated products. For all that the new medical technologies in the review pipeline can accomplish, they cannot match the public health benefits of sound lifestyle and dietary choices that individuals can make themselves. It is also vitally important for consumers to have accurate and truthful information about the risks and benefits of the medical products they use. Americans increasingly want to learn more about what they can do personally to maintain or improve their health. That's why I am placing such a high priority on clearly communicating that information—not only to consumers, but to health care providers and others who can help ensure that consumers make important decisions about their own health on the basis of reliable information.

To mention a couple of familiar examples, our agency is introducing more and better information about the foods and dietary supplements to help American consumers prevent diseases and improve their health by making sound dietary decisions. One effort is nutrition labeling, which encourages shoppers to select foods low in cholesterol and saturated fats, and high in fiber. We will soon be adding a requirement to include “transfat” on the nutrition label.

But consumers today expect us to do still more, and we must not disappoint them. We must disseminate up-to-date and reliable scientific information on the health effects of foods and nutritional supplements; and we must make sure that the ads and claims for medical products, foods, and dietary supplements are truthful and not misleading. Moreover, we must make use of all means to get this information to consumers in a way that would most benefit their health.

There is no example more persuasive of the need for innovative approaches than the national epidemic of obesity. This is a very serious, and growing, public health problem. According to a CDC survey, in 1985 fewer than 14 percent of Americans were overweight.

Today, more than a third of our adult population is obese, 64 percent of U.S. adults are obese or overweight, and 15 percent of 12–19 year-olds are overweight. The health consequences include greater incidence of diabetes, stroke, coronary artery disease, cardiovascular disease, and high blood pressure—and that's not the complete list. The economic costs of diseases linked with excess weight run into hundreds of billions of dollars each year.

Although the FDA has approved drugs for curbing appetite and breaking down dietary fat, their use usually does not result in a weight loss greater than 10 percent. There is no better remedy for excessive weight than healthy lifestyle choices—and to make these choices, consumers need better information on how their diet affects their health. Our agency has been helping to provide such information through educational articles, guidelines and press releases.

But FDA cannot achieve the goal of a well-informed public through labeling requirements and agency educational campaigns alone. We also need to find better ways to encourage food producers to compete on the basis of scientifically sound nutritional claims. As a recent study by the Federal Trade Commission noted, ads with scientifically-based health claims can have substantial positive effects on the choices of consumers. Here is one area where we may be able to get more useful nutritional information to consumers.

By putting credible, science-based information in the hands of consumers, we hope to foster competition based on the real nutritional value of foods rather than on portion size or spurious and unreliable claims. Such labeling can help empower consumers to make smart, healthy choices about the foods that they buy and consume.

Our consumer health information initiative includes three related actions. First, we will issue guidance on qualified health claims for conventional foods and dietary supplements. Any such claims must be pre-approved by FDA and meet the “weight of the scientific evidence” standard, including support by a credible body of scientific evidence; Second we will strengthen enforcement of dietary supplement rules. Today, FDA is emphasizing its commitment to carrying out the intent of Congress in the Dietary Supplement Health and Education Act of 1994 by outlining its enforcement strategy against false or misleading claims about dietary supplements. As an example of its commitment to strong enforcement, FDA has seized dietary supplements making unapproved drug claims. Third, we have established a Task Force on Consumer Health Information for Better Nutrition. This task force will develop a framework to help consumers obtain accurate, up-to-date, and science-based information about conventional food and dietary supplements. This includes the development of additional scientific guidance on how the “weight of the evidence” standard will be applied, as well as the development of regulations. Our mission at FDA is to improve health outcomes for the nation, and some of the best opportunities for improving health involve informed choices by consumers. Through the Better Health

Better Information initiative, we are committed to improving opportunities for consumers to get scientifically accurate information about the health consequences of the foods they consume, and to enhancing our enforcement efforts against those who would make false or misleading claims for their products.

Counterterrorism

A fifth step in meeting our challenges is to address the critical additional responsibilities—the nation's front lines against terrorism. Helping protect our homeland is a privilege and our paramount public health job, and we are doing all we can to deserve the trust placed in our agency. Our product centers responsible for pharmaceutical products are working to adapt their approval processes to the unique challenges of developing safer and more effective treatments for anthrax, smallpox, plague and other potential agents of bioterrorism. Our center for medical devices is supporting the development of methods for detecting biological agents with bioterrorism potential, and for radiological decontamination. These new tools are needed now, and we are doing our best to help bring them to the nation's defense as quickly as possible.

A new initiative recently announced by the President Bush is Project BioShield—a comprehensive effort to develop and make available modern, effective countermeasures against biological and other dangerous agents. This major cooperative effort will be a joint activity of the new Department of Homeland Security and the Department of Health and Human Services. The BioShield program which Congress is currently considering will ensure resources to develop next-generation countermeasures for smallpox, anthrax, and botulinum toxin; expand research and development at NIH so that it in order to speed research and development on medical countermeasures based on the most promising recent scientific discoveries and make promising treatments available quickly for emergencies. The BioShield program would provide FDA with the ability to make new and promising treatments under development available quickly in emergency situations—potentially saving many more lives than treatments otherwise available today.

The President believes, by bringing researchers, medical experts, and the biomedical industry together in a new and focused way, our Nation can achieve the same kind of treatment breakthroughs for bio-terrorism and other terrorism threats that have been achieved to the threat of heart disease, cancer, and many other serious illnesses.

We have no responsibility more important and challenging than to protect the safety and security of the United States food supply. This is especially true as 80 percent of food products are within the FDA's purview. We are also involved in ensuring the safety of many new types of food. We all know the problem of food safety did not originate in September of last year. During the last decade, rising incidence of food contamination with *Listeria*, *Salmonella* and other pathogens—combined with our more diverse and aging population, greater preference for prepared foods, and rapidly growing food imports—have sharply increased foodborne outbreaks that produced the CDC statistics I mentioned.

This past year the CDC reported a 21-percent decline in illnesses from four more common serious foodborne pathogens, and a food safety survey conducted in 2001 reported substantial improvement in the way our consumers handle food. But the terrorist attacks last year highlighted new potential risks of deliberate food contamination. To counter this unprecedented menace requires new thinking on how to better safeguard our food.

Much work toward this goal has already been done. In the fall of last year, for example, our agency initiated a scientific assessment of the vulnerability of various categories of food to intentional contamination. The appraisal utilized an analytical framework called operational risk management that considers both the severity of the public health and economic impact of a potential bioterrorist attack on our food supply, and the likelihood of such an event taking place. The FDA has developed two guidance documents—one each for domestic food producers and for food importers—on how to protect their products against intentional contamination. And, we are developing additional guidance directed at the retail and cosmetic sectors.

One special emphasis is on the security of our food imports, the volume of which is increasing by as much as 21 percent a year. In particular, the FDA is taking part in two multi-agency efforts to give our bioterrorism counter-measures greater scientific depth and geographic distribution. Thanks to the leadership of the Undersecretary of the Food Safety and Inspection Service, (FSIS), we have joined with FSIS and several other Federal agencies in laying the groundwork for PrepNet, a network focused on the prevention of—and response to—the introduction of microbial, chemical, radiological or physical contaminants into the food supply. And we are developing plans for cooperative work with and expansion of CDC's cooperative Labora-

tory Response Network that will upgrade our ability to quickly recognize and identify a terrorist attack on food.

Our efforts to improve food security have received strong support from the President, the Secretary of Health and Human Services, and you—the Congress. Thanks to a supplemental appropriation of \$151 million received in fiscal year 2002, we have been able to hire several hundred new employees whose job will be to keep watch on imports and whatever other avenues our enemies might try to use to contaminate our food or tamper with other regulated products. But it is important to keep in mind that reducing risks to food security requires more than hiring inspectors. Even with the great expansion of FDA's presence in the nation's ports of entry, we will be able to inspect only a fraction of the 5.6 million food shipments that will be imported this year.

We need to find innovative ways to make our foods more secure without adding unnecessary costs. Thus additional efforts are in the works. One is the implementation of the Public Health Security and Bioterrorism Preparedness and Response Act of 2002, which gives the FDA greater control over food in general, and imported food in particular. Secondly, several weeks ago we announced a set of new food security measures as part of Operation Liberty Shield. Operation Liberty Shield is a comprehensive, multi-agency national plan designed to increase protections for America's citizens and infrastructure while maintaining the free flow of goods and people across our border with minimal disruption to our economy and way of life.

The Bioterrorism Act contains a number of food provisions which require new regulations. We have now published four proposed regulations, three of which are mandated to be in effect by December 12, 2003. This project is on the fast track, and I am committed to issuing the final rules by their statutory deadline. The registration of will require all facilities that manufacture, process, pack or hold food for consumption in the United States to register with the FDA by mid-December, 2003. A second regulation will require importers to provide the FDA with a prior notice of food shipments that includes information about the shipment's contents and origin, as well as the anticipated port of entry. A third regulation will obligate food businesses to maintain records to enable us to determine where the food came from and who was its subsequent recipient, so that we can quickly trace any food contamination back to the source. The fourth regulation authorizes the FDA to order the detention of food on the basis of credible evidence or information that it poses a serious health threat to humans or animals.

Liberty Shield, our newest undertaking, focuses on published common-sense food guidance documents on food security relevant to just about all firms involved in food production, ranging from the smallest mom-and-pop operations and county fairs to the largest food producers. The guidances cover all major sectors of food production, distribution, and use.

Another focus of Operation Liberty Shield, is increased food inspections and sampling for important agents of terrorism. We have recently invested over \$1 million in emergency funds to purchase test kits that enable us to sample for these agents, and we are starting to use these kits more widely in our inspections and testing of both domestically produced and imported foods.

We'll be undertaking further efforts to work with the food industry as we carry out investigations and import audits, and as we implement new procedures, to make sure the measures lead to the greatest benefits for food security without imposing unnecessary costs or regulatory burdens on food production, processing, and distribution. And we want to make sure firms remain aware of potential terrorist activities, especially as they relate to raw material shipments, inventory quarantine procedures, sourcing of foreign products or ingredients, and vulnerable operations.

Over the coming years, I believe the best solution will be the adoption of a risk-based import surveillance system to replace our current import program, which is fully linked with U.S. Customs entry processes—processes that have historically been designed to address revenue and trade issues, not public health issues. We're moving in the direction of a modern, risk-based system for food imports already. This includes shifting toward a "life cycle" approach. I am confident of our agency's ability to rise to the many new challenges we face and I look forward to working with you. Now for the budget request

Fiscal Year 2004 Budget Request

As I have mentioned, pivotal to the continued success of the FDA and the success of the President's efforts to promote health care quality is the FDA budget. Our fiscal year 2004 President's budget request totals \$1.7 billion, including \$1.4 billion in budget authority and \$307 million in user fees. Budget authority increases above the fiscal year 2003 Appropriation total \$82.6 million and savings related to the President's initiatives total \$58.2 million. The agency's reductions include transfer-

ring funding to the new Department of Homeland Security, management savings due to de-layering, and information technology consolidations. The user fee increases total \$37 million. The full time employee total equals 10,753, which includes the adjustment for management savings.

We believe our budget request will allow FDA to fund ongoing operations at the current level and also support more than 1,000 recently hired investigators and analytical staff to fight counterterrorism. In the near future, FDA will be challenged to resolve complex issues connected with emerging technological and demographic developments that include the human genome project, breakthrough device technology, and biotechnology medicines and development. Our specific budget initiatives as compared with our fiscal year 2003 President's request parallels our top priorities.

The President's 2004 Budget was developed within a framework that set a proposed total for discretionary spending in 2004, and each agency and program request reflects the Administration's relative priority for that operation, activity or Program. Thus, the fiscal year 2004 budget has not changed based on the program or agency levels included in the 2003 Omnibus bill the Congress approved in mid-February. We recognize that you may believe there is a need to reorder and adjust some of these priorities and the Administration intends to work with you to remain within the 2004 top line amount.

Cost of Living \$31.4 million

Essential to FDA's success is its dedicated professional staff. FDA is a people-intensive Agency where payroll accounts for over 60 percent of the budget. Forty-five percent of that workforce is dedicated to "front line" efforts such as foreign and domestic inspections and coordination with States and cooperative education programs. The budget request includes \$23.283 million in inflationary cost-of-living adjustments which will be used to support the level of existing programs and also provide a minimum level of support to the hundreds of investigators and analytical staff hired in fiscal year 2002 for Counterterrorism activities. And, the request includes an additional \$8.108 million that will be used, in part, to defray other pay costs, making up the difference between a 3.1 percent versus a 4.1 percent pay increase.

As I have said, the importance and complexity of the FDA's work will only increase in the years to come. Thus the continued success of our mission depends on the experienced and highly dedicated professionals who can make our regulatory decisions balanced and fair keeping us on the cutting edge of the technology and sciences used by industry. Making sure FDA's working environment encourages creativity, efficiency and performance is one of my goals.

Secretarial Initiative: Protecting Our Homeland: Food Safety—Counterterrorism \$20.5 million

FDA has limited capacity to monitor or control the flow of imported foods, inspect domestic manufacturers, and detect foodborne pathogens before they cause human illness. When these limitations are combined with the possibility of deliberate attempts to contaminate the food supply at any point along the food production, processing and distribution chain, the risks are greatly increased. We believe that a coordinated approach with state, Federal and local partners, offers a better means of identifying and containing outbreaks associated with deliberate attempts to contaminate the food supply.

One key food provision of the Bioterrorism Act is the requirement for registration of domestic and foreign food facilities that manufacture, process, pack, or hold food for human or animal consumption in the United States to register with the agency by December 12, 2003. FDA also plans to have its registration system operational by October 12, 2003, to accept early registrations.

Improving the FDA's food safety inspection, detection and monitoring capabilities is and has been a top priority of the Department and the agency before the events of September 11. This FDA effort is the latest in a series of measures to build stronger safeguards for the American people.

We believe these measures will bolster our ability to regulate effectively the more than 400,000 domestic and foreign facilities that deal with food within our country. Our ability to efficiently and effectively help protect the nation's food supply is a critical part in our agency's counterterrorism mission. Thanks to the leadership of Senators Gregg and Kennedy, and Representatives Tauzin and Dingell, the Bioterrorism Act gives FDA this important new authority.

FDA will also provide grants to states for inspections under section 311 of the Bioterrorism Act, conduct direct Federal food inspections, and improve Center and Field laboratory preparedness. By increasing the number of state contracts, grants and partnerships, we believe it will ensure application of appropriate preventative

controls to ensure a safe, wholesome, and nutritious food supply. We expect the initial grants to be used by the states to build their infrastructure so that they may become part of the Laboratory Response Network. With better assessment capabilities of the risks to FDA regulated products we will focus efforts by directing the grants toward risk based inspectional activities or additional laboratory capability.

The infrastructure needed to support the Laboratory Response Network, LRN for counterterrorism coordinated by the CDC, provide integrated laboratory solutions and disseminated testing capacity to support public health preparedness and response to an act of counterterrorism involving the food supply, FDA will develop scientific practices, expand Federal, State and local involvement in our eLEXNET system by having 79 laboratories around the country participate in a common shared microbial agent electronic data system, while assuring coordination with other members of the Public Health Information Network. The total effect is the creation of a safety net that significantly reduces the probability that terrorists will ever achieve their aims, and minimizes the impact of these threats if they do occur.

Secretarial Initiative: Realizing the Possibilities of 21st Century Health Care: Patient Safety \$4 million

FDA's public health and safety role requires a rigorous and effective postmarket surveillance activity. When FDA approves drugs and other medical products such as devices, it has completed a thorough review to determine that these products are safe when they are marketed. That is not always the end of the story. New safety findings may emerge after approval, when a wider patient population uses products. In some cases, products may not be used safely to prevent harm. It is important for FDA to continually monitor these products and track trends associated with them. A critical task of the agency is to reduce adverse health events, a large number of which are preventable. Medical errors are estimated to account for 40,000 to 100,000 deaths per year in hospitals alone.

The requested increase of \$4 million, coupled with the \$3 million from our Generics Drug request will allow FDA to expand the use of new information technology to improve our understanding of what causes preventable adverse events. FDA will continue to conduct pilot IT programs for medical devices, drugs, generic drugs and biologics as well as continue the implementation of Phase III to include drug products into the Medical Device Surveillance Network, MedSun. FDA's new safety initiative, using modern health information systems, will provide faster and more complete information on safety problems associated with drugs and devices so adverse events involving these products can be avoided. Additionally, FDA will place greater emphasis on preventing adverse events involving generic drugs.

Generic Drugs Program \$13 million

According to the Congressional Budget Office, generic drugs save consumers an estimated \$8 to \$10 billion a year at retail pharmacies. Billions more are saved when hospitals use generic drugs. A generic drug is identical, or bioequivalent to a brand name drug in dosage form, safety, strength, route of administration, quality, performance characteristics and intended use. Although generic drugs are therapeutically identical to their branded counterparts, they are typically sold at substantial discounts from the branded price.

Brand-name drug innovation requires great investment of scientific effort and other resources, with an uncertain return. We all therefore recognize that innovators must be able to receive adequate compensation through our patent system. Otherwise, pharmaceutical research and the development of better medical treatments could come to a halt.

But it is also clear that the high prices of many innovative drugs in the United States, where they are not restricted by government controls, are sustaining pharmaceutical research and development worldwide. This is good for pharmaceutical innovation, but it also creates a serious challenge for many of our patients, who are having difficulty paying the high and rising costs of up-to-date drug treatment.

This is where the generic drug industry plays an essential role in promoting the health of Americans. Generic drug manufacturers produce medications that are just as safe and effective as their brand counterparts, and part of the FDA's mission is to make sure that's the case. Yet the prices of generics are much lower: a generic version of a \$72 average brand-name prescription costs about \$17. And thanks to more brand-name medications coming off patent—over 200 of them in the next few years—as well as to the ever-improving scientific knowledge and public awareness about the benefits of generic drugs, the health and economic benefits of using generic drugs are constantly growing.

Encouraging rapid and fair access to generic medications after the expiration of appropriate patent protection is, therefore, one of my major priorities as FDA Com-

missioner. Americans need more generic drugs more than ever, and the FDA has to do its part to make these products available. There are many steps involved in achieving this goal, and I want to walk through some of them.

One part of achieving this goal—reducing the net review time—is largely under the control of the FDA. It's a function of the efficiency of our review process and our available resources. Our Office of Generic Drugs (OGD), has been making progress in this area. Despite the growth in the submissions of original abbreviated new drug applications (ANDAs) from 309 in 1999 to 361 in 2002, our generics program during the same time increased the proportion of applications reviewed within 180 days from about 28 percent to 80 percent. The average time required for a first review of an ANDA is down to 100 days, from 135–140 days in the late 1990s.

These substantial improvements were made possible by rising efficiency in the generics office, as well as by increased resources. The appropriations for this office increased by \$1.4 million in 2001, by \$2.5 million in 2002, and another \$5.3 million in 2003. I thank you for your continued support of this vital program. We can and will do more to improve the efficiency of our reviews, and acting quickly on generic drug applications is well worth even greater FDA resources. Moreover, we hope and expect that the number of generic applications will continue to grow above this year's record level of almost 400 ANDAs. We will use the \$13 million requested in 2004 to improve our reviews and to handle the growing workload. It will increase the size of the generics programs by about 30 percent.

With this funding request, we will be able to hire about 40 additional staff in generic drugs, and add to OGD an additional division for the review of chemistry. This expansion should help reduce the average review time by at least 2 months, move up the proportion of 180-day reviews still closer to the 100 percent goal, and further reduce the waiting time in the ANDA queue. What we need is actual improvement in generic drug availability. And to get more generics in the pharmacies and to our patients' bedsides, we have to meet two additional requirements.

First, the products we review must be safe and effective—meaning, they must demonstrate therapeutic equivalence to the brand drug, and they must be appropriately labeled and safely manufactured. And second, there must be the minimum of legal challenges to the marketing of generic drugs. And in considering both of these very important factors, we see some positive developments—as well as some concerns.

On the positive side, the number of full and tentative generic applications approved has gone up significantly, from 242 in 1999 to 384 last year—an all-time record. On the other hand, median time to the issuance of an approval or “tentative approval” letter—which used to be longer than 2 years—is yet to drop below 18 months. That means, even as we are making large strides in reducing our review time, there is still substantial room for improvement in total time to approval. And although many generic applications have been approved within 1 year, this timeframe is still the exception rather than the rule. Moreover, even after the FDA issued a tentative approval, some potentially important generic drugs have remained unavailable because of legal challenges.

The reason that total time to approval or tentative approval is not declining as much as we might hope is that, very often, multiple review cycles are required. Unfortunately, a large share of the initial generic applications are not up to the FDA's requirements. And this critical obstacle to increasing generic drug availability cannot be removed by the FDA alone.

The second main obstacle to effective communications has been FDA's internal policies that discouraged early consultations between OGD reviewers and sponsors of ANDAs. In part, these policies were necessary because the generic drugs staff has been—and is—overwhelmed with review work, and could not take on additional tasks.

We are considering modifications to our policies on communications involving generic applications during the review process. I have therefore asked the Director of our Center for Drug Evaluation and Research (CDER), and the Director of the Office of Generic Drugs to lead an effort to identify steps, such as improving the clarity, consistency, and timeliness of our guidance and communications for generic drug applicants, to help improve the level of understanding and quality of applications by generic manufacturers.

A third key factor affecting the availability of safe and effective generic drugs is manufacturing processes. To ensure safety and prevent adulteration, generic manufacturers must comply with Good Manufacturing Practices. Pharmaceutical GMPs, and the system that enforces them, still get the job done. But they have not been updated in many years, and it's time for reform to make sure that we have a GMP system that achieves its critical goals as efficiently as possible.

I will now turn to another critical factor affecting generic drug availability: uncertainties in the legal landscape that generic manufacturers face. Recently, as you well know, there has been tremendous interest in whether reforms are needed in FDA's regulations to implement the Hatch-Waxman law that governs generic drug competition, or whether there need to be reforms in the law itself.

While hundreds of generic drugs enter the market each year without substantial legal obstacles, some aspects of FDA's current interpretation of the law have been associated with disruptions, delays, uncertainty, and added costs for some generic manufacturers who are trying to compete fairly against some of the most important brand-name drugs in the country. On occasion, generic manufacturers who have geared up to compete following the expiration of what they thought were the relevant brand-name patents, only to learn that they had new patents to contend with. This practice lead to the repeated use of the so-called "30-month stays" of full approval of ANDAs and 505(b)(2) applications.

To address this problem, the FDA proposed a new regulation last fall. The proposed rule would allow only a single 30-month stay per generic drug application. The proposed rule would clarify that certain types of patents are not allowed to be submitted for listing in the Orange Book, while others for method of use, formulation process, product by process, and different forms of the pending or approved drug substance must be submitted for listing. Further, the proposal would substantially strengthen the signed declaration accompanying the patent submission. These measures should reduce the submission of patents for Orange Book listing that do not represent true innovation.

Secretarial Initiative: Accelerating the Availability of Lower Cost Drugs—Improving Health Sciences: Over-the-Counter Drugs (OTC) \$1 million

OTC drugs play an increasingly vital role in America's health care system, and provide an effective means to significantly reduce consumer prescription costs for specified ailments. The trend to self-medication has increased significantly in recent years as health care costs have risen and consumers want to be empowered to treat minor ailments with safe and effective OTC drug products.

The increase will support the hiring and training of seven FTE to improve the OTC drug review process so that FDA is better equipped to provide the consumer faster access to OTC drug products without compromising safety issues; expedite the review of Rx-to-OTC switches; and, develop and work toward finalizing standards—monographs—for analgesic, antiseptic, laxative, and sunscreen drug products for OTC use. All of these efforts help produce significant consumer benefits such as significantly reducing and/or eliminating all unsafe and ineffective products from the OTC market; providing greater and broader access to OTC drug products; reducing some health care costs; and increasing competition.

Best Pharmaceuticals for Children Act \$5 million

Pediatric provisions included in the FDA Modernization Act of 1997 have had a profound impact on the study of drugs used for children. On January 4, 2002, Congress enacted the Best Pharmaceuticals for Children Act (BPCA), to continue providing incentives for the effective development and dissemination of information on how to properly use therapies in children.

Currently there is still not enough information regarding the pediatric use of about 75 percent of prescription medicines. Prior to implementation of the pediatric provision, 80 percent of medications had not been tested on children, forcing pediatricians to guess at dosage for children, subjecting our children to dangerous health risk in terms of under dosing or over dosing. This is a particularly serious and dangerous situation for the newborn and those infants born prematurely. We know the bodily functions of infants are different than adults and in particular their response to various therapies. We believe this provision will continue to result in pediatric patients being given medicines that have been properly evaluated for their use in the intended populations.

With the increase, FDA seeks to expand availability of drugs for children. We will strengthen our coordination with NIH on ensuring the safety and efficiency of pediatric drugs. FDA and the NIH will develop, prioritize, and publish an annual list of approved drugs for which there is a referral, an approved or pending new drug application, or no patent or market exclusivity protection and for when additional pediatric safety and effectiveness studies are needed, establish a research fund for the study of drugs that no longer have exclusivity or patent protection and specifies the process for obtaining contracts; provide a public summary of all studies. In fiscal year 2003 NIH received \$25 million to expand the availability of drugs for children, in fiscal year 2004 NIH is requesting an additional \$25 million for a total of \$50 million was to support this effort.

FDA will hire new staff for our Center for Drug Evaluation and Research, CDER to continue to define, develop, issue, and track written requests for pediatric studies; publish the final study reports on the docket; review submitted results from these pediatric studies within 6 months; oversee ethical issues related to studies; and disseminate appropriate information to the public. The increase will also support the hiring of 4 FTE in the Office of Pediatric Therapeutics, under the heading of Other Activities, to address all activities related to the increasing number of new pediatric studies submitted by the pharmaceutical sponsors.

Secretarial Initiative: Improving Departmental Management

FDA is also supporting various administration and department initiatives associated with the President's Management Agenda by consolidating human and IT resources to achieve greater efficiencies and economies of scale; consolidating the biologic therapeutic review function into the similar drug review function to achieve greater consistency and less duplication of effort, conducting outsourcing studies and improving management to achieve cost savings and maximum efficiencies; organizational de-layering for faster decision-making and better communications; and, implementing a new financial management system to provide agency managers with timely and consistent financial information.

FDA plans a major consolidation of its Headquarters Offices in the Washington D.C. metro area going from 16 locations to two—White Oak and College Park, Maryland. These locations were selected to create greater economies of scale and scope with the co-locating, standardizing and modernizing document handling; sharing facilities such as libraries and conference areas; reducing redundancies in a wide range of administrative management tasks; allowing the conversion to a single computer network; and significantly reducing management layers. College Park has been completed.

Center for Drug Evaluation and Research Move \$6 million

FDA headquarters currently occupies approximately 40 buildings in 16 locations. A long term goal has been for these facilities to be consolidated into two locations which will result in considerable annual operating savings. Receipt of the request will complete the second phase of the CDER relocation. This portion of the second phase will consolidate the offices and laboratories of CDER into one office and laboratory complex, enhancing communication, primarily by supporting cabling and relocation services.

Arkansas Regional Lab \$3.5 million

FDA is also strengthening its analytical capabilities in the field by completing Phase III of the Arkansas Regional Laboratory multi-purpose facility to support the increased need for domestic and import inspections efforts.

FDA's field laboratories provide critical laboratory and analytical support to domestic and import inspection efforts and are a key element to the FDA science base. These laboratories provide a cost-effective critical mass of scientific expertise in the fields of chemistry, microbiology, pesticide chemistry, animal drug research, and total diet research. ARL, located in the middle of the United States, will provide critical laboratory analysis for FDA-regulated products in a seventeen-state radius.

Completion of Phase III of the ARL will enable FDA to fully utilize Building 50 and effectively collaborate with the National Center for Toxicological Research on scientific issues critical to the Agency and the American public. One of the issues addresses FDA's preparedness for counterterrorism events. The Jefferson Laboratories are developing DNA-based or mass spectrometry based technologies to permit the analyses of products for chemical and microbiological hazards. These methods will assist public health officials in identifying the type of hazard and its appropriate counter-measure.

Without these funds, Phase III will not be completed in a timely manner and that delay may adversely impact FDA efforts to finalize development of methods, which could be used for chemical and microbiological hazards.

Unified Financial Management System \$2.3 million

FDA's management needs timely, reliable, and current information. The DHHS Unified Financial Management System, UFMS, is designed to provide financial information in a manner that will enable FDA to maintain its clean audit opinion and meet all other financial information management requirements.

FDA is performing various preparatory activities such as consolidating fifteen agency location codes to one; standardizing computer financial systems by implementing web-based versions; and, preparing its financial community for changes. Additional funding in fiscal year 2004 will enable the FDA to implement its portion of UFMS titled, Financial Enterprise Solution by beginning to design and test the

General Ledger with payroll interface, which will account for over 60 percent of FDA's transactions; and purchase software licenses, hardware, training and program support and meet increased contractor costs for site implementation.

Rent Redistribution \$10 million

FDA is working with GSA to obtain space around the country to accommodate the more than 800 counterterrorism personnel hired with fiscal year 2002 Emergency Supplemental Appropriation. FDA anticipates redistributing some funds in fiscal year 2003 for GSA rent costs, and we are working to determine the exact amount of this redistribution. FDA expects its GSA rent costs to increase by at least \$10 million in fiscal year 2004. In an effort to achieve additional management efficiencies, FDA intends to redirect funds from the programs, including field activities, to cover cost increases. Similar redistribution of increased GSA rent costs may all take place in fiscal year 2003.

Reorganizations and Improving Management

To meet my priorities of a strong and effective organization, risk reduction, counterterrorism and food security, and reducing medical errors and consumer communications, FDA has reorganized and several functions within the Office of the Commissioner. These include the Office of the Senior Associate Commissioner, the Office of Crisis Management, the Office of Legislation and the Office of Combination Products. In addition, the therapeutic biologics review function is being transferred from CBER to CDER to consolidate the similar drug review functions. Organizational de-layering to achieve a flat, streamlined Agency where decision-making and better communications exists is being aggressively pursued. FDA is also consolidating its administrative functions into a Shared Services Organization, SSO. The SSO concept will allow FDA to provide administrative support functions to Agency components to meet critical mission needs in the most efficient and effective manner possible. Similarly, FDA actively participated in leadership with the Department in the 40 to 4 Human Resource, (HR) consolidation effort. FDA's HR Director chaired the Department's workgroup of Operating Division representatives to design the new 40 to 4 HR consolidation initiative. FDA also conducted the pilot of a web-based application process called "quickhire" which is the system to be used supporting operations at the four HR centers. In preparation for the 40 to 4 consolidation, FDA consolidated its six personnel offices into one in 2002.

As we prepare to transition FDA's HR staff to the Department's Rockville Service Center, scheduled to begin operation on October, 1, 2003, I will continue to support the Department's consolidation initiative. These efforts will place the Agency in a position to more effectively and efficiently meet the challenges of providing better protection to consumers and promoting better health.

Management Savings \$25.7 million

Management savings in fiscal year 2004 will contribute to an environment in which the FDA functions effectively as a single agency that consistently supports top-quality work by all of its employees.

The challenges facing FDA cannot be confronted adequately without adequate resources in the right places. By rightsizing the Agency is thinking critically and carefully about how it uses its resources to improve the public health. Innovation and change is the norm in the American health care system, and programs must be designed with the future in mind.

To accomplish this, FDA is conducting sourcing studies and improving management to achieve cost savings and maximum efficiencies for a fiscal year 2004 savings of \$25.698 million and 199 FTE.

IT Consolidation \$29.6 million

Information technology infrastructure functions are also being consolidated. This consolidation effort will reduce IT infrastructure and development expenditures in fiscal year 2004 by \$29.587 million. Similar systems will be combined, IT processes reviewed and there will be reduced efforts on lower priority projects. Standardization of management processes will be fostered to increase the effectiveness of IT even as overall costs are reduced.

User Fees—Current Law User Fees \$31.7 million

The budget request includes \$249.825 million in PDUFA III user fees for the drug and biological product review process, an increase of \$26.925 million over fiscal year 2003. This consists of pay and inflationary increases and new initiatives included in the PDUFA III legislation.

In addition, the request includes \$29.190 million for MDUFMA to significantly improve the medical device review process. This is a \$4.065 million increase over fiscal

year 2003. Our Medical Device and Radiological Health program has re-engineered itself over the last decade to accomplish more and has changed its strategic direction by consciously shifting its focus to high-risk, high-impact products to optimize the effect on public health. Other innovations brought by the FDA Modernization Act have streamlined the processing of premarket notifications (510(k)s) by using accredited third parties. The results were improvements in the review times and review processes. MDUFMA builds on these successes by providing medical device user fees beginning with fiscal year 2003 submissions, authorizing the use of accredited third parties to conduct quality systems/GMP inspections under very rigorous conditions, providing for effective FDA oversight of reprocessed single-use devices, improving the focus on devices intended for pediatric populations, improving the coordination of reviews that involve combination products, and more.

MDUFMA commits FDA to a comprehensive set of challenging performance goals that will lead to substantial improvements in the timeliness of device reviews. MDUFMA user fees, and the additional appropriations you provide for this important program, will ensure FDA's ability to bring new medical technologies to health care professionals and patients more rapidly, through a strengthened program that can meet the public's expectation that the medical devices they use are safe and effective. These resources will also help us meet the challenges now facing us from the medical device industry that include increasingly cutting edge and complex technologies that are being applied to current medical device products being developed and a shortage of the right scientific expertise needed to review these products. We must ensure that our science base is up to date, that our reviewers receive appropriate training, improve our outreach to industry and other stakeholders, and improve our review information system. We believe the increase will work to enhance our infrastructure, respond to the expected growth in the number of PMA applications the Agency receives, and improve our performance.

The request also includes \$23.225 million in other user fees for mammography inspections, export certifications and color certifications, an increase of \$.735 million over fiscal year 2003.

Proposed User Fees—Animal Drug Review User Fees \$5 million

A new user fee is proposed for the review of animal drug products. This proposal is patterned after the successful Prescription Drug User Fee Act, PDUFA that has enabled FDA to add over 1,000 employees to the drug review process over the last 10 years. With this \$5 million request, FDA would improve and expedite the review of animal drug preapprovals.

Closing

I thank you for your commitment and continued support of FDA. We all have a shared responsibility of bringing to American homes safe, varied and plentiful food, and products devoted to providing the public with a healthy lifestyle and healthy choices. I look forward to a long and harmonious working relationship with you, the Congress and other interested parties as we collaborate to promote and protect the health of our people.

MEDICAL DEVICE USER FEES

Senator BENNETT. I am sure it will come as no surprise to you that since assuming this position, I have heard from a lot of folks about MDUFMA, the Medical Device User Fee. I have tried to understand this. Let me see if I have got it right.

The medical device people agreed some time ago that they would start to pay a user fee if in response they would get faster turnaround times, the argument being, well, we just don't have the resources within FDA to give you the turnaround times on approvals that you say you need and they say it is so important. Their reaction was, it is so important to us to get rapid turnaround times for our applications that we will pay for it.

And so a deal was struck whereby they would pay, and let me see if I have the numbers right, \$150 million in user fees over the next 5 years and the government would match these funds with a \$15 million increase for the Center for Devices and Radiological

Health in each of the fiscal years 2003, 2004, and 2005. In other words, the user fees, if I can add it correctly, add up to \$150 million and the Feds say, we will put in another \$45 million, so we approach an additional \$200 million to try to get faster service out of the government.

This was enacted into law in October of 2002, after the 2003 budget request was received. Now, my predecessor as chairman of the subcommittee, Senator Cochran, was unable to get more than \$4 million in 2003 as a start on this, but that was a good start and a significant downpayment of the \$15 million that was envisioned.

So now we get your budget and you are increasing it by \$1 million and we are going the other direction. I understand, having been in the executive branch, the kinds of pressures that you are under from OMB and the kinds of things that happen, and I am not going to ask you, did you recommend that we were going to the \$15 million and then did the people at OMB cut you back. That is the kind of internal negotiations that go on and I am not going to go there.

But one of the things I learned as a businessman is that a deal is a deal, and we are in a situation where the industry is coming up with an additional \$150 million in user fees and someone in the budgetary process is saying, that is wonderful. Let us take that \$150 million and spend it someplace else. In other words, money is fungible and if we have got an extra \$150 million coming in from another source, we will use that to offset money that we would otherwise have spent to try to get this up here. As you can understand, these folks feel somewhat badly used.

So my question to you is what your suggestions are as to how we get out of this and if this subcommittee were to earmark some additional money to get close to the \$15 million that was agreed to, can you help us find the offsets as to where it might come from?

Dr. McCLELLAN. Mr. Chairman, MDUFMA is one of those terms that, probably like you, I hadn't heard much before coming into government work and starting to work on important issues related to the development and use of new medical technologies. But I think your understanding of the program is extremely good and I think your awareness and attention to this issue is extremely important.

There are many breakthroughs occurring in medical devices today. We recently approved a new drug-eluding stent that will significantly reduce the rate of complications after many heart procedures for the millions of Americans suffering from heart disease. We need to make those newer, safer, more effective treatments available to the public as quickly as possible.

The FDA has long supported user fee programs like MDUFMA in other areas of medical technology. We have got a prescription drug user fee program that works for drugs and biologics extremely well in helping us reduce approval times and getting safe and effective products out there to the public more quickly, and we support it and we still support an effective medical device program. We are trying to get the Senate to act very soon on an animal drug user fee program, as well.

This is an issue where from—I know you are experienced in the executive branch and in the Senate—you are right, a deal is a deal,

but sometimes new programs take a little bit of extra effort to get off the ground effectively, and I want to tell you right now that I at FDA, Secretary Thompson at the Department, and everyone in this administration who cares about this issue is fully committed to the goals of the Medical Device User Fee Program.

At FDA, what we have done is we have already started to hire some of the new people under the user fees that the companies are paying now. We are doing this with the full expectation that this is going to be a long-term program, that it is going to lead to some significant improvements in our approval times, which are too long today for priority medical devices. So we have got about 40 hires that we are in the process of making now for medical reviewers and other experts to help us improve the job that we are doing on medical devices and we are making some longer-term plans to help make sure that this program works.

This is a matter that, as you know, has been under considerable discussion recently with the industry, with many people in the administration and many members on the Hill, and I want to thank you and I want to thank Senator Cochran for their efforts in helping to get this program off the ground.

I appreciate your telling me you don't have to hear from me about discussions internally with OMB, but I think I can tell you that I have had a lot of discussions with senior officials in OMB and I think I can tell you that the entire administration is committed to making sure this program works, that it is made permanent, that we do get the significant kinds of improvements in device review performance that the program envisions, and we have got a little bit more work to do to get there.

So we intend, OMB intends, the entire administration intends to work closely with this committee and with other key appropriations and authorizing committees in Congress to make this program work.

With respect to earmarks, that is obviously something that is going to continue to come up in these appropriations discussions and I know and trust that we are going to have ample opportunity to talk with you about ways to make this program happen without getting in the way of other key priorities for the FDA. As you well know, we have got a tremendous amount of responsibilities at the agency. We have got a budget that we are trying to do the most with in order to meet those responsibilities and so we need to be very careful about any kind of earmarks that would take funds away from other key priorities.

So I can't tell you right now that we are going to have that \$15 million right now in the budget for this year. I can tell you that we, that OMB, that everyone in the administration is committed to finding a way to make this program work, to make it sustainable, make it permanent, make it have triggers that won't need to kick in because we are meeting our performance goals, and it is going to take a little bit of work in the weeks and months ahead to do that, but we are going to do that.

Senator BENNETT. Well, thank you. Talk about imposing new user fees in new areas will impact how well those user fees are responded to, because if, indeed, you have the reputation of inducing, if you will, people to agree to a user fee by saying, and we will

raise ours on this side if you raise yours on yours, and then when that user fee turns into really nothing more than a tax that goes into the general fund and gets used fungibly for something else, it is going to be very difficult—

Dr. McCLELLAN. The companies that are paying the user fees have an expectation that they are going to get significant performance improvements in response to that and we have got to fulfill those expectations.

Senator BENNETT. You have got to fulfill that, and I will do what I can to try to help—

Dr. McCLELLAN. I appreciate that, and I will look forward to working with you on this in the weeks ahead.

DRUG REIMPORTATION

Senator BENNETT. My time is going down, but very quickly, this isn't "beat up on Canada" day, but could you talk about the reimportation of drugs and the safety of drugs, that people go to Canada to buy drugs and then bring them back into the United States.

Dr. McCLELLAN. We are working hard on that issue, as well. As you probably know from our—as I am sure you know from our previous discussions, one of my top priorities at the agency is to do all we can to do our job more efficiently, because in many ways, in reducing the costs of the drug development process, making generic drugs more quickly available, helping to prevent medical errors, getting consumers better information about how to use pharmaceuticals, are many things that FDA can do to help drive down the costs that people are paying. The problems with affordability of medical care today are very much in front of my mind and the mind of millions of Americans, so many things that we are doing to help people reduce costs of drugs while still making sure they have safe and effective drugs.

Where I have concerns is when people have to cut corners, when, because of affordability concerns, they take risks that involve the use of products that may not be as safe or as effective. And the problem with reimported drugs that come into this country outside our regulatory system is that we can't provide assurances about the safety or effectiveness of those drugs. Because I care a lot about this, we have had a lot of discussions with the Canadian authorities in recent months about steps that might be possible to take to provide more of those kinds of assurances.

Canada recently issued a guidance about the safety and effectiveness of drugs that come through Canada. But in putting that out, they also clarified in a letter to the Washington Post just yesterday that they can't assure the safety of imported drugs coming illegally into the United States, that is, coming in outside of our regulatory system. We can't, either, because they are outside of our regulatory scheme.

And so there is a real concern there. We have got to find better ways to make affordable treatments available. Reimportation of illegal drugs, or importation of illegal drugs, since you often can't tell the difference, is not a safe and effective solution.

Senator BENNETT. Thank you. Senator Kohl.

CHRONIC WASTING DISEASE

Senator KOHL. Thank you, Mr. Chairman.

Dr. McClellan, yesterday in the Washington Post, it was reported that in Canada, there was a large elk herd living near the area where the infected cow was found and that chronic wasting disease was common among that elk herd. When asked whether or not chronic wasting disease could have jumped from the elk to this particular cow and turned into mad cow disease, Dr. Lester Crawford, your Deputy Commissioner, stated that there are no known cases of this happening, but, and I quote him, "you really can't entirely predict what a prion-related disease will do."

Obviously, this statement is alarming because in States like Wisconsin, where CWD has been found, we also have a large cattle/cow presence. So do you have some clarification or some words of comfort that you can offer in addition or in correction, to some extent, to what was said by your Deputy Commissioner yesterday?

Dr. McCLELLAN. Senator, it is a good question, and let me just be very clear that what I can say is based on the best and latest available science, and what the science tells us is there is no evidence that chronic wasting disease, which is another prion disease, has any association with BSE, has jumped species or in any way could cause BSE in ruminant animals.

As you know, the elk and game animals in which CWD is present are different from the ruminant animals that are carriers and that are subject to BSE. They are different illnesses and there is no evidence of transfer between species. Moreover, as I understand the facts, that elk herd that you mentioned in Alberta was something like 100 miles away from where the affected cow was, so no opportunity there physically for any kind of transmission to occur even if there was some evidence that transmission could occur, and as I said, there is no scientific evidence that it does occur. So at this point, I don't see any evidence that CWD has any association or connection to this BSE case.

Just an added word about my Deputy Commissioner. He is one of the foremost experts on animal health in public policy today and I think the country can be very confident that FDA is taking effective action on these important issues related to BSE and CWD in Wisconsin as a result of his contributions and hard work at the agency, and his views on this issue are exactly the same as mine.

Senator KOHL. I do appreciate that and the clarification is very helpful. Thank you very much, Mr. Chairman.

Senator BENNETT. Thank you. Senator Cochran.

Senator COCHRAN. Mr. Chairman, thank you very much for the good job you are doing, Mr. McClellan.

Dr. McCLELLAN. Thank you, Senator.

RELATIONSHIP WITH THE DEPARTMENT OF HOMELAND SECURITY

Senator COCHRAN. You are off to a good start and we appreciate that good effort.

The Department of Homeland Security has been created and with it has come some new responsibilities. One example is transfer of some authority from the Animal and Plant Health and In-

spection Service to Homeland Security and Plum Island, the facilities there.

The question is, though, since FDA, your agency, and the Department of Agriculture continue to be responsible for food safety, however, to what extent are you working with the Department of Homeland Security to ensure that you have whatever information you need that they may be able to share with you so that your agency and the Department of Agriculture can continue to carry out your responsibilities to quickly identify and respond to outbreaks of foodborne diseases?

Dr. McCLELLAN. Senator, we are working extensively now with the new Department of Homeland Security. This is actually a big boom for food security efforts in this country. The Department has a strong commitment and some important expertise. One of their under secretaries comes from doing security work for a major soft drink company, for example, so they have got some important expertise to contribute in food and drink security, as well, in this country.

I want to thank you for your efforts now on homeland security. We certainly miss you here. No disrespect to the new chairman, but it is very useful from my standpoint to have somebody in your position who understands the complexity of food security issues and all of the resources that we have available and where we need to improve them to keep the country's food supply secure.

So far, I think we are off to a good start. The Department of Homeland Security is staffing up now. We have regular inter-agency meetings with them on food security issues and also agriculture security issues that involve USDA, as well. We are also supported in this effort by the White House's Homeland Security Council, which has a number of specific directorates that work on issues like developing countermeasures and protecting the infrastructure that bear, as well as public health, that bear on supporting our activities.

Some of the specific issues that you mentioned, such as making sure that intelligence information is shared effectively, making sure that the USDA and FDA are using the same kinds of simulation models and expert input in developing our strategies for our respective roles in protecting and securing the food supply, in these and many other areas, the Department is very helpful and I will look forward to continue working with you to make sure that whole process of coordination and support works well.

Senator COCHRAN. In this budget that is before us for review, is there funding requested to support these interactions?

Dr. McCLELLAN. There is substantial new funding requested in this budget for our food security efforts, over \$20 million in new funding in the 2004 budget. That includes funding that is going to go to States to help them improve their inspections related to food security issues, help improve our nationwide food laboratory network. We have recently announced some other programs with CDC and the like to do that, as well. We are implementing new information systems. We are taking a lot of steps.

In all of these areas, homeland security coordination is built in. Our methods of implementing all these steps involves some important input from Homeland Security. So, for example, in the work

that we are doing with the States, the overall guidance for that work comes out of interagency working groups that the Department of Homeland Security participates in and the White House Homeland Security Council chairs in many cases.

DRUG COUNTERFEITING

Senator COCHRAN. The chairman asked you about the reimportation of drugs from Canada and what your views were about that. We also had brought to our attention last year, your predecessor came to a meeting with Senator Kohl and me about the dangers associated with counterfeiting of drugs and the dangers in policing that, that over-the-counter drugs in many instances had been counterfeited in countries outside the United States and that customers were now buying drugs off the Internet from overseas sources.

What are the dangers associated with that and do you have in your budget any funding requests that would help you get the word out or publicize the danger so that consumers would be aware of the dangers in connection with these practices?

Dr. MCCLELLAN. The dangers are serious, and I just want to give you a "for example." Yesterday, we were involved in a criminal investigation and operation in the State of Florida that took action against some individuals who are involved in manufacturing a counterfeit drug and trying to sell a counterfeit version of a drug called Procrit. It is one that is potentially life-saving for people who have low blood counts and this counterfeit version was not an effective drug. It was actually non-sterile water which could have caused infections as well as not providing the intended treatment.

I am worried about this. We are seeing more of it as the technologies available to people who don't have the best interests of the American public at heart get better and get used more widely, and as people worry more about the costs of prescription drugs, we are seeing more efforts to introduce counterfeit drugs into the system as well as more efforts by illicit Internet groups. For example, we announced an action recently involving a company in Belize that was offering products over the Internet. They didn't obviously identify on their site that they are in Belize. We had to trace back the site's address and so forth. Obviously, we can't provide any assurances about the safety or effectiveness of these products.

We are devoting some additional time and effort and attention inside the agency to find better ways, working with everyone involved in the drug distribution system, to protect Americans from these growing threats, and I think we are going to be able to do that in the months ahead.

But part of the effort here is also publicizing information. We put out a number of brochures and educational materials that can provide guidance to people about how they can buy drugs safely over the Internet. There are some perfectly legitimate providers there and they can provide access to treatments that may be hard for people to get if they live in rural areas and the like. But they need to follow the advice that we give to avoid some of these kinds of illicit drugs that come outside of the system of drug regulation that the FDA provides, and outside that system that we are very determined to protect the integrity of, outside that system, we can't assure safety and effectiveness.

We are working with pharmacies. We are working with various public health organizations to try to get this message out, and I think we need to do more of it. It is a growing concern at the agency.

Senator COCHRAN. Thank you. Mr. Chairman, my time has expired. I do want to submit a few questions for the record, particularly one related to the Center for Food Safety and Applied Nutrition at FDA and its collaboration with the National Center for Natural Products Research at the University of Mississippi.

Dr. MCCLELLAN. That has been a very effective collaboration for us, learning more about dietary supplements, which is a big concern of mine. Thank you.

Senator BENNETT. The questions will be included in the record.

ANIMAL FEED RULE COMPLIANCE

Senator JOHNSON. Thank you, Mr. McClellan, for joining us this morning. The references to reports as of March 23 relative to 14 percent of rendering facilities handling material, prohibited ruminant feed, not having a system to prevent commingling, and 33 percent of non-FDA-licensed feed mills having not labeled their products came from a letter from a group of consumer organizations sent to USDA Secretary Veneman and HHS Secretary Thompson just yesterday. It is my understanding that your assertion is that their numbers are simply incorrect.

Dr. MCCLELLAN. Well, they are outdated. My understanding is that their statements were based on a GAO report from 2002, which, in turn, was based on data and information collected in 2000. I think the GAO report highlighted the need for us to be particularly vigilant in this area because the food ban is absolutely one of the critical firewalls of protecting Americans and protecting our cattle if there were ever a case of BSE discovered in this country. Remember, because of the way, as you well know, because of the way that BSE is transmitted, it has to go through the food supply, through the feed that cows eat. And so you have to have an infected cow being rendered into animal feed for this ban to have a protective effect.

Right now, we don't have any infected cows in the United States, despite an awful lot of testing by USDA of at-risk animals, and so this ban is an additional firewall of protection for the country and we need to make sure that it works. And that is why, over the past year since that GAO report, we have really stepped up our efforts and we would be happy to provide your staff with the full set of information, the latest numbers. But we are at over 99 percent substantial compliance with the feed ban and we are aiming for total compliance and we are going to do everything we can to get there.

ANIMAL FEED INSPECTIONS

Senator JOHNSON. It is my understanding that 80 percent of the feed mill inspections are handled at the State level and you only really have about ten personnel involved. Are you comfortable with that—

Dr. MCCLELLAN. Well, we have more than—

Senator JOHNSON [continuing]. The State-FDA partnership?

Dr. McCLELLAN. We have more than ten personnel involved in this inspection activity. As I mentioned earlier, we spend over \$22 million of our budget on these BSE-related activities and close to \$11 million of that is for field inspection activities by our personnel.

We do rely a lot on our State partners in this effort and that is why we put a lot of work into training and monitoring programs to make sure they are doing the job. We have conducted a massive training program to ensure that State inspectors are every bit as informed as our FDA inspectors and we also have held training programs at several locations throughout the United States to give them an opportunity to participate actively in these education activities.

In addition, we have standardized and computerized the inspection forms to minimize inconsistencies and minimize human errors and we have implemented computerized checks in case we see something that shouldn't be there. We have improved our whole computer information support system for this very important activity.

All of these activities were implemented in response to the kinds of concerns that you raised. I want to thank you for that, and that were raised by the GAO report, and I want to continue to work closely with you and your staff to make sure we are taking all necessary steps to make sure that this feed ban works effectively.

Our staffing levels are at a much higher level than ten for this effort. For example, in the 2002 budget where we started establishing this \$22 million line item, I think we had close to 200 staff in activities related to this BSE program. But like I said, we will be happy to follow up with you and your staff to make sure we are doing everything appropriate on this very important issue.

Senator JOHNSON. Very good. Senator Dorgan is here, and he may have some questions about the Canadian reimportation of prescription drugs issues, but I do want to just very quickly allude to the fact that I have a great number of my constituents who rely on a regular basis on purchasing prescription drugs from Canada and they are FDA-approved, branded, and very effective drugs.

It seems to me that it should not be rocket science to figure out a monitoring system. Granted, this is a very roundabout way of dealing with America's prescription drug pricing issues, but it seems to me that in the meantime, the alternative, although you talk about risk of drugs from Canada, the alternative is an even larger risk that people simply are not going to take prescription drugs because they can't afford them. My constituents literally are choosing between groceries and staying on their prescriptions. This is not only a crisis, it is an urgent crisis.

In a more perfect world, we would do a number of things legislatively to address the problem. America remains the only major industrialized society in the world that does not negotiate on behalf of its citizens a better price. And so my constituents are buying these drugs at less than half the price. Not only that, they are going to Mexico, which I would caution my citizens about. But I have my constituents telling me that they snowbird to Texas to pay for their entire stay on the prescriptions they buy in Mexico. It has become, as you know, a bit of an industry in both those countries.

I have had people tell me that at one time it used to be the border towns were various kinds of tourist attractions, now it is pharmacia, pharmacia, pharmacia as they go across the border. And even in Mexico, although I would urge caution there, a lot of people are staying alive literally because they are buying their drugs in Canada and Mexico and not paying the prices that they have to pay in the United States.

I just simply want to tell you what you already know, but also urge you to work with us constructively to devise a system whereby we can provide whatever additional assurances, particularly relative to Canada, that reimportation would allow us to do. It is a band-aid in a way because we need to address this in the context of Medicare and other kinds of things, but we will need the FDA's cooperation for that legislation which I am convinced will pass once again to make that work.

Let me just ask you very quickly, because my time is expiring, make sure that I understand on the user fees for medical devices. You are using 100 percent of the user fees towards the purpose of expediting that program? You are not pocketing the money and using it, as Senator Bennett caused me some concern, talking about the money being fungible and heavens knows what the money is being used for, as simply another tax. While we are not fully matching it, you are at least using this new revenue flow, revenue stream, for the purpose it was designed, do I understand you correctly on that?

MEDICAL DEVICE USER FEES

Dr. McCLELLAN. You understand us correctly. The budget was passed late this year for 2003. As soon as it was approved back in February, we started the process of hiring the new reviewers and other medical experts who will make this program work better. We have got a process ongoing now. It is going to get 40 more expert staff into the program as soon as possible to improve the way that we are handling device reviews.

Like I said before, we are going to build on that effort. We want to make this program permanent and successful.

Senator JOHNSON. My time is expired. I do have a couple other questions that, with Mr. McClellan's agreement, I would like to submit to the FDA.

Senator BENNETT. They will be submitted. We will have a second round, if you desire.

Senator JOHNSON. I am going to have to excuse myself, unfortunately, fairly soon here for, as usual, other conflicting, overlapping investigations, but thank you, Mr. Chairman.

Senator BENNETT. Senator Dorgan.

DRUG REIMPORTATION

Senator DORGAN. Mr. Chairman, thank you. Let me follow up on the questions that my colleague has asked with respect to reimportation.

I want to talk to you about a February 12 letter from the FDA. First, let me tell you about a woman named Sylvia Miller who I accompanied, along with other senior citizens, to a one-room drug store in Emerson, Canada, five miles north of the North Dakota-

Canadian border. This drug store in Emerson, Canada, was visited by a group of senior citizens accompanied by myself. Sylvia Miller was among them. She purchased Coumadin, Zestril, Glucophage, and Serevent, among other things, and saved about \$150 by buying her medications in a small one-room pharmacy.

I didn't think and don't think, and she didn't think, and I expect you don't think there was any concern about tainted medicine or counterfeit medicine. This is a chain of supply that is almost identical to ours and she was purchasing at a licensed pharmacist in Emerson, Canada.

February 12, your agency sent out a letter that was signed by—

Dr. MCCLELLAN. Mr. Bill Hubbard, probably.

Senator DORGAN [continuing]. By Dr. Bill Hubbard, and let me just read what it says. It talks about reimportation. It says, those who can be found civilly and criminally liable include all those who cause a prohibited act, those who aid and abet a criminal violation of the act or conspire to violate the act can be found criminally liable.

The result of this letter is that Blue Cross-Blue Shield of North Dakota then put out a missive in North Dakota saying, we can no longer cover with our insurance policies the purchase of prescription drugs in Canada by citizens who have our policies. So North Dakotans are now told because of your February 12 letter that prescription drugs purchased in Canada will not be covered by Blue Cross-Blue Shield.

Was that the intent of this letter? Would you really have intended, for example, to tell a Sylvia Miller, if she had Blue Cross-Blue Shield, if you drive to Emerson, Canada, and buy a prescription drug from a licensed pharmacist, it is FDA's judgment that an insurance company could be held criminally liable for aiding and abetting that and, therefore, they should cut off insurance coverage for those prescription drugs?

Dr. MCCLELLAN. That is a question that several insurance companies have asked following the letter. My understanding from our discussions with a number of insurance companies, the American Association of Health Plans, and others is that there are no companies out there actively encouraging people to go to Canada to buy drugs.

Senator DORGAN. That is not the question. You are not answering the question I have asked.

Dr. MCCLELLAN. Well, you know, what we did there was restate what has long been FDA policy, and the FDA policy is, as you know, Senator, that personal importation of drugs is allowed. We have got a lot of good medical treatments out there and they are not affordable because Medicare does not have decent prescription drug coverage and it needs it now, so I have got a lot of sympathy for your constituent. But FDA has a policy on personal importation. If people go across the border and bring back a personal supply, even though that is technically illegal, we are not enforcing the law against those individual persons.

So when they go over and they go to a Canadian pharmacy that provides drugs to Canadians, and they are not FDA-approved but they are approved by the Canadian agency, I can understand how

she would, in the circumstances she is in, because Medicare doesn't cover drugs, would feel like that is what she has to do.

That is very different than an insurance company going out and actively encouraging people to buy drugs illegally over the Internet.

Senator DORGAN. Mr. McClellan, I am sorry. I have limited time. You are answering a question I haven't asked you. There is no evidence that any insurance company in the history of America has encouraged people to go across some country's border to buy prescription drugs. I have never even heard of that. I am asking you—

Dr. MCCLELLAN. That is what I am saying. That is the relevant issue.

Senator DORGAN. So what is the deal? Why are you talking about that? I am asking you a very specific question. I would like an answer, if you could.

Dr. MCCLELLAN. Because what the companies wanted to know from us, and what we clarified since that letter, is we are not actively encouraging any Americans to go anywhere to buy prescription drugs illegally outside the system. We are taking all reasonable steps to make sure that people are getting legal treatments, FDA approved, safe and effective treatments. Do we need to do anything else? And the answer is no. They should just continue following the policies that they have been following.

Senator DORGAN. Let me re-ask the question, then.

Dr. MCCLELLAN. And I will re-answer the question.

Senator DORGAN. You have not answered it. You have not answered it, with all due respect. The question is this. If Sylvia Miller is able to go to Canada and bring a personal supply of drugs back, a 30-day supply of drugs, for example, or a 90-day supply of drugs, whatever that might be, is it your intention to threaten insurance companies who might cover that because they have a policy that covers prescription drugs for that particular policy holder? Is it your intention to say to insurance companies with the February 12 letter, don't you dare reimburse your members, because if so, you may be abetting this and you may be liable for criminal prosecution? Is that really your intent?

Dr. MCCLELLAN. Our intent, and our discussions with the industry, and our understanding of the way that the industry has responded to this—

Senator DORGAN. Let us talk about your discussions with the industry, then, because—

Dr. MCCLELLAN [continuing]. Is that no companies are changing their policies—no companies have had to change their policies about coverage because none of them are actively encouraging people to go get prescriptions. Is it possible that under a policy someone goes across the border and gets a prescription and gets it covered? Certainly, it is possible, but that is different from a company actively encouraging people to use potentially unsafe drugs.

Senator DORGAN. Do you believe an insurance company should prohibit coverage when an American senior citizen, for example, goes over and brings a prescription drug back and is allowed to bring it back by your own testimony? Do you believe the insurance company should prohibit payment for that, because that is what is

happening. Blue Cross and Blue Shield of North Dakota has put out an announcement, "We will now no longer cover these."

The fact is, we are not talking about a lot of money. We are not talking about a lot of consumers. But the fact is, they have cut this off because of your letter and I am asking whether the FDA letter intends that to be the case.

Dr. MCCLELLAN. I am happy to talk with any company in this country to clarify what FDA's policies are and are not. This is not something that is aimed at your constituent going across the border to go to a reputable Canadian drug store and personally buy prescriptions that she thinks are safe.

There are some real concerns, and I am sure you wouldn't want insurance companies or anyone else to encourage Americans to buy drugs over the Internet where the drugs may not be safe or they are not approved by us or the Canadians have explicitly said they can't assure the safety and where the consumer may not even know where the drug is coming from. I am sure that is not what you would want us to encourage.

Senator DORGAN. Different subject, but thanks for raising it. My question remains, do you want the FDA to be on record, which it is, telling an insurance company that they may be criminally liable, so be sure and tell your policy holders they will not cover prescription drugs that they now purchase in a trip to Canada, because that is where we are and I am asking whether that is what your intent is and you have not yet answered what—

Dr. MCCLELLAN. I will tell you what my intent is. What I hope people are telling their policy holders is the same thing that we are telling the public, which is that drugs that are not approved by the FDA, that are not legally obtainable in the United States cannot have safety assurances that we would vouch for. We cannot assure that they are safe and effective.

We have had a lot of discussions with the Canadian government about this, Senator, in recent months because I am very concerned about the safety of drugs that all Americans are doing, and the upshot of those discussions is reflected in what the Canadian government said yesterday in the Washington Post, is that they can't assure the safety of drugs coming to Americans from outside the United States. We obviously can't assure it because it is outside of our regulatory sphere. So this is a real area of concern.

I think what this also highlights for your constituent is that it would be very important for the Senate to act as quickly as possible to pass a real Medicare prescription drug benefit so that she can get affordable medications. There are too many Americans like her who are facing a choice between buying drugs that they can afford and buying drugs that they can be sure are safe and effective and do what the drugs need to do. That is not a good position for health policy to be in and I am sure we share the goal of getting this addressed as soon as possible.

Reimportation of illegal drugs is not a cornerstone for a safe and effective public health policy in this country. It shouldn't be. We can do better and we should do better.

Senator DORGAN. Well, the great part about this country is you and I have the right to disagree about that. I profoundly disagree about what you have just said. When Sylvia Miller goes to a phar-

macy in Emerson, Canada, if you know anything about the chain of supply in Canada, and you do, you understand that the purchase of Coumadin in that drug store is as safe as purchasing Coumadin at a drug store in downtown Washington, D.C. You know that and there isn't any way you would try to refute that. But that is not what I am asking about—

Dr. MCCLELLAN. And I am not—

Senator DORGAN. I am asking a very simple question of you. Is it—

Dr. MCCLELLAN. And just to be clear, I am not refuting that a drug that Sylvia Miller goes and buys in a Canadian pharmacy is very likely to be safe and that the Canadian government does a very good job of assuring the safety and effectiveness of medications for their own citizens purchased in their own pharmacies.

The problem today is that the vast majority of Americans who are buying drugs from outside our regulatory system are not doing what Sylvia Miller does. They are buying over the Internet from sites that may be in Canada, that may not. We have seen a lot of the products coming into the country. In many cases, they are not labeled properly. They are the wrong amounts. They don't come with the risk management and warning information that a doctor and pharmacist in this country would provide. This is not a safe and effective medical system for providing prescription drugs and we need to do better.

Senator DORGAN. Well, the pharmaceutical industry spends a great amount of money advertising your position, but frankly, I am talking to you about a narrower issue here this morning and I have not yet received an answer.

Dr. MCCLELLAN. Maybe the best thing.

Senator DORGAN. Wait a minute. Let me finish the question. Do you believe that Blue Cross and Blue Shield of North Dakota should cover a prescription drug that is an FDA-approved drug purchased at a drug store in Emerson, Canada, brought back for personal use by a senior citizen in North Dakota? Should Blue Cross and Blue Shield cover that if that person has a policy that provides prescription drug coverage, or should Blue Cross-Blue Shield be potentially liable for criminal sanctions, according to your letter? Which do you believe?

Dr. MCCLELLAN. I don't think that there is anything in our letter that expressly and in general prohibits Blue Cross-Blue Shield of North Dakota from covering a prescription that one of their members may have purchased in Canada on a personal use basis. That is consistent with our policy of personal importation.

That is very different from Blue Cross-Blue Shield of anywhere encouraging or advocating or taking steps to promote the use of illegal pharmaceuticals in this country, and I would be happy, again, just to make sure—I am sorry we are not quite connecting on this because it is an important public health issue—I would be happy to talk with representatives from this company and get them in touch with our staff to clarify exactly what the letter means.

We have had these discussions with insurance companies and I am very confident that most insurance companies in this country are interested in paying for drugs that are safe and effective and that promote the public health as a result. And so I don't think

there is any conflict between their policies and what our letter says and I am happy to get our staff to verify that Blue Cross of your State is not an exception to that rule.

Senator DORGAN. Mr. Chairman, thanks for your patience. If you are saying that there is nothing that prohibits this insurance company from covering a prescription drug purchased from a pharmacy in Canada, then we need to resolve it with this insurance company. We have got some folks out there who would expect to have their prescription drugs covered and they are now not covered because of your February 12 letter and because of its interpretation. I just read part of it. If I were the insurance company, I would interpret it the same way.

But if you say that is not what you intend, you don't intend to prohibit this company from covering that circumstance I described, if that is the case, then let us do a U-turn on this letter, or at least redescribe what you intend in the letter so that Blue Cross-Blue Shield of my State knows that.

Look, I don't know you from a cord of wood. I mean, we don't exchange Christmas cards and you are probably extraordinarily competent. In fact, a colleague of mine was just telling me that they have very high regard for you. What angers me is that people who can't afford to get knocked around in this system all the time, just all the time. The woman I discussed here is just one, but she is trying to live on a very small amount of money, trying to buy prescription drugs. She has to take ten of them. And so in this circumstance, she was trying to access a less expensive prescription drug that she knows and I know is safe because the chain of custody in Canada is identical to ours.

Frankly, I just get angry when I see this letter, which is parroting the pharmaceutical industry's advertisements about why we shouldn't have the ability to go to Canada. Why shouldn't there be free trade in prescription drugs, as long as we can guarantee safety? I don't think there is any question that we can.

Do you know that almost every day, a semi-truckload will come to the U.S. border with Canadian meat. Do you know what they do? They say, well, if it was inspected in the Canadian plant, it is good enough for us. They run it right through the border. But we can't do that with prescription drugs that go from a manufacturer that is inspected by the FDA, a drug that is approved by the FDA, goes into a chain of custody from the manufacturer to a wholesaler to the drug store that is licensed. We can't do that? Of course, we can. You know that.

Look, I think I have made my point. I think you have told me some new information here finally. I don't intend to be rude, Dr. McClellan. I want you to do your job and do it well. I want the FDA to be on the side of consumers, and Mr. Chairman, thank you for giving me the opportunity.

Dr. MCCLELLAN. Mr. Chairman, if I could have just a minute—

Senator BENNETT. Surely. There is no one waiting for a third round.

Dr. MCCLELLAN [continuing]. And I do want to thank you, Senator. I mean, look, we are both frustrated about this issue. Drugs should be more affordable in this country. I am trying to do every-

thing I can at FDA for our part of getting the costs of drugs and other medical treatments down.

But as FDA Commissioner, I have to pay a lot of attention, for the reasons that you just mentioned, to making sure that the treatments are safe and effective and to protect the integrity of the assurances that we give to the public about the safety and effectiveness of drugs.

I am not a cord of wood. I am a doctor and I am a health policy person, but I am not a lawyer. So we probably need to get our lawyers to talk to the company lawyers and just make sure we get the clarification here. I think everybody has got the same goal of getting safe and effective treatments to people at the lowest possible cost, and I will get you on our Christmas card list.

Senator DORGAN. Well, Commissioner, I am not a lawyer, either, so we have something in common. Let me make sure you are on my list, as well, and we will exchange this coming year and begin to visit. Thank you for answering the question.

Senator BENNETT. I am not a lawyer, either, so that brings us all around.

Thank you very much for your testimony this morning. One or two quick things in conclusion.

I think one of the values of this hearing is that we have seen a greater degree of coordination about BSE statements coming out of the government than has been the case in the past, and I would hope you and the folks at USDA and anyone else who is involved could talk to each other as well as talk to the press with the responses that are being demanded because it is very helpful to get the total picture.

The additional information you have given about what happens to a slaughtered animal whose carcass is then rendered and that is avoided getting it into feed that would go to a ruminant animal is something that was not in the USDA statement, not that they avoided it, but it was simply they dealt with their side of it, you dealt with your side of it, and putting the two together should have a much greater calming effect than taking either one by itself.

So I would hope, to the degree you can, there could be some coordination there in the public statements on this.

Dr. McCLELLAN. Absolutely.

NUTRITION

Senator BENNETT. And finally, you heard my conversation with Under Secretary Bost, which, as I say, I touched one of his hot buttons. You have a role in the question of nutrition and, of course, as we get into the whole issue of obesity, we get into the area of drugs because a lot of people are treated with drugs, either in an attempt to deal with conditions that trigger overeating—insulin is a very, very major player in the whole question of weight management.

Indeed, that is the thing that was driving this book. The woman was an endocrinologist who was dealing with diabetics and with insulin. That led her into her conclusion that too high an intake of carbohydrates was part of the problem and her subsequent examination of the pyramid, and the same thing is true with Dr. Sears

and the writing that he has done in his book "The Zone" and the people who are following that diet.

Can there be some greater coordination, a greater breakdown of silos, if you will, between FDA and USDA on some of these nutrition issues so that we can come to the Federal Government as the final arbiter that says, this is the way Americans should eat. These are the manifestations. USDA, as they construct the pyramid, at least from my perception, probably is a little isolated from the endocrinologists, the study of insulin, the study of impact on blood sugars and drugs that are created to deal with that, and a little cross-fertilization in this area could be very helpful.

Also, do USDA scientists—you say you are a doctor. There is a whole series of studies that are done in NIH that could impact our whole approach to nutrition. One of the things that is frustrating to me as I come into government is the discovery that we do live in a world of silos and stovepipes and particularly in the budgetary process. We appropriate money for this and they are studying something. Then we appropriate money for this and they may be studying the same thing from a slightly different point of view. Then we appropriate money for this and they are studying the same thing from a slightly different point of view.

We could not only save some money, but more importantly, we could get much better results if the stovepipes kind of disappeared and people began to coordinate and cooperate and just talk to each other across agency lines.

So I would leave you with that admonition at the close of the hearing here. Any response? No response is necessary, but if you have any, of course, I would be happy to receive it.

Dr. McCLELLAN. I would be glad to, at the risk of taking up a couple more minutes of your time. This issue of coordination and the importance of good diets and promoting the public health is a top priority of Secretary Thompson's. He has made many of the same points that you have.

Public health is a very complex topic, public health and diet, and there are some good reasons to have some specialized expertise focus in different places. But I particularly appreciate your emphasis on making sure that each of these silos of expertise is working together effectively towards the overall public health goals that we need to support, and I agree with you, as well, that there are few more urgent than trying to do more to help people find safe and effective ways of watching their diet in a way that reduces obesity.

Right now, we are clearly doing badly. We have already gone over the statistics. Under Secretary Bost cited some of them. We need better treatments. Many people today are turning to smoking cigarettes or using unproven dietary supplements in an effort to lose weight and that is just not a safe way to go about this.

The main public health message that we have learned from the various types of research is pretty simple at a basic level, which, as Under Secretary Bost said, it is what you take in and what goes out—in terms of calories and what goes out in terms of energy expenditures that contribute to whether you are gaining or losing weight or not, and while we at FDA don't regulate those kinds of books that you put up there, that is not a medical product, I would

also add the admonishment that if it sounds too good to be true, it probably is.

For some of these diets, even though they have been shown to have some short-term effects on weight, what you really need is a sustained long-term weight loss program and a sustained long-term balanced diet, with calories in equaling calories out, and most of those diets don't do so well from a long-term standpoint, which is what you really need to improve health.

And to do that, we need to find some better approaches. We are working on new medications at FDA. One of our priority areas for new guidance to industry is in obesity, is in better obesity treatments, and that is an effort that NIH is working closely with us in. We are trying to encourage industry to do more to compete about the health consequences of their foods and the health consequences of eating those foods as part of a good diet so that we don't see competition just around taste and product price and whether it is super-sized or not and whether it springs ready-to-eat out of a box, but also around what it does for your health.

FDA hasn't done as much in the past, I think, as it should to encourage that kind of competition, and we are working with experts from many government agencies on the right way to go about that. We have got a task force right now that includes NIH, the Federal Trade Commission, and we have been in consultation with the USDA experts, as well.

So I think with your leadership on encouraging more of this kind of interaction and more focused effort against these important and urgent public health problems related to obesity and good nutrition, we can make more progress, and I look forward to working with you on that and all the many other issues that no doubt we will have interactions about going forward.

Senator BENNETT. Thank you very much. Again, completely anecdotal, but I am aware of a woman who had very serious obesity problems and she dieted very strictly and she was on the treadmill every day and she continued to gain weight. It was very frustrating to her and she had a number of other problems.

She finally went to a doctor who said, you have got an endocrine imbalance here, prescribed some prescription drugs, and she could eat more than she had been eating before, trying just to cut down on everything and exercise and all the rest of it. She could satisfy her cravings for more nourishment and, in fact, lose weight in the process because there were changes in her metabolism that were stimulated by the prescription drugs that she took. Her husband commented to me, "I am glad to have her back. This is the woman that I married," whereas psychologically and emotionally, the woman he had married had disappeared in the process.

So there is, in addition to all of the things that Under Secretary Bost appropriately said about quit being a couch potato and quit sitting in front of the computer, walk to school instead of ride the bus and so on, there is clear evidence that many of the things you deal with and the things that USDA deals with are interrelated in these complicated mechanisms we call our bodies.

ADDITIONAL COMMITTEE QUESTIONS

The more we can get the Federal Government to spend its research dollars intelligently on this and then communicate intelligently so that ordinary people can say, well, this is the final word, rather than I have to go to the bookstore and rifle through 50 books and hope I find the one book that applies to me, is what I am hoping for eventually.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR ROBERT F. BENNETT

ANIMAL DRUG USER FEES

Question. Dr. McClellan, I noted that your budget request assumes the enactment of a new animal drug user fee to expedite the review of applications for animal drugs. As you know, this falls under the jurisdiction of the House and Senate authorizing committees. What is the status of approval of this new user fee?

Answer. You are correct; the first step in making this important FDA program enhancement a reality in fiscal year 2004 is obtaining authorization. The bill, S. 313, "The Animal Drug User Fee Act of 2003" passed by unanimous consent in the Senate on June 3, 2003. A companion bill, H.R. 1260, was introduced with bipartisan support in the House. The measure, as passed by the Senate, requires an appropriations action before FDA has the full legislative authority it needs to collect and spend these fees.

Question. What would be the impact on the center for veterinary medicine if this fee proposal is not enacted?

Answer. Congressional authorization of this user fee proposal to support significant improvements in CVM's new animal drug evaluation process is critical to achieving the Center's initiatives for a sustainable and predictable animal drug review process.

Without the additional resources the user fees are designed to provide, review performance will not improve. Existing delays in review times are already close to exceeding the timeframe within which a new animal drug sponsor can recoup its investment in drug development for most animal drugs. Failure to promote safe and effective new animal drug development may also result in increasing compliance problems associated with illegal drug use, illegal compounding of unapproved animal drugs, use of unapproved chemicals and drugs in food-producing animals, and a resulting increase in tissue residue violations both detected and undetected.

Alternatively, if ADUFA is enacted, the general public as well as industry will benefit from faster animal drug approvals. This will provide greater public health protection by helping ensure that animal drug products that are shown to be safe and effective are readily available; speed public access to new and more cost efficient animal drug products; promote animal health by increasing the availability and diversity of safe and effective drug products that relieve animal pain and suffering without compromising public health; provide the animal health industry significant benefits from earlier marketing of products and more predictable review processes; and, decrease incentives for marketing unapproved animal drug products that have not been shown to be safe and effective through the animal drug approval process.

GENERIC DRUGS

Question. I noted in your budget justification the emphasis you have placed on approving new generic drug applications—\$13 million and 40 new staff have been requested for fiscal year 2004. How long does it currently take the FDA to complete the review of a generic drug application?

Answer. During fiscal year 2002, the Office of Generic Drugs approved 295 applications with a median approval time of 18.3 months and an average approval time of 21.4 months. Currently the Agency is reviewing the vast majority, over 80 percent, of applications within 180 days.

Question. Why does it take so long?

Answer. Studies of the FDA processes for new drugs have shown that early communications and guidance can improve drug applications and allow deficiencies to be corrected during the initial review, rather than having to wait for additional re-

view cycles to fix problems. In addition, generic manufacturers have expressed interest in finding ways to improve the quality of their applications, so that more applications can be approved on the first round of review. Therefore, FDA is implementing a new system of early communications with generic drug manufacturers who submit applications. FDA also will provide additional guidance for generic manufacturers preparing and submitting quality, complete applications.

Various interested parties also raise numerous scientific issues when generic products are anticipated. The discussion of these issues is critical as it ensures full consideration of all possible scientific aspects of the product. However, the full examination of these questions can delay the action on generic drug applications. In addition, with the advancement of science, new and more challenging issues are being raised. There are products for which efficient, reliable methods for the demonstration of bioequivalence have not been successfully developed.

Question. What do you plan to do with this funding and staff to shorten that length of time?

Answer. FDA generally can approve generic drugs for the marketplace as soon as the patent protection on brand-name drugs expires or when a court determines that the generic product will not infringe on the innovator's patent or that the patent is invalid. The generics' manufacturers must demonstrate to the FDA that their products are therapeutically equivalent to an approved brand-name drug in terms of safety, strength, quality, purity, performance, intended use and other characteristics.

The proposed increase in the FDA's generics budget will allow FDA to hire 40 experts in its generic drugs program to review generic drug applications more quickly and initiate targeted research to expand the range of generic drugs available to consumers. FDA also has begun internal reforms to improve the efficiency of its review process for generic drugs. In particular, FDA is implementing a new system of early communications with generic drug manufacturers who submit applications. FDA also will provide additional guidance for generic manufacturers preparing and submitting quality, complete applications.

Studies of the FDA processes for new drugs indicate that such communications and guidance can improve drug applications and allow deficiencies to be corrected during the initial review, rather than having to wait for additional review cycles to fix problems. In addition, generic manufacturers have expressed interest in finding ways to improve the quality of their applications, so that more applications can be approved on the first round of review.

The new resources and other reforms are expected to reduce the total time to approval for most new generic drugs by 3 months or more over the next 3 to 5 years. Because these changes will generally accelerate the approval for all generic drugs, most Americans who take generic drugs will benefit.

The FDA also will expand its educational programs and partnerships involving generic drugs, to help consumers get accurate information about the availability of generic drugs for their health needs and to help ensure that consumers are aware that FDA-approved generic drugs are as safe and effective as their brand-name counterparts. FDA will also undertake more scientific studies of generic drug "bioequivalence" to expedite the determination of whether the generic copy of a drug works in the same way as the original product, and will enhance monitoring of the safety of generic drugs on the market.

RX TO OVER-THE-COUNTER SWITCHES

Question. During our recent conversation, Dr. McClellan, you mentioned to me your efforts to move more and more medications from requiring a prescription to being available over the counter. One of your reasons, as I recall, was to reduce out-of-pocket costs to consumers by not requiring them to pay for a doctor visit as well as a prescription. This would be especially beneficial to those who do not have health insurance.

There is another side to that coin—the very real danger of self-medicating. There are some products that should not be used in conjunction with others. While these dangers might be listed on the package, many times the print is very small. How do you decide which drugs no longer require a prescription?

Answer. Two of the options available to FDA to switch a drug subject to an approved new drug application from prescription, Rx, to over-the-counter status are voluntary submission and rulemaking.

The simplest, voluntary submission, is when a sponsor voluntarily submits a supplemental NDA to make the switch. The second option, rulemaking, is permitted under section 503(b)(3) of the Federal Food, Drug, and Cosmetic Act. That provision allows the Agency to remove the Rx restriction from a drug such restriction is not

necessary for the protection of the public health. In both instances, FDA must determine that the legal and safety standards for OTC marketing are satisfied prior to allowing the switch. Some factor the Agency considers when determining Rx-to-OTC switch candidates are: an acceptable margin of safety based on prior prescription marketing experience; low misuse and abuse potential; a reasonable therapeutic index of safety; and, self treatment and self monitoring with minimal physician intervention.

Question. Does the manufacturer request this switch?

Answer. Historically, the majority of drugs that have been switched from prescription only to over-the-counter, OTC, status have been at the initiation of the sponsor. However, FDA's regulations allow for any interested party to petition the agency to request to switch a product from prescription to OTC status.

Question. What steps do you take to make sure that these drugs are being used appropriately once they are so widely available?

Answer. Sponsors of approved NDAs are required to file periodic safety reports and these are monitored for adverse events. The Agency also maintains a voluntary reporting system, Medwatch, that is available to all consumers and health care professionals to report adverse events for both prescription and over-the-counter products. In some cases, use studies are conducted prior to switching a drug from prescription to OTC as one way to help ensure that the consumer can appropriately use a product in an OTC setting.

Also, a regulation that will be fully implemented by May 2005 standardizes the labeling format that will improve the labeling on drugs Americans use most, OTC drugs. By clearly showing a drug's ingredients, dose and warnings, the new labeling will make it easier for consumers to understand information about a drug's benefits and risks as well as its proper use.

MEDICAL DEVICE USER FEES

Question. Dr. McClellan, the FDA budget assumes that at least \$29,190,000 will become available from the medical device user fees authorized under current law. These funds are to be used to decrease the time necessary for medical device reviews conducted by the Center for Devices and Radiological Health (CDRH). Prior to the enactment of the medical device user fee and modernization act of 2002, how much money was spent for this review responsibility?

Answer. We are currently developing the base line data on how much we spent on the process for the review of medical devices, as recently defined in the Medical Device User Fee and Modernization Act, MDUFMA, in fiscal year 2002—the year before MDUFMA was enacted. We do not have these data yet in large part because the new statutory definition cuts across our traditional accounting categories. The results, when we have them, will be published in the MDUFMA Financial Report that is due to Congress at the end of January 2004.

Question. Of the amounts specifically appropriated to the FDA, not including MDUFMA funds, how much is expected to be spent for this activity in fiscal year 2004?

Answer. Because the new statutory definition cuts across our traditional accounting categories, we do not currently have an accurate estimate on fiscal year 2004 funding. We estimate that it will be at least what was spent on the process in fiscal year 2002, but will have more accurate data when we complete data gathering for the MDUFMA Financial Report.

Question. How many full-time employees were assigned to these reviews prior to the enactment of MDUFMA?

Answer. Approximately 730 FTEs were spent on the process in fiscal year 2002. However, we will have more accurate information when we complete some data gathering that is currently underway. We expect this information to be published in the MDUFMA Financial Report that is due to Congress at the end of January 2004.

Question. Not including MDUFMA funds, how many full-time employees will be assigned to these reviews in fiscal year 2004?

Answer. We anticipate that the agency will assign at least the same amount of FTE on the process in fiscal year 2004 as in fiscal year 2002. However, we will be able to provide better data once we have completed data gathering for the MDUFMA Financial Report.

Question. I noted that of the amount available from MDUFMA, \$15,808,000 will be provided to CDRH. Of the remainder, \$7,026,000 would be transferred to the Center for Biologics Evaluation and Research, \$642,000 would be transferred to the Office of the Commissioner, \$2,501,000 would be utilized by the Office of Manage-

ment and Systems, \$350,000 would go to the Office of Planning, Policy and Legislation, and a total of \$2,863,000 would be applied to rent-related costs.

What contributions are made to the review of medical device applications by each of the entities listed above?

Answer. Device application review is done both in the Center for Devices and Radiological Health, CDRH, and in the Center for Biologics Evaluation and Research, CBER. Most of the review work is done in CDRH, but a significant amount is done in CBER—especially review of diagnostic devices and test kits that incorporate biologics or are used in blood testing work. Resources are allocated between those components in proportion to the amount of device review work that is done by each center, and keeping in mind that all of the appropriated increases, in the devices and radiological health line of the appropriation, are provided to CDRH and the field.

Increases are included in the rent line because additional space will have to be acquired to house the additional staff the agency expects to hire over each year—from an additional 120 FTE in fiscal year 2004 to 265 additional FTE dedicated to this process by 2007.

Increases are also included in funds for the Office of Management and Systems, which collects and manages the fee revenue, hires additional staff, coordinates the acquisition and management of the additional space, provides IT support, and reports to Congress on the financial aspects of the program each year.

The Office of Policy and Planning is responsible for the annual MDUFMA performance report to Congress and for assisting with other management responsibilities for the program, such as the annual stakeholders meetings.

FDA has also allocated funds to the Office of Combination Products, which was mandated by the Medical Device User Fee Act to streamline the processing of complex drug-device, drug-biologic, and device-biologic combination products that play an increasingly significant role in health care.

Question. Before enactment of the medical device user fee authority, how were these responsibilities funded and in what amounts?

Answer. All of the items previously mentioned are related to the implementation of MDUFMA. These activities are over and above any previous resources available to the agency. As a result of MDUFMA, FDA has expanded work related to the review of medical devices by the Center for Devices and Radiological Health as well as the Center for Biologics Evaluation and Research. The additional responsibilities that are being funded by MDUFMA in the Other Activities line of the budget by the Office of Management and Systems, the Office of Policy and Planning, and the Office of Combination Products were not necessary prior to the enactment of MDUFMA. Under MDUFMA, FDA must collect and manage the fee revenue, hire additional staff, coordinate the acquisition and management of the additional space for staff, provide IT support, report to Congress on the financial and performance aspects of the program each year, assist with management responsibilities for the program such as the annual stakeholders meetings, and assist in the streamlining of the processing of complex combination products.

Question. Has there been any reduction in these amounts since the enactment of MDUFMA?

Answer. We will have more accurate information when we complete some data gathering that is currently underway. However, the reductions related to the Devices and Radiological Health program in the fiscal year 2004 request reflect management savings and IT consolidation and should not impact the resources directly devoted to the review process. User fee collections under MDUFMA are not considered an offset for this program. They are used exclusively for the review of new devices and related costs. FDA supports the goals of MDUFMA, and is committed to making the medical device user fee program a success.

DRUG EFFICACY STUDY IMPLEMENTATION MONOGRAPHS

Question. Dr. McClellan, FDA's recent enforcement activity with regard to single entity extended release guaifenesin has focused attention on many prescription products that have apparently been marketed for decades without significant safety or effectiveness concerns, but at the same time are outside of the current FDA drug approval process. I understand that the FDA has given careful consideration to many competing concerns, including upholding the integrity of the new drug approval process, ensuring the availability of affordable medicines, and not unnecessarily disrupting patients and physicians, as well as manufacturers and distributors and the people they employ. Would the FDA consider establishing a monograph system similar to the over-the-counter (OTC) monograph system to deal with these older products?

Answer. FDA believes it would not be feasible to establish a monograph system for certain older prescription drug products. Such a system would have to be developed through notice and comment rulemaking, based on publicly available data, and would be limited to products that have been marketed to a material extent and for a material time and that can be established as generally recognized as safe and effective. It would take many years to develop and implement such a system and would require substantial additional resources. Because of its complexity, we anticipate that developing a monograph system and individual monographs for prescription drugs would be extremely resource intensive and time-consuming.

Furthermore, many prescription drugs are associated with serious toxicity or potential harmful effects and are often for serious indications. Therefore, the types of prescription drugs that would be appropriate for consideration as generally recognized as safe and effective under a monograph system could be very limited. In addition, some categories of drugs would not be appropriate for monographs in any case because they have unique performance characteristics that require review under an application instead of under the general criteria found in monographs. For example, the safety and effectiveness of controlled release dosage forms are highly dependent on the specific formulation, and it would be difficult to ensure the safety and effectiveness of these drugs using a categorical approach such as a monograph system.

Question. Does the FDA have the authority under existing law to establish a monograph system for older prescription products?

Answer. FDA believes that it would be theoretically possible, but infeasible, to establish a monograph system for certain older prescription drug products. Such a system would have to be developed through notice and comment rulemaking, based on publicly available data, and would be limited to products that have been marketed to a material extent and for a material time and that can be established as generally recognized as safe and effective. It would take many years to develop and implement such a system and would require substantial additional resources. Because of its complexity, we anticipate that developing a monograph system and individual monographs for prescription drugs would be extremely resource intensive and time-consuming.

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Question. Under the monograph system for OTC drugs, does the FDA have the authority to take action against products when there are substantial questions regarding safety and efficacy even if the monograph has not been finalized?

Answer. FDA has the authority to take action against an OTC drug subject to a pending monograph when substantial questions regarding safety and efficacy are evidenced. If the drug contains an ingredient that is explicitly prohibited by regulation, 21 CFR 310.545, has label deficiencies that constitute a potential hazard to health, or is adulterated, FDA Compliance Policy Guide 450.200.

GUAIFENESIN

Question. With regard to single entity extended release guaifenesin, I understand that in February of this year, manufacturers and distributors were granted a grace period until November 2003 to obtain new drug approvals for their products. Affected companies obviously would need time to develop the information necessary for a new drug application (NDA) submission.

In light of the fact that FDA's own figures indicate that the median time to approval for standard NDAs has steadied at 12 to 14 months, was that a realistic grace period?

Answer. FDA exercised its enforcement discretion and granted a grace period to prevent undue hardship to the consuming public and the industry that could result from an abrupt cessation of such products' supply. Among other things, this grace period had to be limited in order to preserve the incentives for companies to develop and submit new drug applications, as required by law. The new drug approval process plays an essential role in assuring that all drugs are both safe and effective.

In addition, because FDA had determined that the single-ingredient, extended release guaifenesin drug products were on the market illegally, a decision to leave them on the market indefinitely could have run afoul of the Court's ruling in *Hoffmann-LaRoche v. Weinberger*, 425 F.Supp. 890 (D.D.C. 1975).

Finally, single-ingredient, extended release guaifenesin manufacturers actually had much more than the 2 years notice provided to manufacturers of products subject to the cough/cold monograph. The Agency, by regulation, has identified certain drugs as requiring new drug applications for marketing, including all extended release dosage form drug products [21 CFR 310.502(a)(14)]. The Agency's interpretation of that regulation has not changed since it was publicly announced in 1959. It appears that the Warning Letter recipients all began manufacturing their products after that public announcement. When guaifenesin was considered for OTC marketing by the Agency in rulemaking proceedings, the Agency repeatedly reaffirmed, in the Federal Register, the existence of the longstanding Agency policy requiring new drug application approval prior to marketing extended release drug products. FDA Compliance Policy Guide section 440.100 (CPG 7132c.02) has also clearly stated for many years that any drug on the market without FDA approval is subject to regulatory action "if it is identical or related to a post-1962 NDA approved for safety and effectiveness." Thus, the manufacturers of single ingredient extended release guaifenesin products had ample notice that they faced immediate removal from the market.

Question. I note that on December 23 of last year, the FDA finalized the OTC monograph for cough and cold products with more than one active ingredient, so-called "combination cough/cold products." Manufacturers and distributors are not required to come into full compliance with the monograph until December 2004. Why were these OTC products given 2 years to conform to the monograph or come off the market when single entry extended release guaifenesin prescribed by physicians has to come off the market at the end of a 9-month grace period?

Answer. The final monograph for cough/cold combination drug products that issued in December 2002, was developed under the OTC Drug Review process. The monograph set forth the criteria for such drugs to be generally recognized as safe and effective, i.e. not unapproved new drugs. The rulemaking process, established in 1972, provided that OTC drug products would not be deemed to be unapproved new drugs until after the effective date of the final monograph. In other words, the OTC Review process itself provided for a period of time during which a firm could bring its product into compliance with a final monograph and permitted continued marketing during such time period. In the case of the cough/cold drug products, the 2-year time period was determined to be reasonable and necessary to enable affected drug manufacturers to reformulate and print new labels to comply with the final rule.

The recent action taken by FDA with regard to single-ingredient, extended release guaifenesin drug products involved the issuance of Warning Letters in October 2002 to manufacturers and distributors of such drug products, advising those firms that their drugs were unapproved new drugs. In that case, FDA exercised its enforcement discretion and granted a grace period to prevent undue hardship to the consuming public and the industry that could result from an abrupt cessation of such products' supply. Among other things, this grace period had to be limited in order to preserve the incentives for companies to develop and submit new drug applications, as required by law. The new drug approval process plays an essential role in assuring that all drugs are both safe and effective. In addition, because FDA had determined that the single-ingredient, extended release guaifenesin drug products were on the market illegally, a decision to leave them on the market indefinitely could have run afoul of the Court's ruling in *Hoffmann-LaRoche v. Weinberger*, 425 F.Supp. 890 (D.D.C. 1975).

Finally, single-ingredient, extended release guaifenesin manufacturers actually had much more than the 2 years notice provided to manufacturers of products subject to the cough/cold monograph. The Agency, by regulation, has identified certain drugs as requiring new drug applications for marketing, including all extended release dosage form drug products [21 CFR 310.502(a)(14)]. The Agency's interpretation of that regulation has not changed since it was publicly announced in 1959. It appears that the Warning Letter recipients all began manufacturing their products after that public announcement. When guaifenesin was considered for OTC marketing by the Agency in rulemaking proceedings, the Agency repeatedly reaffirmed, in the Federal Register, the existence of the longstanding Agency policy requiring new drug application approval prior to marketing extended release drug products. FDA Compliance Policy Guide section 440.100 (CPG 7132c.02) has also clearly stated for many years that any drug on the market without FDA approval is subject to regulatory action "if it is identical or related to a post-1962 NDA approved for

safety and effectiveness.” Thus, the manufacturers of single ingredient extended release guaifenesin products had ample notice that they faced immediate removal from the market.

DIETARY SUPPLEMENTS

Question. Dietary supplements are products that are regulated as a food product. These are products made from herbs or certain ingredients and these products are not permitted to make claims that they “cure diseases.” Rather, they are permitted to make “structure and function” claims, as long as there is scientific information supporting these claims.

The law is clear. If there is a safety concern about a product and the product causes a substantial risk of harm, then FDA may withdraw the product from the marketplace. However, if the scientific evidence is not clear, the Dietary Supplement law permits the agency to take other actions.

The FDA is the administrative body that we have authorized to make sound scientific judgments within, let me repeat, within the parameters of the law.

Let’s talk about what has occurred to date. Dr. McClellan I understand that you have taken very swift action on the issue of ephedra and have proposed rules to require very strong warning labels on dietary supplement products that contain ephedra. In addition, I understand you propose that these products not be used by children or by athletes as an athletic performance enhancer.

Dr. McClellan, I also understand that you have reviewed various scientific studies, including one commissioned by the FDA that looked at the adverse event reports. It is my understanding that the Rand Institute, an independent think tank, conducted a study and reviewed these reports on ephedra leading up to this regulatory process. They stopped short of saying that ephedra caused the adverse events.

Do you intend to finalize these rules in the near future? Will you commission additional studies on this matter or do you feel you are getting additional information through rulemaking?

I believe that the Agency is taking the correct approach: they are evaluating the law; they are looking at the scientific evidence; they are taking strong administrative action; and I believe that it is consistent with their mission in overseeing products under their authority.

Answer. The agency remains very much concerned about the safety of dietary supplements containing ephedrine alkaloids. The agency is currently examining all comments to its March Federal Register notice. Upon consideration of all the comments, the agency will take the most appropriate action consistent with the law to best protect public health. The actions may or may not necessitate rulemaking. If the agency issues a rule, it may include labeling, as well as marketing restrictions. We do not anticipate commissioning any further studies at this time.

QUESTIONS SUBMITTED BY SENATOR THAD COCHRAN

DIETARY SUPPLEMENTS

Question. The FDA has the primary role in regulating as well as assuring the safety of dietary supplements, like Ephedra. Scientific data are critical for developing policies regarding dietary supplements and for demonstrating safety. I understand that a number of scientific studies have yielded questionable results due to a lack of quality of the supplements being tested. Would a source of standardized products improve the scientific testing of these products as well as the safety of these products for consumers?

Answer. Scientific data establishing the botanical and chemical profiles of authenticated botanical ingredients, such as ephedra, provide the essential basis for developing standards that can be used in a variety of ways to enhance scientific research and regulatory decisions. Such standards can provide a basis for evaluating Good Manufacturing Practices, GMP, in order to confirm that the ingredient used in a product is the ingredient intended for use. Adulterations or mis-identifications can more easily become apparent. This use has value for FDA in enforcement actions, for industry in establishing and monitoring GMP provisions, and for researchers in characterizing the test substance used in their own studies and for comparing results across studies performed by different laboratories.

Validated analytical methods for detecting contaminants in botanical and other dietary supplement ingredients are valuable to regulators, researchers, and manufacturers. If such methods were widely available, they would help ensure that supplement ingredients do not contain unsafe levels of contaminants such as heavy metals, pesticides, and drugs.

Sound scientific information on the botanical and chemical profiles of authenticated botanical ingredients and validated analytical methods for contaminants and adulterants would help assure the standardization of test products for research and the purity of marketed products.

NATIONAL CENTER FOR NATURAL PRODUCTS RESEARCH

Question. I have followed with interest the collaboration between the FDA's Center for Food Safety and Applied Nutrition, and the National Center for Natural Products Research at the University of Mississippi. The FDA has indicated it has plans to expand this relationship. Can you comment on the value of this collaboration? Does the Center for Drug Evaluation and Research also plan to undertake similar collaborations in order to deal with dietary supplements that may be submitted for approval as drug products?

Answer. Under the Dietary Supplement Health and Education Act of 1994, DSHEA, FDA has primary responsibility for ensuring that appropriate regulatory actions are taken against marketed dietary supplement products that present significant health risks or bear false or misleading label claims. Policy decisions that require the evaluation of risks and claims need to have a sound scientific base. For botanical dietary supplements, development of such a science base is especially problematic because of several unique features, including the complexity of the constituents, variability of sourcing, lack of availability of reference materials, lack of manufacturing controls, and new and rapidly expanding uses in the marketplace. The existing cooperative agreement between the University of Mississippi, National Center for Natural Products Research, NCNPR, and FDA was established to address these critical research issues.

In September 2001, FDA implemented a cooperative agreement with the National Center for Natural Products Research, NCNPR. This agreement was amended in September 2002, to increase overall funding of the project. The agreement between FDA and NCNPR creates a partnership that allows for more efficient use of resources to identify and analyze specific components in botanical dietary ingredients, thereby enhancing overall public health by ensuring that dietary supplements are safe and their labeling is not misleading.

Accomplishments to date have included collection and chemical profiling of a number of botanicals, e.g., a variety of ephedra species, aristolochia and asarum species. Scientific workshops have either been held such as the "Authentication of Botanicals" in August 2002, or are planned—such as "Use of Hepatotoxicity Methods to Evaluate Safety of Botanicals" in September 2003. In addition, collaborations have occurred between NCNPR staff and FDA's National Center for Toxicological Research, with the methods validation project co-funded by FDA and NIH with the Association of Official Analytical Chemists, AOAC, with NIH's Office of Dietary Supplements, NIH/ODS and their Clinical Research Program for Dietary Supplements, and with the National Toxicology Program NIEHS/NIH-sponsored research in botanical safety.

Future plans include the continuation of the basic efforts on collection and chemical profiling of authenticated botanical materials noted above with the inclusion of additional botanicals as current efforts are completed, holding additional scientific conferences and workshops, and continuation of collaborations between individual scientists at FDA's Center for Food Safety and Applied Nutrition, CFSAN, and NCNPR including the sharing of samples and research data. This expansion will greatly enhance the already useful chemical profiling information that FDA is receiving from the NCNPR/University of Mississippi collaborative agreement in that it will provide a more complete body of evidence on which to evaluate safety. Activities carried out under the Cooperative Agreement contribute significantly to the Center's dietary supplement program and expand the capabilities of researchers at both Centers.

A dietary supplement submitted for approval as a drug product and intended for use in the diagnosis, cure, mitigation, treatment, or prevention of disease would undergo our new drug application, NDA, review process. We would seek expert advice through Advisory Committees when necessary.

CITIZENS' PETITION—CFC GAS AND ASTHMA PRODUCTS

Question. Please provide us the status, within the FDA, of the citizens' petition that calls for the removal of certain asthma products, called metered-dose inhalers, from the list of essential uses for CFC gas.

Answer. The American Lung Association's, ALA, citizen petition requesting the elimination of the essential use designation for albuterol presents serious and complex policy issues.

Section 2.125(f) specifies the 4 criteria for determining that a use of an ozone-depleting substance is no longer essential. A citizen petition must present “compelling evidence” that all criteria are met. The second criterion is that “supplies and production capacity for the non-ODS product’s exist or will exist at levels sufficient to meet patient need.” ALA states that information that will support their desired finding on this criterion is proprietary, but it can be developed in the course of rule-making. We have not received any comments providing information on supplies and production capacity of alternatives.

RX TO OVER-THE-COUNTER SWITCHES

Question. As you point out in your statement, nonprescription drugs are becoming more important in our health care system as more products switch from prescription to over-the-counter status. The Administration has requested an additional \$1 million to “improve the OTC drug review process” through hiring and training personnel. In your opinion, what impact do these products have on the health of Americans? Will the additional funds be used to complete the switch applications that are currently pending or initiate new switches?

Answer. Over-the-counter, OTC, drugs play an increasingly vital role in America’s health care system. With reports of rapidly increasing spending on prescription drugs, interest in finding ways to curb those costs is also intensifying. The trend to patient directed-medication has increased greatly in recent years as health care costs have risen and consumers want to be empowered to treat minor ailments with safe and effective OTC drug products. The mission of OTC drug review at FDA is to protect and promote the health of Americans by providing access to important safe and effective OTC drug products.

The requested increase in funding will be used to hire and train seven additional FTEs to improve the OTC drug review process, develop and work toward finalizing OTC drug monographs, and conduct consumer behavior research that would be used to identify and manage potential risks of OTC drugs. Additional staff will assist in expediting all processes within the review division, making available OTC products in a timely manner.

QUESTIONS SUBMITTED BY SENATOR CHRISTOPHER S. BOND

MEDICAL DEVICE USER FEES

Question. Dr. McClellan, you’re to be congratulated for your role in reaching a deal with the medical device industry that requires them to pay \$150 million in user fees over the next 5 years. This deal also requires the government to match industry funds with a relatively modest \$45 million increase to be attained over the years 2003–05. I’m disappointed that the Administration’s budget for fiscal year 2004 fails to provide the funds required under this agreement in fiscal year 2004. Yet, you’ve proposed new increases in other areas of FDA activity. Can you assure me that, notwithstanding your proposed new initiatives in non-device areas, you will meet your obligations under the device user fee agreement?

Answer. FDA assures you that it looks forward to working with Congress and industry to ensure the device user fee program is successful. FDA is committed to meeting the performance goals, as stated in the goals letter. We have already begun discussions within the Administration to find ways to fund this program appropriately in fiscal year 2005 and beyond to ensure that this important program does not sunset.

Question. The user fee agreement only requires you to meet current performance for the first 3 years of the program, even as you collect fees from industry. Yet I understand the agency’s position is that you can’t meet these modest goals without the additional funds that are to come from appropriations.

With the \$15 million increase we appropriated to CDRH for fiscal year 2003 plus the \$27 million in user fees industry will pay, the CDRH budget is substantially larger in fiscal year 2003 than it was in the previous fiscal year. I’ve noticed that you propose a number of management efficiencies at the agency. In addition, you announced new initiatives to help speed multi-cycle reviews of promising new medical technologies through FDA. Why can’t you meet the modest performance goals required by the device user fee agreement using these efficiencies combined with the increased funds that Congress and the device industry are already giving you?

Answer. The appropriations for devices and radiological health in fiscal year 2003 provided an increase of \$12.5 million over the fiscal year 2002 appropriation. Of this amount, \$5.2 million was to fund the costs of the Federal pay increase for existing employees, \$3.4 million was to enhance the counterterrorism capabilities of FDA’s

field operations. The increase of \$1.5 million and 1 FTE for patient safety/medical errors and the additional \$4.0 million added by Congress gave us some additional device review capabilities—as will the management efficiencies that we expect to achieve in fiscal year 2004. These amounts were offset by the \$1.7 million rescission of 0.65 percent.

We fully expect to meet the only performance goal that applies for fiscal year 2003 and fiscal year 2004—complete action on 90 percent of the amendments containing complete responses to an “approvable” within 30 days. The more challenging MDUFMA goals take effect in fiscal year 2005, and become increasingly more challenging each subsequent year through fiscal year 2007. We allowed more time before these goals take effect because we will have to hire and train additional staff to be able to meet these goals.

Question. Passage of the device user fee agreement was the culmination of a 10-year effort to win over the strong resistance to user fees of many in the device sector and in Congress. I understand that if FDA does not receive a \$45 million increase for the device program by fiscal year 2005, the user fee agreement terminates and the agency loses the ability to collect fees from industry in the remaining 2 years of the program. Given the history of the user fee issue in the device sector, I suspect you'll lose this program and any chance of collecting fees from the industry again if you don't find a way to meet the performance goals. What is your plan to avoid losing this program and this funding source that I suspect you need and want?

Answer. The agency looks forward to working with Congress and industry to ensure the device user fee program is successful. FDA is committed to meeting the performance goals, as stated in the goals letter. We have already begun discussions within the Administration to find ways to fund this program appropriately in fiscal year 2005 and beyond to ensure that this important program does not sunset.

QUESTIONS SUBMITTED BY SENATOR HERB KOHL

BOVINE SPONGIFORM ENCEPHALOPATHY

Question. Dr. McClellan, as you know, in the 1990s, during the BSE crisis in Britain, millions of cattle were slaughtered and burned, and significant amounts of feed were removed from the market. In 1997, FDA banned the use of certain contents in animal feed in order to try and stop the spread of BSE. What has FDA done to make sure that none of the feed removed from the market in Europe, or any of the remains of the destroyed cattle, have entered the United States on the black market in our animal feed?

Answer. FDA has prioritized the review of our import entries to make sure that all of the possible commodities that might be or contain the mammalian proteins prohibited from use in ruminant feed are reviewed before entry into the United States. In addition, we have an Import Alert in place which instructs the FDA import personnel to detain without physical examination any product that is or contains any animal protein product from the countries identified by USDA/APHIS as “restricted” either because they have identified a case of BSE in that country or they are at risk for BSE because they have open commerce with those countries. That includes all of the European countries, Japan, and Israel, as well as Canada.

We also have an ongoing assignment to collect samples and analyze animal feed products using feed microscopy from the BSE positive or suspect countries in which the documents indicate no processed animal protein is present to be assured that products are not being entered through intentional or inadvertent mislabeling. To date none of these samples have found the presence of processed animal protein.

On an ongoing basis, FDA meets with USDA and Customs to coordinate the U.S. review and response to products offered for entry into the United States.

Question. How is the FDA involved in the investigation of the Canadian case, especially in regard to tracing the feed that this herd consumed?

Answer. FDA is working cooperatively with Canada in the investigation of this incident. Technical counterparts are communicating on a regular basis as the investigation unfolds. A representative from FDA's Center for Veterinary Medicine spent a week in Canada working with CFIA officials. FDA was notified by CFIA about pet foods that were potentially contaminated with rendered material from the BSE positive cow in Canada and shipped to the United States. The firm has asked for return of all suspect products and FDA has issued notices to alert consumers about this information. FDA is currently part of a daily interagency conference call that shares information on the investigation of this incident. The call includes representatives from USDA/FSIS and APHIS, as well as CDC. Each of those agencies is working with their respective Canadian counterparts.

REGULATION OF ANIMAL FEED

Question. Please explain specifically how FDA regulates animal feed. Specifically, are there inspectors in all plants? Is there testing at the borders? How does FDA actually enforce its feeding ban?

Answer. FDA regulates animal feed through the administration of the Federal Food, Drug, and Cosmetic Act, the Act. Animal feed is food under the Act. In general, food must be truthfully labeled and may not be adulterated. The Act, among other things, prohibits the interstate shipment of adulterated or misbranded food, and the adulteration or misbranding of food after receipt in interstate commerce. What constitutes adulteration or misbranding is defined in the Act. Food additives must be shown to be safe prior to their use in food. In addition, drugs are often administered to animals through feed and therefore, many animal feeds contain drug products and are called medicated feeds. The drugs go through a pre-approval process, and the medicated feeds must be manufactured in conformance with Current Good Manufacturing Practices regulations to assure appropriate controls are in place for the manufacture, processing, and distribution of the medicated feeds. Generally, feed mills that use potent drugs that require pre-slaughter withdrawal must be licensed by FDA to receive and manufacture feed containing those drugs.

The regulation of animal feed, as with most FDA regulated commodities, begins with inspection of the manufacturing and distributing operations for feed and feed ingredients. The inspections are physical and include discussion with management and employees; plant walk through and observation of the processing; examination of equipment, plant premises, and grounds; and, review of records. Inspections are generally conducted biennially if certain potent drugs are used, and on an as needed basis for other firms. FDA is not in the plant at all times. However, we may conduct inspections multiple times during the year if there is a need; for example, to follow-up on an inspection that found violations of the law, to confirm that commitments to compliance were implemented, or when new information arises that indicates a possible violation of the law. We also work cooperatively with our state counterparts who may also be conducting inspections of a plant at various times throughout the year. We may also collect samples for analysis during the inspection or at sales or use locations.

FDA is notified of shipments of imported products. We may review the incoming documents for the shipment, physically examine the shipment, and collect samples for analysis. Products that are not acceptable for distribution in the United States are refused entry. In some circumstances, the owner may be able to recondition the product so that it would be acceptable such as by making labeling changes where the basis for refusal is improper labeling. FDA would monitor the reconditioning and examine the shipment before permitting entry.

Under the BSE feed ban, certain mammalian proteins are deemed food additives when used in ruminant feed; these are referred to as prohibited material. They have not been shown safe for use in those feeds and are therefore not permitted. Any ruminant feed containing these proteins would be adulterated. For non-ruminant feeds that do contain these proteins, the feed ban requires measures to prevent commingling and cross contamination, record keeping, and caution statement labeling.

FDA has taken a multipronged approach to enforcement of the feed ban. FDA, in conjunction with the states and trade associations, has done extensive education of the regulated industries. We also conduct 100 percent inspections of all renderers, protein blenders, and feed mills, as well as a percentage of other firms such as distributors and ruminant feeders. We have pursued enforcement action for firms that have failed to bring their operation into compliance. As of May 2, 2003, 59 Warning Letters have been issued, and 42 firms have recalled over 241 products. The Act provides additional enforcement tools including seizure of violative product, injunction, and prosecution. Currently, we are conducting inspections of all firms that handle prohibited material annually. We also give priority for inspection to any firm that was found out of compliance on the previous inspection and any firm that we have information indicating possible violations are occurring.

Additional enforcement activities include the development of a new BSE Compliance Program with input from a wide range of FDA and state officials, and two national meetings to introduce the Program. The purpose of the Program is to provide complete instructions to FDA and State investigators in conducting domestic BSE inspections and evaluating imported animal feed products from BSE-at-risk countries. FDA has also worked with a contractor to incorporate the BSE feed ban inspection information into the FDA FACTS System providing increased data integrity, increased ability to obtain information on the inspection obligations and their status, and enhanced ability to monitor compliance activities. Part of this database enhancement included a new BSE inspection checklist to improve data reporting for

inspection. We have also trained field employees in the use of this new checklist and on the present BSE regulatory strategy. FDA also initiated training and installation of the Harvard BSE Risk Assessment simulation to enable FDA to test proposed risk management strategies in terms of the effects on the spread and the rate of disappearance of BSE should BSE be accidentally introduced into the country. In addition, FDA conducted a series of interagency tests of the FDA BSE Response Plan, and a satellite-training course on the BSE Contingency Plan. FDA revised the BSE Response Plan and published it on FDA's web site. FDA presented a national satellite broadcast, entitled "BSE Import Safety Net", to FDA, U.S. Customs Service and USDA inspection and compliance personnel. FDA is still physically collecting and analyzing import samples from known BSE countries identified as at-risk for BSE, for the presence of mammalian protein; no processed protein should be coming in from at-risk countries. This assignment to date has not found any violations.

ADMINISTRATIVE SAVINGS

Question. FDA's fiscal year 2004 budget request is approximately \$24.5 million above the fiscal year 2003 appropriated level, not including user fees. When looking at the budget, I was pleased to see that the request includes increases for food safety, patient safety, over-the-counter and generic drugs, and other increases totaling approximately \$79.5 million. However, in order to pay for these increases, the budget proposes cuts of approximately \$58 million. The explanations for these cuts in the budget is very brief, and I would like more information on them. The budget includes a cut of \$28 million for "management savings", and states that it will be accomplished by, and I quote, "reallocating resources, realigning and reorganizing functions." What specifically does this mean, and how was this savings amount formulated? What effect will this have on FDA employees?

Answer. FDA is supporting various administration and department initiatives associated with the President's Management Agenda by consolidating human and IT resources to achieve greater efficiencies and economies of scale; consolidating the biologic therapeutic review function into the similar drug review function to achieve greater consistency and less duplication of effort, conducting outsourcing studies and rightsizing to achieve cost savings and maximum efficiencies; organizational de-layering for faster decision-making and better communications; and, implementing a new financial management system to provide agency managers with timely and consistent financial information.

Organizational de-layering to achieve a flat, streamlined Agency where decision-making and better communications exists is being aggressively pursued. FDA is also consolidating its administrative functions into a Shared Services Organization, SSO. The SSO concept will allow FDA to provide administrative support functions to Agency components to meet critical mission needs in the most efficient and effective manner possible. These efforts will place the Agency in a position to more effectively and efficiently meet the challenges of providing better protection to consumers and promoting better health.

As a result of the planned efficiencies expected from the migrating to shared services and results of our competitive sourcing initiatives, we expect to realize the savings as depicted in the budget.

Question. The budget also states that IT infrastructure functions are being consolidated, and the budget supports DHHS efforts to "improve the HHS Information Technology Enterprise Structure." These activities are resulting in a \$29.5 million cut in FDA's budget. How was this savings amount formulated, and how much of it is actually showing up in the Department's fiscal year 2004 budget? Specifically, what is not being done or funded in order to come up with this money? Will we be seeing further "IT savings" in order to improve the DHHS IT system?

Answer. IT consolidations will result in improved processes that will ensure that the Agency commits to the right projects for the right cost. FDA's budget request includes savings of \$29.6 million in the IT budget from both ongoing infrastructure consolidation efforts as well as reduced expenditures through the consolidation, streamlining, postponement or elimination of specific lower priority projects.

The Agency will fully implement its IT infrastructure consolidation by October 2003, thereby reducing infrastructure expenditures in fiscal year 2004 by \$15.0 million. These reductions will be achieved, in part, by the ability of the Agency's Chief Information Officer, CIO, to exercise better control over IT decision making, including the identification of inefficiencies as targets for reduction. The CIO will also look for opportunities that, based on a sound business approach using a rigorous cost-benefit analysis, would benefit from the integration of new technology. As a further by-product of consolidation, the Agency will also foster standardization of management processes, thereby increasing the effectiveness of IT even as FDA reduces

overall costs. These improved processes will ensure that the Agency commits to the right projects for the right cost.

Additionally, FDA will reduce spending on development of specific IT systems across the entire Agency by \$14.6 million. Managers of information technology organizations allocated reductions to the development of IT systems based upon one of three rationales for increased efficiencies. First, consolidation of similar systems either within FDA or the Department will provide savings in the cost of contracts and government personnel while reducing unnecessary duplication. Second, streamlining work processes and underlying IT processes will provide additional savings. Some of the improvements to IT processes will include better project management, more reliable tools to estimate costs and schedules for use in improved contract performance management, and consistent development practices. Third, lower priority projects will be scaled back or eliminated where reasonable to do so. The impact of reducing efforts on lower priority projects will be mitigated by improvement in work processes achieved through consolidation and streamlining efforts.

MEDICAL DEVICE USER FEES

Question. Dr. McClellan, as you're aware, last year the Congress passed the Medical Device User Fee and Modernization Act, which requires the medical device industry to pay a portion of the cost for FDA to approve their products. Although I am not on the authorizing committee that put this bill together, I understand that there are requirements for certain levels of appropriated funding, and if this funding isn't provided, the program sunsets after 5 years. I also understand that FDA was consulted regularly when this bill was being developed—and was supportive of it. However, I don't see any increase in FDA's budget to help meet these appropriations targets. Further, I have been told that FDA now needs an increase of \$22 million in appropriated funds this year, strictly for medical device review activities, in order to meet its targets set by law. Why did FDA agree to these appropriations targets if it had no intention of requesting funding to meet them?

Answer. The Administration has to balance the many competing demands of each component within the Federal government with the total resources available. As a result, the fiscal year 2004 President's budget request for the Food and Drug Administration fell below the levels specified in MDUFMA. We support the goals of MDUFMA, and are committed to making the medical device user fee program a success.

Question. If Congress provides FDA with the President's budget request this year, please explain what effect that will have on the implementation of MDUFMA—will FDA still be able to meet its performance goals for this year?

Answer. The agency is committed to meeting the MDUFMA goals to the maximum extent possible with the resources that are available. We want the program to be as successful as the prescription drug user fee program. We fully expect to meet the performance goals that apply for fiscal year 2003 and fiscal year 2004—complete action on 90 percent of the amendments containing complete responses to an “approvable” within 30 days. The more challenging MDUFMA goals do not take effect until fiscal year 2005, and become increasingly more challenging each subsequent year through fiscal year 2007. We have allowed more time before these goals take effect because we will have to hire and train additional staff to be able to meet these goals.

Question. Does FDA plan to request the necessary funding in the future to meet the MDUFMA appropriations requirements in order to both help FDA meet its performance goals, and to prevent the program from expiring?

Answer. The agency looks forward to working with Congress and industry to ensure the device user fee program is successful. FDA is committed to meeting the performance goals, as stated in the goals letter. Agency leadership has already begun discussions within the Administration to find ways to fund this program to ensure its success.

Question. The President's fiscal year 2004 CDRH appropriations request is \$185 million, is a decrease of \$9 million from the fiscal year 2003 appropriated level of \$193 million. At the same time, CDRH is proposing to collect \$16 million in collecting user fees in fiscal year 2004. One could assume from these facts alone that these user fees, which were meant to be additive in nature, and not to replace appropriated funds, are doing just that. Please explain.

Answer. One of the provisions of MDUFMA requires that the funds from fees must be in addition to an appropriation amount that is as great as the amount FDA spent on the device review process from appropriations in fiscal year 2002—the year before MDUFMA went into effect—adjusted for inflation. This provision is meant to assure that appropriated resources available for device review are increased for in-

flation each year, and that the funding from fees is over and above a set level of appropriations, after adjustment for inflation. We are committed to working with Congress and the Administration to ensure that this intent of MDUFMA is realized. The reductions for the Device and Radiological Health program reflect management savings and IT consolidation, as discussed previously, and should not impact the resources directly devoted to the review process.

SEVERE ACUTE RESPIRATORY SYNDROME

Question. We have all been reading the news stories and following the development of SARS. So far, we in this country have been very lucky, but just this week Secretary Thompson said that he believes we will see SARS deaths here. Hopefully, though, the efforts of the FDA, CDC, and other governmental and private entities will make us as prepared as we can be in the event of an outbreak in the United States. I read the statement that Dr. Lumpkin, the FDA Principal Associate Commissioner, gave to a House Committee a few weeks ago, outlining several steps FDA is taking in regard to SARS. This included working to identify the virus, working on drugs to treat and vaccines to prevent the virus, ensuring there are enough medical products available to deal with SARS, and protecting our blood supply. Often, when emergencies such as this arise, there is a need for supplemental funding beyond what is in the budget. Please briefly describe for us the activities FDA is undertaking in regard to SARS. Is there, or do you anticipate a need for additional funding to help fully fund all of FDA's SARS-related activities?

Answer. FDA is carefully tracking the scientific progress in defining, treating and, ultimately, defeating SARS to ensure that all FDA resources are aggressively and effectively deployed in the battle against this new virus.

FDA's Center for Biologics Evaluation and Research—CBER—is working with other government agencies and the private sector to address many of the most difficult early issues in vaccine development. As this program is in its infancy, much painstaking work must be accomplished to assure that the development and manufacturing processes meet the standards required to produce safe and effective vaccines.

On April 17, 2003, FDA issued guidance to the Nation's blood establishments on measures for further safeguarding the blood supply against SARS including recommendations for deferral of certain donors. FDA took this interim measure to assure the safety of the blood supply while more is learned about the disease. At this time, it is unknown whether SARS can be transmitted through blood. If tests are developed that can detect SARS in blood, adaptation of those tests to screen blood donations is likely and would be helpful. FDA will work with manufacturers to facilitate the development of those tests. In addition, manufacturers of products made from blood, for example plasma-derived therapeutics, may need to evaluate their need for viral inactivation methods to be sure that their processes are capable of removing the virus. FDA will work with these manufacturers to validate and implement any new necessary processes as rapidly as possible.

FDA will continue to monitor this evolving situation and intends to make any revisions or additions as needed to preserve the safety and availability of the blood supply, based on the best available information. For example, FDA's guidance may be modified based on further scientific research on whether the causal agent of SARS may be present in the blood of persons subject to this interim deferral. As in any deferral decision, the need to evaluate the effect on supply also must be considered.

FDA's Center for Devices and Radiological Health—CDRH—is working with CDC, who along with others in the SARS Laboratory Network organized by World Health Organization—WHO—is helping further the scientific understanding of the virus. A diagnostic test for SARS, based on the detection of RNA sequences in the novel coronavirus, is currently under development along with an enzyme-linked immunosorbent assay—ELISA—test for antibodies to the SARS-related virus. The first of these tests, using polymerase chain reaction—PCR—technology, will help with acute diagnoses of patients, while the ELISA test will be used to confirm a case during or after convalescence. CDC developed these prototype experimental reagents over the past 2 months in an effort to address this unmet public health need. FDA rapidly reviewed information for the investigational use of this test, and is working closely with CDC to develop appropriate information for patients and health professionals, and an approach for further evaluation of this new test. This test methodology will be distributed to approximately 100 specialized laboratories around the country. Under the terms of this test's wider distribution, patients and practitioners will receive clear information about the test when it is used to assist

in diagnosing SARS. Hopefully, this information will facilitate the development and evaluation of an approved diagnostic test as quickly as possible.

CDRH is reaching out to industry to ensure that any development plans for new tests are well designed and that premarketing applications submitted to the Agency are of such quality that a priority review can swiftly proceed. In addition, FDA has already cleared or approved dozens of tests for use in differential diagnosis of acute respiratory syndromes and has put in place a postmarket surveillance program to measure how well these tests are working. These tests do not diagnose SARS; rather they help to diagnose other conditions that may have symptoms similar to SARS. In this way SARS can be ruled out as the diagnosis in these patients. CDRH is also monitoring the Internet to see if products are being sold with false claims of detecting the SARS virus. If such products are found FDA will take action to protect consumers from being harmed by them.

FDA's Center for Drug Evaluation and Research—CDER—is currently working with the private sector and other governmental agencies to identify drugs that may have utility in the treatment of SARS. CDER has contacted pharmaceutical companies in order to help identify candidate drugs with potential utility for the treatment of SARS. CDER has also helped to facilitate communications between companies and other governmental agencies—NIH and the U.S. Army Medical Research Institute for Infectious Diseases, USAMARID—involved with the preliminary evaluation of these drugs in screening tests. Sixteen drugs from nine companies were identified as candidate drugs for preliminary testing to evaluate whether the compounds have activity in vitro against the SARS coronavirus.

CDER has worked closely with CDC on the development of an investigational protocol for the treatment of patients with SARS. This protocol provides a mechanism for patients with suspected SARS that meet certain medical criteria to be treated with intravenous ribavirin—an investigational antiviral drug not otherwise available. The study provides a means for patients to receive intravenous ribavirin, an agent that may have therapeutic utility for SARS.

CDER is working with NIH and CDC regarding the possible development of a controlled clinical trial to critically evaluate the utility of therapeutic agents for the treatment of SARS. Similar to CDER's interactions to interactions with the CDC on CDC's protocol, CDER has been in contact with members of the Collaborative Antiviral Study Group and NIH in order to facilitate and expedite the review of any protocol under development for the treatment of SARS.

CDER is involved in ongoing monitoring of the supplies of the drug ribavirin, which is available in several formulations. This work allows CDER to keep abreast of the current levels of ribavirin supplies in order to be able to forecast how much drug may be available to meet potential future clinical needs.

SARS was first detected after the budget was submitted to Congress, and as a result, was not addressed in the request.

Question. Has funding been diverted from other activities because of the SARS effort? If so, which activities?

Answer. In fiscal year 2003, the Center for Biologics Evaluation and Research, CBER, is redirecting an estimated \$1.3 million of its resources to SARS-related activities. Many of the CBER staff who currently perform regulatory policy, review and research are the same staff who also focus on other areas such as West Nile virus, and counterterrorism.

In fiscal year 2003, the Center for Devices and Radiological Health, CDRH, is redirecting an estimated \$200,000 of their resources to SARS-related activities. CDRH redirected some of their efforts away from routine premarket application review to address SARS-related concerns and applications.

The Center for Drug Evaluation and Research, CDER, has not diverted any funds from other activities for SARS efforts since this is part of the CDER's Emergency Preparedness readiness efforts. The Center will continue to promote and protect public health by assuring that safe and effective drugs, including all SARS-related drug products, are available.

BIOTERRORISM PREPAREDNESS AND RESPONSE ACT OF 2002

Question. The Bioterrorism Preparedness and Response Act of 2002, the Bioterrorism Act, required FDA to implement several changes to strengthen its food safety regulations, including the development of a system to register products manufactured abroad, by December 12 of this year. Four major proposed rules have been published since January, and I understand that approximately \$12 million from fiscal year 2002 supplemental funding has already been spent on the registration system. Further, the budget requests an increase of \$20.5 million for food safety, in part to fund the implementation of the new food safety requirements and registra-

tion system. Specifically, what has the \$12 million in funding been spent for, and what remains to be done on the registration system?

Answer. FDA has allocated approximately \$12.3 million from base resources for the registration and prior notice systems in fiscal year 2003. Approximately \$4.3 million of this funding is from the fiscal year 2002 counterterrorism supplemental. Funds for the registration system include hardware, software, and contractor services for the design, development, testing, and implementation of the web-based electronic registration system. The registration system funding also includes funding for office space, hardware, software, and contractor services for the design, development, and initial staffing for the paper registration process, as well as the Help Desk for electronic and paper registration. The Help Desk will also handle calls about use of the prior notice electronic system also required by the Bioterrorism Act.

The electronic registration system is currently being developed and tested. A prototype has been successfully demonstrated to food industry and foreign embassy representatives at four public meetings. The project is on time, and the goal is to have the electronic registration system operational by October 12, 2003 allowing 2 months for facilities to register before the December 12, 2003 deadline. The paper registration process has been designed. The design of the Help Desk and the implementation of the paper process are in the final stages of contract award. The Help Desk implementation will be awarded once the design is completed.

The prior notice system has been allocated funds for infrastructure design, procurement, setup, operations and maintenance of computer system hardware, system/database software and licensing, and contractor services for the design, development, testing, and implementation of the web-based electronic prior notice system. Funding will also be utilized for extensive enhancements required to the Operational and Administrative System for Import Support, OASIS, system to support prior notice.

The Bureau of Customs and Border Protection, CBP, is cooperating with FDA to permit current filers to use the existing Automated Commercial System, ACS, software to submit prior notice. FDA will develop and maintain two separate interfaces. The first expands the current Automated Commercial System—OASIS interface to incorporate the requirements for prior notice. The second is the web interface to capture prior notice for types of entries that have traditionally been exempt from Customs entry—i.e. mail, low dollar value entries, etc.

FDA is integrating the prior notice requirements into the OASIS import entry processing system and making modifications to FDA's OASIS and Automated Commercial System interface. Additional modifications to the data warehouse decision support system will support the matching, standardization and validation of registration and prior notice information, ensuring high quality, consistent data. Enhancements to the automated import screening process to validate registration and prior notice will support inputs from both the web-based system and ACS. The existing entry review process in OASIS will be modified to support manual review of food articles that do not pass the automated screening processes. Prior Notice requirements will be met through enhancements to the import reporting database.

The web-based electronic prior notice system prototype is on schedule for completion the last week in July. The goal is to have the web-based electronic Prior Notice system and the new ACS—OASIS interfaces operational by the December 12, 2003 deadline.

In fiscal year 2004, FDA has requested \$10.5 million of the \$20.5 million for operations and maintenance costs of the registration and prior notice systems, for hardware and software maintenance, telecommunications, facility lease, and contract labor. The request also includes funding for operations and maintenance of the labor-intensive paper registration system and combined Help Desk.

Question. How has FDA been working with industry and consumer groups to make sure that these rules are as stringent as necessary while not excessively burdensome?

Answer. President Bush signed the Public Health Security and Bioterrorism Preparedness and Response Act of 2002—the Bioterrorism Act—Public Law 107-188, into law on June 12, 2002. The Bioterrorism Act requires the Secretary of Health and Human Services, acting through the Food and Drug Administration FDA, to develop regulations by December 12, 2003, to implement Section 305—Registration of Food and Animal Feed Facilities—and Section 307—Prior Notice of Imported Food Shipments. If FDA fails to issue final regulations by December 12, 2003, the Bioterrorism Act still requires domestic and foreign facilities to register with FDA by this date, and requires FDA to receive prior notice of imported food shipments of not less than 8 hours or more than 5 days beginning December 12, 2003. The Bioterrorism Act further specifies that imported food from unregistered facilities, or food offered for import without adequate prior notice, must be held at the U.S. port of entry

until the facility is registered and/or FDA has received adequate prior notice. The Bioterrorism Act requires FDA to develop and issue final regulations by December 12, 2003, to implement section 306—Establishment and Maintenance of Records. FDA is developing a regulation to implement the expedited enforcement procedures for perishable foods required by Section 303—Administrative Detention. Both HHS and FDA are committed to meeting the statutory deadlines in the Bioterrorism Act, and FDA has been devoting extensive resources to this effort.

By typical rulemaking standards, the statutory timeframes for having final rules in effect within 18 months of enactment is an expedited one. To ensure the registration and prior notice rules can take effect by December 12, 2003, FDA is required to propose rules, take comment, and publish final rules within 16 months of enactment. Notwithstanding this ambitious time frame, FDA recognized the significant impact these regulations could have on its stakeholders, both domestic and foreign. Accordingly, FDA began its outreach activities for developing these regulations by issuing a “Dear Colleague” letter to stakeholders, including states, foreign embassies, trade associations, industry, sister agencies, and consumer groups. The letter explained the new regulatory requirements in the Act and FDA’s timeline for implementing them. The letter also invited stakeholders to submit comments to FDA by August 30, 2002, that FDA committed to considering as we developed the proposed rules. We requested comments on stakeholders’ areas of concern and suggestions for addressing them while meeting the statutory requirements.

In July and August, FDA also held six constituent briefings with stakeholders that approximately 88 organizations, 36 embassies, 52 organizations attended. During these public meetings, FDA explained the provisions in the Bioterrorism Act, and again solicited comments by August 30, 2002. In addition, FDA opened a public docket for each regulation to receive these comments. FDA received over 150 comments during this early comment period that we considered as we developed the proposed regulations. Comments were submitted by 24 trade associations, 8 foreign embassies, 7 foreign countries, 17 individual companies, 8 consumers and consumer groups, and 2 other agencies or state associations. FDA also met with officials at HHS and the Office of Management and Budget, OMB.

Beginning in September 2002, FDA senior staff with responsibility for developing the regulations began weekly meetings with their counterparts within the Department of Treasury, U.S. Customs Service, to discuss implementation of the Bioterrorism Act’s provisions, particularly with respect to the registration and prior notice rulemakings. The input we received from Customs is reflected in the proposals that FDA developed.

In September and October 2002, FDA briefed HHS and OMB officials, respectively, on FDA’s concepts for the proposed regulations and obtained early feedback before we began drafting the proposed rules. In mid-November 2002, FDA then briefed the other Federal agencies who had stakeholders potentially affected by the proposed rules and/or who had an interest in the safety and security of the U.S. food supply to explain the proposed rules, prior to sending the draft proposed rules to DHHS and OMB. As part of its review under Executive Order 12866, OMB sent both draft rules to other Federal agencies for review and comment, and forwarded all the comments it received from those agencies, as well as its own comments, to FDA for consideration. FDA made changes to the draft proposed rules to address the comments we received.

FDA sent the proposed registration and prior notice rules to the Office of Federal Register on January 29, 2002, where they were placed on immediate display. We also posted the proposed rules on our website on this date. The rules were officially published jointly by FDA and the Department of Treasury on February 3, 2003, 68 FR 5378 and 68 FR 5428, respectively with a 60-day comment period. The comment period closed on April 4, 2003. FDA currently is reviewing the comments and determining what changes should be made to the rules before finalizing them. HHS’ and FDA’s goal is to publish the final rules by October 10, 2003, which will allow them to take effect under the Congressional Review Act by the statutory deadline of December 12, 2003. FDA can begin accepting registrations from facilities upon OMB approval and the publication of the final regulation so that if FDA publishes the rule as planned, facilities will have 2 months to register before the statutory deadline.

FDA also published notices of proposed rulemaking in the Federal Register to implement sections 303 and 306 on May 9, 2003, see 68 FR 25241 and 68 FR 25187, respectively. The deadline for comment on these proposed rules is July 8, 2003. During the public comment period, members of the public—both domestic and foreign—can submit comments and supporting data for the Agency to consider as we develop the final rules. FDA is committed to working with our stakeholders as we develop all four of these regulations, and we will comply fully with our international trade

obligations, including the applicable World Trade Organization agreements and the North America Free Trade Agreement.

FDA has taken extraordinary steps to reach out to both our domestic stakeholders and our international partners to advise everyone about the proposed rules. To date, FDA senior officials and staff have participated in over 80 meetings, both domestic and abroad. In addition, the Foreign Agricultural Service at the United States Department of Agriculture has held multiple meetings in the countries in which they are located to explain the new requirements. Other international organizations, such as the Inter-American Institute for Cooperation on Agriculture in Costa Rica, also have held meetings using FDA's documents and other outreach materials. We have received numerous compliments from all affected parties on our efforts to reach out to affected stakeholders, explain the new requirements in the Bioterrorism Act and FDA's proposed rules implementing them, and to solicit their comments.

FDA began by holding a public meeting, via satellite downlink, to discuss the registration and prior notice proposed regulations on January 29, 2003, 1:00–3:00 p.m. EST. Nearly 1,000 participants in North and South America, and the Caribbean viewed the live broadcast. The meeting was later re-broadcast to Europe to Asia, Africa, and the Pacific. FDA held a similar public meeting, via satellite downlink, to discuss the recordkeeping and administrative detention proposed regulations on May 7, 2003, 1:00–3:00 p.m. eastern standard time. Participants in North and South America, and the Caribbean viewed the broadcast live. The meeting was re-broadcast to Europe to Asia, Africa, and the Pacific. Transcripts of both broadcasts, as well as copies of the videotape itself, are available on FDA's website in English, French, and Spanish.

FDA has developed fact sheets, talking points, and a Powerpoint presentation presenting an overview of the proposed rules in English, French, and Spanish that others may use to help communicate the requirements of the proposed rules. These materials also are posted on FDA's website. In addition, as stakeholders translate these materials into additional languages, FDA posts the additional translations on our website. Currently, there are approximately ten different language versions available for some of these materials, including Ukrainian, Slovene, Serbian, Russian, Romanian, Polish, Hungarian, Czech, Croatian, and Bulgarian.

FDA also has been working with several sister agencies to ensure a broad dissemination of information and outreach materials, specifically those addressing international outreach. These agencies include the United States Trade Representative, USTR, the United States Department of Agriculture, Foreign Agricultural Service, FAS, the Animal, Plant Health Inspection Service APHIS, and the Grain Inspection, Packers and Stockyards Administration, GIPSA, the Department of State, the Department of Commerce, and the Bureau of Alcohol, Tobacco, and Firearms, within the Department of Treasury. This collaboration led to the development of the fact sheets on the legislation and a flyer on registration that were circulated to FAS officers abroad, an informational email and cable to the posts, fact sheets on the two new proposed rules, press releases, transcripts, and a computer disk that FDA will include in packets sent to FAS officers. These materials will be used by embassy staff to actively and aggressively disseminate information on the legislation and the proposed rules at trade shows, industry meetings, and as a regular part of their interaction with our trading partners.

In addition to the above outreach activities, FDA has attended numerous meetings both domestically and abroad during the public comment periods on the rules to ensure both that affected parties are aware of the proposed requirements and can provide meaningful comments to FDA for the agency to consider as we develop the final rules. These interactions have been invaluable for both stakeholders and for the agency to hear firsthand the suggestions from affected parties.

FDA is taking steps to implement the statute with provisions that are as stringent as necessary while not excessively burdensome. During our development efforts at both the proposed and final rule stages, we estimate the costs and benefits for several regulatory options of varying degrees of stringency. These options vary both the number of regulatory requirements and the coverage of the regulation, and provide varying benefits. We published our cost-benefit analyses for many of these options in the proposed rule and solicited comment on them. In response to comments we received during the public comment period that ended on April 4, 2003, we are revising the cost-benefit analysis of some of the options we presented in the proposal and adding some new options. This presentation of options allows FDA and HHS to see the trade-offs between costs and benefits of various regulatory options, which in turn allows them to choose the regulatory option that most completely supports the statutory requirements with provisions that are as stringent as necessary while not excessively burdensome. We also fully consider our obligations under inter-

national treaties and agreements to ensure that we implement the statute in a way that is not more burdensome than necessary.

Also, since the beginning of our regulatory development efforts, FDA has collaborated with U.S. Customs on the implementation of this rule. Both the registration and prior notice proposed rules were co-signed by the Department of Treasury and the Department of Health and Human Services. During our discussions preceding issuance of the proposed rule and as stated therein, Customs had informed FDA that it could not modify its existing Automated Commercial System, ACS, by the statutory deadline to receive the mandatory prior notifications. As a result, FDA began development of a stand-alone system that would receive the prior notices. The two agencies have continued our collaboration, and recently issued a joint press release in which we announced that importers, in most circumstances, will be able to provide the required information to FDA using ACS, making it easier for them to comply with the new law. As we continue our work to finalize the rule, we continue to meet weekly with Customs to streamline the requirements and implementation to the fullest extent feasible in a continued effort to make the rule no more burdensome than necessary.

Question. Are further increases anticipated in future years as these rules go into effect?

Answer. Out-year budget plans have not been developed, and we will continue to balance competing priorities when requesting funding.

During fiscal year 2005, FDA will be implementing its Import Strategic Plan which will mesh with the Prior Notice and Registration Systems. As the Agency gains experience with the Import Strategic Plan, the experience will inform our budget recommendation.

GENERIC DRUGS

Question. Dr. McClellan, last year, the Senate included a \$750,000 increase above the President's request in order to decrease the FDA review time for generic drugs, and requested a report on what types of information should and should not be in the FDA "Orange Book." This year, the FDA budget request includes an increase of \$13 million to hire additional employees to reduce review times and support the implementation of improved regulations governing generic drug competition. What is the status of the "orange book" report?

Answer. The "orange book" report to Congress is currently in the clearance process. However, on October 24, 2002, the Agency published its proposed rule, "Applications for FDA Approval to Market a New Drug: Patent Listing Requirements and Application of 30-Month Stays on Approval of Abbreviated New Drug Applications Certifying That a Patent Claiming a Drug is Invalid or Will Not be Infringed." The comment period has closed and the final rule is expected to publish soon.

In this proposed rule, the Agency proposed to amend its patent submission and listing requirements for NDAs. The proposed rule clarified the types of patents that must and must not be submitted for listing and revised the declaration that NDA applicants must provide when submitting their patents for listing to help ensure that NDA applicants only submit appropriate patents and therefore make the patent listing process more efficient.

The proposal also would revise the regulations regarding the effective date of approval for ANDAs and certain applications submitted under section 505(b)(2) of the Federal Food, Drug and Cosmetic Act. If the ANDA or 505(b)(2) application contains a certification that a listed patent is invalid or will not be infringed and the patent owner or NDA holder brings a suit for patent infringement, the approval of that application is delayed up to 30 months while the litigation is on going. Currently there is the opportunity for multiple 30-month stays of approval. The proposal would permit only one opportunity for a 30-month stay per application that will streamline the ANDA and 505(b)(2) application approval process.

Question. What are the specific goals for review times, if this increased funding is provided?

Answer. The proposed increase in the FDA's generics budget will allow FDA to hire 40 experts in its generic drugs program to review generic drug applications more quickly and initiate targeted research to expand the range of generic drugs available to consumers. It is our goal to complete review and action upon original generic drug applications, accepted for filing, within 6 months after the submission date 85 percent of the time for fiscal year 2004.

FDA also has begun internal reforms to improve the efficiency of its review process for generic drugs. In particular, FDA is implementing a new system of early communications with generic drug manufacturers who submit applications. FDA

also will provide additional guidance for generic manufacturers preparing and submitting quality, complete applications.

Studies of the FDA processes for new drugs indicate that such communications and guidance can improve drug applications and allow deficiencies to be corrected during the initial review, rather than having to wait for additional review cycles to fix problems. In addition, generic manufacturers have expressed interest in finding ways to improve the quality of their applications, so that more applications can be approved on the first round of review. The new resources and other reforms are expected to reduce the total time to approval for most new generic drugs by 3 months or more over the next 3 to 5 years. Because these changes will generally accelerate the approval for all generic drugs, most Americans who take generic drugs will benefit.

The FDA also will expand its educational programs and partnerships involving generic drugs, to help consumers get accurate information about the availability of generic drugs for their health needs and to help ensure that consumers are aware that FDA-approved generic drugs are as safe and effective as their brand-name counterparts. FDA will also undertake more scientific studies of generic drug "bioequivalence" to expedite the determination of whether the generic copy of a drug works in the same way as the original product, and will enhance monitoring of the safety of generic drugs on the market.

DRUG PRICES

Question. Dr. McClellan, you mentioned several times during your exchange with Senator Dorgan the need for this country to find a way to provide safe, effective, FDA-approved drugs to the American people at a low cost, both through the Medicaid and Medicare programs. Recently, the Supreme Court ruled that the state of Maine could use their power as a bulk purchaser of drugs for Medicaid patients to bargain with drug companies to make cheaper drugs available to the state's non-Medicaid population. Currently, there is some controversy around this decision, and Secretary Thompson has apparently not yet decided what course of action to take. It seems that Maine has perhaps found a way to do just what you suggested in your testimony—providing safe, effective, FDA-approved drugs at a lower cost to its' population. If the Secretary asked for your opinion on whether or not he should allow Maine to do what they have proposed, how would you respond?

Answer. If Secretary Thompson were to ask my opinion on this issue, I would tell him that if he concludes that the Maine proposal is appropriate and legal under the Medicaid and Medicare programs, there is nothing to suggest that the safety and effectiveness of the FDA-approved drugs purchased under the program would be compromised.

PRODUCT RECALLS

Question. Recently, several lots of the popular drug Lipitor were recalled. I have been contacted by constituents, who, upon hearing of the recall, called their pharmacists to determine whether or not their product was included in it, and whose pharmacists were not aware that any product had been recalled. When a product is recalled, what responsibility is held by the FDA, the drug manufacturer, the pharmacists, and others who may be involved in the production or delivery of the drug, in order to make sure that the message gets to consumers quickly?

Answer. FDA assesses each recall situation on an individual basis to determine what type of public notification is necessary, taking into account factors such as the degree of health hazard, the type and scope of distribution, and the likelihood that product remains on the market. At a minimum, FDA publishes a Weekly Enforcement Report that includes a listing of each new recall after it has been classified, which can take some time. This weekly report is made available to the media and is posted on FDA's public web site, www.fda.gov, under the heading "Safety Alerts and Recalls."

When FDA determines that a product being recalled presents a serious hazard to health that requires a public warning, FDA ordinarily gives the recalling firm an opportunity to issue such a public notice, requesting that FDA be given the opportunity prior to its issuance to review and comment on its adequacy. If the recalling firm cannot or does not issue a public warning when deemed necessary by FDA, then FDA issues such a public notice itself. The Federal Food, Drug, and Cosmetic Act does not give FDA the authority to order a drug firm to recall a product or to issue a public warning, so such actions are voluntary on the part of the firm. The nature of the public notice will vary depending on the circumstances. For example, it might be a general public warning through the general news media, either national or local as appropriate, or it might be through specialized news media such

as professional or trade press, or to specific segments of the distribution chain such as pharmacists, doctors, or hospitals. For Class I recalls, which represent the most serious degree of health hazard and usually involve a public warning, the warning notices are also promptly posted on FDA's web site under "Safety Alerts and Recalls."

Recalling firms are usually the company responsible for the distribution of the violative product in interstate commerce. In most cases the recalling firm is also the manufacturer, but it may be a distributor, especially if the product has been imported or distributed by someone other than the manufacturer. The recalling firm has the primary responsibility to issue any necessary public warning as well as issuing the recall notification to their direct accounts, to whom it shipped the product. Direct accounts, generally wholesale distributors, are usually requested to notify their customers—e.g., chain stores—down to the retail level—e.g., pharmacies. Recalls of products that have the potential to present a serious health risk, such as counterfeit drug products, are normally extended to the user or consumer level. In such a case, because recalling firms do not have information on the identity of the consumer, the recalling firm is usually expected to issue an appropriate press release, as described above, to alert the public so that it is aware of the hazard and can take the necessary steps to remedy the situation.

FDA works closely with the recalling firm to ensure that it conducts an effective recall. To this end, FDA may issue a statement on the recall, especially on a prescription counterfeit drug, to warn physicians, pharmacists, nurses, and all other health care professionals, trade groups, and consumers that a counterfeit drug may be on the market. In this situation with counterfeit Lipitor, the distributor Albers Medical Distributors, Inc. issued a recall notice on May 22, 2003, and FDA issued two talk papers on May 23, 2003, and June 3, 2003, to alert the public. In addition, Pfizer, Inc. issued a news release on June 3, 2003, to further notify U.S. pharmacists of the counterfeit Lipitor.

Question. Are there different procedures in place for different types of recalls (i.e. different types of products or the danger posed by the recalled product)?

Answer. Although the basic recall procedures are the same, the specific details on how a recall is handled vary with the circumstances. For each recall, a specific recall strategy is developed by FDA, or by the recalling firm with FDA's review of the adequacy of the strategy. The strategy takes into account factors such as FDA's evaluation of the health hazard, the type of the product and how it is used, the distribution pattern, the degree to which product is expected to remain on the market, the degree to which the product and the deficiency is easily identifiable, and the possible need for continued availability of essential products. For each recall, the strategy addresses the depth of the recall—e.g., wholesale, retail, or consumer level—the possible need for a public warning and what form it needs to take, what method and level of effectiveness checks the recalling firm will conduct at consignees, what audit checks FDA will conduct, and any other recall implementation factors.

The specific strategy and the urgency of a specific recall vary considerably depending on FDA's assessment of the health hazard involved. FDA assigns a numerical recall classification—i.e., I, II, or III—to each particular product recall to indicate the relative degree of health hazard presented by the product being recalled. Class I is a situation in which there is a reasonable probability that the use of, or exposure to, a violative product will cause serious adverse health consequences or death. Class II is a situation in which use of, or exposure to, a violative product may cause temporary or medically reversible adverse health consequences or where the probability of serious adverse health consequences is remote. Class III is a situation in which use of, or exposure to, a violative product is not likely to cause adverse health consequences.

Although the recall health hazard classification heavily influences the recall strategy, the recall classification does not automatically trigger a public warning or a particular depth of recall. For example, although in practice most Class I recalls are determined to warrant a public warning, such a warning may not be appropriate or necessary if the distribution of the article was quite limited, easily identified, and all units can be quickly and effectively retrieved. Some Class II recalls may be found to require a public warning, whereas others may not. FDA would not usually expect Class III recalls to require public warnings, but it is possible a recalling firm might voluntarily issue such a notice on its own volition. Each recall has to be evaluated on a case-by-case basis and decisions on the recall strategy must be appropriate to the particular situation.

MEDICAL GASSES

Question. Dr. McClellan, as I understand it, FDA has now issued one draft guidance that addresses the general good manufacturing practices (GMPs) that apply to the medical gas industry, and is still working on another draft guidance that will be specific to the validation of air separation units (ASUs). Can you tell me the status of your efforts?

Answer. The Agency has issued the medical gas cGMP guidance document and is currently in the process of developing draft guidance on the validation of ASU requirements. The guidance development process will be consistent with the Agency's good guidance practices and will allow for extensive industry input and interaction. In fact, the Agency has already met with the Compressed Gas Association, CGA, on March 7; April 18; June 18; July 11; August 29; November 6, 2002, and on February 12, 2003, to discuss technical ASU validation issues including risk-models. We will continue to meet and solicit the industry's input on technical issues as we develop the ASU guidance document. Once draft guidance is issued, there will be a comment period, and the Agency will review and seriously consider all comments received during the comment period before finalizing the guidance.

Question. Is the FDA utilizing a risk-based approach with respect to both guidances?

Answer. These guidances are based on extensive input and comments received from industry over several years, and includes risk-based thinking on these issues. There will be ample opportunity for comment and meetings with stakeholders before final guidances are developed to ensure that the available scientific evidence is fully considered in our efforts to develop a risk-based approach on this topic.

Question. It is also my understanding that the medical gas industry has developed a consensus risk-based model for ASU validation that will be the basis for a new industry standard. Can you tell me whether FDA plans to use the industry model or perform an independent risk assessment as the basis for the ASU guidance recommendations?

Answer. The Agency has met extensively with the Compressed Gas Association, CGA, and discussed the industry's proposed risk-based model for ASU validation. The agency found those meetings to be very valuable and productive, and a shared understanding was achieved on many issues that will be reflected in the draft guidance that the Agency intends to develop on the subject. The draft guidance will reflect a risk-based approach, including important aspects of the model that was discussed. There will be further opportunities to discuss this matter to ensure that any unresolved issues can be fully considered before the conclusion of the guidance development process.

COLOR CERTIFICATION

Question. I understand that, under the FFDCA, the FDA certified color regulatory program is paid for by an industry user fee. I have been contacted by a company located in Wisconsin that participates in this user fee program. They state that the FDA has moved this program into significantly larger and more expensive space, even though there has been no increase in programmatic responsibilities or staff. Specifically, they claim that while the color certification program used to run out of 10,000 square feet of space at a cost of \$20 per square foot, they have moved to a new, 35,000 square foot space at a cost of \$52 per square foot. Also, security costs have increased from \$10,000 in previous years to over \$300,000 this year. Further, it is my understanding that in previous years these companies have received a rebate from the FDA for unused funds, and that these rebates, which some companies had come to depend on, will no longer be given.

What is the justification for moving to this larger, significantly more expensive, space? What is the justification for the increase in the security costs?

Answer. The General Services Administration, GSA, required FDA to vacate Federal Building 8 by December 31, 2002, and to prepare that building for other uses. FDA was forced to set up a temporary location for the color certification function while new space is being made available in College Park, Maryland. GSA had only one facility available for FDA for this purpose in Chantilly, Virginia. The color certification staff moved from Federal Building 8 to the interim space in Chantilly, Virginia in October 2002. While the Federal Building 8 space housed a majority of CFSAN staff including color certification, the Chantilly space is solely for work done by the color certification staff. The interim space provided by GSA is larger than FDA requested; unfortunately, there is not an easy way to divide the space so that FDA could use less. FDA's Associate Commissioner for Management and Systems visited the space to review the situation. In fiscal year 2003, FDA will have to use funding in the color certification account to pay for approximately \$1.8 million in

rent and related costs for the Chantilly location and about \$1.5 million for buildout for College Park. The first phase of the move of the color certification operation from Federal Building 8 to interim space in Chantilly, Virginia took place November 2002 and the second and final phase was completed in December 2002. FDA senior management has met with industry staff more than once to review these costs.

When the color certification program was housed at Federal Building 8, a proportionate share of security services at Federal Building 8 was applied to the color certification program. In contrast, the interim office in Chantilly is used only for the color certification program. In fiscal year 2003, after the events of September 11, all Federal facilities have new security requirements. For both of these reasons the security costs applicable to the certification function have risen significantly.

The fees for certification of colors have not been raised since 1993. Consequently, FDA's fee income for this function has been relatively steady. Naturally, as the employees receive pay raises, and as general inflation affects other costs, FDA's costs tend to rise gradually over time. During fiscal year 2002, FDA made a refund to the industry of \$1 million in fees that had been collected over a period of years but were not needed by the agency at that time. This was in part due to the fact that FDA's rent costs related to this function were reduced in fiscal year 2001 due to GSA reducing the overall rent cost for Federal Building 8; the costs to this fund were reduced further in fiscal year 2002 because GSA did not charge FDA rent for the building, but only utilities costs and other costs of operating the building. Combined, this Fund saved about \$800,000 in space costs during fiscal years 2001 and 2002 due to these cost reductions.

In fiscal year 2003, however, FDA has had to incur significantly higher rent costs for a temporary laboratory for this function in Chantilly, VA, and has also had to provide funding to GSA for the buildout costs of a building in College Park, Maryland, near the present Harvey Wiley building occupied by FDA. This additional building is being prepared to house the color certification function on a permanent basis.

While FDA currently expects to have sufficient funds in this account to be able to absorb these costs during fiscal year 2003, the agency will not have any funds with which to make any refund to the industry. It should also be noted that refunds of fees are not a regular event—before the refund made during fiscal year 2002, the last prior refund was in 1990.

Question. What effect is this going to have on the amount of the user fees that the color certification industry is required to pay?

Answer. For fiscal year 2002, the fee income in this fund was about \$5 million, and expenses were only about \$4 million because the fund had very low costs for space since the agency was not being charged rent for Federal Building 8. However, in fiscal year 2003, we expect total expenses to be about \$7.5 million, while income remains around \$5 million. Therefore, most of the surplus money in this fund will be depleted. For fiscal year 2004, projected expenses for this activity are estimated at about \$6 million. The agency expects to need to raise the fees for color certification, because the current level of income is not enough to meet the costs of the function on a continuing basis.

Question. As the sole provider of funding for this new space, was the industry consulted prior to the move?

Answer. Yes. FDA senior management has met with industry staff more than once to review these costs. In fact, when FDA staff met with industry representatives prior to the refund that was made to industry during fiscal year 2002, we explained that there would be some substantial costs due to this necessary relocation of the program. At the meeting industry representatives were notified that we would be moving to interim space and funds to cover buildout costs for the permanent facility would also be required.

Question. Do you believe the sole responsibility for paying for what, at first glance, appears to be unnecessary increases in space and security costs, should lie with the color certification industry?

Answer. The law requires that the fees support all costs of the color certification function, and the agency is using fees that have been built up in this account to meet the increased facilities costs being incurred in fiscal year 2003. The agency did make a refund to the industry of \$1 million during fiscal year 2002, but it is not possible to make another refund now during fiscal year 2003 without jeopardizing FDA's ability to keep a reasonable amount of funds in this account to assure continued service to the color industry. The agency expects to have a balance in this account on September 30, 2003, of only about \$1 million in total.

Question. How has the FDA responded to the concerns of the color certification industry?

Answer. FDA senior management has met with industry staff more than once to review these costs. In fact, when FDA staff met with industry representatives prior to the refund that was made to industry during fiscal year 2002, we explained that there would be some substantial costs due to this necessary relocation of the program. Also, it is likely that the fees will need to be raised at some point during fiscal year 2004, and the agency has informed the industry's representatives of that likelihood. During a meeting with industry representatives in December 2002, all costs for the program were explained.

Question. What is the FDA's plans regarding a rebate for this industry, and if one is not going to be provided, why?

Answer. During fiscal year 2002, FDA made a refund to the industry of \$1 million in fees that had been collected over a period of years but were not needed by agency at that time. This was in part due to the fact that FDA's rent costs related to this function were reduced in fiscal year 2001 due to GSA reducing the overall rent cost for Federal Building 8; the costs to this fund were reduced further in fiscal year 2002 because GSA did not charge FDA rent for the building, but only utilities costs and other costs of operating the building. Combined, this Fund saved about \$800,000 in space costs during fiscal years 2001 and 2002 due to these cost reductions.

In fiscal year 2003, however, FDA has incurred significantly higher rent costs for a temporary laboratory for this function in Chantilly, VA, the only facility GSA had available for this purpose. FDA has also had to provide funding to GSA for the buildout costs of a building in College Park, Maryland, near the present Harvey Wiley building occupied by FDA. This additional building is being prepared to house the color certification function on a permanent basis.

While FDA currently expects to have sufficient funds in this account to be able to absorb these costs during fiscal year 2003, the agency will not have any funds with which to make any refund to the industry. It should also be noted that refunds of fees are not a regular event—before the refund made during fiscal year 2002, the last prior refund was in 1990. Also, it is likely that the fees will need to be raised at some point during fiscal year 2004, and the agency has informed the industry's representatives of that likelihood.

BLOOD SAFETY

Question. Dr. McClellan, according to a December 2002 Associated Press report, FDA found more than 200 safety violations by the blood-collecting unit of the Red Cross, and has asked a court to hold the Red Cross in contempt for several years of safety violations. It is my understanding that FDA and the Red Cross are now working to improve the safety standards of the Red Cross. Can you please provide me with information on how FDA is working with the Red Cross to improve their safety standards?

Answer. Since May of 1993, the American Red Cross-ARC has been under a Consent Decree of Permanent Injunction that required ARC to establish clear lines of managerial control over a newly established comprehensive quality assurance system in all regions; to enhance training programs; and to improve computer systems, records management, and policies for investigating and reporting problems, including adverse reactions. In August 2000, concerns arising from an inspection of ARC's national headquarters for blood services revealing that ARC had not adequately corrected serious violations of blood supply rules recurring over the past 17 years prompted FDA to begin negotiations with ARC to revise the 1993 Decree.

After extensive discussions and mediation efforts, ARC agreed to sign an Amended Consent Decree of Permanent Injunction, containing substantial revisions to the original Consent Decree designed to improve safety standards at ARC. The Amended Consent Decree, which the United States District Judge signed on April 15, 2003, is the culmination of these negotiations.

The Amended Consent Decree includes the important substantive provisions from the original Decree, and updates them to provide a series of clear deadlines for completing specific requirements of the Decree. Importantly, the provisions were also revised to address additional types of violations observed since the original Decree was signed in 1993. The Amended Decree also includes a comprehensive financial penalty scheme that requires ARC to pay substantial financial penalties if, in the future, ARC fails to comply with FDA laws and regulations aimed at ensuring the safety of the Nation's blood supply.

FDA expects that ARC will concentrate fully on responding to the Agency's concerns about blood safety, and to its responsibilities as a major supplier of the Nation's blood, by implementing the systems required by the Amended Consent Decree. By doing so, ARC will avoid the need for FDA to use financial penalties to force

ARC to improve its operations, to promptly correct problems when they are discovered, and to take action proactively to prevent further violations from occurring.

HOMELAND SECURITY

Question. How many FTEs are currently on detail to the Department of Homeland Security?

Answer. No FDA staff are on detail to the Department of Homeland Security. However, FDA is working extensively with the Department of Homeland Security. We participate in regular interagency meetings with DHS on food security issues and also agriculture security issues that involve the Department of Agriculture.

Question. How long is the average detail to DHS?

Answer. Currently, FDA does not have any employees detailed to the Department of Homeland Security.

Question. What effect, if any, is this having on the workload of employees at FDA? Are there effects on performance?

Answer. The workload of FDA employees and Agency performance levels will not be affected by work being conducted in collaboration with the Department of Homeland Security.

QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

SHELLFISH

Question. Two years ago the GAO reported to Senator Lugar and me about the failure of FDA and the Interstate Shellfish Sanitation Conference to adequately protect consumers from unsafe shellfish. The FDA continues to fund campaigns to educate vulnerable consumers about avoiding raw Gulf Coast shellfish that may be contaminated by deadly *Vibrio vulnificus* bacteria. Those efforts have failed, in part because they failed to inform consumers which shellfish were safer to eat, such as those harvested from colder waters or even Gulf Coast shellfish that were processed to eliminate deadly bacteria. Will you work with the ISSC to ensure that future campaigns will inform all consumers that raw shellfish harvested from cold waters and processed Gulf Coast shellfish are safer than raw, unprocessed Gulf shellfish harvested during warmer months?

Answer. We continue to believe that immuno-compromised individuals should avoid raw animal protein generally, including raw molluscan shellfish. Immuno-compromised persons should only eat molluscan shellfish that are fully cooked because there can be viruses or other pathogens in raw seafood that are potential risks to immuno-compromised persons in addition to *Vibrio vulnificus*. Consequently, FDA education efforts and the current Interstate Shellfish Sanitation Conference, ISSC, education efforts advise immuno-compromised individuals to avoid raw molluscan shellfish.

Moreover, the issue of differentiating some oysters from others is complicated. For example, we have been working with ISSC to increase the number of oysters that have been processed to kill *Vibrio vulnificus*. However, we have been advised by the ISSC that doctors in Texas declined to dispense ISSC education materials that suggested that their immuno-compromised patients could safely eat oysters that had been processed to kill *Vibrio vulnificus*. These doctors insisted that their patients completely avoid raw shellfish. We continue to consider the question of how to be supportive of new technologies, such as post harvest treatments, that kill *Vibrio vulnificus* while at the same time fully protecting immuno-compromised individuals.

METHYLMERCURY

Question. Eight percent of U.S. women of childbearing age have mercury levels in their blood that are high enough to raise concerns. Although the FDA is responsible for ensuring the safety of commercial seafood, it currently conducts little monitoring of mercury levels in seafood and does not focus on the species, like tuna (canned and fresh), that are most popular with consumers. When will FDA establish a comprehensive plan to monitor mercury levels in a wide variety of fish, especially popular species? Does the agency have the resources to test mercury levels in a statistically significant number of tuna and other popular species?

Answer. FDA is conducting a study to measure mercury levels in a variety of 12 different domestic and imported commercial fish. This study is designed to augment the current data set FDA has on mercury levels in fish. Most of FDA's monitoring of methylmercury in commercial seafood has been undertaken as part of the Total Diet Study. The Total Diet Study, sometimes called the Market Basket Study, is an on-going FDA program that determines levels of various pesticide residues, contami-

nants, including methylmercury, and nutrients in foods. The purpose of the study is to estimate the intake of these substances in representative diets of specific age-sex groups in the United States to determine potentially unsafe dietary conditions. To accomplish this goal, FDA purchases foods from supermarkets or grocery stores four times per year, one from each of four geographic regions of the country. The most frequently consumed foods are collected based on food consumption data. Therefore, those fish most frequently consumed are those that are tested.

LISTERIA MONOCYTOGENES

Question. *Listeria monocytogenes* causes 2,500 illnesses and 500 deaths each year, according to the Centers for Disease Control and Prevention. More than 3 years ago, FDA committed to amend its regulations to better protect consumers from *Listeria* in smoked seafood, fresh cheeses, and other FDA-regulated ready-to-eat foods. When will you issue a proposed rule to require *Listeria* testing in facilities that produce ready-to-eat foods? Do you have the resources to expedite this rulemaking?

Answer. *Listeria monocytogenes*, LM, a harmful bacterium that can be found in a variety of foods, causes an estimated 2,500 illnesses and 500 deaths in the United States each year. In pregnant women, LM-caused illness can result in miscarriage, fetal death, or severe illness in or death of a newborn infant.

The Department of Health and Human Services and the U.S. Department of Agriculture have reviewed ongoing LM prevention and control activities and developed a joint action plan in 2001, which includes immediate, short-term, and long-term activities targeted at the serious problem of LM-caused illness. The Plan can be found at the following internet address, <http://www.foodsafety.gov/dms/lmriplan.html>.

The action plan is a multi-pronged collaborative effort to decrease the number of cases of human listeriosis. The plan takes into consideration the results of the DHHS and USDA draft risk assessment of foodborne LM in ready-to-eat foods, which was published in January 2001 along with the draft LM action plan.

FDA plans to issue the final risk assessment and model during the summer of 2003, and the draft LM action plan will be updated accordingly based on this new information. Some of the on-going items include expanding PulseNet to enhance consumer and health care provider information and enhance disease surveillance and outbreak response. Some of the items being considered for the future include continuing education efforts, issuing draft FDA guidance for food processors, re-directing regulatory strategies, working with other Federal agencies on safety-based date labeling and coordinating research activities on the development of better methods of detection and quantification of LM.

Following the publication of the final LM Risk Assessment, we will determine where we need to focus our efforts to protect the public health.

QUESTIONS SUBMITTED BY SENATOR TIM JOHNSON

TISSUE REGULATIONS

Question. I understand that FDA has delayed regulation of the human tissue transplant market for more than 6 years, even though the agency acknowledges that the use of infected tissues poses a serious threat to public health. During a recent Governmental Affairs hearing, the FDA Director of the Center for Biologics Evaluation and Research said that FDA will adopt new rules for tissue banks, but did not indicate when. While the implementation of such regulations continues to be delayed, people are dying as a result of receiving contaminated tissues Commissioner. What I would like to know is, what exactly is your time line for rolling out regulations for the tissue transplant industry?

Answer. FDA has had regulations in place for some human tissues since 1993. These regulations require tissue establishments to test human tissue donors for HIV-1, HIV-2, hepatitis B, and hepatitis C; prepare and follow written procedures for disease testing, assessing relevant medical records, and identifying quarantined tissue; prepare, validate and follow written procedures for prevention of infectious disease contamination or cross-contamination by tissue during processing; and, maintain records. The regulations also authorize FDA to inspect tissue establishments, to quarantine imported human tissue, and to require retention, recall, and/or destruction of violative tissue. FDA considers these rules to be an interim measure, until FDA finalizes the more comprehensive regulatory scheme developed in FDA's tissue action plan.

Implementation of the tissue action plan is a top priority for the Agency at this time. We are in the process of finalizing a proposal for review and clearance by the Administration. Though we do not have a precise target date for publication of the

final rules, you can be sure that it is a top priority for Dr. McClellan and Dr. Goodman.

MEDICAL DEVICE USER FEES

Question. The MDUFMA user fee agreement was designed to create a stable and sufficient funding base for the rapidly expanding portfolio of increasingly complex devices that CDRH must regulate and approve. As Chairman Bennett pointed out at the hearing, substituting user fee money for budget money essentially amounts to a tax increase on innovation. If you combine \$15,150,000 in user fees to a \$6,000,000 drop in the fiscal year 2004 base funding for CDRH proposed by the Administration, doesn't the overall CDRH budget increase by a total of only \$9,150,000 in the Administration's proposed fiscal year 2004 budget? Isn't this the type of budget gimmick that the user fee trigger was designed to avoid? Why does your budget request prioritize millions of dollars of discretionary spending over the requirements of the MDUFMA law?

Answer. One of the provisions of MDUFMA requires that the funds from fees must be in addition to an appropriation amount that is as great as the amount FDA spent on the device review process from appropriations in fiscal year 2002—the year before MDUFMA went into effect—adjusted for inflation. This provision is meant to ensure that appropriated resources available for device review are increased for inflation each year, and that the funding from fees is over and above a set level of appropriations, after adjustment for inflation. We are committed to working within the Administration and with Congress to ensure that the intent of MDUFMA is realized. The reductions for the Device and Radiological Health program reflect management savings and IT consolidation and should not impact the resources directly devoted to the review process. User fee collections under MDUFMA are not considered an offset for this program. They are used exclusively for the review of new devices and related costs. FDA supports the goals of MDUFMA, and is committed to making the medical device user fee program a success.

Question. If Congress does not appropriate the remainder of the \$45 million MDUFMA target for CDRH budget, the user fee program will end and FDA will face the loss of up to \$35 million per year in user fee money. This would create a dramatic revenue loss for CDRH and FDA, and cause patients to wait longer for the approval of new devices. What mechanisms does FDA have in place to assure that this will not happen?

Answer. The agency looks forward to working with Congress and industry to ensure the device user fee program is successful. FDA is committed to meeting the performance goals, as stated in the goals letter. We have already begun discussions within the Administration to find ways to fund this program appropriately in fiscal year 2005 and beyond to ensure that this important program does not sunset. FDA is committed to the goals of the Medical Device User Fee program and we are committed to finding a way to make the MDUFMA program work, to make it sustainable, make it permanent, and avoid having the trigger kick in because we are meeting our performance goals.

GENERIC DRUGS EDUCATION

Question. In fiscal year 2002, this committee appropriated \$250,000 for the Office of Generic Drugs to do outreach and education on the safety and efficacy of generic drugs. What is the status of these activities at this point and where do you hope to go in the future in this regard?

Answer. FDA has embarked on a multimedia educational program to build consumer and health-care professionals' confidence in the safety and effectiveness of generic drugs. The primary audience for the educational program has been consumers. The messages being conveyed are that generic drugs are reviewed and approved by the FDA, and that they are safe, effective and manufactured under FDA's quality standards. FDA has developed and distributed three print public service announcements, brochures, newspaper articles, and an FDA Consumer Magazine article.

Congress recommended an additional \$150,000 for this program in the fiscal year 2003 appropriation and FDA expects to spend this amount by the end of the fiscal year. With these funds FDA has also pursued the possibility of expanding the audience for this campaign by conducting focus groups for pharmacists and physicians.

In fiscal year 2004, \$400,000 has been proposed to support the generic drug education program for its third year. The work for fiscal year 2004 is building upon plans previously established to further communicate a standard message for the public. These funds will be used to continue support for FDA's multimedia educational program to build consumer and health-care professionals' confidence in the safety and effectiveness of generic drugs. FDA will continue to convey the message

that generic drugs are reviewed and approved by the Agency, and they are safe, effective and manufactured under the Agency's quality standards. The campaigns will continue to include the distribution of print public service announcements, brochures, newspaper articles, and FDA Consumer Magazine articles. In addition, funds will be used to take information from focus groups for pharmacists and physicians to develop educational programs for those professionals.

DRUG COUNTERFEITING

Question. I know that you are concerned about the quality and safety of prescription drugs re-imported from Canada, yet as you know, we are learning more and more about the problem of drug counterfeiting inside U.S. borders. Pharmacists are worried because some of the fakes are so good it is hard to tell what is counterfeit and what is real. Part of the problem appears to stem from the quick expansion of the secondary wholesaler industry. I was shocked to hear in a recent article on this issue that a drug might be bought and sold up to 6 or more times before reaching the consumer. Most wholesalers are doing a good job, but counterfeiting by a few bad eggs is becoming an increasing problem, which really concerns me. What is FDA doing to better monitor drug counterfeiting and diversion within the United States? What specific plans does FDA have to increase regulation of the secondary drug wholesaler market?

Answer. The overall quality of drug products that consumers purchase from U.S. pharmacies remains high. The American public can be confident that these medications are safe and effective. FDA cannot, however, offer the same assurance to the public about the safety and quality of drugs purchased by consumers from foreign sources.

FDA takes very seriously any allegations or information regarding the counterfeiting or adulteration of drug products. As the drug manufacturing and distribution system has become more global in nature, the challenge of protecting against counterfeit, adulterated or substandard drugs has become more difficult. The Agency is concerned about a spate of drug counterfeiting and tampering cases that have occurred in recent months, and is aggressively pursuing these types of enforcement cases.

FDA is working on a number of fronts to address the influx of unapproved and counterfeit prescription drugs coming into the United States from foreign sources. These efforts include: educating the public to the significant potential safety issues presented by the purchase of drugs from foreign countries; working with professional groups to disseminate FDA's message on the potential dangers of Internet drug sales; partnering with state governments and other Federal agencies to develop more effective enforcement strategies; and, undertaking monitoring of and enforcement against Internet pharmacy outlets that present the most significant concerns. Recent high-profile regulatory actions send a strong message that FDA is actively working to take strong steps to protect the public from conduct that threatens the U.S. drug supply.

The Agency has responded to the challenge of counterfeit drugs and diversion in the secondary market by employing a risk-based enforcement strategy to deploy our existing enforcement resources in the face of multiple priorities, including homeland security, food safety and counterfeit drugs. As an example, the Agency utilizes Import Alerts to identify particular shipments that may pose significant potential risk to public health. In the case of the increased volume of unapproved sildenafil, also known as generic Viagra, arriving at the Miami facility, the Agency has issued an Import Alert to instruct field personnel to work with the BCBP to detain all such shipments from specific manufacturers, distributors and countries of origin.

FDA is also developing a new initiative on counterfeit drugs which includes creating an internal task force to explore the use of modern technologies and other measures such as partnering with State and Federal law enforcement agencies for stronger enforcement that will make it more difficult for counterfeit drugs to get distributed with—or deliberately substituted for—safe and effective drugs.

FDA's Office of Criminal Investigations, or OCI, works with state and other Federal investigative agencies and prosecutors to uncover violations of the FD&C Act and other laws with respect to unapproved, misbranded, illegally imported, or otherwise unsafe or substandard drug products.

OCI has opened 73 counterfeit drug cases since October 1996. Investigations have so far netted 44 arrests and 27 convictions. Fines and/or restitution have been imposed in excess of \$250,000. FDA has seen a gradual, but troubling, increase in the incidence of finished dosage form counterfeit activity. Much of this activity has targeted high volume, high cost drugs where counterfeiters attempt to obtain the highest return possible in a short time period. Many of these drugs are used for treating

cancer and AIDS patients. The public perception of a more dramatic increase in counterfeit drug activity stems from the fact that the latest several counterfeits have appeared in the wholesale market and received wider distribution than has been the case historically.

On April 22, 2003, the Pharmaceutical Research and Manufacturers of America, or PhRMA, which represents the country's major research-based pharmaceutical and biotechnology companies, announced the adoption of a voluntary program to report suspected instances of drug counterfeiting to FDA. The information provided by PhRMA members under this program will be helpful to the Agency because it will assist FDA in carrying out its responsibilities to protect the safety and integrity of the Nation's drug supply by enhancing the Agency's ability to detect quickly and remove counterfeit drugs from the marketplace.

Under this program, PhRMA member companies have agreed to notify FDA's OCI within 5 working days of determining that there is a reasonable basis to believe that a product has been counterfeited. The program also applies to counterfeits discovered in foreign countries if there is clear evidence that the counterfeits are intended for distribution in the U.S. Drug manufacturers already conduct their own investigations of suspected distribution of counterfeit drugs. This formal collaborative agreement will strengthen FDA's ability to assure the safety and effectiveness of drugs used by U.S. Consumers. The reporting program went into effect on May 1, 2003.

ADDITIONAL SUBMITTED STATEMENT

CLERK'S NOTE.—The Subcommittee has received a statement from the Medical Device Manufacturers Association which will be inserted in the record at this point.]

PREPARED STATEMENT OF THE MEDICAL DEVICE MANUFACTURERS ASSOCIATION

We would like to thank the Subcommittee for the opportunity to submit comments on the subject of medical device user fees. The Medical Device Manufacturers Association (MDMA) is a national trade association based in Washington, D.C. that represents and serves the innovators and entrepreneurs in the medical device industry. The thousands of innovative companies that MDMA represents, including over 160 dues paying members, consist of manufacturers of medical devices, diagnostic products, and health care information systems. MDMA seeks to improve the quality of patient care by encouraging the development of new medical technology and fostering the availability of innovative products in the marketplace.

The device user fee program has been an area deep concern for our members since the Medical Device User Fee and Modernization Act (MDUFMA, Public Law 107-250) was signed into law in October 2002. As you know, we are philosophically opposed to the idea of device user fees; however, we intend to meet our obligations under the agreement negotiated in MDUFMA.

MDUFMA was designed to provide an enhanced and expeditious review process for medical devices by imposing fees on premarket approval applications, supplements, and 510(k) submissions reviewed by the Center for Devices and Radiological Health (CDRH) at the Food and Drug Administration (FDA). The law provides for shared responsibility between manufacturers and the government to fund the program. Over 5 years, the manufacturers' fees and Congressional appropriations would provide CDRH with \$225 million in additional resources in exchange for strong new review performance goals for the agency. The performance goals set out in the letter accompanying the bill are conditioned on FDA receiving money from both industry and Congress. Thus, without adequate Congressional support, manufacturers will not see the benefits from their user fee payments.

While MDUFMA ensures industry funding of \$81 million over 3 years, with additional industry funds in later years if the program continues, the performance goals agreed to in MDUFMA are conditioned on FDA receiving an additional \$45 million in federal appropriations during the first 3 years of the program (fiscal years 2003-2005). If Congress fails to appropriate these funds, the program will sunset in fiscal year 2006, without industry receiving the improved review times agreed to in MDUFMA. Without the additional Congressional appropriations, device manufacturers fear that their user fee contributions over the next 3 years will not have the desired effect of more expeditious reviews.

To fully fund the FDA and allow them to meet the performance goals included in MDUFMA, Congress would need to appropriate \$205,720,000 for CDRH for each of fiscal years 2003-2005, with inflationary adjustments. So far, Congress has not

provided the needed support. In fiscal year 2003, the appropriation for CDRH was \$194,720,000, which represents only a \$4 million increase from the fiscal year 2002 figure—not even enough to cover salary increases—and leaves CDRH \$11 million short of the fiscal year 2003 target of \$205,720,000. This shortfall needs to be made up in the next 2 years to avoid the program's sunset. If Congress maintains the fiscal year 2003 level in fiscal year 2004, the funding level will be \$22 million in deficit.

Potentially making matters even worse, the President's fiscal year 2004 budget request for CDRH is \$184,543,000, more than a \$10 million cut from the actual fiscal year 2003 appropriation. Cutting the budget by this much would result in a \$32 million shortfall leading up to fiscal year 2005, not including inflationary adjustments. Potentially there would be a need for a \$50 million plus appropriation in fiscal year 2005 in order to maintain the user fee program.

Recent statistics show that the FDA device reviews are still taking far too long. The average approval time for premarket applications is 364 days—more than twice the statutory target of 180 days. In addition, approval times for 510(k)s are on the rise, up to a 96-day average. MDUFMA performance goals would require FDA to approve 90 percent of PMAs within 320 days by 2007. This will not be attainable unless FDA receives the additional Congressional appropriations authorized in MDUFMA. Furthermore, a massive third year appropriation would not be a reasonable solution. FDA needs this money this year so that it will have the ability to hire the staff needed to meet the performance goals.

We recognize that Congress must make difficult decisions among many competing spending priorities. However, we encourage Members to consider the importance of supporting faster FDA reviews of innovative devices. Many of these devices present significant scientific advancements that need to be brought to the health care market as quickly as possible. Diagnostic products and other innovative technologies for use by public health workers are especially timely, though these technological breakthroughs are of little use if the FDA cannot review them in a timely fashion. Bottling up new devices in the FDA review pipeline only serves to harm patients who could benefit from access to the latest treatments and devices.

Congress should be committed to appropriating adequate resources to ensure that new products can get to the market as quickly as possible. MDMA is working to ensure that Congress appropriates the money now so that patients will have access to innovative products faster through improved review times. We strongly encourage the Subcommittee to appropriate the funding amounts established in MDUFMA so that the FDA will be able to achieve the performance targets that device manufacturers are currently paying for.

Without adequate Congressional support, the intent of MDUFMA will fail completely. Now that industry is "paying in" in the form of a user fee, manufacturers should receive something in return. The industry's \$81 million contribution in fees over the next 3 years should result in receiving the benefit of improved performance goals. However, if Congress does not meet its obligations as agreed to in MDUFMA, MDMA will not support future user fee proposals.

MDMA thanks the Subcommittee for the opportunity to present our views on this matter, and we look forward to working with you in the future to continue to improve the FDA to ensure that patients have access to the latest in medical technology.

CONCLUSION OF HEARINGS

Dr. McCLELLAN. I agree with that.

Senator BENNETT. Thank you very much.

Dr. McCLELLAN. Thank you, Mr. Chairman.

Senator BENNETT. The subcommittee is recessed.

[Whereupon, at 12:13 p.m., Thursday, May 22, the hearings were concluded, and the subcommittee was recessed, to reconvene subject to the call of the Chair.]

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2004

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

NONDEPARTMENTAL WITNESSES

[The following testimonies were received by the Subcommittee on Agriculture, Rural Development, and Related Agencies for inclusion in the record. The submitted materials relate to the fiscal year 2004 budget request for programs within the subcommittee's jurisdiction.]

PREPARED STATEMENT OF THE AD HOC COALITION

Mr. Chairman, Members of the Subcommittee, this statement is respectfully submitted on behalf of the ad hoc coalition¹ composed of the organizations listed below. The coalition supports sustained funding for Title I of Public Law 480 at a baseline level that will ensure the continued viability of the program as a long-term food aid and market development initiative for American agriculture.

This statement is submitted at a critical time when anticipated worldwide requirements for American food assistance are extremely high, and are likely to grow substantially higher in the coming weeks and months. At least 30 million people are at risk of starvation in Southern and Eastern Africa through the end of September of this year. In the immediate aftermath of hostilities in Iraq, the United States could be required to replace the commodities previously distributed to 23 million people under the oil for food program. In his State of the Union Address, President Bush celebrated our commitment to provide one-half of worldwide food aid needs on a sustained basis. Unfortunately, there is a strong likelihood that the United States will be unable to meet this commitment without additional resources from Congress, both for the remainder of fiscal year 2003 and through fiscal year 2004. In the statement that follows, our coalition supports funding levels for title I and other food aid programs that are needed to fulfill our moral obligations and promote the long-term interests of American agriculture.

GUIDING PRINCIPLES OF FOOD AID POLICY

Mr. Chairman, the coalition respectfully suggests that American food assistance policy is well-established and founded on certain guiding principles, including the following:

—Meeting America's humanitarian obligation to sustain food assistance programs, U.S. participation in which should constitute more than 50 percent of all food aid worldwide.

¹The ad hoc coalition is composed of American Maritime Congress, American Soybean Association, Liberty Maritime Corporation, Maritime Institute for Research and Industrial Development, National Association of Wheat Growers, National Barley Growers Association, National Corn Growers Association, National Council of Farmer Cooperatives, National Sunflower Association, Sealift, Inc., TECO Transport Corporation, Transportation Institute, USA Rice Federation, U.S. Canola Association, U.S. Wheat Associates, Inc., Wheat Export Trade Education Committee.

- Employing food assistance programs to promote long-term market development for American agriculture on commercial terms.
- Employing food assistance programs to promote respect worldwide for American values and our economic system, thereby enhancing goodwill toward America among disadvantaged populations that are breeding grounds for terrorism.

CURRENT FOOD AID PROGRAM LEVELS

Mr. Chairman, these principles of American food aid policy have enjoyed broad, bipartisan support in Congress for many decades. Our commitment to serve them has made the United States the world's leader in providing food assistance, and has strengthened American agriculture by supporting the development of long-term markets for U.S. products. In recent years, however, food aid shipments have declined markedly. In fiscal year 2000, the United States programmed more than 6.7 million tons of food aid to 95 countries, consisting of 35 different commodities with a commodity value of \$1.4 billion. In fiscal year 2001, our food aid program declined to 6.36 million tons of assistance to 45 countries, valued at \$1.28 billion. The decline continued in fiscal year 2002: In the fiscal year ending September 30, 2002, the United States programmed 4.67 million tons of food aid for shipment to 84 countries. This assistance consisted of 26 different products, with a commodity value of \$1.092 billion.

The administration's preliminary plan for the current fiscal year provided for less than 3.85 million tons of food aid. In the Consolidated Appropriations Resolution, 2003, Congress appropriated an additional \$250 million for Public Law 480 Title II grants, and provided that such funding would remain available until the end of fiscal year 2004. Even with this emergency supplemental funding, the total tonnage of commodities shipped in the current fiscal year likely will be less than in fiscal year 2002. This would represent the third straight year of reduced availability of critically needed U.S. food aid.

THE ADMINISTRATION'S BUDGET FOR FISCAL YEAR 2004

For fiscal year 2004, the administration has requested appropriations for the Food for Peace Title I program which would support \$132 million in direct loans. This represents a significant reduction from that approved by Congress for the fiscal year 2003 program, which received subsidy budget authority sufficient to support a direct loan program of \$154.7 million. The combined request for the Food for Peace Titles I and II would provide funding to support a program level of 3.1 million metric tons of grain equivalent—a reduction of 200,000 tons from the program level established for fiscal year 2003 (which includes \$135 million in carryover funding from prior years). Also in fiscal year 2004, the administration's USDA Budget Summary notes that the Bill Emerson Humanitarian Trust currently holds approximately 2.0 million metric tons of wheat, of which up to 500,000 tons would be available to support Title II donations in response to unanticipated needs for emergency assistance. The Title II program, as noted above, will also be supplemented by \$250 million in emergency funding provided in the 2003 omnibus appropriations bill, to the extent that any such funding remains available for obligation following the emergency shipments required for the balance of the current fiscal year.

As required by the 2002 Farm Bill, the administration has announced that it will meet the annual minimum tonnage level of 400,000 metric tons for that portion of the Food for Progress program carried out with CCC funding. Under authority provided by section 416(b) of the Agricultural Act of 1949, the administration estimates that surplus nonfat dry milk will be made available for donation in fiscal year 2004, with the value of assistance and associated costs estimated at \$118 million. This represents another sharp reduction in donations under the 416(b) program, which is CCC-funded. Finally, the McGovern-Dole International Food for Education and Child Nutrition Program ("IFEP"), under terms of the 2002 Farm Bill, will be funded in fiscal year 2004 by direct appropriations. The administration's request is \$50 million, which represents a 50 percent reduction in the CCC-funded program level for fiscal year 2003.

RESTORATION OF FOOD AID PROGRAMMING

Mr. Chairman, the coalition urges that food aid be restored to sustainable levels in the range of 6.0 million to 7.0 million metric tons of grain equivalent in each fiscal year, beginning in fiscal year 2004. In fiscal year 2004, this would require an increase in Title I baseline funding, along with greater use of existing authorities of the Commodity Credit Corporation, as recommended by the Conference on the Consolidated Appropriations Resolution, 2003.

The baseline for the Food for Peace Title II program has been increased from \$850 million in fiscal year 2002 to \$1.185 billion in fiscal year 2004. The coalition commends Congress and the administration for this initiative, which represents an increase of nearly 40 percent in Title II baseline funding. This action underscores the importance of the Title II donation program, and the coalition strongly supports the administration's Title II request.

The Title I program, however, must also be restored to reasonable levels if the United States is to take full advantage of the unique market-development potential of this historic initiative. The special features of the Title I program are important to American agriculture and remain a significant element of U.S. food aid policy, as discussed below.

ADVANTAGES OF THE TITLE I PROGRAM

Mr. Chairman, the Title I program offers countries long-term loans and concessional payment terms for the purchase of U.S. agricultural commodities. As such, Title I has advantages over other food aid programs.

- Resource Efficient.*—Because Title I is a concessional loan program, appropriations required to support Title I, under the terms of the Federal Credit Reform Act of 1990, cover only the subsidy cost, and not the full commodity value. In the President's budget for fiscal year 2004, the subsidy cost of the Title I program is established for the fiscal year at 78.90 percent. Thus, under the Title I program, Congress ships \$1.00 worth of U.S. agricultural products at an appropriated cost of about 79 cents. Moreover, Title I currently recovers more dollars for the U.S. Treasury in loan repayments than it costs in annual outlays.
- GATT-Legal.*—The Title I program promotes market development while remaining fully sanctioned by international trade organizations. The high degree of concessionality of Title I has resulted in its classification as a donation program for GATT purposes.
- Commercial Sales Stepping Stone.*—The Title I program is designed to operate in markets which are neither poor enough to warrant donations nor rich enough to purchase commodities on commercial terms. Over the decades, numerous countries have graduated from Title I partners to commercial markets for a broad range of U.S. agricultural products. In fact, 43 of the top 50 consumer nations of American agricultural products were once recipients of U.S. foreign aid in some form. Tomorrow's commercial commodity markets are today's Title I partners.

CONCLUSIONS AND RECOMMENDATIONS

Mr. Chairman, the coalition is committed to maintaining U.S. food assistance programs at responsible levels in order to meet humanitarian needs and promote the interests of American agriculture. Our recommendation is to maintain annual shipments of food assistance at program levels of between 6.0 million and 7.0 million metric tons of grain equivalent. This can be accomplished, as in the past, with a blend of programs supported by direct appropriations and by CCC program authorities.

The administration proposes funding for Title I which would support a direct loan level of \$132 million. This is well below the appropriation for fiscal year 2003, which supports new direct loans of \$154.7 million. Our coalition opposes the continued erosion of the Title I program, and strongly believes, as demonstrated above, that Title I funding should be restored to levels which will ensure the program's long-term viability as a flexible and significant policy initiative.

The coalition recommends the following:

- Title I program levels should be increased in fiscal year 2004, and responsibly increased again in succeeding years, so that the unique advantages of the program, highlighted above, are not lost.
- The fiscal year 2003 program level of \$100 million for the McGovern-Dole IFEP should be maintained in fiscal year 2004. This action, together with full funding of the administration's Title II request, would help ensure that the United States fulfills its moral obligation to provide not less than one-half of the world's food aid in fiscal year 2004.
- In committee report language, the House Appropriations Committee should restate its directive to the administration to make greater use of existing CCC authorities to expand food aid to regions in critical need.

Mr. Chairman, American farmers require strong commercial markets to maintain their share of world agricultural trade. These markets are initially developed and often revitalized by Title I concessional sales. This program, which has been a bul-

wark of American food aid policy since the days of the Marshall Plan, deserves the strong support of your subcommittee, the Congress and the entire nation.

The Title I program delivers more food assistance per dollar of investment than any other program. The Title I program, moreover, is fully consistent with the administration's position that aid to developing countries be tied to their adoption of reforms and policies that make development both lasting and effective.

With strong Congressional support, the Food for Peace Title I program will continue to promote American commercial interests and humanitarian values. The funding of Title I, accordingly, should be increased to ensure that this historic program is restored to its proper place in U.S. food assistance policy.

PREPARED STATEMENT OF THE ADVANCED MEDICAL TECHNOLOGY ASSOCIATION

The Advanced Medical Technology Association (AdvaMed) is pleased to provide this testimony on behalf of our member companies and the patients and health care systems we serve around the world. AdvaMed is the largest medical technology trade association in the world, representing more than 1,100 medical device, diagnostic products, and health information systems manufacturers of all sizes. AdvaMed member firms provide nearly 90 percent of the \$75 billion of health care technology products purchased annually in the U.S. and nearly 70 percent of the \$170 billion worldwide market in medical technologies.

Summary

America is on the cusp of an unprecedented revolution in medical technology driven by major public and private investments in pure research and computer technology, as well as a multi-billion dollar commitment from Congress to double medical research at NIH and unravel the human genome. At the same time, the growing number and complexity of new medical devices throughout the last decade, coupled with a drop in the absolute number of reviewers at FDA's Center for Devices and Radiological Health (CDRH) has resulted in severe budget strain and increasing delays in approval of new medical technologies at CDRH.

Late last year, Congress unanimously passed H.R. 5651, The Medical Device User Fee and Modernization Act (MDUFMA) to give CDRH additional resources and expertise to help provide timely patient access to new medical technologies. Over the next 5 years, MDUFMA requires the device industry to contribute \$150 million in user fees to expand resources and expertise at FDA.

Continuation of the user fee program is contingent upon Congress providing an increase of \$15 million over the CDRH base budget (\$205,720,000 adjusted for inflation) in each of the first 3 years of this agreement. This provision ensures user-fee funds do not displace congressional appropriations, and allows CDRH to upgrade information technology and other infrastructure necessary to carry-out a user-fee program and to meet the modest performance goals.

Congress provided only \$4 million of the \$15 million appropriations target in fiscal year 2003. If MDUFMA's cumulative funding requirement is not reached, the program will sunset at the end of fiscal year 2005 and an important source of new resources for the agency could be lost. Accordingly, we request that you include \$27.3 million in additional appropriations to help meet the cumulative funding goal of the user fee legislation. The total CDRH funding for fiscal year 2004 that we request (including industry-paid user fees) is \$237,218,720.

Passage of the Medical Device User Fee and Modernization Act (MDUFMA)

FDA's Center for Devices and Radiological Health has faced increasing challenges as a result of dwindling resources and accelerating innovation. Staff levels have dropped by eight percent since 1995. The average total review time for premarket approval applications has risen to 411 days, more than twice the statutory review time. A science panel warned in a recent report that increasingly rapid advances in technology "threaten to overwhelm" CDRH's limited resources.

H.R. 5651 addresses these challenges by establishing user fees for premarket submissions and mandating regulatory reforms to improve the timeliness of FDA reviews. The bill also includes provisions to strengthen FDA regulation of reprocessed disposable devices.

The user fee provisions of the bill would establish fees for premarket approval applications, supplements and 510(k) submissions. These fees, combined with funds from increased appropriations, will provide FDA's device program with approximately \$225 million in additional resources over the next 5 years. A letter agreement accompanying the bill sets strong performance goals for the agency.

Key regulatory reforms in the bill will:

- Eliminate bureaucratic delays in review of combination products by establishing a new office to oversee these technologies;
- Authorize FDA to accredit third-party inspectors to audit medical technology companies with a good track record of compliance;
- Encourage timely, thorough premarket reviews by codifying the PMA “modular review” program and extending the third-party review program for 510(k)s;
- Permit electronic device labeling and electronic facility registration.

From bioengineered organs and implantable artificial hearts to gene-based diagnostic tests and molecular imaging systems, America’s medical technology companies are developing thousands of promising new tests and treatments. AdvaMed believes full implementation of MDUFMA will help ensure these advances reach the millions of patients who need them.

New FDA Statistics Highlight Pressing Need for MDUFMA Implementation

The fiscal year 2002 premarket review statistics released by FDA’s Office of Device Evaluation (ODE) illustrate the ongoing challenges facing FDA’s device program and the need for rapid implementation of MDUFMA.

Staffers in FDA’s device program deserve much credit for working to keep pace with rapidly advancing medical technology. In 2002, they acted on many life-saving and life-improving advances, including an improved smallpox vaccine delivery system, cardiac resynchronization therapy for heart failure, stents to improve the treatment of neck aneurysms and intracranial stroke, and implantable defibrillators for a new indication that can save the lives of thousands more patients.

Statistics in the ODE annual report, however, show that FDA still is taking far too long to act on many of these important innovations. For example, the average total FDA review time at the 90th percentile of premarket approval applications (which typically are required for more advanced medical technologies) was 405 days in 1999 (the most recent year with complete data). Under the user fee provisions of H.R. 5651, FDA will have to approve 90 percent of PMAs within 320 days by 2007.

Review times for 510(k)s also are on the rise, according to the report. Total FDA review time for the 90th percentile of 510(k)s rose to 164 days in 2001. The statutory review time for 510(k)s is 90 days.

AdvaMed also is concerned that, as in 2001, ODE saw a net loss in scientific and medical personnel last year, losing three scientific reviewers and six medical officers. As FDA implements H.R. 5651, it will be important for it to make the greatest use possible of external sources of scientific expertise in the review process. AdvaMed is working closely with FDA and Congress to ensure that MDUFMA is implemented as quickly and effectively as possible. This will enable FDA to report substantially improved premarket review times in the coming years.

Conclusion

AdvaMed urges this Subcommittee to work with the FDA to fully implement MDUFMA as soon as possible to ready FDA for the coming era of biomedical innovation and ensure that patients enjoy timely access to the coming dramatic breakthroughs in medicine. AdvaMed thanks the committee for this opportunity to present our views and we look forward to working with you to help prepare FDA for the coming revolution in medical technology. AdvaMed and the industry stand ready to meet its part of this bargain. The industry has agreed to provide \$150 million in industry funds to upgrade FDA’s ability to quickly evaluate new medical products. The agreement reflects the culmination of a 10-year hard-fought debate within the device industry about whether to proceed with a user fee approach to improving review times at the FDA. This program terminates in 2005 if the increased funding for CDRH does not materialize. Our membership is counting on the Federal government to meet its part of the bargain by providing the additional funding called for in the user fee agreement. If we fail here, we will have lost for the foreseeable future the many benefits that AdvaMed believes can come from a user fee program.

PREPARED STATEMENT OF THE ALACHUA COUNTY BOARD OF COUNTY COMMISSIONERS

Thank you for allowing the Alachua County Board of County Commissioners to submit this written testimony to your Subcommittee regarding a comprehensive, multi-year project to provide critical utility services to underserved communities located in Alachua County, Florida. For fiscal year 2004, the County is seeking \$5 million in Federal funds from the Rural Development Administration to aid with a county-wide partnership that includes the enhancement, expansion and refurbish-

ment of potable water and central wastewater systems in and adjacent to seven small municipalities within Alachua County.

Without a safe and reliable source of public utilities, the residents who live in the rural incorporated communities of Alachua County must rely upon the use of inadequate water systems and septic tanks for their utility services. In addition to the health and safety concerns, this lack of a public utility infrastructure serves as a deterrent to these areas' economic revitalization. Historically, there are numerous health risks associated with malfunctioning septic tanks, including the possible contamination of ground water that could lead to the development of diseases within the area.

Alachua County, Florida is located in the north-central portion of the State with a population of approximately 225,000. There are nine separate municipal governments within Alachua County. According to a recent Census Bureau estimate, almost 20 percent of all residents in the county are living below the Federal poverty level. Gainesville, the county seat, is the largest city with approximately half of the county's population and is also home of the prestigious University of Florida, the largest university in the Southeastern United States. The remaining eight municipalities are considered rural farm communities with populations less than 6,000 residents. For seven of these communities, efforts to provide adequate potable water and wastewater utility services produce funding dilemmas for the municipal governments. Because of the significant utility infrastructure facility costs required, coupled with relatively low densities of potential customers, total debt financing of the utility systems results in cost-prohibitive rates for end users. Without the infusion of external grant dollars, these communities face the potential of health and environmental risks associated with inadequate potable water delivery systems and degrading septic systems, as well as stagnated economic growth.

The communities of Alachua, Archer, High Springs, Hawthorne, Micanopy, Newberry, and Waldo are all currently struggling with this issue. In an effort to avoid the problems seen throughout Florida associated with urban sprawl, Alachua County's growth management goals seek to direct growth within the existing communities. However, unless solutions for the utility infrastructure funding predicament can be found, the small communities will be unable to adequately provide for growing populations.

In conclusion, Alachua County seeks Federal dollars for this comprehensive, multi-year partnership designed to assist the small communities' efforts to enhance, expand and refurbish existing utility systems. Current aggregated estimates for this countywide, multi-year initiative equal approximately \$25 million. A Federal appropriation of \$5 million in fiscal year 2004 will allow for the most critical projects to commence, while additional sources of funding are sought at the State and local level.

We would like to take this opportunity to thank the Subcommittee for including language in the House fiscal year 2003 Agriculture Appropriations bill on behalf of this project and want to assure you that we are submitting a proposal to the Department of Agriculture pursuant to that language. However, the County is in immediate need of \$5 million in dedicated Federal funding in order to help protect the health and welfare of these low-income communities and to spur their respective economic growth.

Thank you for your consideration.

PREPARED STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION

The American Farm Bureau Federation supports full funding for the Farm Security and Rural Investment Act of 2002 (FSRIA). We oppose any reduction or redirection of funds from any farm bill title or program.

Unfavorable weather conditions, uncertainties involved with international trade, the value of the dollar and record high input costs have converged to produce a turbulent and difficult time for agriculture. The industry has suffered through several consecutive years of historic low market prices and weather disasters. The new farm law helps address problems faced by American farmers and ranchers and it provides unprecedented funds for our nation's conservation needs. Changes in farm bill programs would be devastating not only to farmers and ranchers but the rural economy as well. Consequently, Farm Bureau strongly encourages you to fully fund FSRIA in the fiscal year 2004 appropriations process.

Full funding of farm bill commodity programs is essential. It is imperative that counter-cyclical payment rates, loan rates and direct payments be preserved as adopted in FSRIA. We are adamantly opposed to any changes in the current payment limitations of \$40,000 for direct payments, \$65,000 for counter-cyclical pay-

ments and \$75,000 for loan deficiency payments (LDP) and marketing loan gains (MLG), including a separate payment limitation for the peanut program. Current rules on spouses, three-entities, generic certificates and actively engaged requirements should be retained.

Farm bill conservation programs should be fully funded. Full implementation of the Environmental Quality Incentive Program (EQIP) and Conservation Security Program (CSP) is key to assisting agricultural producers in complying with environmental regulations and addressing important conservation issues nationwide. Program funding for technical assistance is essential if conservation programs are to be successful.

FARM BUREAU FISCAL YEAR 2004 APPROPRIATIONS ISSUES

In addition to full farm bill funding, Farm Bureau has identified four USDA program areas for which priority fiscal year 2004 funding is essential. They are:

- programs to expand foreign markets for U.S. agriculture;
- programs to ensure the development and use of biotechnology products;
- programs to promote the use of alternative energy; and
- programs key to the proper implementation of the Food Quality Protection Act (FQPA).

PROGRAMS TO EXPAND FOREIGN MARKETS FOR U.S. AGRICULTURE

Creating new overseas markets and expanding those we have is essential for a healthy agricultural economy. Continued funding of export development programs is fundamental to improving farm income in the short and long term. Farm Bureau recommends maximum funding of all export development programs consistent with our commitments under World Trade Organization rules.

Expanding international trade is also straining the capacity of U.S. agencies to monitor and enforce compliance with the terms of trade agreements including, but not limited to, imported product inspection and verification; imported and domestic pest detection, control and eradication; and negotiation, implementation and enforcement of sanitary and phytosanitary measures. The failure to detect, control and eradicate invasive pests from foreign sources is costing U.S. farmers, ranchers and local governments hundreds of millions of dollars for control and eradication programs, and in lost sales opportunities, annually. Greater effort must be dedicated to the technical capacity of the U.S. to trade.

Animal & Plant Health Inspection Service (APHIS)—Trade Issues Resolution and Management.—Farm Bureau supports \$5 million above the current budget level. As negotiators from other Federal agencies and industry try to open up foreign markets to U.S. exports, they consistently find that other countries are raising pest and disease concerns, real or contrived, to resist allowing American products to enter. Also, officials from other countries often attempt to refuse entry to perfectly healthy American products under the guise of a technicality or flimsy suspicion. Only APHIS can deal with these issues. This requires placing more APHIS officers overseas where they can monitor pest and disease situations, negotiate protocols with other countries, and intervene when foreign officials wrongfully prevent the entry of American exports. It is expensive to station U.S. employees overseas because of the high cost of living in some cities and the high cost of providing security and other services through the State Department. It can cost several hundred thousand dollars to move an employee to a foreign location, and a similar amount to keep them there. A \$5 million increase would allow APHIS to place 20 employees in key locations throughout the world, especially in burgeoning Asia markets.

Animal & Plant Health Inspection Service (APHIS)—Pest Detection.—Farm Bureau supports \$15 million above the current level for pest detection at APHIS. The fiscal year 2003 appropriations made a good start on improving APHIS' woefully under funded plant pest and diseases detection program, increasing it from \$7 million to about \$22 million. However, this pales in comparison to the \$93 million appropriated for animal health monitoring and surveillance. While we all hope that the move to the Department of Homeland Security will not reduce the emphasis on agriculture inspection at the borders, an enhanced domestic pest detection program would offer a degree of insurance. Even with a solid border inspection program, we believe that we are vulnerable to the fast spread of plant pests.

Foreign Agricultural Service (FAS).—Farm Bureau supports an overall increase in funding for the Foreign Agricultural Service's international programs and activities.

GSM Credits.—Farm Bureau supports the full funding of the GSM credit guarantee programs. These important export credit guarantee programs can help make commercial financing available for imports of U.S. food and agricultural products via a deferred payment plan.

Public Law 480.—Farm Bureau supports increased funding for Public Law 480 programs, the primary means by which the United States provides foreign food assistance. The Public Law 480 programs provide humanitarian and public relations benefits, positively impacts market prices and helps develop long-term commercial export markets. Farm Bureau believes that the USDA is best positioned to administer all programs of the Public Law 480.

Market Access Program (MAP) and Foreign Market Development Program (FMD).—Congress should fully fund the MAP and FMD programs as authorized. These programs need the expertise of a fully supported Foreign Agricultural Service that is expanded to cover all existing and potential market posts.

Export Enhancement Program (EEP).—The Farm Security and Rural Investment Act of 2002 authorizes direct export subsidies of U.S. agricultural products through the EEP program through fiscal year 2007 to counter the unfair trading practices of foreign countries. Farm Bureau supports the full funding and use of this program in all countries, and for all commodities, where the U.S. faces unfair competition.

Dairy Export Incentive Programs (DEIP).—Farm Bureau supports full funding and use of the Dairy Export Incentive Program to allow U.S. dairy producers to compete with foreign nations that subsidize their commodity exports.

International Food for Education Program (IFEP).—Farm Bureau supports funding IFEP at \$50 million. The program's demonstration effort, the Global Food for Education program, has yielded substantial information to help the IFEP be an effective platform for delivering both food aid and educational assistance.

PROGRAMS TO ENSURE THE DEVELOPMENT AND USE OF BIOTECHNOLOGY PRODUCTS

Biotechnology is an extremely promising development in agriculture and all reasonable efforts must be undertaken to allow the promise to be realized. Environmental activists and foreign governments are attempting to scare consumers, both here and abroad, into questioning the use new technology. The integrity of the technology is clearly being challenged and the platform of safety upon which the technology is built must be absolutely uncompromised.

USDA must take the lead in biotechnology coordination efforts. It is essential that the Department act in a timely manner to evaluate and move approved products and technologies to the marketplace. USDA should develop a positive national strategy for biotechnology research, development and consumer education.

Animal Plant Health Inspection Service (APHIS).—APHIS plays an important role in overseeing the permit process for products of biotechnology. Funding and personnel are essential for ensuring public confidence in biotechnology. Farm Bureau recommends adding \$6 million of funding to expand APHIS staff in order to implement the current regulatory system and helps ensure the trust of consumers and trading partners. Continuing the current \$2 million appropriation simply will not allow any progress and the industry may suffer irreversible losses.

Codex Alimentarius Commission.—Farm Bureau supports adequate funding for the U.S. CODEX office so that it can adequately represent American interests in this important body, which develops the international food safety standards used as guidance by the World Trade Organization. Increasingly, biotechnology is the focus of CODEX discussions where an ongoing international effort is being led by the European Union to place limits on our ability to export products of biotechnology by incorporating the precautionary principle into the CODEX general principles or biotechnology labeling discussions.

Agriculture Research Service (ARS).—Farm Bureau supports sufficient funding for plant-breeding research programs because they are important for maintaining a broad-based research.

PROGRAMS TO PROMOTE THE USE OF ALTERNATIVE ENERGY

The development of alternative energy sources is not only significant to the advancement of American agriculture but also vital to enhancing our nation's energy security. The United States currently imports over 56 percent of its energy needs from foreign sources. This lack of energy independence has led to price instabilities in the most basic of energy sources and will lead to production agriculture spending between \$1–2 billion more to plant this year's crop than last year. Renewable energy sources such as ethanol, biodiesel, wind generation and biomass can reduce the current overreliance on foreign energy sources.

The 2002 farm bill contained an energy title that includes provisions for Federal procurement of bio-based products, bio-refinery development grants, a biodiesel fuel education program, renewable energy development program, renewable energy systems, a bioenergy program and biomass research and development. These programs will assist rural economic development as well as increase our nation's energy inde-

pendence. These important programs to promote alternative energy sources should be fully funded at authorized levels to further advance these important programs and to achieve the goals of the energy title.

We support USDA research on the increased production of all forms of renewable fuels from agricultural resources for energy use including research and demonstration programs that use ethanol as a fuel for fuel cell engine development.

PROGRAMS KEY TO THE PROPER IMPLEMENTATION OF THE FOOD QUALITY PROTECTION ACT

USDA plays a crucial role in achieving proper implementation of the Food Quality Protection Act (FQPA). USDA must continue to work with EPA, agricultural producers, food processors and registrants to ensure that farm data and agricultural interests are properly considered and fully represented in the tolerance reassessment and pesticide re-registration process.

By the time we reach the 2006 FQPA deadline for reassessment, nearly 6,000 separate food and feed tolerances will have been reassessed for nearly 400 different active ingredients. That process affects nearly 600 specialty crops, all major row crops and animal production. In order to participate fully and effectively in the tolerance reassessment process, USDA must have all the resources necessary to provide economic benefit and use information to EPA.

Funding should be increased to the following offices and programs that are vital to proper implementation of FQPA:

Office of Pest Management Policy (OPMP).—OPMP has the primary responsibility for coordination of USDA's FQPA obligations and interaction with EPA. Major funding increases are necessary to review the tolerance reassessments, particularly dietary and worker exposure information; to identify critical use, benefit and alternatives information; and to work with grower organizations to develop strategic pest management plans. We recommend that funding for OPMP be doubled from 2003 budget levels. Further, additional funding to OPMP should be designated under the Secretary of Agriculture's office, rather than an add-on to the ARS budget.

Agriculture Research Service (ARS).—Integrated Pest Management (IPM) research, minor use tolerance research (IR-4) and research on alternatives to methyl bromide must continue to receive adequate funding to fully address the unique concerns of these programs. Research is also needed to identify new biological pest control measures and to control pesticide migration.

Cooperative State Research, Education and Extension Service (CSREES).—Full funding should be provided for IPM research grants, IPM application work, pest management alternatives program, expert IPM decision support system, minor crop pest management project (IR-4), crops at risk from FQPA implementation, FQPA risk avoidance and mitigation program for major food crop systems, methyl bromide transition program, regional crop information and policy centers, Pesticide Impact Assessment Program (PIAP) and the pesticide applicator training program.

Economic Research Service (ERS).—ERS programs provide USDA and EPA with unique data information and they should be properly funded including IPM research, pesticide use analysis program and the National Agriculture Pesticide Impact Assessment Program (NAPIAP).

FQPA Implementation.—Additional funding for proper implementation of FQPA is needed in the following programs: National Agriculture Statistics Service (NASS) pesticide use surveys; Food Safety Inspection Service (FSIS) increased residue sampling and analysis; Agricultural Marketing Service (AMS); and, the Pesticide Data Program (PDP).

Administration.—Funding must not be diverted away from USDA programs that do not benefit U.S. agriculture. Neither fund should be diverted to foreign or international groups whose goal it is to exclusively help production competitors in other nations.

PREPARED STATEMENT OF THE AMERICAN INDIAN HIGHER EDUCATION CONSORTIUM

Mr. Chairman and Members of the Subcommittee, on behalf of the American Indian Higher Education Consortium (AIHEC) and the 31 Tribal Colleges and Universities that comprise the list of 1994 Land Grant Institutions, thank you for this opportunity to share our funding requests for fiscal year 2004.

This statement is presented in three parts: (a) a summary of our fiscal year 2004 funding requests, (b) a brief background on Tribal Colleges and Universities, and (c) an outline of the 1994 Tribal College Land Grant Institutions' plan using our land grant programs to fulfill the agricultural potential of American Indian commu-

nities, and to ensure that American Indians have the skills needed to maximize the economic development potential of our resources.

SUMMARY OF REQUESTS

We respectfully request the following funding levels for fiscal year 2004 for our established land grant programs within the Cooperative State Research, Education, and Extension Service (CSREES) and Rural Development. In CSREES, we specifically request: \$12 million payment into the Native American endowment fund—an increase of \$4.9 million over fiscal year 2003; \$3.1 million for the higher education equity grants—an increase of \$1,411,050; \$5 million for the 1994 institutions' competitive extension grants program—an increase of \$1,635,015; \$3 million for the 1994 Institutions' competitive research grants program—an increase of \$1,907,150; and in Rural Development's RCAP program, that \$5 million for each of the next five fiscal years be targeted for tribal college community facilities grants in Rural Development's Rural Community Advancement Program (RCAP), to help address the critical facilities and infrastructure needs at the 1994 Institutions that impede our ability to participate fully as land grant partners. This competitive tribal college program has been allocated \$4 million in each fiscal year beginning in fiscal year 2001.

BACKGROUND ON TRIBAL COLLEGES AND UNIVERSITIES

The first Morrill Act was enacted in 1862 specifically to bring education to the people and to serve their fundamental needs. Today, over 140 years after enactment of the first land grant legislation the 1994 Land Grant Institutions, more than any other higher education institutions, truly exemplify the original intent of the land grant legislation, as they are truly community-based institutions.

The Tribal College Movement was launched in 1968 with the establishment of Navajo Community College, now Diné College, serving the Navajo Nation. A succession of tribal colleges soon followed, primarily in the Northern Plains region. In 1972, the first six tribally controlled colleges established the American Indian Higher Education Consortium to provide a support network for member institutions. Today, AIHEC represents 34 Tribal Colleges and Universities—31 of which comprise the list of 1994 Land Grant Institutions—located in 12 states begun specifically to serve the higher education needs of American Indian students. Collectively, they serve 30,000 full- and part-time students from over 250 Federally recognized tribes.

The vast majority of the 1994 Institutions is accredited by independent, regional accreditation agencies and like all institutions, must undergo stringent performance reviews on a periodic basis. White Earth Tribal & Community College, the newest 1994 Institution, is in the pre-candidacy stage. Tribal colleges serve as community centers, providing libraries, tribal archives, career centers, economic development and business centers, public meeting places, and child care centers. Despite our many obligations, functions, and notable achievements, tribal colleges remain the most poorly funded institutions of higher education in this country. Most of the 1994 Land Grant Institutions are located on Federal trust territory. Therefore, states have no obligation and in most cases, provide no funding to tribal colleges. In fact, most states do not even fund our institutions for the non-Indian state residents attending our colleges, leaving the tribal colleges to absorb the per student operations costs for the approximately 20 percent non-Indian students enrolled in our institutions. Unlike our state land grant partners, our institutions do not benefit from the economy of size—where the cost per student to operate an institution is diminished by the sheer size of the student body.

As a result of 200 years of Federal Indian policy—including policies of termination, assimilation and relocation—many reservation residents live in abject poverty comparable to that found in Third World nations. Through the efforts of tribal colleges, American Indian communities are receiving services they need to reestablish themselves as responsible, productive, and self-reliant. It would be regrettable not to expand the very modest investment in, and capitalize on, the human resources that will help open new avenues to economic development, specifically through enhancing the 1994 Institutions' Land Grant programs, and securing adequate access to information technology.

1994 LAND GRANT PROGRAMS—AMBITIONOUS EFFORTS TO REACH ECONOMIC DEVELOPMENT POTENTIAL

Sadly, due to lack of expertise and training, millions of acres on our reservations lie fallow, under-used, or have been developed through methods that render the resources non-renewable. The Equity in Educational Land Grant Status Act of 1994 is our hope for rectifying this situation. Our current land grant programs are small, yet very important to us. It is essential that American Indians learn more about

new and evolving technologies for managing our lands. We are committed to being productive contributors to the agricultural base of the nation and the world.

Extension Programs.—The 1994 Institutions' extension program strengthens communities through outreach programs designed to bolster economic development; community resources; family and youth development; natural resources development; agriculture; as well as health and nutrition awareness.

In fiscal year 2003, \$3,387,000 was appropriated for the 1994 Institutions' competitive extension grants. Additional funding is needed to support these vital programs, designed to address the inadequate extension services provided on Indian reservations by the states. It is important to note that the 1994 extension program is specifically designed to complement and build upon the Indian Reservation Extension Agent program, and is not duplicative of other extension activities. For the reasons outlined above, we request the Subcommittee further support this program by appropriating \$5 million to sustain the growth and further success of these essential community based programs.

Native American Endowment Fund.—Endowment installments paid into the 1994 Institutions' account remain with the U.S. Treasury—only the interest is distributed annually to our colleges. The latest annual interest yield (fiscal year 2002) distributed among the 30 eligible 1994 Land Grant Institutions totaled \$1,427,750.

Just as other land grant institutions historically received large grants of land or endowments in lieu of land, this money assists 1994 Land Grant Institutions in establishing and strengthening our academic programs in such areas as curricula development, faculty preparation, instruction delivery, and as of fiscal year 2001 to help address our critical facilities and infrastructure issues. Many of the colleges have used the endowment funds in conjunction with the Education Equity Grant funds to develop and implement their programs. As earlier stated, tribal colleges often serve as primary community centers and although conditions at some have improved substantially, many of the colleges still operate under deplorable conditions. Most of the tribal colleges cite improved facilities as one of their top priorities. For example Lac Courte Oreilles Ojibwa Community College in Hayward, Wisconsin has reported an immediate need for substantial renovations to replace construction materials that have exceeded their effective life span, and to upgrade existing buildings due to accessibility and safety concerns.

An increase in the endowment payments would increase the size of the corpus and thereby increase the annual interest yield available to the 1994 Land Grant Institutions. This additional funding would be very helpful in our efforts to continue to support faculty and staff positions and program needs within Agriculture and Natural Resources Departments, as well as to help address the critical and very expensive facilities needs at our institutions. Currently the amount that each college receives from this endowment is very limited. It is not close to adequate to address the curricula development and instruction delivery issues and also make even a dent in the necessary facilities projects at the colleges. In order for the 1994 Institutions to become full partners in this nation's great land grant system, we need and deserve the facilities and infrastructure necessary to engage in education and research programs vital to the future health and well being of our reservation communities. We respectfully request the subcommittee build upon this much needed base fund by increasing the fiscal year 2004 endowment fund payment to \$12 million.

1994 Institutions' Educational Equity Grant Program.—Closely linked with the endowment fund, this program currently provides just under \$50,000 per 1994 Institution to assist in academic programs. Through the modest appropriations made available since fiscal year 1996, the tribal colleges have been able to begin to support courses and planning activities specifically targeted to meet the unique needs of our respective communities.

The 1994 Institutions have developed and implemented courses and programs in natural resource management; environmental sciences; horticulture; forestry; buffalo production and management; and food science and nutrition—to address epidemic rates of diabetes and cardiovascular disease on reservations. Haskell Indian Nations University in Lawrence, KS has used these funds to upgrade and equip a plant science laboratory to enhance the academic quality of teaching and to achieve more effective use of facilities for the Environmental Science Program. The plant science laboratory will directly serve Botany and Ethnobiology courses, which are offered in Haskell's Environmental Science baccalaureate degree program. If more funds were available through the Educational Equity Grant Program, tribal colleges could channel more of their endowment yield to supplement other facilities funding in order to address critical infrastructure issues. Authorized at \$100,000 per 1994 Institution, this program was appropriated \$1,688,950 in fiscal year 2003. We respectfully request full funding of \$3.1 million to allow the colleges to build upon the courses and activities that the initial funding launched.

1994 Research Program.—As the 1994 Land Grant Institutions have begun to enter into partnerships with 1862/1890 Land Grants through research projects, impressive efforts to address economic development through land use have come to light. Our research program illustrates an ideal combination of Federal resources and tribal college-state institution expertise, with the overall impact being far greater than the sum of its parts. We recognize the budget constraints that Congress is working under. However, we believe that \$1.1 million, our fiscal year 2003 appropriated level, is simply not adequate when there are 30 institutions currently eligible to compete for these precious research dollars. This research program is vital to ensuring that tribal colleges finally become full partners in the nation's land grant system. Many of our institutions are currently conducting agriculture-based applied research, yet finding the resources to conduct this research to meet their communities' needs is a constant challenge. This research authority opens the door to new funding opportunities to maintain and expand the research projects begun at the 1994 Institutions, but only if adequate funds are appropriated. The following is an example of the initial projects funded under this vital new program:

Oglala Lakota College on the Pine Ridge Reservation in South Dakota has begun to investigate the impacts of free-range management on range soil and water, and bison diet quality. The investigation is being conducted on previously cattle-grazed land. Because bison behavior varies from that of cattle, soil/water and range plant characteristics may change over time. As bison grazing continues, initial characteristics and changes in rangeland environments will be monitored and documented. Composition and forage quality as well as the soil quality of three ecosystems in the bison grazed areas will ultimately be determined. Electronic workshop/class and outreach materials will be developed from this study by integrating technical and cultural knowledge about bison. Oglala Lakota College, South Dakota State University and other tribal colleges will benefit from the resulting material. Information will be disseminated through lay publications, field days, and special workshops.

Other projects begun in the initial round of programs funded include soil and water quality projects, amphibian propagation, pesticide and wildlife research, range cattle species enhancement, and native plant preservation for medicinal and economic purposes. We strongly urge the Subcommittee to fund this program at \$3 million to enable our institutions to develop and strengthen their research potential.

Rural Community Advancement Program (RCAP).—Beginning in fiscal year 2001, each year \$4 million of the RCAP funds appropriated for loans and grants to benefit Federally recognized Native American Tribes have been targeted for community facility grants for tribal college improvements. As stated earlier, the facilities at many of the 1994 Land Grant Institutions are in desperate need of repair and in many cases replacement. We urge the Subcommittee to designate \$5 million of the Native American RCAP funds to address the critical need for improving the facilities at the 31 Tribal College Land Grant Institutions. Additionally, we respectfully request language directing the Department of Agriculture to target a minimum of \$5 million for each of the next five fiscal years to allow our institutions the means to solidly address our critical facilities needs.

CONCLUSION

The 1994 Land Grant Institutions have proven to be efficient and effective tools for bringing education opportunities to American Indians and hope for self-sufficiency to some of this nation's poorest regions. The modest Federal investment in the 1994 Land Grant Institutions has already paid great dividends in terms of increased employment, education, and economic development. Continuation of this investment makes sound moral and fiscal sense. American Indian reservation communities are second to none in their need for effective land grant programs and as earlier stated no institutions better exemplify the original intent of the land grant concept than the 1994 Land Grant Institutions.

We appreciate your long-standing support of the Tribal Colleges and Universities and are also grateful for your commitment to making our communities self-sufficient. We look forward to continuing our partnership with you, the U.S. Department of Agriculture, and the other members of the nation's land grant system—a partnership that will bring equal educational, agricultural, and economic opportunities to Indian Country.

Thank you for this opportunity to present our funding proposals to this Subcommittee. We respectfully request your continued support and full consideration of our fiscal year 2004 appropriations requests.

PREPARED STATEMENT OF THE AMERICAN SOCIETY FOR MICROBIOLOGY

The American Society for Microbiology (ASM), the largest single life science organization in the world, comprised of more than 42,000 members, appreciates the opportunity to provide written testimony on the fiscal year 2004 budget for the U.S. Department of Agriculture (USDA) research and education programs.

The ASM represents scientists who work in academic, medical, governmental and industrial institutions worldwide and are involved in research to improve human health, the environment, and agriculture. Microbiological research related to agriculture is important to understanding foodborne diseases, new and emerging plant and animal diseases, soil erosion and soil biology, agricultural biotechnology, and the development of new agricultural products and processes. The ASM is a member of the Coalition on Funding Agricultural Research Missions (CoFARM), which represents scientific societies and organizations involved in formulating research directions and needs for agricultural research and supports the recommendation to increase the USDA's entire research portfolio.

Advances in agricultural research continue to allow the United States to produce agricultural goods that are unrivaled in the world today. However, U.S. agriculture faces new challenges, including the threats of new and reemerging diseases, climate change, public concern about food security and its impact on the environment and fears about agroterrorism. Unfortunately, public investment in agricultural research has been stagnant for several years, impeding scientific advancement and progress, despite the recognized importance of the agricultural sector to the economy. According to the National Science Foundation's (NSF) Division of Science Resources Studies, agricultural research made up only 4 percent of all public funds devoted to basic research and only 2 percent of total R&D expenditures in fiscal year 2000. Furthermore, indirect costs associated with research are not at prevailing negotiated rates and are adversely affecting the direction of research. This is and will lead to unintended consequences in research priority setting in recipient institutions.

Agricultural research has led to many advances, including biotechnology, which contributes to a more abundant and nutritious food supply and a more environmentally friendly food production process, while reducing agriculture's reliance on chemical fertilizers, pesticides, and fungicides. With the advent of genomics, a critical research need in agriculture, we have entered a new era of scientific discovery in the agricultural field.

It is critical to increase the visibility and investment in research to respond to these challenges. The ASM encourages the Subcommittee to build upon the renewed focus on agricultural research supported in the Administration's fiscal year 2004 USDA budget. This will not only benefit U.S. agriculture but also the health and well-being of every American. Many health related conditions are due to poor nutrition and lack of understanding the old adage—you are what you eat. Major health care costs could be reduced if the American public were educated more in food nutrition and health.

Infectious Diseases in Plants and Animals

It is important to recognize a growing threat to the U.S. agricultural system that requires immediate attention—the threat of new and emerging infectious diseases. Like the human population, U.S. agriculture is also experiencing severe problems caused by new and emerging infectious diseases in plants and animals. Changes in agricultural practices, population growth, climate, microbial evolution, animal migration, and international trade and travel are all factors in introducing new plant and animal diseases into the U.S. agriculture system and natural resources, such as oak trees in California and predicted soybean rust. The lack of knowledge to manage effectively and control new and reemerging infectious diseases often leads to very serious consequences from lost productivity from quarantines to embargoes, and the destruction of plants and animals to control the spread of diseases. For example, citrus canker has cost millions in tree destruction in Florida. Research, monitoring, surveillance, and new sources of resistant genetic material, including the use of biotechnology, may enable continued growth of citrus trees commercially and by homeowners. New technologies, e.g. the polymerase chain reaction, now enables us to detect minute quantities of etiological agents, including those previously ascribed to physiological problems in plants, such as the class of viruses known as luteoviruses.

Cooperative State Research, Education and Extension Service

The ASM strongly supports competitive research and believes that the federal government should provide more opportunities for scientists to compete for federal research dollars across all agencies and scientific fields. In 1989, the Board on Agriculture of the National Research Council (NRC) recommended that public invest-

ment through competitive research grants in agriculture, food, and the environment be made a national priority. The NRC recommendation became the National Research Initiative Competitive Grants Program (NRI), which supports fundamental research on key agricultural problems including food safety, plant and animal genetics, and water quality (National Research Initiative: a Vital Competitive Grants Program in Food, Fiber, and Natural-Resources Research, NRC, 2000). The NRI enables USDA to develop new partnerships with other Federal agencies (e.g., the National Science Foundation: The Microbe Project) that advance the agricultural science enterprise.

The ASM commends the Administration and Congress for recognizing the funding gap in competitive, peer-reviewed research in its fiscal year 2003 appropriations for the NRI (\$167 million). The ASM supports additional funding for the NRI that will encourage agricultural science to tackle the many research needs in today's agriculture, such as, expanded research in microbial genomics, allergens in food, pharmaceutical and industrial products arising from biotechnology, and the possibility of agroterrorism as we face the threat of biological weapons.

The ASM urges the Subcommittee to fund the NRI at the President's requested \$200 million budget for fiscal year 2004. This level of funding ensures the commitment of the USDA to the competitive merit review process, provides funds for fundamental research with long-term potential for new discoveries, and improves human resource opportunities in agricultural research. The NRI has yielded extensive scientific advancements that are comparable to some of those made at other agencies that fund peer-reviewed research. For instance:

- One of the most challenging bacterial diseases in cattle causes a wasting, chronic diarrhea. The genome of *Mycobacterium paratuberculosis* was recently sequenced, years ahead of predicted schedule. Specific regions contributing to disease were identified and are now being tested in diagnostic tests. These genes and their products may also be the missing links for an effective vaccine.
- Food safety is a continuing challenge. Millions of foodborne illnesses occur yearly, including cases associated with the consumption of raw fruits and vegetables. These notoriously difficult to treat products are being evaluated by mild heat treatments to determine efficacy in producing safer and longer-lasting fresh products.

Agricultural Research Service

The ASM recommends that the Subcommittee build upon the Administration's proposed \$1 billion budget for fiscal year 2004, which is an \$18 million decrease from fiscal year 2003. The Agricultural Research Service (ARS) is the principal in-house research agency in the area of natural and biological sciences for the USDA.

United States agriculture is experiencing severe problems because of new and re-emerging infectious diseases in plants and animals, a threat, which requires immediate attention. The imminent threats of foot-and-mouth disease (FMD) in animals and plum pox in plants are examples requiring new and extensive research. Agroterrorism could also present a serious threat to the agricultural system and requires a renewed focus on animal and plant pathogens. Therefore, the ASM recommends that increased funding in this area be distributed equally between plant (emerging and exotic diseases of plants (\$3.4 million fiscal year 2004 increase)) and animal research (emerging, reemerging, and exotic diseases of animals (\$8.3 million fiscal year 2004 increase)) at \$10 million each for fiscal year 2004. This increase will allow ARS to focus on improving pest and disease management with biologically based technologies, genetics and genome mapping, and food safety. Furthermore, the ARS needs to focus additional resources in the area of rapid and accurate detection systems for animal and plant diseases and pathogens and effective treatment protocols. These tools remain a key component in the nation's efforts to safeguard the food supply from natural and manmade events. The ASM encourages Congress to increase funding in this high-payoff applied research.

The ASM also believes continued support of agricultural genomic research is a critical component of our nation's research enterprise. Increasingly, environmental factors are requiring new and novel solutions to plant production, protection (pest), nutritional content and food safety that are being addressed through genomic research. For example, ARS research recently (2003) found genetic markers near the first two of the four genes that may determine soybean resistance to cyst nematodes. These microscopic roundworms rob farmers of around 220 million bushels a year. This type of high-payoff research not only improves agricultural product health and cost, but also makes U.S. products more competitive and environmentally benign. The ASM is pleased to see the Administration recognizes the promise of genomic research through the allocation of an additional \$3.5 million for animal genomics. Research will also focus on developing diagnostic and vaccine tech-

nologies that will ultimately improve the nation's ability to control disease outbreaks, and mitigate the threats to the nation's animal, plant, and grain products.

Animal and Plant Health Inspection Service

The Animal and Plant Health Inspection Service (APHIS) has the critical role of policing the U.S. infrastructure that is in place to prevent, diagnose and respond to infectious diseases and pests. With the U.S. food system becoming increasingly susceptible to foreign diseases and pest through trade, the United States must upgrade its biosafety systems to address these threats. APHIS requires new, accurate and cost effective diagnostic tools and updated information technology. APHIS's long-term efforts have kept FMD and BSE out of the United States to date; however, APHIS needs new resources to increase the availability of vaccines and support efforts that could combat the potential release of these agents.

The ASM does not believe the Administration's budget reflects APHIS's daunting task of combating animal and plant diseases and pests. The ASM recommends that Congress increase funding for APHIS to \$1 billion, which is level with fiscal year 2003. This level of funding would reflect APHIS's role in addressing animal and plant health monitoring and outbreak management.

Food Safety

Foodborne illness continues to pose a major public health problem in the United States. The ASM urges Congress to match or exceed the President's \$675 million for the Food Safety and Inspection Service.

The U.S. food system must confront microorganisms that continue to adapt to their changing environments and begin to "out smart" current techniques to control their presence. Many foodborne microbes have developed resistance to conventional food preservation and disinfection techniques and continue to proliferate. It is also important to note that the diversity of microorganisms affecting food safety changes with time, processing techniques, location and other factors. Continued and sustained research is vital if the nation's food supply is to meet the expectations of the American consumer and trading partners.

Microbial Genomics

Microbes are involved in all aspects of agriculture, from beneficial uses of microbes in food (e.g., yogurt), to pest controls, to the spread of disease in plants and animals, and the contamination of the food supply. Studying the genomes of agricultural microbes is expected to enable development of new technologies to provide improved foods and better pathogen control to protect the nation's crops, to reduce the incidence of plant and animal disease, and to ensure a safer food supply. Thus, ASM is supportive of microbial genomics through ARS and the NRI program. Microbial sequencing is also expected to lead to speedier and more accurate identification of microbes, identify targets for intervention, as well as potential new antimicrobial agents. Coordination and cooperation with the National Science Foundation and the Department of Energy in this area is particularly promising; as is the interagency working group on microbes that focuses on sequencing and bioinformatics (i.e., The Microbe Project).

Biobased Products

The ASM continues to support the promising research to accelerate the conversion of agricultural materials and byproducts into biofuels, such as soybean oil conversion into (bio)diesel fuel. Such scientific advancements in biobased product research have the added benefit of enhancing farm income, strengthening U.S. energy security, rural revitalization, and environmental stewardship. ASM believes agriculture can play a positive role in achieving U.S. energy security and encourages the Subcommittee to consider the benefit biofuels represent to the entire agricultural and consumer community.

The ASM encourages Congress give high priority to agricultural research for fiscal year 2004. Many of today's scientific achievements leading to the development of biotechnology, genetically modified foods, improved crops and plant-based products and an improved environment have their roots in the basic research conducted by the USDA. The future holds many challenges from the monitoring of the ecological impact of transgenic plants to research in plant and animal diseases that is requisite to combating agricultural bioterrorism. We urge the Administration and Congress to assist the USDA to address these issues.

The ASM appreciates the opportunity to provide written testimony and would be pleased to assist the Subcommittee as the Department of Agriculture bill is considered throughout the congressional process.

PREPARED STATEMENT OF THE AMERICAN SOCIETY FOR MICROBIOLOGY

The American Society for Microbiology (ASM), the largest single life sciences society representing over 40,000 scientists, recommends that Congress increase the Administration's proposed Food and Drug Administration (FDA) budget of \$1.7 billion for fiscal year 2004, which represents an increase of \$59 million over fiscal year 2003, or only 3 percent. Sufficient financial resources must be allocated to the FDA in order for this crucial agency to continue its science-based oversight of public health and safety. The FDA's current priorities reflect its diverse roles in protecting and improving the well-being of individual Americans, ensuring homeland security against potential terrorist attacks, reducing the numbers of adverse health events associated with the food supply and health care products, distributing accurate information about FDA regulated products, and basing its decisions on solid science.

The agency has been and will be responsible for much of the nation's countermeasures against potential biological and chemical terrorist attack. But the FDA's long-standing responsibilities also influence the day-to-day, ordinary aspects of American life. In 2002 alone, the FDA evaluated and approved for marketing nearly 5,000 new drugs, biologics, medical devices and animal drugs. At the same time, its personnel monitored about eight million import shipments. Consumers spend 25 cents of every consumer dollar—nearly \$1.5 trillion—on products regulated by the agency, including therapeutic drugs, medical devices, and most of the nation's food supply. Public trust in the FDA reflects how well the agency fulfills these broad-based and complex responsibilities.

The ASM urges Congress to fully support the FDA's role as protector of public health. Adequate funding will ensure that the agency can still perform counter-terrorism, consumer product safety, and food safety within the context of scientific research, complete and accurate information, and productive collaborations with stakeholders.

Science-Based Security and Safety

The protective mission of the FDA is a complicated mixture of law and science—as the numbers of new products, food imports, and potential health threats increase, so do the added regulations, invested stakeholders, and revised responsibilities. The ASM recognizes that the FDA's principal strength is the up-to-date information from which the agency determines its new-product evaluations and its regulation enforcement. Only strong funding will assure that this science-based decision-making continues at all of the FDA's research centers. Research by agency personnel, combined with data gathered from outside research groups, ensure that safe and effective products reach the market and that these products remain safe after market approval. In the approval of new vaccines or the inspection of shellfish, FDA personnel rely on the latest in scientific evidence and technology.

New technologies like nucleic acid amplification testing (NAT) have significant potential in protecting the nation's health and thus must be included among the FDA's diverse research capabilities. The agency's Center for Biologics Evaluation and Research (CBER), which is responsible for the safety of the nation's blood supply, has in recent years approved NAT-based blood testing procedures. These tests currently screen all donated blood in the United States for HIV and hepatitis C infection, and the FDA is studying their potential to screen for West Nile virus (WNV). Concerned with any new and emerging health threat, CBER scientists also are conducting studies and gathering extramural evidence on innovative WNV vaccines and treatments. This characteristic scientific readiness against new threats like WNV infection and bovine spongiform encephalopathy (BSE or "mad cow disease") should be supported with adequate funding.

Counter-Terrorism and Project Bioshield

Unfortunately the threats to public health have expanded dramatically to include both real and potential acts of terrorism and bioterrorism. The political environment overseas further intensifies the dire possibilities for biological and chemical terrorism against American citizens, and thus intensifies the crucial protective role of the FDA. Part of the Administration's proposed fiscal year 2004 budget for the FDA falls under the Public Health Security and Bioterrorism Preparedness and Response Act of 2002—a reflection of the FDA's deserved reputation for assessing and managing such threats. In his recent State of the Union address, President Bush announced Project BioShield, a science-based program that further enlarges the FDA's counter-terrorism activities and increases pressure on the agency's funding resources.

Under Project BioShield, research and public health agencies—in particular the FDA and the National Institutes of Health—will collaborate with the new Department of Homeland Security to develop and make available more modern, up-to-date

diagnostic tests, drugs, and vaccines against intentional attack with biological and chemical weapons. The program authorizes further stockpiles of the latest vaccines or drugs against such bioweapons as the infectious agents of smallpox, anthrax, and plague, as well as botulinum toxin and Ebola virus. The FDA also will be responsible for limited emergency-use authorization of promising medical countermeasures that have not completed standard review protocols. To do so, agency scientists must be fully informed on all scientific advances in medicine. Medical innovations such as recombinant DNA technology and molecular engineering, which are being studied in a number of other diseases, have potential against bioterrorism agents as well.

The Bioterrorism Act of 2002 mandated a comprehensive plan to protect against the intentional contamination of food and water supplies and of medical therapeutics and devices. As the food regulatory arm of the Federal Government, the FDA is responsible for developing the appropriate food safety measures. The agency also assures the adequate and safe supply of drugs and devices important to the nation's health, and thus has multiple roles within the war on terrorism.

The FDA's Center for Food Safety and Applied Nutrition (CFSAN) has already completed a number of activities aimed at enhancing the security of the national food supply. During fiscal year 2002, more than 600 new food inspectors and laboratory personnel were hired and more than 34,000 food import examinations conducted. The CFSAN's intramural research program shifted more resources to developing rapid test methods for microorganisms and chemical agents considered serious bioterrorism agents. The Center also initiated a nationwide Laboratory Response Network to identify local laboratory capabilities related to intentional contamination. Classified threat assessments done by CFSAN personnel have delineated the relative risks of contamination among different categories of food. New regulations currently under review include registration with the FDA of all domestic and foreign food-related facilities with U.S. markets, and tighter regulations covering imported foods and food-origin record keeping.

Under the 2002 legislation, the FDA likewise works with other Federal agencies to assure adequate supplies of therapies and vaccines that might be needed against bioterrorist attacks. Within the past year, the agency's Center for Drug Evaluation and Research (CDER) released evaluations of drugs for inhalation anthrax and called for scientific studies on new treatments for human plague. It also approved use of a drug to counter nerve gas poisoning among U.S. military personnel in combat and announced effective use of treatment for human contamination with radioactive substances.

The FDA mission against terrorism depends on the ability to mount a rapid and effective response against a range of possible weapons and avenues of attack. Along with the requisite scientific efforts made throughout the agency, effective countermeasures also depend upon well-coordinated cooperation with agencies at all Federal, State, and local levels, as well as advanced information-sharing systems. Concerned by the potential for bioterrorism, the ASM urges the Congress to place a high priority on significant funding for all branches of the FDA.

Consumer Product Safety

To safeguard public health, the FDA has the primary responsibility for ensuring that safe and effective products reach the marketplace and that those products remain safe and effective. This includes synthetic drugs, biologics, blood for transfusion, vaccines, medical devices such as cardiac implants and hearing aids, cosmetics and more. Not only is the FDA responsible for approving the sale and/or use of these products in a timely manner, it must track unfortunate outcomes such as medical errors involving FDA-approved products and the development of antimicrobial-resistant microorganisms. All these efforts require the FDA to have expertise in knowledge management, information gathering systems, quantitative risk assessment and computer modeling, plus the capability to rapidly disseminate information to the public and the private sectors. Within this complex regulatory environment, the FDA is trying to streamline procedures while encouraging research on a broader range of specific diseases.

Last year the FDA's approval of nearly 5,000 new drugs, biologics, medical devices and animal drugs represented an increase of almost 400 new products over 2001. They included a new diphtheria-pertussis-tetanus vaccine for children and a new drug to treat non-Hodgkins lymphoma. But there were few advances against certain serious diseases such as diabetes and obesity. In response to unmet needs, in January the FDA announced an initiative to improve the development and availability of innovative medical products, involving all of the agency's medical product review centers—i.e., biologics, drugs, devices, and veterinary medicine. It will shorten the amount of time for FDA review without diminishing standards, and facilitate new product development through better industry guidelines on specific diseases and

technologies. The initiative also identified three key areas of emerging technology that will receive more FDA resources: pharmacogenomics/pharmacogenetics, cell and gene therapy, and novel drug delivery systems. As elsewhere in the FDA, academic, industry, and patient groups will be solicited as partners in the discovery process.

Medical Errors

Despite evaluation and regulation of products, adverse events do occur. Medical errors related to drugs are estimated to cause from 40,000 to 100,000 in-hospital deaths each year. An Institute of Medicine report estimates that these adverse events increase the nation's hospitalization bill by up to \$17 billion annually, and that drug-related problems outside the hospital may add another \$76-plus billion to the nation's health care costs. Each year the FDA's MedWatch program and CDER's adverse event report system receive more than 250,000 reports associated with FDA-regulated drugs. CBER and the Centers for Disease Control and Prevention jointly manage the Vaccine Adverse Event Reporting System, another post-market surveillance system. The FDA and its centers are working nationally and internationally to reduce the incidence of these errors, through education of patients and health care professionals and in some cases withdrawal of the product from the marketplace.

Antibiotic Resistance

The misuse of antimicrobial drugs has had other serious side-effects of particular concern to the ASM membership—the emergence of disease-causing microorganisms resistant to the drugs traditionally used to treat infectious diseases. The CDC estimates that half of the 100 million prescriptions written by U.S. physicians each year are unnecessary, a practice that inevitably increases the numbers of resistant bacteria. About 70 percent of bacteria that cause infections in hospitals are now resistant to at least one of the drugs most commonly used to treat those infections. A Harvard study just published concludes that there likely will be a sharp rise in the strains of *Streptococcus pneumoniae* resistant to both penicillin and erythromycin. The FDA, concerned about the waning usefulness of traditional drugs, announced this February new drug labeling directed at physicians and designed to reduce antimicrobial prescriptions.

Food Safety

Although foodborne illness still accounts for about 76 million illnesses in this country, the U.S. food supply is among the safest in the world. The FDA's Center for Food Safety and Applied Nutrition (CFSAN) is responsible for safeguarding 80 percent of all food consumed (the Department of Agriculture regulates meat, poultry, and some egg products). The Center and the FDA field inspectors are responsible for \$240 billion worth of domestic food, \$15 billion worth of imported foods, and \$15 billion worth of cosmetics. Products are inspected for microbial and chemical contamination and for false labeling, while increasingly more production facilities are examined for FDA-developed Hazard Analysis and Critical Control Point protocols. The FDA's stewardship of food safety has emerged as a major component of the war against terrorism.

Like all other groups within the FDA, the CFSAN has a tremendous responsibility of impressive scope, yet it strives to make science-based decisions and policies and to disseminate accurate and timely information. Not only does the FDA succeed admirably in its efforts to protect the American public, but, it is respected internationally for its global influence. The ASM urges the Congress to appropriate an aggressive FDA budget and thus continue the robust and highly diverse ways in which the FDA preserves public health and national security.

PREPARED STATEMENT OF THE AMERICAN SOCIETY OF PLANT BIOLOGISTS (ASPB)

The American Society of Plant Biologists (ASPB), representing nearly 6,000 plant scientists, appreciates this opportunity to submit comments to the Subcommittee for its consideration of fiscal year 2004 appropriations for research sponsored by the Department of Agriculture.

Support by the Subcommittee for the National Research Initiative Competitive Grants Program (NRI) and the Agricultural Research Service (ARS) contributes to important advances in fundamental and applied research in agriculture.

ASPB greatly appreciates the tremendous successful effort by the Subcommittee to increase support for the NRI by some 38 percent to \$166 million for fiscal year 2003! We urge the Subcommittee to continue to place an emphasis on core areas of plant research sponsored by the NRI, including plant biochemistry, genetic mechanisms, growth and development, plant response to the environment, genomic re-

search and invasive plants. Advances in these areas of research will make a major contribution to increased crop production by America's farmers.

The National Research Council Board on Agriculture and Natural Resources Committee report on the NRI in 2000 strongly endorsed support for this competitive grants program. The NRC committee "found the NRI to have financed high-quality scientific work within congressional guidelines. . . . The committee reiterates the extraordinary importance of public merit-based peer-reviewed research in food, fiber and natural resources. In the committee's opinion, past public research and current private activities cannot meet the needs that are being created by population growth, climate change and natural resource deterioration or the challenges related to food safety and nutrition and to the growing convergence of foods and medical research."

The NRC committee recommended that a major emphasis of the NRI continue to be the support of high-risk research with potential long-term payoffs. Much of this research would be classified as fundamental in the traditional use of this term.

A major conclusion of the NRC committee was that, "Without a dramatically enhanced commitment to merit-based peer-reviewed, food, fiber and natural resources research, the nation places itself at risk." Continued support for a balanced research portfolio in the Department including intramural and extramural research is needed to address the many and sometimes devastating problems farmers face in growing crops. ARS continues to address very effectively many important research questions for American agriculture, including many that are national in scope and best addressed by a Federal agency. American farmers and consumers are well-served by the large number of successful research efforts of ARS scientists.

In addition to the direct benefits to farmers and consumers that result from the leading research discoveries sponsored by the NRI and ARS, increased support for these programs will help maintain the strength and vigor of the nation's agricultural research community.

Helping American farmers meet the food production needs of the nation's 290 million people and millions more overseas places huge demands on the research community. With more former farmlands sprouting townhouses, and other non-agricultural development, there are increased demands on the research community to help boost crop yields per acre. At the same time, the research community is called upon to find more environmentally benign approaches to increase yields. We believe that these goals of producing higher crop yields on the same or less acreage in a manner that is friendlier to the environment could be met with increased emphasis on support for ARS-and NRI-sponsored plant research.

For example, research sponsored by the NRI and ARS is leading to plants engineered to tolerate higher levels of salinity. This will help farmers salvage more of their crops in dry seasons. Increased tolerance of future engineered plants to environmental stresses of cold and freezing will be a boon to growers. The Federal Government will experience savings in emergency spending for crop disasters—some disasters that will be avoided through use of new, enhanced plants.

Much progress has been made in fighting plant diseases with crops engineered to resist pests. At the same time, the usage of harsh chemical pesticides has been reduced through the use of genetically engineered crops. Research sponsored by the NRI and ARS contributed knowledge leading to the development of these superior crops. Increased support for the NRI and ARS will lead to more varieties of enhanced crops resistant to devastating diseases.

We urge the Subcommittee to increase support for the NRI and ARS in fiscal year 2004. As requested by the President, ASPB urges appropriating \$200 million to the NRI in fiscal year 2004. We urge a significant increase for ARS over the fiscal year 2003 appropriation.

Again, thank you for this opportunity to submit comments to the Subcommittee. We deeply appreciate the Subcommittee's leadership in support of plant research, which has been essential to producing and securing the nation's food supply.

PREPARED STATEMENT OF THE ASSOCIATION OF STATE DAM SAFETY OFFICIALS

Dear Chairman Bennett and Members of the Subcommittee: The Association of State Dam Safety Officials is pleased to offer this testimony on the President's proposed budget for the Department of Agriculture for fiscal year 2004, specifically in support of the Watershed Rehabilitation Program.

The Association of State Dam Safety Officials is a national non-profit organization of more than 2,000 state, federal and local dam safety professionals and private sector individuals dedicated to improving dam safety through research, education and communications. Our goal simply is to save lives, prevent damage to property and

to maintain the benefits of dams by preventing dam failures. Several dramatic dam failures in the United States called attention to the catastrophic consequences of failures. The failure of the Federal Teton Dam in 1976 caused 14 deaths and over \$1 billion in damages, and is a constant reminder of the potential consequences associated with dams and the obligations to assure that dams are properly constructed, operated and maintained.

The Administration's proposed budget includes only \$10 million in discretionary appropriations to fund rehabilitation of unsafe and seriously deficient dams that were originally constructed under USDA Watershed Programs. The Association of State Dam Safety Officials respectfully requests that this Subcommittee appropriate the full amount authorized by the 2002 Farm Bill, which includes \$55 million in discretionary funds and \$50 million in Commodity Credit Corporation (CCC) funding.

The Problem

The United States Department of Agriculture (USDA) under authorities granted by Congress beginning in the 1940s provided technical and financial assistance to local sponsors and constructed small watershed dams. These dams, completed primarily under the authority of Public Law 534 and Public Law 566 provided important benefits including flood protection, municipal and rural water supplies, irrigation, recreation, water quality, sediment removal and habitat. The USDA, in partnership with these local sponsors constructed nearly 11,000 small watershed dams across the country in 47 states.

Dams constructed under these USDA programs have provided local communities with years of critical service. They have provided flood protection for many homes and businesses, and the local transportation infrastructure. Many communities rely on watershed dams for drinking water and many farmers depend on those dams for necessary irrigation water to grow food and fiber.

However, these dams are aging and many are starting to reach the end of their design life. Many watershed dams no longer are able to continue to provide the benefits that the local communities have counted on for so many years, such as the expected level of flood protection. Many dams are unable to continue to provide the same storage volume for drinking water; and many of them are so filled with sediment that they cannot provide water quality and sediment removal functions. More alarming is the recognition that as these dams continue to age and deteriorate they threaten the very same local communities that have relied on them for protection and for quality of life improvements. Approximately 450 small watershed dams will reach the end of their expected design life by 2005; and over 1,800 will reach their design life expectancy by 2010.

The challenge is enormous, as the local sponsors cannot shoulder the entire burden alone. Without a fully funded Watershed Rehabilitation Program, the flood protection provided by these dams will be diminished, irrigation and drinking storage will be reduced and water quality will continue to decline. However, the most dramatic consequences from the aging and deterioration of these dams without their rehabilitation will undoubtedly be to increase the probability of a tragic failure. Dam failures cause lives to be lost, downstream property to be destroyed and damage to critical public infrastructure (roads, bridges, water treatment facilities). The cost of just one dam failure, measured in loss of life, property damage and clean up costs, could easily exceed the entire cost of the Watershed Rehabilitation authorization.

Often, development, attracted by the benefits provided by the dam, have significantly altered the upstream watershed and increased runoff and sediment transport to the dam. In addition, it is very common to see major downstream development in the area below the dam, within the dam failure flood zone, which causes dam safety officials great concern, as the dams no longer meet minimum dam safety requirements. These development consequences are typically beyond the control of the local sponsoring organizations, yet they are responsible to compliance with the state dam safety standards.

Many of the small watershed dams do not have Emergency Action Plans, essential for saving lives in the event of a dam failure. These plans provide for surveillance of the dam, notification of emergency management officials, evacuation plans, and most importantly the identity of the areas below the dam that would be flooded in the event of a dam failure. Without these plans, a local downstream community would have little chance of receiving adequate and timely warning in order to evacuate their homes and businesses. Critical to this plan is the completion of dam failure modeling to clearly map the downstream area flooded from a failure, often called the "danger reach". Rehabilitation funded under this program should include this, as part of the rehabilitation design and planning package. Considering the se-

curity threat alerts that so often include potential actions against dams, these plans are even more critical.

Examples

Iowa has been well served by their 1,300 watershed dams, including 500 in the Little Sioux River Basin. Currently, 65 of the watershed dams have exceeded their design life of 50 years and within five more years 100 more will exceed their design life. There are 92 project requests seeking assistance, which total nearly \$10 million in rehabilitation costs. These 92 dams pose a risk to 180 people and \$3.3 million in downstream infrastructure.

Local sponsors in Pennsylvania have submitted 22 requests for watershed rehabilitation projects. The total rehabilitation costs for these 22 dams is \$2.4 million, yet these dams return \$10.7 million in annual benefits; and leave 14,000 people and \$414 million of infrastructure at risk from a failure.

In Texas, there are nearly 2,000 USDA Watershed Dams that provide important irrigation water, critical flood protection and many other benefits. 65 watershed dams have already exceeded the 50-year design life, while another 340 more watershed dams will exceed their design life in just five years.

There are currently requests from sponsors to rehabilitate 198 watershed dams in Texas. These dams pose a threat to almost 20,000 people living below them; and \$87 million of public infrastructure is also risk. Yet, these 198 dams also provide \$13 million in benefits each year to Texan constituents who continue to rely on them. The estimated costs to rehabilitate these 198 watershed dams are approximately \$60 million.

Georgia is another state that has benefited from these federal programs as there are 357 small watershed dams, with 128 current requests from local sponsors for assistance from USDA to conduct rehabilitation including extending the service life of the dams. There are nearly 6,000 people and over \$1.5 billion of infrastructure at risk downstream from these dams. The annual benefits from these watershed dams are \$17 million. The estimated rehabilitation costs for these 128 dams is \$86 million, which represents the largest identified need of any state in the country.

Gwinett County, Georgia offers a dramatic example of changes in the watershed due to development beyond the control of the local sponsors. In the 1960's the population of Gwinett County was approximately 70,000 and the dams were primarily constructed to provide protection for agricultural areas. Today, there are 650,000 residents in Gwinett County with several hundred living below these dams that no longer meet dam safety standards.

In Missouri, there are 770 watershed dams with 189 requests for rehabilitation assistance to date. The estimate to rehabilitate these dams is just over \$15 million. These dams provide \$1.3 million in annual benefits and pose a risk to nearly \$3 million of downstream infrastructure.

Table 1 attached to this testimony lists, by state, the total number of USDA watershed dams currently identified as needing rehabilitation, the range of years the dams were constructed, the population and infrastructure at risk, the annual benefits derived from the dams and the estimated costs for rehabilitation.

Request

Mr. Chairman and Members of this subcommittee, the Association of State Dam Safety Officials see this full funding of this program as critical to the safety of the nation's dams as well as the lives and property downstream. Identifying a funding source for rehabilitating and securing our country's dams is a major challenge. For the 11,000 small watershed dams created through a highly successful program administered by the Federal government, Congress and the Administration should reconfirm their commitment to the structures and the American people who depend on the continuing benefits provided by these dams. These same people need to be secure that the dams the United States help them build will not fail or diminish their function.

ASDSO asks that the Subcommittee view funding the Rehabilitation of Watershed Dams as a significant re-investment in the benefits of the program and an investment in the safety of these dams. Therefore, this association respectfully requests that this Subcommittee provide additional appropriations beyond the Administration's request to fully fund this critical program at the \$105 million authorized level.

Thank you Mr. Chairman and members of the Subcommittee for this opportunity to submit this testimony. We look forward to working with the Subcommittee and staff in any way to advance the safety of dams in the United States.

TABLE 1.—SUMMARY OF PROJECT SPONSOR REQUESTS—REHABILITATION OF AGING DAMS—NATIONAL SUMMARY APRIL 2001

State	Total number of projects/dams	Number of rehab requests	Dam construction range of years	Pop. at risk number est.	Infrastr. at risk dollar est.	Annual benefits provided dollar est.	Rehab cost dollar est.
AK	0	0	to				
AL	105	64	1960 to 1955	3,805	\$19,380,000	\$5,634,000	\$20,217,500
AR	170	28	1954 to 1986	245	8,655,000	2,131,743	12,983,800
AZ	25	22	1954 to 1988	75,560	178,330,000	28,440,000	51,000,000
CA	3	1	1955 to 1955	10,000	25,000,000	3,000,000	500,000
CO	144	9	1957 to 1982	55,580	70,000,000	3,743,000	11,900,000
CT	31	2	1961 to 1988	1,000	3,000,000	150,000	200,000
DE	0	0	to				
FL	10	0	to				
GA	357	128	1953 to 1993	5,931	1,583,238,241	17,465,239	86,287,500
HI	4	0	to				
IA	1,325	92	1948 to 1984	180	3,311,000	551,000	9,838,000
ID	3	1	1970 to 1970	5,000	10,000,000	675,000	2,000,000
IL	64	10	1960 to 1975	840	2,050,000	106,900	1,977,300
IN	110	14	1961 to 1973	1,101	38,150,000	1,344,460	4,400,000
KS	809	62	1954 to 1989	39	4,051,700	1,820,100	13,869,700
KY	200	22	1957 to 1975	12,100	16,700,000	2,902,800	11,700,000
LA	35	0	to				
MA	29	15	1960 to 1982	61,108	3,300,000	12,175,000	3,300,000
MD	16	0	to				
ME	16	3	1965 to 1975	0	0	6,000	30,000
MI	13	0	to				
MN	44	5	1957 to 1963	18	380,000	29,000	430,000
MO	770	189	1954 to 1982	0	2,829,825	1,299,810	15,170,000
MS	578	57	1957 to 1995	1,953	18,355,000	3,764,600	11,430,000
MT	16	7	1962 to 1975	365	21,000,000	2,465,900	1,520,000
NC	98	54	1954 to 1992	688	1,337,520	717,300	7,748,125
ND	48	2	1962 to 1979	250	5,500,000	1,200,000	1,350,000
NE	723	98	1954 to 1997	1,401	15,937,000	10,327,691	11,081,000
NH	24	0	to				
NJ	20	1	1962 to 1961	25	60,000	21,500	200,000
NM	78	12	1975 to 1962	2,256	154,900,000	1,333,000	8,400,000
NV	8	0	to				
NY	55	53	1955 to 1997	78,428	1,747,949	2,240,455	2,265,250
OH	61	30	1955 to 1976	720	13,250,000	2,355,000	7,550,000

	2,087	83	1949 to 1977	5,245	27,625,000	2,823,706	47,997,000
OK	5	2	1967 to 1969	125	1,100,000	1,400,000	200,000
OR	87	22	1960 to 1994	14,640	414,000,000	10,735,000	2,437,000
PA	2	0	to				
PR	0	0	to				
RI	86	39	1960 to 1985	69,335	62,868,000	1,532,700	1,619,500
SC	55	6	1960 to 1983	0	140,000	125,000	275,000
SD	140	0	to				
TN	2,038	198	1948 to 1987	19,677	87,104,000	13,315,700	59,805,000
TX	25	0	to				
UT	145	12	1956 to 1974	1,183	17,906,216	355,201	10,000,000
VA	4	4	1968 to 1973	960	25,000,000	292,000	800,000
VT	3	0	to				
WA	86	8	1956 to 1970	292	1,623,100	444,500	2,430,000
WI	167	93	1954 to 1992	13,969	76,587,670	7,658,767	99,013,310
WV	13	0	to				
National Totals	10,935	1,448	1948 to 1997	444,019	2,914,437,221	144,582,072	521,924,985

PREPARED STATEMENT OF THE BEAR TRUST INTERNATIONAL, BOONE AND CROCKETT CLUB, BOWHUNTING PRESERVATION ALLIANCE, BUCKMASTERS AMERICAN DEER FOUNDATION, CAMPFIRE CLUB OF AMERICA, CONGRESSIONAL SPORTSMEN'S FOUNDATION, CONSERVATION FORCE, FOUNDATION FOR NORTH AMERICAN WILD SHEEP, HOUSTON SAFARI CLUB, INTERNATIONAL ASSOCIATION OF FISH AND WILDLIFE AGENCIES, IZAAK WALTON LEAGUE OF AMERICA, MULE DEER FOUNDATION, NATIONAL RIFLE ASSOCIATION, NATIONAL SHOOTING SPORTS FOUNDATION, NATIONAL TRAPPERS ASSOCIATION, POPE AND YOUNG CLUB, QUALITY DEER MANAGEMENT ASSOCIATION, ROCKY MOUNTAIN ELK FOUNDATION, RUFFED GROUSE SOCIETY, SAFARI CLUB INTERNATIONAL, SHIKAR SAFARI CLUB INTERNATIONAL, THE WILDLIFE SOCIETY, WILDLIFE MANAGEMENT INSTITUTE, AND WHITETAILS UNLIMITED, INC.

Dear Chairman Bennett and Sen. Kohl: We urge you to include adequate funding in the fiscal year 2004 federal budget to fully implement the National Plan to Assist States, Federal Agencies and Tribes in Managing Chronic Wasting Disease in Captive and Free Ranging Cervids. We specifically ask your subcommittee to appropriate \$7.75 million for agency programs within Department of the Interior and, further, \$20.46 million for non-matching state and tribal grants to be administered either through USDA-Animal and Plant Health Inspection Service (APHIS) or the U.S. Fish and Wildlife Service (USFWS).

Chronic Wasting Disease (CWD) is always fatal for deer and elk. It has been found in either captive or free-ranging wildlife in 12 states and 2 Canadian provinces. Left unmanaged, this disease has the potential to devastate local deer and elk populations. Moreover, improper management of CWD will stimulate a major economic loss for state agencies and private businesses that rely on hunting and wildlife associated tourism for their livelihood. According to the USFWS's 2001 National Survey of Fishing, Hunting, and Wildlife-Associated Recreation, 10.9 million sportsmen and women spent 153 million days hunting big game in 2001. Collectively, they spent \$10.1 billion to purchase necessary equipment and to cover trip-related costs. And within Colorado, the Division of Wildlife estimated that deer and elk hunters generated \$599 million for the state's economy in 2001. Furthermore, the Division collected \$44 million through deer and elk license sales, which represented 54 percent of the agency's \$81.9 million budget for 2001.

In May 2002, the House Resources Subcommittees on Forests and Forest Health and Fisheries Conservation, Wildlife and Oceans held a joint oversight hearing on the CWD crisis. Invited witnesses were asked to provide suggestions as to how Congress and the federal government could most effectively assist states in the fight against CWD. Resultantly, the U.S. Department of Agriculture (USDA) and U.S. Department of the Interior (DOI) were directed to prepare a national plan to address CWD.

A national CWD task force was quickly formed to ensure that federal and state agencies cooperated in the development and implementation of an effective national CWD strategy and program. Membership for the task force, and its associated working groups, totaled 75 professionals who were knowledgeable in wildlife health, wildlife management, wildlife biology and livestock health and represented a myriad of state and federal wildlife management and animal health agencies, as well as universities.

On June 26, 2002 the task force released the National Plan to Assist States, Federal Agencies and Tribes in Managing Chronic Wasting Disease in Captive and Free Ranging Cervids, also known as the National CWD Plan. This plan represents the most current scientific knowledge on CWD, and delineates a strategy to identify the extent of the disease and management actions necessary to limit its spread. An Implementation Document was then developed to identify who will be responsible for individual projects, how these projects will help control CWD, how much money is necessary to implement the projects, and when each project should be completed. The Implementation Document, dated October 16, 2002, was provided to Bobby Acord, Director of APHIS, and Steve Williams, Director of the U. S. Fish and Wildlife Service. It is our understanding that the document has since been provided to the Office of Management and Budget for review and analysis. Both documents are available at <http://www.cwd-info.org/index.php/fuseaction/policy.policy>.

According to the National CWD Plan, the primary federal role will be to provide coordination and assistance with research, surveillance, disease management, diagnostic testing, technology, communications, information dissemination, education and funding for state CWD programs. Federal agencies will provide tools and financial assistance to states and help develop consensus-based approaches to CWD control.

The federal funding requirements identified in the Implementation Document total \$108 million over a three year period. It is important to recognize that not all

CWD funding has been or will be federal dollars. For example, it is estimated that the states of Colorado, Nebraska, and Wisconsin expended \$3.6 million to combat CWD during 2002. In Colorado, a portion of that money was used to cull approximately 450 mule deer and 200 elk, further evidence of the mounting need to protect the viability of wild and captive cervid populations.

We are concerned that the collaborative science-based recommendations in the National CWD Plan and its associated Implementation Document have not been given due consideration during the development of the fiscal year 2004 budget. The Implementation Document recommends \$13.6 million for USDA, \$7.75 million for DOI and \$20.46 million for state and tribal grants during the first year. However, the Administration only requested \$14 million for USDA, of which only \$7 million is for Plan activities. Moreover, DOI would receive \$2.4 million under the Administration's request, less than half of what the Implementation Document's authors recommended, and the states would receive nothing. We believe this spending request is woefully inadequate to effectively implement the National CWD Plan.

In summary, we urge you to include in the fiscal year 2004 federal budget the funding necessary to fully implement year one of the National CWD Plan. Both the DOI and the USDA Agriculture have been assisting states and tribes to the extent that their budgets permit; however, significant additional funding is needed to implement the actions and programs outlined in the National CWD Plan and its associated Implementation Document. Since the management of resident wildlife is the responsibility of the appropriate state wildlife agency, in addition to funding the CWD activities of both the DOI and USDA, the federal budget appropriation must provide funding that will be passed on to the states through a grant program that requires no match. The states have already spent millions of dollars on this issue and need federal funding assistance to continue the battle.

Thank you for reviewing our comments, and we look forward to working with you on this important issue throughout the appropriations process.

PREPARED STATEMENT OF BOB LAWRENCE & ASSOCIATES INC.

Mr. Chairman and Members of the Subcommittee: My name is Bob Lawrence, and I am President of Bob Lawrence & Associates, Inc., a consulting firm located in Alexandria, Virginia. With me today is Jim Goldwater, a Vice President with my firm. We are here today to request full funding of the Department of Agriculture's conservation programs, as authorized in last year's Farm Bill. These programs provide valuable assistance to farmers and ranchers striving to preserve and enhance both water quality and water quantity. Specifically, for the Environmental Quality Incentives Program (EQIP), we support the Department's request of \$850 M. For the Ground & Surface Water Conservation Program, we request the Authorized level of \$60 M, as opposed to the Budget Request of \$51 M, and for the Conservation Security Program, we request the maximum allowed under the formula created in the new Farm Bill.

Mr. Chairman, for the past 16 years, it has been the pleasure of our firm to provide consulting services to the modern, mechanized irrigation industry, and during those years, we have developed a deep admiration for the dedicated, ethical approach of this industry and the dramatic improvements that the industry has made to efficient water use, prevention of non-point source pollution through reductions in the application of chemicals, pesticides, and fertilizers, and significant increases in quality crop production. Similar improvements have occurred in the turf and landscape portions of the irrigation industry, resulting in the quality use of reclaimed water, increases in water use efficiency, such as irrigation scheduling, and efficient application resulting in chemical reductions. The reductions in water use as well as water waste offer the additional benefit of helping to minimize future droughts. For these reasons, we commend the United States Congress for its vision and leadership by including important irrigation provisions in the landmark Conservation title in last year's Farm Bill, and for ensuring that improvements in the use of agricultural irrigation are eligible for assistance under these Conservation programs. A brief description of each program follows:

EQIP.—The Environmental Quality Incentives Program provides incentive assistance to ranchers and farmers to install, maintain, or upgrade conservation measures (including water quality enhancement, erosion control, and enhanced irrigation management) on more than 17 million acres of agricultural land. Funds are split between livestock (60 percent) and crop producers (40 percent).

The Ground and Surface Water Conservation Program, which falls under the EQIP umbrella, provides cost-shared, low-interest loans, and incentive payments to encourage ground and surface water conservation. Under the Farm Bill conference

agreement, water conservation activities that are eligible for incentive payments and cost-share include "low-energy precision irrigation systems, low-flow irrigation systems . . . and conversion from gravity or flood irrigation to higher efficiency systems." The agreement also authorizes assistance "to improve irrigation systems and to enhance irrigation efficiencies," language which we proposed. Assistance is also authorized to "mitigate the effects of drought." Clearly, this program is timely and addresses the heart of present, national, farm problems.

The Conservation Security Program.—This new program was created to assist agricultural producers to maintain or adopt conservation practices on private agricultural land. It is intended to help the producers implement programs to address resource problems, including soil, air, water, plant and animal, and energy conservation. Specifically defined practices include "water conservation (including through irrigation) and water quality management."

During consideration of the Farm Bill in the last Congress, the domestic irrigation industry which we represented justified greater national acceptance of and commitment to efficient irrigation technology in a number of ways. These included the following:

- In the United States, streams, lakes, and aquifers hold 75 percent of our fresh water. According to the U.S. Geological Survey, of the remaining 25 percent, agriculture uses about 80 percent.
- Since agriculture accounts for most of the country's daily water consumption, solutions for both water quality and quantity problems are likely to involve agriculture.
- Conservation and improved efficiency offer the greatest opportunities for helping to address water resource protection.
- According to the Farm and Ranch Irrigation Survey, pressurized irrigation is substantially more efficient than gravity (flood) systems. For example, on virtually the same amount of agricultural land, pressurized irrigation used just 37 percent of the water used for agricultural purposes, while flood accounted for 63 percent.
- Irrigated acres account for only 15 percent of U.S. farmland but produce 38 percent of farm revenue, according to the National Research Council.
- Sound water management practices, including the deployment of modern irrigation technology, can help preserve limited water supplies during incidents of drought.
- The National Oceanic and Atmospheric Administration has estimated that drought causes annual economic losses of \$6–8 billion, more than the losses caused by floods or hurricanes.
- The reduction in the amount of water applied each year by agriculture adopting more efficient technology practices equals the water needed for the annual personal use of every man, woman, and child in the nation's 29 largest cities.
- Control of nonpoint source pollution, particularly that caused by agricultural activities including animal waste production, is a preeminent water quality concern, since runoff from farming and urban areas causes over 50 percent of the nation's nonpoint source pollution.
- The development and deployment of more efficient irrigation technologies can substantially enhance water quality by preventing erosion of top soil and reducing nonpoint source pollution through such means as limiting the amounts of pesticides, chemicals, and fertilizers applied. Greater utilization of efficient irrigation will also contribute significantly to the protection of watersheds, aquifers, and other water sources.
- Modern irrigation technology can also reduce the amount of water lost through inefficient or outdated systems. It allows the agriculture, turf and landscape, and golf course industries to apply water more efficiently, taking into consideration time of day, local topography and soil conditions, the size and configuration of the area requiring irrigation, and weather. Proper irrigation system scheduling minimizes and can even eliminate wasteful application by considering such factors as natural rainfall and saturated soils.
- Landscaping can increase residential property values by 7 percent and add as much as 15 percent to the selling price of a home.

In Conclusion, Mr. Chairman, let us reaffirm that the many benefits offered by modern irrigation technology can help us address a variety of problems faced by the agricultural community—indeed, the entire country—today. The Conservation programs listed above, and the incentives provided by these programs, will enable many, many farmers and ranchers to implement critical and timely solutions, thereby strengthening our agricultural community and improving our air and water environments.

We thank you for the opportunity to present this testimony.

PREPARED STATEMENT OF THE CALIFORNIA INDUSTRY AND GOVERNMENT CENTRAL CALIFORNIA OZONE STUDY COALITION ON BEHALF OF THE CALIFORNIA INDUSTRY AND GOVERNMENT CENTRAL CALIFORNIA OZONE STUDY COALITION WE ARE PLEASED TO SUBMIT THIS STATEMENT FOR THE RECORD IN SUPPORT OF OUR FISCAL YEAR 2004 FUNDING REQUEST OF \$500,000 FOR CSREES FOR THE CENTRAL CALIFORNIA OZONE STUDY (CCOS)

Most of central California does not attain Federal health-based standards for ozone and particulate matter. The San Joaquin Valley is developing new State Implementation Plans (SIPs) for the Federal ozone and particulate matter standards in the 2002 to 2004 timeframe. The San Francisco Bay Area has committed to update their ozone SIP in 2004 based on new technical data, and the Sacramento area also plans to re-evaluate their ozone SIP in that timeframe. In addition, none of these areas attain the new Federal 8-hour ozone standard. SIPs for the 8-hour standard will be due in the 2007 timeframe—and must include an evaluation of the impact of transported air pollution on downwind areas such as the Mountain Counties. Photochemical air quality modeling will be necessary to prepare SIPs that are approvable by the U.S. Environmental Protection Agency.

The Central California Ozone Study (CCOS) is designed to enable central California to meet Clean Air Act requirements for ozone SIPs as well as advance fundamental science for use nationwide. The CCOS field measurement program was conducted during the summer of 2000 in conjunction with the California Regional PM₁₀/PM_{2.5} Air Quality Study (CRPAQS), a major study of the origin, nature and extent of excessive levels of fine particles in central California. CCOS includes an ozone field study, a deposition study, data analysis, evaluations of model performance, and a retrospective look at previous SIP modeling. The CCOS study area extends over central and most of northern California. The goal of the CCOS is to better understand the nature of the ozone problem across the region, providing a strong scientific foundation for preparing the next round of State and Federal attainment plans. The study includes six main components, some of which have been completed:

- Developed the design of the field study.
- Conducted an intensive field monitoring study from June 1 to September 30, 2000.
- Developing an emission inventory to support modeling.
- Developing and evaluating a photochemical model for the region.
- Designing and conducting a deposition field study.
- Evaluating emission control strategies for the next ozone attainment plans.

The CCOS is directed by Policy and Technical Committees consisting of representatives from Federal, State and local governments, as well as private industry. These committees, which managed the San Joaquin Valley Ozone Study and currently manage the California Regional PM₁₀/PM_{2.5} Air Quality Study, are landmark examples of collaborative environmental management. The proven methods and established teamwork provide a solid foundation for CCOS. The sponsors of CCOS, representing state, local government and industry, have contributed approximately \$9.1 million for the field study. The Federal Government contributed \$3,730,000 for some data analysis and modeling. In addition, CCOS sponsors are providing \$2 million of in-kind support. The Policy Committee is seeking Federal co-funding of an additional \$6.25 million to complete the remaining data analysis and modeling portions of the study and for a future deposition study. California is an ideal natural laboratory for studies that address Federal, agriculture-related issues, given the scale and diversity of the various ground surfaces in the region (crops, woodlands, forests, urban and suburban areas).

For fiscal year 2004, our Coalition is seeking funding of \$500,000 through the U.S. Department of Agriculture (USDA) Cooperative State Research, Education, and Extension Service (CSREES). Domestic agriculture is facing increasing international competition. Costs of production and processing are becoming increasingly more critical. The identification of cost-effective options for addressing environmental options affecting agricultural costs will contribute significantly to the long-term health and economic stability of local agriculture. A CSREES grant is needed to address the issue of crop ozone adsorption, soil NO_x emissions, smoke particulate dispersion and deposition, alternatives to open burning. Particulate dispersion is managed in order to minimize smoke impacts and avoid violations of ambient air quality standards. The air quality impacts of particulate dispersion and alternatives to burning need to be addressed. CCOS will improve the ability to assess the impacts of smoke particulate dispersion. A CSREES grant is also needed to better understand the potential air quality benefits of crop ozone adsorption in the air quality modeling inventory. Recent studies have shown that crop ozone adsorption can have significant beneficial impact impacts on ozone formation.

There is a national need to address data gaps and California should not bear the entire cost of addressing these gaps. National data gaps include issues relating to the integration of particulate matter and ozone control strategies. The CCOS field study took place concurrently with the California Regional Particulate Matter Air Quality Study—previously jointly funded through Federal, State, local and private sector funds. Thus, CCOS was timed to enable leveraging the efforts of the particulate matter study. Some equipment and personnel served dual functions to reduce the net cost. From a technical standpoint, carrying out both studies concurrently was a unique opportunity to address the integration of particulate matter and ozone control efforts. CCOS was also cost-effective since it builds on other successful efforts including the 1990 San Joaquin Valley Ozone Study. Federal assistance is needed to effectively address these issues and CCOS provides a mechanism by which California pays half the cost of work that the Federal Government should pursue.

We appreciate the Subcommittee's consideration of our request. Thank you very much.

PREPARED STATEMENT OF THE COALITION ON FUNDING AGRICULTURAL RESEARCH MISSIONS (COFARM)

The Coalition on Funding Agricultural Research Missions (CoFARM), representing 130,000 members from scientific and professional organizations, is united by a commitment to advance and sustain investment in our nation's fundamental and applied agricultural research.

We understand that the Agriculture Appropriations bill has many valuable and necessary components, and we applaud the efforts of the Senate Agriculture Appropriations Subcommittee which resulted in the National Research Initiative Competitive Grants Program (NRI) being funded at \$166 million fiscal year 2003, an increase of nearly 40 percent over fiscal year 2002! Below we have highlighted funding recommendations for the fiscal year 2004 appropriations cycle.

By priority area our recommendations include:

Recommendation 1.—CoFARM urges you to support the President's fiscal year 2003 proposal of \$240 million for the NRI. A study conducted by USDA's Economic Research Service highlights the annual rate of return to publicly fund agricultural research at 35 percent. Therefore, increased funding of agriculture research would be beneficial to our U.S. economy. Our research programs should be viewed as an investment in the future, not an expense. Moreover, funding the NRI at \$240 million would support the finding in the recent National Academies report, *Frontiers in Agricultural Research*, that total competitive grants should be substantially increased to and sustained at 20–30 percent of the total USDA research portfolio.

Recommendation 2.—CoFARM requests that any new monies appropriated for the NRI, as in fiscal year 2003, allow the Secretary the discretion to apply up to 20 percent towards carrying out integrated research, extension and education competitive grants program under the same conditions and terms as those provided for in the fiscal year 2003 spending bill. Multidisciplinary research efforts continue to have a promising future within all research communities, and agriculture does not differ from this trend.

The NRI is a highly respected competitive grants program that funds the basic research necessary to improve crop and livestock production, and the processes that deliver quality food products from farm to table while protecting and enhancing the nation's environment and natural resources. Recent security threats facing America require new and expanded agricultural research to protect our nation's forests, water supplies, food processing and distribution network, and rural communities and insure the future security, safety and sustainability of America's food and fiber system. In order to address these challenges and maintain our position in an increasingly competitive world, we must maintain and continue to support research programs such as the NRI.

Without ongoing research, our nation will be unable to meet the many current and new challenges facing our food production system from farm to table. Past investment in the NRI has allowed scientists engaged in research on agricultural systems to successfully achieve many breakthroughs which include:

- NRI researchers have improved feeding standards and management practices for livestock that reduce waste products and improve nutrient management to protect our soil and water resources.
- The USDA was the lead U.S. agency in the International Rice Genome Sequencing Project, which led to the published initial sequences for two varieties of rice (Science 296:32–35 (2002)).

- NRI researchers have observed that pre-pregnant overweight or obese women were associated with failure to initiate and sustain lactation. They concluded that a reduction in the prolactin response to suckling represents one biological mechanism that could help to explain the early lactation failure observed in overweight and obese women.
 - An NRI-funded study conducted by agricultural economists at Texas A&M addressed the influence of nutrition knowledge, food beliefs, and dietary restraint on food choices.
 - The development of national disaster response plans by NRI researchers working with the Department of Homeland Security.
- The future viability of our nation's production systems will depend on the investment in science we make today. Congress must enhance funding for competitive agricultural research to assure Americans of a safe and affordable food supply and to provide for the next generation of research scientists.

As you lead the Congress in deliberation on funding levels for agricultural research, we urge you to support the President's proposal of \$240 million for the NRI. Please consider CoFARM as a supportive resource in efforts to improve agricultural research capacity. We hope you will call on our membership and scientific expertise.

PREPARED STATEMENT OF THE COALITION TO PROMOTE U.S. AGRICULTURAL EXPORTS

As members of the Coalition to Promote U.S. Agricultural Exports, we commend the Chairman and members of the Subcommittee for their interest and support of U.S. agriculture and express our appreciation for this opportunity to share our views.

The Coalition to Promote U.S. Agricultural Exports is an ad hoc coalition of over 80 organizations, representing farmers and ranchers, fishermen and forest product producers, 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. In 2003, U.S. agriculture exports are projected to reach \$57 billion, which is still below the high of roughly \$60 billion that was achieved in 1996. This lower level of exports is caused by a combination of factors, including continued subsidized foreign competition and related artificial trade barriers. U.S. agriculture's trade surplus is also expected to be about \$14 billion, down approximately 50 percent from 1996, with imports continuing at record levels.

According to recent USDA information, the European Union (EU) currently spends \$2 to \$5 billion annually on agricultural export subsidies compared to less than \$100 million by the United States. In other words, the United States is being outspent by a factor of 20 to 1 or more by the EU alone with regard to the use of export subsidies. During 1998–99, (the most recent year for which data is available), the EU, the Cairns group, and other foreign competitors also devoted more than \$1 billion on various activities to promote their exports of agricultural, forestry, and fishery products.

According to USDA, spending by these competitor countries on market promotion increased by 50 percent over the 1995–98 time period, while U.S. spending remained flat. We have no reason to believe that this trend in spending by our competitors has changed since then. Furthermore, almost all of this increase has been directed to the high-value and consumer-ready product trade.

Information compiled by USDA also shows that such countries are spending over \$100 million just to promote sales of their products in the United States. In other words, they are spending almost as much to promote their agricultural exports to the United States as the United States currently spends (\$110 million) through the Market Access Program (MAP) to promote American-grown and produced products worldwide! In fiscal year 1999, the United States recorded its first agricultural trade deficit with the EU of \$1 billion. In fiscal year 2002, USDA reported that the trade deficit with the EU had grown to \$2.2 billion, the largest agriculture deficit the United States runs with any market.

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, New Zealand, and Brazil have also sharply bolstered their export promotion expenditures in recent years.

As the EU and our other foreign competitors have made clear, they intend to continue to be aggressive in their export efforts. During consideration of the 2002 Farm Bill, Congress sought to bolster U.S. trade expansion efforts by approving an increase in funding for MAP and the Foreign Market Development (FMD) Cooperator Program, which will begin to reverse the decline in funding for these export programs that occurred over the last decade. For fiscal year 2004, the new Farm Bill authorizes funding for MAP at \$125 million, and FMD is authorized at \$34.5 million. The Coalition strongly supports both levels of funding for these important export programs.

Both MAP and FMD are administered on a cost-share basis with farmers and other participants required to contribute up to 50 percent of their own resources. These programs are among 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. The over 70 U.S. agricultural groups that share in the costs of the MAP and FMD programs fully recognize the export benefits of market development activities. In fact, they have sharply increased their own contributions to both programs over the past decade while USDA funds have actually dropped. Since 1992, MAP participants have increased their contributions from 30 percent (30 cents for every dollar contributed from USDA) to almost 120 percent (\$1.20 in industry funds for every USDA dollar). For FMD, the contribution rate has risen from 76 percent to the current level of 120 percent. By any measure, such programs have been tremendously successful and extremely cost-effective in helping maintain and expand U.S. agricultural exports, protect American jobs, and strengthen farm income.

For all these reasons, we want to emphasize again the need to help strengthen the ability of U.S. agriculture to compete effectively in the global marketplace. American agriculture is among the most competitive industries in the world, but it cannot and should not be expected to compete alone against the treasuries of foreign governments. 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, as members of the Coalition to Promote U.S. Agricultural Exports, 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 List)

Alaska Seafood Marketing Institute	CoBank
American Forest and Paper Association	Diamond of California
American Hardwood Export Council	Florida Citrus Commission
American Meat Institute	Florida Citrus Mutual
American Peanut Council	Florida Citrus Packers Association
American Quarter Horse Association	Florida Citrus Processors Association
American Seed Trade Association	Florida Department of Citrus
American Sheep Industry Association	Food Export USA-Northeast
American Soybean Association	Georgia Poultry Federation
Blue Diamond Growers	Ginseng Board of Wisconsin
Calcot, Ltd.	Gulf Citrus Growers Association
California Agricultural Export Council	Highlands County Citrus Growers Association, Inc.
California Asparagus Commission	Hop Growers of America
California Association of Winegrape Growers	Indian River Citrus League
California Canning Peach Association	Kentucky Distillers Association
California Cling Peach Board	Land O'Lakes, Inc.
California Dried Plum Board	Mid-America International Agri-Trade Council
California Fig Institute	Mohair Council of America
California Kiwifruit Commission	National Association of State Departments of Agriculture
California Plum Marketing Board	National Association of Wheat Growers
California Strawberry Commission	National Barley Growers Association
California Table Grape Commission	National Cattlemen's Beef Association
California Tomato Commission	National Chicken Council
California Walnut Commission	National Confectioners Association
Cherry Marketing Institute	
Chocolate Manufacturers Association	

National Corn Growers Association	United Egg Association
National Cotton Council	United Egg Producers
National Council of Farmer Cooperatives	United Fresh Fruit and Vegetable Association
National Dry Bean Council	USA Dry Pea and Lentil Council
National Grain Sorghum Producers	USA Poultry & Egg Export Council
National Grange	USA Rice Federation
National Grape Cooperative Association, Inc.	U.S. Apple Association
National Milk Producers Federation	U.S. Dairy Export Council
National Pork Producers Council	U.S. Hide, Skin & Leather Association
National Potato Council	U.S. Livestock Genetics Export, Inc.
National Renderers Association	U.S. Meat Export Federation
National Sunflower Association	U.S. Rice Producers Association
National Turkey Federation	U.S. Wheat Associates
North American Millers' Association	Valley Fig Growers
Northwest Horticultural Council	Vinifera Wine Growers Association
Ocean Spray Cranberries, Inc.	Washington Apple Commission
Peace River Valley Citrus Growers Association	Welch's
Pet Food Institute	Western Growers Association
Softwood Export Council	Western Pistachio Association
Southern Forest Products Association	Western U.S. Agricultural Trade Association
Southern U.S. Trade Association	Wheat Export Trade Education Committee
Sunkist Growers	WineAmerica (The National Association of American Wineries)
Sun Maid Growers of California	Winegrape Growers of America
Sunsweet Growers, Inc.	Wine Institute
The Catfish Institute	
The Popcorn Institute	
Tree Top, Inc.	

PREPARED STATEMENT OF THE COLORADO RIVER BASIN SALINITY CONTROL FORUM

The Congress concluded that the Colorado River Basin Salinity Control Program should be implemented in the most cost-effective way, and realizing that agricultural on-farm strategies were some of the most cost-effective strategies authorized a program for the Department of Agriculture within the Colorado River Basin Salinity Control Act. With the enactment of the Federal Agriculture Improvement and Reform Act of 1996 (FAIRA), the Congress directed that the Salinity Control Program should be implemented as one of the components of the Environmental Quality Incentives Program (EQIP). Since the enactment of the Farm Security and Rural Investment Act (FSRIA) in 2002, there is, for the first time, an opportunity to adequately fund the Salinity Control Program within the EQIP.

The Salinity Control Program, as set forth in the Colorado River Basin Salinity Control Act, is to benefit Lower Basin water users hundreds of miles downstream from salt sources in the Upper Basin. There are very significant economic damages caused by high salt levels in this water source. Agriculturalists in the Upper Basin where the salt must be controlled, however, don't first look to downstream water quality standards but realize local benefits. They submit cost-effective proposals to the State Conservationists in Utah, Wyoming and Colorado and offer to cost share. The Colorado River Basin Salinity Control Act provides that the seven Colorado River Basin States will also cost share in this effort, providing 30 percent of the funding. This has brought together a remarkable partnership.

After longstanding urgings from the states and directives from the Congress, the Department has concluded that this program is different than small watershed enhancement efforts common to the EQIP program. In this case, the watershed to be considered stretches more than 1,200 miles from the river's headwater in the Rocky Mountains to the river's terminus in the Gulf of California in Mexico. The Department has now determined that this effort should receive a special fund designation and has appointed a coordinator for this multi-state effort.

The NRCS has earmarked funds to be used for the Colorado River Basin Salinity Control Program and has designated this an area of special interest. The Forum appreciates the efforts of the subcommittee in this regard. In fiscal year 2002, there was earmarked about \$10 million. The states added about \$4.3 million in up-front cost-sharing in fiscal year 2002 and local producers cost-share, it is estimated, about another \$4.6 million. The plan for water quality control of the Colorado River was prepared by the Forum, adopted by the states, and approved by the EPA. In the water quality plan it is required that the USDA (federal) portion of the effort be

funded at a level of at least \$17.5 million. Hence, in fiscal year 2002 there was a shortfall in the minimum needed federal designated funds of about \$7.5 million. State and local cost-sharing is triggered by the federal appropriation.

The USDA indicates that more adequate funding in fiscal year 2003 for the EQIP program will result in more funds being allocated for the salinity control program. Over the past few years, the NRCS has designated that 2.5 percent of the EQIP funds be allocated to Colorado River Salinity Control. The Forum believes this is the appropriate future level of funding as long as it does not drop below \$17.5 million. The Basin states have cost sharing dollars available to participate in on-farm salinity control efforts. The agricultural producers in the Upper Basin are waiting for their applications to be considered so that they might also cost share in the program.

The Congress authorized in FSRIA that the EQIP program in fiscal year 2004 could be at the \$1 billion level. The President has requested \$850 million for financial assistance with the \$150 million balance being used to partially fund the Farm Bill Technical Assistance Account. The Forum urges the Subcommittee to adequately fund the EQIP program so as to provide that at least 2.5 percent of the cost sharing and technical assistance funds be designated for the Colorado River Basin salinity control effort.

OVERVIEW

The Colorado River Basin Salinity Control Program was authorized by Congress in 1974. The Title I portion of the Colorado River Basin Salinity Control Act responded to commitments that the United States made, through a Minute of the International Boundary and Water Commission, to Mexico with respect to the quality of water being delivered to Mexico below Imperial Dam. Title II of the Act established a program to respond to salinity control needs of Colorado River water users in the United States and to comply with the mandates of the then newly enacted Clean Water Act. This testimony is in support of funding for the Title II program.

After a decade of investigative and implementation efforts, the Basin states concluded that the Salinity Control Act needed to be amended. Congress agreed and revised the Act in 1984. That revision, while keeping the Department of the Interior as lead coordinator for Colorado River Basin salinity control efforts, also gave new salinity control responsibilities to the Department of Agriculture. Congress has charged the Administration with implementing the most cost-effective program practicable (measured in dollars per ton of salt removed). It has been determined that the agricultural efforts are some of the most cost-effective opportunities.

Since Congressional mandates of nearly three decades ago, much has been learned about the impact of salts in the Colorado River system. The Bureau of Reclamation has conducted studies on the economic impact of these salts. Reclamation recognizes that the damages to United States' water users alone are hundreds of millions of dollars per year.

The Colorado River Basin Salinity Control Forum (Forum) is composed of gubernatorial appointees from Arizona, California, Colorado, Nevada, New Mexico, Utah and Wyoming. The Forum has become the seven-state coordinating body for interfacing with Congress to support the implementation of a program necessary to control the salinity of the river system. In close cooperation with the federal agencies and under requirements of the Clean Water Act, every three years the Forum prepares a formal report analyzing the salinity of the Colorado River, anticipated future salinity, and the program necessary to keep the salinities at or below the levels measured in the river system in 1972 so as to control damages to downstream users.

In setting water quality standards for the Colorado River system, the salinity concentrations measured at Imperial, and below Parker, and Hoover Dams in 1972 have been identified as the numeric criteria. The plan necessary for controlling salinity has been captioned the "plan of implementation." The 2002 Review, Water Quality Standards for Salinity, Colorado River System, includes an updated plan of implementation. In order to eliminate the shortfall in salinity control resulting from inadequate federal funding for the last several years for USDA, the Forum has determined that implementation of the salinity control program needs to be accelerated. The level of appropriation requested in this testimony is in keeping with the agreed to plan. If adequate funds are not appropriated, state and federal agencies involved are in agreement that damage from the higher salt levels in the water will be more widespread and very significant in the United States and Mexico.

STATE COST-SHARING AND TECHNICAL ASSISTANCE

The authorized cost sharing by the Basin states, as provided by FAIRA, was at first difficult to implement as attorneys for USDA concluded that the Basin states

were authorized to cost share in the effort, but the Congress had not given USDA authority to receive the Basin states' funds. After almost a year of exploring every possible solution as to how the cost sharing was to occur, the states, in agreement with the Bureau of Reclamation, state officials in Utah, Colorado and Wyoming and with NRCS State Conservationists in Utah, Colorado and Wyoming, agreed upon a (parallel) salinity control program wherein the states' cost sharing funds are being contributed and used. We are now several years into that program and, at this moment in time, this solution to how cost sharing can be implemented appears to be satisfactory.

With respect to the states' cost sharing funds, the Basin states felt that it was most essential that a portion of the program be associated with technical assistance and education activities in the field. Without this necessary support, there is no advanced planning, proposals are not well prepared, assertions in the proposals cannot be verified, implementation of contracts cannot be observed, and valuable partnering and education efforts cannot occur. Recognizing these values, the "parallel" state cost sharing program expends 40 percent of the funds available on these needed support activities. Initially, it was acknowledged that the federal portion of the salinity control program funded through EQIP was starved with respect to needed technical assistance and education support. The Forum is encouraged with a recent Administration acknowledgment that technical assistance must be better funded. The Forum urges this Subcommittee to appropriate \$432 million as requested by the President for the Farm Bill Technical Assistance Account.

PREPARED STATEMENT OF THE COLORADO RIVER BOARD OF CALIFORNIA

Your support and leadership are needed in securing adequate funding for the U.S. Department of Agriculture with respect to its on-farm Colorado River Basin Salinity Control Program for fiscal year 2004. This program has been carried out through the Colorado River Basin Salinity Control Act, since it was enacted by Congress in 1974. With the enactment of the Federal Agricultural Improvement and Reform Act (FAIRA) in 1996, specific funding for salinity control projects in the Colorado River Basin were eliminated from the federal budget, and aggregated into the newly created Department of Agriculture Environmental Quality Incentives Program (EQIP) as one of its program components. With that action, Congress concluded that the salinity control program could be more effectively implemented as one of the components of the EQIP. Prior to FAIRA, the Department of Agriculture had specific line item funding for salinity control projects as high as \$14.7 million, but in recent years funding made available through EQIP has averaged less than \$5.5 million per year which is woefully inadequate to ensure that water quality standards in the Colorado River, with regard to salinity can be met. California's Colorado River water users are presently suffering economic damages in the hundreds of million of dollars per year due to the river's salinity.

The Colorado River Board of California (Colorado River Board) is the state agency charged with protecting California's interests and rights in the water and power resources of the Colorado River System. In this capacity, California along with the other six Colorado River Basin States through the Colorado River Basin Salinity Control Forum (Forum), the interstate organization responsible for coordinating the Basin States' salinity control efforts, established numeric criteria, in June 1975, for salinity concentrations in the River. These criteria were established to lessen the future damages in the Lower Basin States of Arizona, California, and Nevada, as well as assist the United States in delivering water of adequate quality to Mexico in accordance with Minute 242 of the International The Honorable Robert Bennett, Chairman April 4, 2003 Page 2 Boundary and Water Commission. The goal of the Colorado River Basin Salinity Control Program is to offset the effects of water resource development in the Colorado River basin after 1972 rather than to reduce the salinity of the River below levels that were caused by natural variations in river flows or human activities prior to 1972. To maintain these levels, the salinity control program must remove 1,800,000 tons of salt loading from the River by the year 2020. In the Forum's last report entitled 2002 Review, Water Quality Standards for Salinity, Colorado River System (2002 Review) released in October 2002, the Forum found that additional salinity control measures in the order of 1,000,000 tons were necessary to meet the implementation plan. The plan for water quality control of the River has been adopted by the states, and approved by the Environmental Protection Agency. Since implementation of EQIP, federal allocations by the Department of Agriculture have not equaled the Forum's identified funding needs for the Department of Agriculture's portion of the program and thus its efforts have begun to lag behind. To date, the USDA has been successful in preventing 318,000 tons

of salt from entering the River system, however, over 370,000 tons of potential salt reduction have been identified that can be controlled with Department of Agriculture EQIP funding. The Forum has presented testimony to Congress in which it has stated that the rate of implementation of the program beyond that which has been funded in the past is necessary.

This testimony, in support of EQIP funding, has been prepared in advance of any Presidential or Congressional action on funding for the Farm Bill. The Colorado River Board is encouraged that with passage of the Farm Security and Rural Investment Act of 2002, the Commodity Credit Corporation (CCC) is authorized to borrow up to \$1 billion for EQIP in fiscal year 2004. Of the amount to be appropriated for EQIP, the Colorado River Basin Salinity Control Forum, at its meeting in San Diego, California, in October 2002, recommended a funding level of \$17.5 million for on-farm salinity control in the Colorado River Basin for fiscal year 2004 to maintain water quality consistent with the established standards. The Colorado River Board supports the recommendation of the Forum and urges this subcommittee to support the funding at the \$1 billion level from the CCC in fiscal year 2004 for EQIP. The Colorado River Board also requests that this subcommittee advise the Administration that \$17.5 million of these funds be designated for the Colorado River Basin Salinity Control Program. These federal dollars, if earmarked, would be augmented by state cost sharing of 30 percent with an additional 30 percent provided by the agricultural producer with whom the Department of Agriculture contracts for implementation of salinity control measures. The salinity control program has proven to be a very cost effective approach to help mitigate the impacts of higher salinity. Continued federal funding of the program is essential.

In addition, the Colorado River Board recognizes that the federal government has made significant commitments to the Republic of Mexico and to the seven Colorado River Basin States with regard to the delivery of quality water to Mexico. In order for those commitments to be honored, it is essential that in fiscal year 2004 and in future fiscal years, the Congress provide funds to the Department of Agriculture to allow it to continue providing needed technical support to the producers for addressing salinity control in the Basin. The Honorable Robert Bennett, Chairman April 4, 2003 Page 3 The Colorado River is, and will continue to be, a major and vital water resource to the 17 million residents of southern California as well as throughout the Lower Colorado River Basin. As stated earlier, preservation of its quality through an effective salinity control program will avoid the additional economic damages to users of Colorado River water in California, Arizona, and Nevada.

The Colorado River Board greatly appreciates your support of the federal/state Colorado River Basin Salinity Control Program and again asks for your assistance and leadership in securing adequate funding for this program.

PREPARED STATEMENT OF THE CRITICAL MASS ENERGY AND ENVIRONMENTAL
PROGRAM PUBLIC CITIZEN AND THE GOVERNMENT ACCOUNTABILITY PROJECT

Chairman Bennett, Ranking Member Kohl and Members of the Subcommittee: On behalf of our two organizations, we welcome this opportunity to present our views on the fiscal year 2004 Agriculture, Rural Development, Food and Drug Administration and Related Agencies Appropriations Bill. Public Citizen is a non-profit consumer organization founded by Ralph Nader in 1971. Public Citizen represents 150,000 members. The Government Accountability Project's mission is to protect the public interest by promoting government and corporate accountability through advancing occupational free speech and ethical conduct, defending whistleblowers, and empowering citizen activists. Founded in 1977, GAP is a non-profit, public interest organization and law firm.

USDA—Food Safety and Inspection Service (FSIS)

We are adamantly opposed to the Administration's proposal to collect \$122 million in user fees in order to recover the cost of providing inspection services beyond an approved eight-hour primary shift. We believe that such a proposal could compromise the effectiveness of FSIS inspectors. Furthermore, FSIS has already taken action to de-list foreign establishments that had been previously approved to export their meat and poultry products to the United States on the basis that inspection services were paid by the companies involved instead of by the foreign government. Implementation of the Administration's proposal would be hypocritical.

Additionally, we are concerned that the current proposal to hire 80 more FSIS inspectors will be inadequate to fill the current vacancies and to make up for previous years' cuts. We urge the subcommittee to request from the agency a full listing of

all current position vacancies and the length of time the positions have been vacant. We recommend that at least 200 new line inspectors be hired this year.

The alarming number and magnitude of the meat and poultry recalls that have occurred over the past year indicate that there are some serious problems with the implementation of the Hazard Analysis Critical Control Points (HAACP) program. We have been arguing for the past three years that HACCP has turned over too much of the authority to industry to police itself and has severely undercut the ability of FSIS inspection personnel to do their jobs. We have heard directly from inspection personnel who state that they are very confused over their roles in HACCP because of the conflicting instructions they receive from top level management within FSIS.

More troubling is the fact that the economic well-being of companies is placed ahead of the public's welfare by the management of FSIS. In 2002, we were able to obtain instructions to FSIS inspectors assigned to a Kansas slaughter plant in which they were admonished that should they err on the side of public health and stop a slaughter line they would be held personally liable for their decision.

We are also concerned about the lack of backing which FSIS inspectors receive from supervisors and USDA management when they discover food safety hazards in their assignments. In the ConAgra recall, information has surfaced that USDA knew of potential problems at the Greeley, Colorado plant as early as February 2002—some three months before the first recall notice went out. During that month, testing conducted by FSIS inspection personnel at the Montana Quality Foods and Processing plant located in Miles City, Montana and transmitted to the FSIS regional office in Minneapolis confirmed that the source of contaminated meat ground at Montana Quality Foods and Processing was the ConAgra plant in Greeley, Colorado. Working with John Munsell, the President of Montana Quality Foods and Processing, the inspection personnel tried to get FSIS upper level management to review food safety practices at the ConAgra plant. They were concerned that due to the large volume of product from this plant, inadequate practices could create a significant public health threat. Instead of applauding Mr. Munsell and the FSIS personnel for their investigative work, they have been maligned by top FSIS officials and have been told they had no authority to point the finger at ConAgra.

The same can be said of the Wampler recall. A twenty-year veteran inspector, Vincent Erthal, had tried to warn his supervisors for several months of the unsanitary conditions at the Wampler plant located in Franconia, Pennsylvania. He even requested that FSIS take enforcement action against Wampler. His concerns went unheeded. This past fall, the largest recall in FSIS history was issued for possible *Listeria monocytogenes* contamination of product coming out of that plant. After much soul-searching, Mr. Erthal decided to come forward to reveal how his attempts to warn FSIS supervision of his concerns were thwarted. Again, instead of backing their own employee, USDA management has circled the wagons and launched a campaign to discredit Mr. Erthal.

With all of the problems that FSIS has already experienced with their implementation of HACCP, the proposed fiscal year 2004 budget contains language that would expand the HACCP-Inspection Models Project (HIMP) in slaughter facilities. HIMP is still another attempt to weaken the authority of FSIS inspection personnel and turn that responsibility over to company personnel. In a December 17, 2001 report, the General Accounting Office documents glaring methodological deficiencies in the current pilot project that FSIS has been conducting. There has not been any evidence to show that those deficiencies have been addressed. Therefore, we would urge that this pilot project not go forward until reliable data is furnished upon which a proper evaluation can be made of the effectiveness of this program.

While we applaud additional funds to support food safety education, we believe that the money will actually be used to promote irradiation. In her written remarks to the Subcommittee, Under Secretary for Food Safety Dr. Elsa Murano stated it was her intent to devote resources to educate the public about food irradiation. Her remarks also indicate that she will attempt to blur the definition of pasteurization to include irradiation in her education campaign.

In focus groups conducted for FSIS in 2002, consumers in St. Louis, Missouri; Raleigh, North Carolina; and Philadelphia, Pennsylvania were asked whether they considered irradiation to be a form of pasteurization, and overwhelmingly consumers responded that making such an assertion would be misleading. Those findings corroborated findings from focus groups conducted for the Food and Drug Administration (FDA) in three different cities during the summer of 2001.

Lastly, we are concerned about the recent revelations that FSIS still has not addressed problems identified by the USDA Inspector General regarding the agency's re-inspection program for imported meat and poultry products. In 2000, the USDA Inspector General in 2000 noted some 18 deficiencies in the FSIS re-inspection pro-

gram. In her recent audit, the USDA Inspector General stated that FSIS had still not corrected 14 of those deficiencies—even though FSIS had agreed to do so three years ago. In light of the heightened concerns about the security of our food supply, this is unconscionable.

USDA—Food and Nutrition Service/Agricultural Marketing Service

The Farm Security and Rural Investment Act of 2002 (the Farm Bill) contained a provision (section 4201 (l)) that directed the Secretary of Agriculture not to prohibit the use of approved food safety technologies in any commodity purchased by the USDA for various government-sponsored nutrition programs, including the National School Lunch and National Breakfast Programs. The USDA has decided to interpret this language to mean the lifting of the ban currently in place against the use of irradiation as an intervention for ground beef products purchased for these programs. And, it seems this is the only approved food safety technology they are pursuing.

Section 4201 (l) never received any scrutiny by any congressional committee—in either the House or the Senate. It never received any floor debate—in either the House or the Senate. It was placed in the Senate version of the Farm Bill at the last minute as part of a 400-page manager's amendment. The conferees on the Farm Bill never even discussed it in open session.

On November 22, 2002, the USDA announced that it would solicit comments from the public on the implementation of Section 4201 (l) of the Farm Bill and specifically wanted comments on irradiation. The comments were collected by the Agricultural Marketing Service (AMS). The comment period ended on April 11, 2003. Of the comments posted on the AMS website on this subject by May 28, 2003, by a nearly 11 to 1 margin, citizens have expressed their opposition to lifting the ban on irradiation—with hundreds of comments still left to be posted. Comments opposing such action have come from nearly all fifty states, while those supporting the technology have come primarily from those who have direct ties to the irradiation industry.

In spite of this overwhelming opposition to permitting irradiation of food in the child nutrition programs, USDA announced on May 29, 2003 its intent to lift the prohibition on irradiation as an intervention.

In order to promote this technology, the Food and Nutrition Service (FNS) has funded an irradiation “education” program in three Minnesota school districts. The program is being administered by proponents of irradiation—with no access provided to opponents of the technology to present alternative views. In addition, the program is dominated by one irradiation company and its affiliates. In essence, FNS has funded a government-sponsored advertising campaign for one company.

What makes this “education” program significant is the fact that the material used to promote irradiation in Minnesota will be used across the country in other school districts. We have learned that one of the Minnesota school districts recently dropped out of the program because the superintendent came to the conclusion that this issue properly belonged in the public health arena and should be not be debated at the school district level. Consequently, it seems that FNS has wasted \$151,000 to fund an “education” program with incomplete results.

We are opposed to irradiation because we are not certain of its safety. Recent research coming from Europe indicates that some chemicals formed when certain foods are irradiated may be harmful when consumed. The new studies call into question the long-held position of the FDA and the food industry that irradiated foods are generally safe for human consumption. The studies confirm research published in 1998 and 2001 showing that concentrations of chemicals called 2-alkylcyclobutanones (or 2-ACBs)—which are found only in irradiated foods—caused DNA damage in human cells.

Among the new findings, 2-ACBs were shown to promote tumor development in rat colons. Also, scientists discovered that they could not adequately account for most of a dose of 2-ACBs fed to rats. While very small amounts of 2-ACBs were detected in their fat, most of the chemicals could not be recovered, implying that they are either stored in other parts of the body or transformed into other compounds. The 2-ACBs are formed when foods that contain fat are irradiated, such as beef, chicken, eggs and certain fruits—all of which can legally be irradiated and sold to consumers.

There is even less research into the long-term health effects experienced by children who are exposed to toxic chemicals in foods. Dr. William Au, a toxicologist at the Department of Preventive Medicine and Community Health, University of Texas Medical Branch in Galveston, has argued that the lack of understanding regarding the ill effects suffered by children who consume toxic chemicals in foods extends to “the toxicological risk with respect to eating irradiated food.”

Implementing Section 4201 (l) of the Farm Bill will create the largest mass-feeding of irradiated food to children over an extended period of time ever in the history in the world.

Food and Drug Administration

We are concerned about the lack of funding for the Food and Drug Administration (FDA) for import re-inspections. Even after the additional funding the agency received in fiscal year 2003 to hire more staff, the agency is only capable of re-inspecting a paltry 1.3 percent of imported food over which it has jurisdiction. This needs to be addressed with additional funding, with the goal of reaching at least the 20 percent re-inspection rate that USDA's FSIS is able to perform for imported meat and poultry products. Furthermore, FDA should be granted the same authority that FSIS currently possesses to inspect foreign establishments that can export their food to the United States.

We are also concerned with the repeated attempts to weaken the labeling for irradiated foods. The FDA has visited this issue repeatedly since 1997—primarily at the direction of Congress. Each time, the FDA finds that consumers do not see eye-to-eye on this issue with the irradiation industry and their supporters in Congress. It seems that there are those who want to keep on trying until we get it wrong.

In the conference committee report that accompanied the fiscal year 2001 Agriculture, Rural Development, Food and Drug Administration and Related Agencies Appropriations Act, the conferees stated:

The conferees expect FDA to make final the regulations regarding labeling of irradiated foods by March 1, 2002, and report to the House and Senate Committees on Appropriations on the status by November 15, 2000. This agreement changes the dates proposed for final regulations by the House of September 30, 2001, and by the Senate of October 30, 2001.

In its report to the Appropriations Committees, the FDA explained that it had published an Advanced Notice for Proposed Rulemaking (ANPR) in 1999 on food irradiation labeling as the agency was directed to do under the FDA Modernization Act conference committee report in 1997. In evaluating the comments that the agency received from the ANPR, FDA stated:

The majority of these comments were letters that urged the agency to retain special labeling for irradiated foods but did not address the specific issues on which FDA requested comment. A preliminary analysis of the comments suggest no consensus about what alternative language for disclosure of irradiation processing would be truthful and not misleading. Because the public comments provided no clear direction for agency rulemaking, FDA believes that 1999 ANPR fulfills the Agency's obligations under the FDAMA Conference Report.

The FDA went on to say in its report to Congress that it intended to impanel consumer focus groups to attempt to obtain further guidance on the labeling issue.

During the summer of 2001, the FDA contracted with ORC Macro, a public opinion research firm, to organize six consumer focus groups. Two of these focus groups were held in Calverton, Maryland (suburban Washington, DC); two were held in Minneapolis, Minnesota; and two were held in Sacramento, California.

In all of the focus groups, the moderator attempted to make a strong association between pasteurization and irradiation. This was significant since there have been some food irradiation proponents who have argued that a more appropriate term to describe irradiation on product labeling is either "cold pasteurization" or "electronic pasteurization."

In a 2002 report to Congress, the FDA summarized the results of those focus groups:

Most of the participants viewed alternate terms such as "cold pasteurization" and "electronic pasteurization" as misleading, because they appeared to conceal rather than disclose information about irradiated food products. Participants did not see the current disclosure labeling as a warning . . . Everyone agreed that irradiated foods should be labeled honestly. They indicated that the current FDA required statement is a straightforward way for labeling irradiated foods.

Furthermore, in his 2002 testimony before the House Subcommittee on Agriculture, Rural Development, Food and Drug Administration and Related Agencies Appropriations, Dr. Lester Crawford, Deputy Commissioner of the FDA stated: (W)hen we did focus groups at FDA on cold pasteurization, the general feeling of the average citizen was that this was kind of a ruse or a means to conceal the fact that the food had been irradiated. And so we are kind of back to square one. We

don't have a good synonym for irradiation and we would like to have one. We don't want to mislead the public.

The public has been very consistent on this issue—whether through the focus groups conducted for USDA or FDA or through comments solicited by FDA. There have already been too many resources devoted to this issue within FDA. The driving force ought to be what the consumers believe to be honest and straightforward labeling—not what some in industry think it ought to be. The FDA has a much more important mission to accomplish than devising ways to confuse and mislead consumers.

PREPARED STATEMENT OF EASTER SEALS

Easter Seals appreciates the opportunity to report on the notable accomplishments of the USDA Cooperative State Research, Education, and Extension Service (CSREES) AgrAbility Program and request that funding for the AgrAbility Program be increased to \$4.6 million in fiscal year 2004.

The AgrAbility Program is an essential, unduplicated, hands-on resource for farmers, ranchers, and farmworkers with disabilities and their families. AgrAbility is the only USDA program dedicated exclusively to helping agricultural producers with disabilities. It demonstrates the value of public-private partnership by securing donations of funds, talent, and materials to magnify the impact of a modest federal investment. The fiscal year 2003 appropriation of \$4.2 million is funding 24 state projects.

DISABILITY & AGRICULTURE

Agricultural production is one of the nation's most hazardous occupations. According to the National Institute on Occupational Safety and Health, each year, approximately 182,500 agricultural workers sustain disabling injuries, about 5 percent of which permanently impair their ability to perform essential farm tasks. Tens of thousands more become disabled as a result of non-farm injuries, illnesses, other health conditions, and the aging process. Nationwide, over 13 million Americans living in rural areas have a chronic or permanent disability. Hundreds of thousands of farmers, ranchers, and agricultural workers who have disabilities are a vital part of rural America and the agricultural workforce.

The presence of a disability jeopardizes rural and agricultural futures for many of these individuals. Rural isolation, a tradition of self-reliance, and gaps in rural service delivery systems frequently prevent agricultural workers with disabilities from taking advantage of growing expertise in modifying farm operations, adapting equipment, promoting farmstead accessibility, and using assistive technologies to safely accommodate disability in agricultural and rural settings. Yet, with some assistance, the majority of disabled agricultural workers can continue to earn their livelihoods in agriculture and participate fully in rural community life.

AGRABILITY'S ROLE AND ACCOMPLISHMENTS

The AgrAbility Program was established under the 1990 Farm Bill in response to the needs of farmers, ranchers, and farmworkers with disabilities. The Farm Bill authorizes the Secretary of Agriculture to make grants to Extension Services for conducting collaborative education and assistance programs for farmers with disabilities through state projects and related national training, technical assistance, and information dissemination. Easter Seals is proud to be a partner with the University of Wisconsin-Extension Cooperative Extension to provide the national training and technical assistance portion of the AgrAbility Program. Thousands of people in states with and without state AgrAbility projects are aided through this initiative.

AgrAbility combines the expertise of the Extension Service and disability organization staffs to provide people with disabilities working in agriculture the specialized services that they need to safely accommodate their disabilities in everyday farm and ranch operations. AgrAbility received strong bipartisan support during the 2002 reauthorization of the Farm Security and Investment Act of 2002, and was extended through fiscal year 2007. The \$6 million authorization level for AgrAbility was continued.

Under the statute, state and multi-state AgrAbility projects engage Extension Service agents, disability experts, rural professionals, and volunteers to offer an array of services, including: identifying and referring farmers with disabilities; providing on-the-farm technical assistance for agricultural workers on adapting and using farm equipment, buildings, and tools; restructuring farm operations; providing

agriculture-based education to prevent further injury and disability; and, upgrading the skills of Extension Service agents and other rural professionals to better promote success in agricultural production for people with disabilities.

In 2003, USDA received an allocation from Congress of \$4.2 million. These funds are supporting 24 state projects, the national project, and USDA-CSREES administration of the Program. The state projects funded with fiscal 2003 money are California, Colorado, Delaware, Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Mississippi, Missouri, Nebraska, New York, Oklahoma, Pennsylvania, South Dakota, Tennessee, Texas, Utah, Vermont (with New Hampshire), Virginia, West Virginia, and Wisconsin.

AgrAbility provides customized assistance to farmers, ranchers, and farmworkers with disabilities and their families. The nature and degree of assistance depends on the individual's disability, needs, and agricultural operation.

Between April 1991 and March 2002, AgrAbility Projects in 31 states along with the national project accomplished the following:

- Provided assistance, including nearly 10,000 on-site visits, to over 11,000 farmers, ranchers, farmworkers or their family members affected by disability.
- Educated over 200,000 agricultural, rehabilitation, and health professionals on safely accommodating disability in agriculture.
- Recruited and trained more than 6,000 volunteers and peer supporters to assist agricultural producers with disabilities and their families.
- Reached 9,500,000 people through more than 8,500 exhibits, displays, and demonstrations to increase awareness of the challenges affecting and resources available to people with disabilities working in agriculture.
- In 2000, the National AgrAbility technical assistance and education grant was awarded to Easter Seals national headquarters and the University of Wisconsin-Extension Cooperative Extension. This new partnership is generating innovative and effective activities at the national level that will have a significant impact on the effectiveness of the state AgrAbility projects and the lives of agricultural workers with disabilities.

However, these numbers can never reflect the real difference that AgrAbility is making in people's lives. Jon Hagen of Waterville Iowa is a great example of this. Jon is a crop and dairy farmer who became paraplegic in 1998 as a result of an on the farm accident. AgrAbility has helped Jon return to farming and he can now provide a brighter future for his children. AgrAbility worked with Jon to add a lift to help him get in and out of his truck, add a sling lift to assist in getting in and out of his tractor, select an appropriate electric wheelchair for an agricultural environment, and to connect him with peer support that assisted him in transitioning to farming with a disability.

IMPACT OF CURRENT FUNDING LEVELS

A funding floor of \$150,000 per state was set in the 1990 Farm Bill to assure that the state programs were appropriately resourced to meet diverse, statewide agricultural accommodation needs. In the 2002 reauthorization of the Farm Bill, the Committee reaffirmed a commitment to that funding floor of \$150,000 per state. Because funding had not approached the \$6 million authorized level prior to fiscal year 2002, however, state projects had only received on average slightly under \$100,000 per state. The funding increase for AgrAbility in fiscal year 2002 provided USDA with the ability to fund projects at the \$150,000 base level. Easter Seals strongly supports full funding of state projects to assure that they continue to be effective for farmers with disabilities.

AgrAbility projects are underfunded relative to need and objective. At the current funding level, only a few staff can be hired to provide statewide education and assistance to farmers with disabilities, educate rural professionals, recruit volunteers, and work with rural businesses on disability-related issues. Rising demand for services and the great distances that must be traveled to reach farmers and ranchers severely strains even the most dedicated of AgrAbility's outstanding staff. Easter Seals fears that failure to invest adequately in this worthwhile program will ultimately cause it to falter.

An additional consequence of limited funding is that in every grant cycle some states with existing AgrAbility programs and a demonstrated need for services are not renewed and are forced to discontinue services to farmers with disabilities in that state. These states often have difficulty obtaining the access to the limited public and private funding sources that the federal seed money granted them. More than a dozen states have sought AgrAbility funding without success. Each of these states can demonstrate significant unmet needs among farm and ranch families affected by disability that AgrAbility could potentially address.

The fiscal year 2004 request of \$4.6 million would allow USDA to (a) continue to fund states up to the \$150,000 base level and add new projects in states currently unserved by AgrAbility or (b) increase the budgets of currently funded projects to allow much-needed expansion of existing services.

FUNDING REQUEST

The need for AgrAbility services has never been greater, and its accomplishments to date are remarkable by any standard. Easter Seals is proud to contribute to the ongoing success of the USDA-CSREES AgrAbility Program. Please support the allocation of at least \$4.6 million for AgrAbility in fiscal year 2004 to ensure that this valuable public-private partnership continues to serve rural Americans with disabilities and their families. Thank you for this opportunity to share the successes and needs of the USDA AgrAbility Program.

GRANT DISCLOSURE

Easter Seals receives the following federal grants:
 —Project ACTION, \$3.0 million from the U.S. Department of Transportation to help transit providers implement the Americans with Disabilities Act (ADA) and to promote transportation accessibility for people with disabilities;
 —AgrAbility, \$290,554 from the U.S. Department of Agriculture to promote success in agriculture for people with disabilities and their families; and
 Easter Seals' state and local affiliated organizations, which are separately incorporated, receive funding from a variety of federal and state agencies to support their local programs. We do not, however, have specific information regarding their funding sources.

PREPARED STATEMENT OF THE FEDERATION OF ANIMAL SCIENCE SOCIETIES

The Federation of Animal Science Societies (FASS) is the science-based voice for animal agriculture, animal products and food systems. FASS represents over 8,500 livestock and poultry scientists in the United States who conduct research, teaching and extension programs in academia and industry. Member organizations of FASS are the American Dairy Science Association, the American Society of Animal Science and the Poultry Science Association.

We applaud the efforts of the Senate Agriculture Appropriations Subcommittee, which resulted in the National Research Initiative (NRI) Competitive Grants Program being funded at \$166 million for fiscal year 2003, an increase of nearly 40 percent over fiscal year 2002! For fiscal year 2004, we ask for your continued support in the following areas.

First, FASS urges you to support the President's fiscal year 2003 proposal of \$240 million for the NRI. The annual rate of return to publicly funded agriculture research is 35 percent, as reported in a recent study by the USDA's Economic Research Service. Therefore, increased funding of agriculture research would benefit our U.S. economy. Furthermore, funding the NRI at \$240 million would support the recent finding in the National Academy of Sciences report "Frontiers in Agricultural Research" that total competitive grants should be substantially increased to, and sustained at, 20–30 percent of the total USDA research portfolio.

We must maintain and continue to support research programs such as the NRI. The NRI is a highly respected, competitive grants program that funds research necessary to improve livestock and crop production, and the processes that deliver quality food products from farm to table while protecting and enhancing the nation's environment and natural resources. Recent security threats facing America require new and expanded agricultural research to protect our nation's food processing and distribution network, waters, forests and rural communities. Federal funding of this type of research is essential to insure the future security, safety and sustainability of America's food and fiber system.

Second, FASS requests that any new monies appropriated for the NRI, as in 2003, would allow the Secretary the discretion to apply up to 20 percent towards carrying out an integrated research, extension and education competitive grants program under the same conditions and terms as those provided for in the fiscal year 2003 spending bill. Multidisciplinary research efforts continue to have a promising future in providing new knowledge and solutions to many issues facing our food system.

Third, FASS requests your support for animal genomics sequencing through the Agricultural Research Service (ARS) of \$5 million. Furthermore, we request your support for the President's fiscal year 2004 increase within the NRI targeted for animal genomics research of \$10 million.

FASS supports increased funding for animal genomics research. We applaud the USDA's leadership role in multi-agency collaborative efforts in the field of animal genomics. Increasing our understanding of farm animal genomics will enhance the future of animal agriculture. Animal genomics will lead the way for more nutritious, healthy, safe and affordable livestock products for a growing world population. Animal genomics research generates the most fundamental knowledge regarding the basic biology of the various agricultural animal species. Genomics research on the important food animal species will enable powerful applications in the future, including more effective and rapid genetic improvement program, more effective and efficient vaccines for disease resistance, and more nutritious animal food products. In addition, there is future potential to design animals to produce specific pharmaceuticals for human use, and which are more environmentally friendly. Both the ARS and NRI funding levels are important to take full advantage of the opportunities for USDA to collaborate with many partners.

The future viability of our nation's food system, and indeed the health of all Americans, will depend on the investment in science we make today. Congress must enhance funding for agricultural research to assure Americans of a safe and affordable food supply and to provide for the next generation of research scientists.

Mr. Bennett, we urge you to support the President's fiscal year 2003 proposal of \$240 million for the NRI and funding for animal genomics research of \$5 million for ARS and \$10 million targeted within the NRI. The livestock and poultry scientists of FASS seek to assist you in your efforts to improve agricultural research capacity. Please do not hesitate to contact us: Dr. Barbara P. Glenn, Executive Vice President-Scientific Liaison at bglenn@faseb.org, 301-571-1875.

PREPARED STATEMENT OF FLORIDA STATE UNIVERSITY

Mr. Chairman, I would like to thank you and the Members of the Subcommittee for this opportunity to present testimony. I would like to take a moment to briefly acquaint you with The Florida State University.

Located in Tallahassee, the Capitol of Florida, FSU is a Carnegie doctoral/research-extensive university with rapidly growing research activities and programs. The University serves as a center for advanced graduate and professional studies, exemplary research, and top-quality undergraduate programs. Faculty members at FSU maintain a strong commitment to quality in teaching, to performance of research and creative activities, while retaining a strong commitment to public service for the State and Nation. Among the faculty are numerous recipients of national and international honors, including Nobel laureates, Pulitzer Prize winners, and members of the National Academy of Science. Our scientists and engineers do excellent research, have strong interdisciplinary interests, and often work closely with industrial partners in the commercialization of the results of their research. Having been designated as a Carnegie Research I University several years ago, The Florida State University had \$147.9 million in research support this past year.

One of our recent highlights is the fact that FSU has initiated a new medical school, the first in the U.S. in over two decades. Our emphasis is on training doctors as primary care physicians, with a particular focus on geriatric medicine—consistent with the demographics of our state.

With a student body of 37,000, we attract students from every county in Florida, every state in the nation, and more than 100 foreign countries. The University is committed to high admission standards that ensure quality and diversity in its student body, which currently includes some 278 National Merit and National Achievement Scholars, as well as students with superior creative talent. At The Florida State University, we are very proud of our successes as well as our emerging reputation as one of the nation's top public universities.

Mr. Chairman, let me tell you about a project we are pursuing this year through the U.S. Department of Agriculture.

In fiscal year 2001, Congress passed the Federal Crop Insurance Act, which included funding of partnerships for Risk Management Development and Implementation. This legislation authorized the USDA, working with NOAA, to enter into partnerships for the purpose of increasing the availability of tools for crop loss mitigation. The partnerships give priority for producers of agricultural commodities for specialty crops and under-served agricultural commodities. Congress authorized the program through fiscal year 2008.

The Federal Government, which sets crop insurance rates, needs to utilize new cost-effective ways to reduce risk by using modern ideas such as El Niño-La Niña climate variability; this would allow more appropriate and fair pricing of premiums for crop insurance. The Florida Climate Research Consortium, which consists of

Florida State University, the University of Florida, and the University of Miami, has been at the forefront of this climate prediction work. The Consortium has worked in Florida and throughout the Southeastern U.S., with support from NOAA, to develop new methods to predict the consequences of climate variability. More recently, in actual real-life tests, these methods and data have been applied to the problem farmers raising specialty crops face relative to rainfall; the efforts have also tremendous implication for officials in their fight against forest fires. In both instances and with the support of Florida's Commissioner of Agriculture, use of these methods and their application to these challenges has been seen as successful and well received.

In this consortium, Florida State University will provide the climate forecasts and risk reduction methodology. The University of Florida will provide crop models for predicting the climate variability effects on selected crops. The University of Miami will provide the economic modeling of the agricultural system. Each university will provide appropriate expert advice on interactions with farmers. In particular, the expertise of the Florida Agricultural Extension Service will be utilized. Additional collaborators will be added in fiscal year 2004.

FSU, on behalf of the FL Climate Consortium, is seeking \$3.5M in fiscal year 2004 for this activity through the U.S. Department of Agriculture. Utilization of these tools and their application to agricultural problems in this project has the strong support of Florida Commissioner of Agriculture, Charles Bronson.

Mr. Chairman, this is just one of the many exciting activities going on at Florida State University that will make important contributions to solving some key concerns our nation faces today. Your support would be appreciated, and, again, thank you for an opportunity to present these views for your consideration.

PREPARED STATEMENT OF FRIENDS OF AGRICULTURAL RESEARCH—BELTSVILLE, INC.

Mr. Chairman, and Members of the Subcommittee, thank you for this opportunity to present our statement supporting funding for the Department of Agriculture's Agricultural Research Service (ARS), and especially for the Agency's flagship research facility, the Henry A. Wallace Beltsville Agricultural Research Center (BARC), in Maryland. Our organization—Friends of Agricultural Research—Beltsville—is dedicated to supporting and promoting the Center's agricultural research, outreach, and educational mission.

In keeping with the seriousness of the times, our testimony this year will address only two major themes. The first lays out a vision for a Center for Systematics—a vision for a partnership of excellence based in Beltsville in cooperation with the Smithsonian Institution's National Museum of Natural History and the University of Maryland.

Our second theme addresses the urgent need to continue support for specific research areas mandated by the Congress in fiscal years 2001, 2002, or 2003. These so-called add-ons attend to critical research needs that were recognized by this Subcommittee and others. We will list them with brief descriptions below.

Center for Systematics (The Oxford English Dictionary defines Systematics as the branch of biology that deals with interrelationships of different species and their classification; systematic zoology, botany, etc.; taxonomy)

Please consider for a moment these hypothetical scenarios from the draft report of a select committee assembled last November to evaluate the state and future of systematics at Beltsville.

A pest is discovered in Iowa for the first time, devastating the corn and soybean crops. What is it? Where did it come from? How can it be eliminated?

Bioterrorists are planning to introduce new pests that will destroy vegetable and fruit production in the United States. What organisms are most likely to be used? What strategies can be implemented to combat them? How can action agencies detect these organisms when they cross U.S. borders?

An invasive species of weed new to science is found to be widespread in Florida; its impact is so severe that five endangered species have become extinct and 30 other once-widespread species are now on the endangered list and their future is bleak. What is the plant species? Who will give it a name and more importantly who will know about other related species? Where does it come from? Are there organisms that feed on this weed in its native land that could be used to reduce its impact in Florida?

In each of these (hypothetical) cases, systematics provides the answers. But the field of systematics is in a serious crisis. Just at a time when these kinds of information and expertise are desperately needed, the community of systematists is di-

minishing at an alarming rate. Unless the trend can be reversed, the crisis in systematics will unfortunately mean a new crisis for the safety of U.S. agriculture, farmers, and the environment.

The Executive Summary sums up the select committee's findings and recommendations in these words:

"The Beltsville Systematics Summit was convened in November of 2002, with participation of national and international experts, to devise a plan to avert the looming crisis in U.S. agriculture. The plan is centered on the historically strong commitment of the Federal government to support systematics, and the concentration of 80 percent of that effort in the Beltsville Agricultural Research Center research programs. This report of the Systematics Summit states the case for urgent and immediate action to forestall the crisis. It provides a vision to assure that Beltsville Systematics programs are able to fulfill their Federal commitment to a strong systematics foundation for U.S. agriculture and agricultural research in the future. The long-term vision is that "Beltsville systematics programs will be a powerful force affecting the security and productivity of U.S. agriculture. As national and global leaders, BARC systematists will create programs strategically and synergistically integrating Research, Collections, Communications Technology, and Training."

If a strong and immediate commitment to that vision is made, the outcomes will assure that

- new knowledge on all agriculturally important organisms, both beneficial and detrimental, accumulates rapidly and is made quickly available for practical use;
- collections are safely maintained, in perpetuity, in modern and upgraded facilities;
- collections-based information flows unimpeded between university, Federal, and nongovernmental partners through constantly evolving communication systems; and
- a strong cadre of systematists to support Beltsville and collaborators' programs exists as a result of long-term strategic partnerships with other institutions to anticipate and fulfill critical training needs.

The culmination of the long-term vision is the development of a Center for Systematics of unparalleled excellence, nationally and internationally, that provides a cohesive and responsive base to United States and global agriculture needs.

Lack of a strong commitment, or inability to provide adequate funding, will mean that the United States leaves its borders and its agricultural communities vulnerable to invasive species, emerging diseases and intentional destructive actions using agricultural biological agents. It will forego the opportunity to gain knowledge of organisms that can sustain U.S. agriculture before it is too late. Tomorrow's needs cannot continue to be met with current resources. Demands on BARC systematics programs can only be met through significant increases in funding to prepare for the future. A well-designed plan to assure that is needed.

This report of the Beltsville Systematics Summit lays the groundwork and provides a framework for that plan to be developed in collaboration with a consortium of partners critical to its success. BARC systematics programs provide the front line of defense to both protect and expand U.S. agriculture. Only by adequate funding to support the vision can the United States be secure in providing a safe and adequate food supply for its citizens and a healthy and sustainable agricultural enterprise for its producers."

Congressionally Mandated Programs at BARC

Animal Improvement Programs Laboratory.—This venerable Beltsville laboratory and its predecessors have contributed over a century of steady genetic progress to America's milk production industry. Its reach is worldwide, helping producers everywhere make better informed genetic decisions and promoting export of American germplasm and breeding stock.

For many years America's dairy cows have steadily increased milk production at the rate of about 45 gallons per year. Approximately two-thirds of those increases can be traced to genetic progress. Much of the credit for that success stems from the cooperative national and international genetic evaluation programs of BARC's award winning Animal Improvement Programs Laboratory. The future of dairy industry will be greatly influenced by the research of the Animal Improvement Programs Laboratory. In recent years, the Laboratory staff has decreased as inflation and salary increases have eaten away at operating funds. We recommend continued funding support for the Laboratory.

Barley Health Foods Research.—Barley contains carbohydrates called beta-glucans that help control blood sugar and cholesterol. We recommend continued support for research to determine if barley-containing foods may affect the risks of such chronic

conditions as cardiovascular disease, diabetes, and obesity. This research is needed to assess the bioavailability and efficacy of food components found in barley and to identify foods, health practices, and attitudes associated with successful maintenance of weight loss.

Biomineral Soil Amendments for Nematode Control.—Losses to soil nematodes cost farmers billions every year. The soybean cyst nematode alone can cut soybean yields by 10 percent, often more. Citrus and vegetable crops also are vulnerable to intensive nematode damage. Growers are squeezed by expanding nematode infestations, nematicide resistance, and de-registration of traditional nematicides because of environmental concerns. BARC in cooperation with industry and others is pursuing new, more effective approaches to nematode control. Promising research lines include using such re-cyclable soil amendment as animal wastes, composts, and mineral by-products. We recommend continuing the increased funding for these promising approaches.

Foundry Sand By-Products Utilization.—Municipalities and industries generate vast quantities of by-products. By-products, such as foundry sand from the metal castings industry, have potential uses in agricultural and horticultural production processes. The Animal Manure and By-Products Laboratory will use the funding to identify beneficial new uses and assess risks to human health, safety, or the environment from using foundry sand in agriculture. A new soil scientist will be hired to support this work. We recommend continuation of this funding.

Poultry Diseases.—The mission of the Parasite Biology, Epidemiology, and Systematics Laboratory is to reduce the economic costs of parasites in livestock and poultry. Coccidiosis causes the greatest economic loss to the meat chicken industry from disease. But traditional chemical controls are becoming ineffective; and new non-chemical control methods are needed. New funding will be used to conduct functional genomics and proteomics analysis of coccidia to identify potential proteins that can be used in diagnostic tests and as targets for potential vaccine development. We recommend continuation of this funding.

Biomedical Plant Materials.—There is a growing need for functionally active, protective molecules for human and animal pathogens. We need them at lower cost and without risk to humans, animals, or the environment. Such molecules include recombinant antibodies, vaccines, and enzymes. Also, we need non-contaminated, lower-cost, more reliable diagnostic reagents.

In recent years, scientists have produced biomedical reagents from plants in the laboratory. The potential benefits are huge. For one example, replacing poultry vaccine injections with edible plant-produced vaccines would substantially lower poultry production costs. Beltsville is uniquely equipped to develop necessary systems and to test their efficacy in cooperation with other ARS facilities working on livestock and poultry diseases. This is a cooperative project with the Biotechnology Foundation, Inc., in Philadelphia. We recommend continuation of this funding.

National Germplasm Resources System.—This laboratory supports the national database that provides data storage and retrieval systems for collecting and disseminating germplasm information. It provides accurate taxonomy, transport, geographic, evaluation, inventory, and cooperator information for plant and animal germplasm holdings nationwide. This is an ARS mission-critical activity. We recommend continuation of funding.

Bovine Genetics.—Somatic cell nuclear transfer (cloning) technology has tremendous biomedical and agricultural potential. Yet the frequency of successful births from cloning has been relatively low. Many pregnancies fail before completing gestation. New funding will support collaborative research by the Gene Evaluation and Mapping Laboratory and the University of Illinois aimed at improving cloning efficiency. A new Molecular Biologist is being hired to support this effort. We recommend continuation of this funding.

IR-4: Registration of Minor Use Pesticides.—“Minor crops” have great economic value, but are not among the top ten crops like corn and soybeans that provide huge markets for pesticide manufacturers. Manufacturers often do not see a large enough market to justify the expense of doing the research needed to register a pesticide for a “minor crop.” Without the IR-4 program, growers would have fewer options for pest control. The Beltsville Environmental Quality Laboratory operates a minor crop pesticide residue laboratory. This lab vigorously enforces EPA-prescribed protocols for all experimental procedures, and prepares comprehensive final reports. New funds enhance the overall mission of the Agency’s IR-4 program. We recommend that this funding be continued.

Invasive Species Initiative.—Globalization has lowered trade barriers over much of the world. It also has contributed to the ease with which exotic organisms—or invasive species—enter U.S. habitats and environments. Invading pest species not only create ecological and economical problems, they also threaten biodiversity and

the financial stability of U.S. agriculture. Once invaders become successful competitors in natural or agricultural ecosystems, producers must spend millions every year to combat them. Collateral damage, such as loss of native diversity, may not be evident for years. Moreover, exotic species represent a biosecurity risk through deliberate introduction into the United States.

Beltsville laboratories are at the vanguard of invasive species research, covering prevention, detection, identification, and control. Invasive species research at BARC includes: insects and other arthropods, plants, pathogenic organisms, and parasitic diseases. Certain labs provide stand-by, 24-hour identification services for possible alien intruders. Others provide basic taxonomic information targeting preventive and control measures for use before or after invasive species have become established. Beltsville can point to many past successes in the battle against invasive species. Overall, Beltsville has the strongest invasive species programs in the nation. We strongly support this recommendation.

Mr. Chairman, that concludes our statement. We are grateful for your past support of the BARC mission. We urge support for the Center for Systematics as it may come before the Subcommittee. We further recommend continuation of the Congressionally mandated research we have listed.

Mr. Chairman, for the past several years our organization has submitted similar supporting testimony to this Subcommittee. As we prepare this year's testimony in the face of anxious times, we are at once mindful of and profoundly grateful for the freedom to petition Congress on matters that strike us as fundamental to the security and future of America's agricultural bounty.

Lastly, we again thank you for the opportunity to present our testimony.

PREPARED STATEMENT OF THE GROCERY MANUFACTURERS OF AMERICA

On behalf of the member companies of the Grocery Manufacturers of America (GMA), I appreciate the opportunity to submit testimony to the Senate Appropriations Subcommittee on Agriculture, Rural Development and Related Agencies. We ask that you support the Administration's request for funding for critical food safety functions at the Food and Drug Administration (FDA) and the Food Safety and Inspection Service (FSIS), as well as the proposed funding for nutrition activities at the Food and Nutrition Service (FNS).

GMA is the world's largest association of food, beverage and consumer product companies. With U.S. sales of more than \$460 billion, GMA members employ more than 2.5 million workers in all 50 states. The organization applies legal, scientific and political expertise from its member companies to vital food, nutrition and public policy issues affecting the industry. Led by a board of 42 Chief Executive Officers, GMA speaks for food and consumer product manufacturers and sales agencies at the state, federal and international levels on legislative and regulatory issues. The association also leads efforts to increase productivity, efficiency and growth in the food, beverage and consumer products industry.

GMA particularly supports increased funding for the Center for Food Safety and Applied Nutrition (CFSA), whose role is invaluable in ensuring the public that the United States continues to have the safest and most wholesome food supply in the world. The Center has played an integral role in continuing to enhance the safety and security of the food supply, particularly since the tragic September 11th terrorist attacks. The additional \$20.5 million in the FDA's budget proposal for counter terrorism and food safety will continue the government's commitment to providing additional resources to further improve the agency's capabilities to ensure the safety of the food supply.

Specifically, the proposed increase includes funds to develop and implement a food registration system authorized in the Public Health Security and Bioterrorism Preparedness and Response Act of 2002. GMA worked closely with Congress and the Administration throughout the legislative process and submitted pre-proposal comments to FDA on the four regulations that are in development. We have reviewed the draft proposals on prior notice of imported foods and facility registration, and recently filed additional comments highlighting some substantive concerns we have regarding the practical implementation of the final rules. We are awaiting the draft proposals on records maintenance and administrative detention, and will continue to work with FDA to ensure that the bioterrorism regulations will maintain the highest possible level of food safety without disrupting the U.S. food supply.

In communication with this Committee for the past several years, we urged you to provide FDA with funds necessary to cover FDA's government cost-of-living increase; we reiterate that request for this appropriations cycle. This funding will provide cost-of-living adjustments as well as support to the additional staff hired in fis-

cal year 2002 for counterterrorism activities. Maintaining and adding appropriately skilled and trained technical staff is consistent with the expanding mission of FDA in this new climate.

At USDA, we support the USDA/ARS nutrition monitoring program and ask the committee to continue to appropriate the funds necessary for this effort. The information gathered in this survey is invaluable to both the public and private sectors, and we ask for the committee's continued support.

GMA also supports efforts at USDA to increase funding for capacity building at the Foreign Agricultural Service—particularly to increase U.S. employment opportunities in international organizations like the Food and Agriculture Organization of the United Nations (FAO). Bodies like the FAO are playing an increasingly influential role in the international regulatory and trade arena, and it is essential that the United States be adequately represented in order to ensure that science-based policies are reflected at the international level.

GMA also supports USDA's budget request for nutrition and feeding programs, including the Women, Infants and Children (WIC) and the national school lunch programs. Increased funding for nutrition and obesity prevention programs for children and families will help improve the overall health and well-being of our nation.

GMA also supports the record level of funding for USDA's food safety programs in the President's budget for fiscal year 2004, which includes an increase of \$42 million for FSIS—a 23 percent increase in food safety activities since fiscal year 2000. However, GMA strongly opposes USDA's proposal for \$122 million in controversial new user fees for inspections of meat and poultry plants, on top of the \$102 million in existing fees. USDA plant inspections help prevent the spread of bacteria that can cause potentially fatal reactions. As a national health service, these inspections should be funded by general appropriations rather than user fees.

We recognize that the confidence of the public in our food supply depends both on our industry's continuing commitment to safety and quality and on the ability of USDA and FDA to work with us to achieve this. We support FDA's mission to protect the public health, and we urge you to provide the funds necessary to do this. As always, if we may be of any assistance as you proceed with your work, please do not hesitate to contact me.

Thank you for your consideration of our views.

PREPARED STATEMENT OF THE HUMANE SOCIETY OF THE UNITED STATES

As the largest animal protection organization in the country, we appreciate the opportunity to provide testimony to the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Subcommittee on fiscal year 2004 funding items of great importance to The Humane Society of the United States and its more than 7 million supporters nationwide.

ENFORCEMENT OF ANIMAL WELFARE LAWS

We are grateful for the Committee's outstanding support in fiscal year 2003 for improved enforcement by the U.S. Department of Agriculture of key animal welfare laws, and we urge you to "hold the line" in fiscal year 2004 so that this effort can be sustained. Your leadership is making a great difference in helping to protect the welfare of millions of animals across the country, including those at commercial breeding facilities, laboratories, zoos, circuses, airlines, and slaughterhouses. As you know, better enforcement will also benefit people by helping to prevent: (1) injuries to slaughterhouse workers from animals struggling in pain; (2) orchestrated dogfights and cockfights that often involve illegal gambling, drug traffic, and human violence; (3) the sale of unhealthy pets by commercial breeders commonly referred to as "puppy mills"; (4) laboratory conditions that may impair the scientific integrity of animal based research; (5) risks of disease transmission from, and dangerous encounters with, wild animals in or during public exhibition; and (6) injuries and deaths of pets on commercial airline flights due to mishandling and exposure to adverse environmental conditions.

For fiscal year 2004, we want to ensure that the important work made possible by the fiscal year 2003 budget is continued, that newly hired and trained inspectors will be able to stay on the job, and that resources will be used in the most effective ways possible to carry out these key laws. Specific areas of concern are as follows:

Office of Inspector General / \$800,000 Increase for Animal Fighting Enforcement

In last year's Farm Bill, Congress enacted provisions that were overwhelmingly supported in both chambers to close loopholes in the Animal Welfare Act (AWA) regarding cockfighting and dogfighting. Since 1976, when Congress first prohibited

most interstate and foreign commerce of animals for fighting, USDA has pursued no cockfighting cases and only three dogfighting cases, despite rampant activity across the country. USDA has apparently received innumerable tips from informants and requests to assist with State and local prosecutions, but has routinely ignored or declined such requests. It is time for USDA to take seriously its responsibility to enforce the portion of the AWA dealing with animal fighting ventures. Dogfighting and cockfighting are barbaric activities in which animals are drugged to heighten their aggression and forced to keep fighting even after they've suffered grievous injuries, such as pierced lungs and gouged eyes. Animal fighting is almost always associated with illegal gambling, and also often involves illegal drug traffic and violence toward people. Dogs bred and trained to fight endanger public safety. Cockfighting has been linked with the recent outbreak of Exotic Newcastle Disease that has already destroyed many poultry flocks and cost taxpayers more than \$40 million for containment and compensation, with costs estimated to rise as high as \$250–\$500 million.

Given the dangerous nature of animal fighting enforcement work, we believe that the department's chief law enforcement arm—the Office of Inspector General (OIG)—is best suited to lead this effort. We therefore respectfully request an increase of \$800,000 for the OIG to focus on animal fighting cases and inclusion of bill language directing the Secretary to coordinate intelligence gathering, investigation, and prosecution of animal fighting cases, pursuant to Section 26 of the AWA, through the OIG, working with local and State law enforcement personnel to complement their efforts, and drawing on other Federal entities including the Attorney General, the Animal and Plant Health Inspection Services, and the Office of the General Counsel as needed.

Food Safety and Inspection Service/Humane Methods of Slaughter Act (HMSA) Enforcement

We greatly appreciate the inclusion of \$5 million in the fiscal year 2003 bill to hire at least 50 inspectors whose sole responsibility will be to ensure that livestock are treated humanely and rendered unconscious before they are hung upside down, skinned, dismembered, scalded, or killed. Having these new inspectors focus on unloading, handling, stunning, and killing of animals will bring much-needed attention to slaughter plant practices that have had little oversight in recent years. We also appreciate your inclusion of language specifying that the ongoing activities of 17 District Veterinary Medical Specialists hired as a result of \$1 million provided in the fiscal year 2001 Supplemental should be limited to HMSA enforcement rather than the various unrelated duties with which they had been charged. And we commend you for directing the General Accounting Office to review and report by July 1, 2003 on the scope and frequency of HMSA violations, with “recommendations on the extent to which additional resources for inspection personnel, training, and other agency functions are needed to properly regulate slaughter facilities in the area of HMSA enforcement.”

There are nearly 900 Federally inspected slaughter plants in the United States, handling millions of animals each day. In addition to requesting continued funds in fiscal year 2004 to sustain at least 50 new inspectors and the 17 positions mentioned above, we hope you will give full consideration to any recommendations the GAO may have for enhancing enforcement of this important—and very basic—law. We also urge that limited resources not be diverted by FSIS to rewrite the regulations for this law. The existing HMSA regulations are clear and strong. The problem has been a lack of enforcement, not flawed humane handling standards. We would be very concerned about any attempt to provide more discretion or control to industry in determining HMSA compliance.

APHIS/Animal Welfare Enforcement

Thanks to appropriations increases in the past four years, Congress has enabled USDA to begin to reverse a serious decline in the number of AWA compliance inspections. However, the President's fiscal year 2004 budget proposal—which suggests \$1.7 million less for the Animal Care division than in fiscal year 2003—would fail to cover the salaries of recently-hired inspectors and substantially undo the gains Congress has made possible. Moreover, there is still much room for improvement. Many facilities continue to escape oversight for long periods of time, giving rise to situations that threaten both human and animal health and safety. Nearly half of the sites that do get inspected are found to have apparent violations of the minimum standards under the Act and, therefore, follow-up visits are badly needed. We urge you to sustain Animal Welfare funding at the fiscal year 2003 appropriated level of \$16.4 million, in order to keep the current number of inspectors (approximately 100 to oversee about 10,000 sites).

APHIS/Horse Protection Enforcement

Congress enacted the Horse Protection Act in 1970 to end the obvious cruelty of physically soring the feet and legs of show horses. In an effort to exaggerate the high-stepping gate of Tennessee Walking Horses, unscrupulous trainers use a variety of methods to inflict pain on sensitive areas of the feet and legs for the effect of the leg-jerk reaction that is popular among many in the show-horse industry. This cruel practice continues unabated by the well-intentioned but seriously understaffed APHIS inspection program. We appreciate the Committee's help providing modest increases to bring this program close to its authorized annual funding ceiling of \$500,000, and hope you could approve an additional \$7,000 in fiscal year 2004 to reach that mark. We also urge the Committee to oppose any effort to restrict USDA from enforcing this law to the maximum extent possible.

Agricultural Research Service/Animal Welfare Information Center

We appreciate the Committee's support for the Animal Welfare Information Center (AWIC), which helps ensure appropriate care for animals in research, and compliance with standards on minimizing pain and distress, preventing duplication of experiments, and reducing or replacing animals in research when possible. For fiscal year 2004, we hope you will sustain the gains made in recent years for AWIC's budget.

NATIONAL SCHOOL LUNCH AND BREAKFAST PROGRAMS/FORCED MOLTING OF EGG-LAYING HENS AND ACCESS TO NON-DAIRY BEVERAGES

At the end of their production cycle, egg-laying hens in 75 percent of U.S. flocks are starved until they lose 35 percent of their body weight—typically for 5–14 days—in an effort to shock their systems into a new egg-laying cycle. Once placed back on feed, those hens who survive the starvation period will produce more and bigger eggs. Such “forced molting” is a threat to the health and safety of consumers, because eggs produced at facilities using this high-stress practice have a greatly increased incidence of *Salmonella enteritidis* (SE). Forced molting is a husbandry strategy that extends the productive life of those birds who survive, but it comes with severe consequences for the health of consumers and for animal welfare.

Salmonella is the second most common food-borne illness in the United States (an estimated 500–1,000 people die from it annually). SE is the second most common *Salmonella* strain. Most SE infections are caused by the consumption of eggs. Starvation causes severe stress to hens and makes them highly susceptible to *Salmonella* infections. Research indicates that hens who have been force molted in this way shed significantly more SE bacteria than hens with access to food. Dr. Fred Angulo, the chief medical epidemiologist for food-borne diseases at the Centers for Disease Control and Prevention, has determined that outbreaks of SE in schools have been traced back to layer houses where hens were molted using starvation. In 1998, USDA's FSIS Director wrote that “highly stressful forced molting practices . . . [f]or example, extended starvation and water deprivation practices, lead to increased shedding of *Salmonella enteritidis* (SE) by laying hens,” and recommended that “egg producers eliminate forced molting practices and adopt alternatives that reduce public health risks.”

Intentionally starving a hen so that she loses 35 percent of her body weight is cruel. Almost every State anti-cruelty statute specifically bars the deliberate starvation of animals, but this standard is not typically enforced for routine animal husbandry. Alternative methods to forced molting, which are more humane, safer, and economically comparable, are available to the U.S. egg production industry. Major fast food companies, including McDonald's, Burger King, and Wendy's, have stopped buying eggs from farms that use forced molting. It is time for Congress to ensure that meals provided at public schools are at least as safe as fast food.

Under the National School Lunch and Breakfast Programs, schools spent more than \$14.2 million on fresh and raw eggs for food service during the 1996–97 school year, according to a USDA study (the number may well be higher now, since the breakfast program has greatly expanded since that time). With three-quarters of all flocks in the United States currently force molted, there is a very high risk that school children are being exposed to SE bacteria. In 2000, the USDA announced that it would no longer allow the use of downed animals in the school lunch program because it could not count on the safety of the meat. School districts incorporate Federal requirements (e.g., to comply with nutritional guidelines, “Buy American” laws, and health department inspections) in their detailed specifications for each food item contained in their contracts.

We urge the Committee to include bill language barring the use of USDA funds under the National School Lunch and School Breakfast Programs for the purchase

of eggs produced at facilities that force-molt hens through deprivation of food or water.

One year ago, the Washington Post highlighted the injustices associated with prohibiting schools from offering federally-subsidized non-dairy beverages for students who cannot drink dairy milk for any number of health, ethical or religious reasons. Schools can offer alternatives to students who bring a doctor's note explaining why they need a non-dairy beverage. However, the majority of students who are lactose-intolerant are minority students—students who may not have access to the kind of health care that would provide them with a doctor's note for something as mundane as a lunch beverage. Additionally, according to a recent poll conducted by the Vegetarian Resource Group, 11 percent of children ages 8–17 in the United States are vegetarians. The nutrition publication, *Nutrition News Focus*, recently published an article stating “Vegetarian children tend to be thinner than omnivorous kids and this is almost certainly good, since we are getting fatter as a nation and we are doing it earlier.” It is unfair to force students who choose the healthful option of vegetarianism to go without a beverage simply because their ethics dictate they not drink dairy milk. The National School Lunch and Breakfast Programs should support a healthful diet for all students. We urge the Committee to include bill language to provide nutritious beverage options to dairy milk for students who either cannot or choose not to drink dairy milk.

HOOP BARN/LEOPOLD CENTER FOR SUSTAINABLE AGRICULTURE—\$325,000

The hoop barn is an emerging alternative for livestock production that offers many advantages to the factory farm system of animal housing. A typical hoop barn is shaped like a Quonset hut (a half cylinder lying on its flat side) and contains a deep bedding of straw or corn stalks. No individual cages confine the animals, and open ends, which can be closed if weather requires, allow access to pasture. Animals in hoop barns enjoy greater freedom of movement and have the opportunity to interact socially.

Because they are not tightly confined in an overcrowded, high-stress environment, animals in hoop barns tend to be healthier than their counterparts in factory farms. That means farmers using hoop barns do not need to rely on antibiotics to prevent disease and promote growth, a common practice on factory farms that is contributing to the development of antibiotic-resistant strains of bacteria that threaten public health. Products from hoop producers are being sought out by meat suppliers and restaurants based on the enhanced flavor and texture characteristics of the meat. In addition, hoop barns are better for the environment, because they use solid manure composting rather than the liquid waste disposal systems used by factory farms, which jeopardize groundwater and produce noxious odors. Furthermore, they offer an affordable alternative for farmers. Hoop barns are approximately one-third the cost of conventional factory farm structures. They are easy to install and versatile (they can be used for different species or for storage of hay or equipment). This flexibility helps family farmers withstand fluctuations in market demand and avoid corporate buyouts.

We appreciate the Committee's support in fiscal year 2003 for this promising technology. As a result of the Committee's action, Iowa's Leopold Center for Sustainable Agriculture—which is in the forefront of research and development on hoop barns—is expanding understanding and adoption of hooped structures as low-cost, humane, environmentally-friendly production housing systems for swine and other agricultural animals. The hoop research is promoting viable and timely production options for struggling small and medium sized farmers as well as helping to open new markets. We request your support for \$325,000 in fiscal year 2004 for this ongoing project to make the benefits of hoop barns available on a wider scale.

HUMANE FARMING COMMISSION STUDY

According to USDA, there are 9 billion animals slaughtered for food in the United States each year. Yet, other than the HMSA requiring that livestock be rendered unconscious before they are killed, there are no Federal laws regarding humane treatment of farm animals. The AWA does not cover livestock or poultry. At the State level, there is only one relevant law; Florida voters in 2002 banned the use of gestation crates for breeding sows. State anti-cruelty statutes either exempt farm animals or they are not traditionally applied to deal with routine or customary agricultural practices. Farm animal treatment is left almost entirely to industry norms and producer conscience.

Most Americans would be surprised to learn that the government has nothing to say about practices such as intensive confinement that is so cramped the animals cannot turn around, deliberate starvation to force molting, and cutting off pigs' tails

and chickens' beaks without any anesthesia in order to prevent them from attacking each other in these crowded and highly stressful conditions. In the absence of government regulation, such inhumane practices have become the norm for industrial agriculture in this country.

Responding to public concern, some major companies that purchase large quantities of animal products—such as McDonald's, Burger King, and Wendy's—have begun requiring their suppliers to abandon certain inhumane practices. While welcome, these voluntary efforts by major restaurant chains are not sufficient. The need for humane treatment of farm animals warrants a consistent approach that will not put any individual company at a competitive disadvantage, nor will it force farmers to deal with piecemeal rules. It is time to explore Federal standards that can be accountable and enforceable.

We recommend that a national commission be charged with examining the treatment of animals in commercial farming and making recommendations to Congress. Such a commission should include those with a range of perspectives, including scientists specializing in animal welfare, farmers (including sustainable agriculture practitioners), religious leaders and ethicists, economists, and consumer representatives. We look forward to working with the Committee to develop this idea further.

Again, we appreciate the opportunity to share our views and priorities for the Agriculture, Rural Development, Food and Drug Administration and Related Agencies Appropriation Act of fiscal year 2004. We appreciate the Committee's past support, and hope you will be able to accommodate these modest requests to address some very pressing problems affecting millions of animals in the United States. Thank you for your consideration.

PREPARED STATEMENT OF THE INTERNATIONAL ASSOCIATION OF FISH AND WILDLIFE
AGENCIES

USDA/APHIS—VETERINARY SERVICES

Brucellosis

The Association is concerned about the \$1.4 Million reduction in the amount being requested for the Brucellosis Program in the fiscal year 2004 budget. While we understand some of this may be offset by the increase in the request for the Animal Health Monitoring and Surveillance Program budget—in essence the core infrastructure of APHIS-Veterinary Services—it will be problematic if the entire requested amount is not acted on favorably by Congress. The Association supports the \$93.96 Million being requested for the Animal Health Monitoring and Surveillance Program.

The Association also supports the request from the states of Montana, Idaho and Wyoming for \$600,000 in the fiscal year 2004 USDA/APHIS/Veterinary Services, Program Diseases, Brucellosis Program budget, to enable those states to continue their participation in the Greater Yellowstone Interagency Brucellosis Committee (GYIBC). Like amounts (\$600,000) have been included as Congressional add-ons in both fiscal year 2002 and fiscal year 2003. The GYIBC is working to coordinate federal, state and private actions involved in eliminating brucellosis from wildlife in the Greater Yellowstone Area and preventing transmission of brucellosis from wildlife to cattle. Given the priority for eradicating this disease, it would seem prudent that Veterinary Services include this amount in its base Brucellosis Program budget, rather than the States having to rely on Congressional add-ons to obtain relief. The Association recommends this amount (\$600,000) be identified in the base budget for the Brucellosis Program beginning in fiscal year 2004 and beyond, until such time as eradication of the disease has been achieved.

Chronic Wasting Disease

The Association commends APHIS-Veterinary Services for taking actions to destroy and dispose of captive cervids exposed to chronic wasting disease (CWD) because these animals represent a tremendous risk to this country's wildlife resources. The Association supports the \$15 million request for funding to eliminate CWD from captive cervids and strongly encourages Veterinary Services to use a significant part of the funding to assist State wildlife management agencies with surveillance for CWD in free-ranging cervids, and to provide funding for research directed toward better diagnostic testing and increased knowledge of the epidemiology and epizootiology of CWD. However, this \$15 Million is inadequate to effectively address management of this disease, and the Association urges an additional \$10 Million be appropriated to CWD, with a total of \$20 Million made available to the states for surveillance and management of free ranging deer and elk. The Association supports

this role for Veterinary Services in the context that Veterinary Services and other USDA agencies remain mindful and respectful of state management authority over resident wildlife species. This will require constant coordination and cooperation with the State fish and wildlife agencies as this certification and control program is launched.

Import / Export

Exotic ticks may carry disease agents that could potentially devastate wildlife populations and therefore, prevention of their importation is essential. The Association supports the requested increase for a total of \$12.4 Million in fiscal year 2004 funding in the Import/Export Program for inspection of imported reptiles and amphibians for exotic ticks, and further recommends that Veterinary Services work closely with the U.S. Fish and Wildlife Service in addressing this issue.

Tuberculosis

The Association supports the requested increase for a total of \$15.1 Million in the fiscal year 2004 funding request in the Tuberculosis Program for the control of bovine tuberculosis, a continuation of an accelerated program begun in fiscal year 2001 to address inadequate national surveillance as it relates to international trade needs and enhanced tuberculosis testing, training and Mexican eradication efforts, with a goal of total eradication in domestic livestock by January, 2004. The Association recommends that APHIS-Veterinary Services work closely with, and provide financial support to, State fish and wildlife agencies involved in this activity. Funding should be provided to State fish and wildlife management agencies for TB surveillance, research, and control operations, and must be accompanied by close coordination and respect for State management authority over resident wildlife.

Veterinary Diagnostics

The Association recognizes that wildlife disease investigations often are dependent upon the USDA's animal disease resources for test reagents, consultations, and sample referrals, and commends APHIS for assistance with testing of free-ranging wildlife for diseases such as brucellosis, chronic wasting disease and bovine tuberculosis. The Association supports the requested budget of \$21 Million in fiscal year 2004 funding for increasing diagnostic capabilities at the Plum Island Animal Disease Diagnostics Laboratory in New York and at the National Veterinary Services Laboratories in Ames, Iowa.

USDA—APHIS WILDLIFE SERVICES

Wildlife Services (WS), a unit of APHIS, is the Federal agency responsible for developing new methods for and managing wildlife damage to agriculture, aquaculture, forest, range, and other natural resources; for protecting public health and safety through cooperating with the State fish and wildlife agencies on the control of wildlife-borne diseases; and for managing wildlife hazards at airports. WS bases its activities on the principles of wildlife management and integrated damage management, and carries them out cooperatively with State fish and wildlife agencies. WS shares most of its operational costs with State and county governments, agricultural producers, and other cooperators.

The cooperation and support of the agricultural community is essential to maintain wildlife populations because much of the nation's wildlife exists on private agricultural lands. A progressive wildlife damage management program that reduces the adverse impacts of wildlife is necessary to maintain the support of the agrarian community and to counter increasing pressures for indemnity due to wildlife damage.

The International Association of Fish and Wildlife Agencies has worked closely with WS on numerous issues critical to the State fish and wildlife agencies, including those related to migratory birds, threatened, and endangered species. The Association commends the WS program for its professionalism and continuing effort to be attuned to the changing public values for the nation's wildlife, while remaining responsive to human/wildlife conflicts and emerging wildlife problems.

A recent report by the General Accounting Office documented that wildlife damage throughout the United States is significant and increasing because of high wildlife populations. The Association is concerned that the Administration's proposal will decrease overall funding for WS activities. The President's fiscal year 2004 proposed budget for Methods Development is \$13,647,000, a \$1,228,000 decrease from the fiscal year 2003 level. For WS Operations, the proposed budget is \$65,706,000, a \$2,881,000 decrease from the fiscal year 2003 level. For Aquaculture, the proposed budget is \$968,000, a decrease of \$420,000 from the fiscal year 2003 level.

With decreased funding for WS Methods Development, further advancements with nonlethal methods development will not occur at an acceptable level. Work to develop control methodology for cormorant and white pelican damage to catfish production in the mid-South will suffer. In addition, many of the current damage management tools such as traps, snares, and toxicants are becoming less acceptable to the public and many States are prohibiting their use because of public referendums. The only source of new methods is through research. We commend Congress for recognizing the need to increase funds to support maintenance and operations of the National Wildlife Research Center in Ft. Collins, Colorado, and seek further support to provide an additional \$5,000,000 to the Methods Development line item to adequately fund nonlethal methods research, technology transfer in areas such as alternative predation management systems including immunocontraception, repellent and habitat management for birds, and information outreach for the public.

With decreased funding for WS Operations, there will not be adequate funding to manage the threat that wildlife poses for transmitting various diseases to domestic livestock and people; the oral rabies vaccination program will not progress at an acceptable level; and efforts to develop a hazardous material accountability system as part of the WS Management Information System (MIS) and an emergency response system for-intentionally introduced wildlife diseases will curtail or cease altogether. WS continue to pass off shortfalls in funding to their cooperators—especially State and local cooperators which are not in a position to increase their cost-share in light of the financial shortfalls they currently face. The Association recommends that Congress provide an additional \$4,250,000 to continue critical wildlife disease monitoring and surveillance activities, and also provide an additional \$5,700,000 to continue the oral rabies vaccination program to stop the spread of rabies in coyotes, foxes, raccoons, and other wildlife.

The Association is pleased that Congress provided \$1,200,000 in fiscal year 2003 to address increasing wolf conflicts in Minnesota, Wisconsin, Michigan, Arizona, and New Mexico, and recommends continued support to provide adequate funding to manage increasing wolf populations across the county. The Association also supports the continuing request in the President's budget for Montana, Idaho and Wyoming.

WS must continue implementation of their new Management Information Reporting System (MIS) to standardize reporting systems to provide specific information on resources protected, damage levels, trend information, and data on measurements and performance outcomes, and to comply with requirements of the National Environmental Policy Act. Most importantly, the MIS will allow WS to document wildlife disease monitoring and surveillance efforts and implement an integrated hazardous material accountability system. The Association recommends that Congress make \$5,000,000 available in fiscal year 2004 (\$4 million more than the President's request) to allow WS to continue implementation of the new MIS. The implementation will occur over a five-year period at a total cost of \$8–10 million.

The Association is pleased that Congress provided a \$600,000 increase in the fiscal year 2003 budget to expand the Berryman Institute for Wildlife Damage Management at Utah State University and Mississippi State University. The Association recommends that Congress continues to support the Berryman Institute by maintaining adequate funding levels in the future.

COOPERATIVE STATE RESEARCH, EDUCATION, AND EXTENSION SERVICE (CSREES) U.S.
DEPARTMENT OF AGRICULTURE

The Association recognizes that the research and educational programs of the CSREES and its Land Grant partners effect relevant, positive changes in attitudes and implementation of new technologies by private landowners, communities, decision-makers, and the public. This results in significant benefits to the Nation through development of a productive natural resource base in concert with agriculture. Since over two-thirds of our land is privately owned, it is appropriate that the CSREES-Land Grant System, with its grass roots credibility and delivery system, be adequately funded to transfer knowledge that helps all private landowners move towards sustainability. However, in the fiscal year 2003 budget proposal, we see little emphasis on natural resources research and education directed toward these clientele. In fact, the total number of farmers based on recent statistics is just slightly over one million—only one-tenth of all private landowners—and, the majority of CSREES' budget is directed toward production agriculture on these lands. Conversely, only \$4.093 million is budgeted (out of a total of \$1.015 billion) for the Renewable Resources Extension Act (RREA) which assists the over ten million private landowners who own and manage most of the nation's natural resources. The Association notes that this is the same amount appropriated for fiscal year 2003 with no increase in light of the vast workload. The Association is still seriously con-

cerned that the amount (\$4.093 million) is so small as to be ineffective and we encourage Congressional consideration increasing the funding for RREA to better reflect the need to reach a higher percentage of all landowners.

The Association strongly recommends that the Renewable Resources Extension Act be funded at \$30 million in fiscal year 2004. The RREA funds, which are apportioned to State Extension Services, effectively leverage cooperative partnerships at an average of four to one, with a focus on development and dissemination of information needed by private landowners (in rural and urban settings). The increase to \$30 million would enable the Extension System to accomplish the goals and objectives outlined in the 1991–1995 Report to Congress. The need for RREA educational programs is greater than ever today because of fragmentation of ownerships, urbanization, the diversity of landowners needing assistance, and increasing societal concerns about land use and its effect on soil, water, wildlife and other environmental factors. It is important to note that RREA has been reauthorized through 2002 and was originally authorized at \$15 million annually; however, even though it has been proven to be effective in leveraging cooperative state and local funding, it has never been fully funded. The Association notes with appreciation that RREA was reauthorized in the 2002 Farm Bill and the authorized funding raised to \$30 million. The increase to \$30 million in authorized funding is an empty-handed gesture unless followed by a corresponding increase in appropriations. An increase to \$30 million would be a good-faith move in the right direction and enable the Extension Service to expand capability to assist more private landowners to improve management of additional land while increasing farm revenue.

The Association strongly encourages that McIntire-Stennis Forestry Research funds be increased from the \$21.884 million in the fiscal year 2003 budget to a level of \$25 million. These funds are essential to the future of resource management on non-industrial private forestlands. The rapid reduction in timber harvests from public lands bring expanded opportunities for small private forest owners to play an increasingly important role in the Nation's timber supply. In some places, these added opportunities are creating pressures and situations where timber harvest on private ownerships exceeds timber growth.

The Association notes a level funding of \$12.97 million in the budget for Water Quality Integrated Activities but believes that this amount is insufficient considering the growing public concern over water quality, particularly on agricultural landscapes and therefore the Association recommends the appropriation be increased to \$20 million. We are concerned that there is no line item budget for water quality specific to educational programs under Smith-Lever in Extension activities. The Association recommends a minimum of \$3.5 million in Extension programs to focus on water quality education targeted at agricultural producers and other private landowners and managers. We believe that such program efforts are urgently needed to help these landowners learn how to address water quality degradation, which seriously affects drinking water, human health and fish and wildlife habitat. The Clean Water Act, TMDL's, Gulf of Mexico hypoxia and expanded animal feeding operation (AFOs) are just a few of the water quality issues that need to be addressed through Cooperative Extension efforts.

The Association notes the \$2.5 million included in Special Research Grants to fund Global Change/UV-B monitoring as well as that one of the three emphasis areas in Natural Resources and Environment is Global Change. This emphasis area and funding is appropriate in view of growing concern about the effect of the introduction of greenhouse gases into the atmosphere, addition of an Energy Title in the 2002 Farm Bill as well as recently initiated efforts to develop national policy regarding greenhouse gas emissions reporting. However, efforts to reduce or mitigate greenhouse gas emissions through carbon sequestration or other means shouldn't result in degradation of natural resources, including fish and wildlife, for which the public would have to pay separately and additionally to correct. The Association supports research funding to help define and/or address global climate change in ways that are compatible with conservation of all natural resources, including fish and wildlife.

The Association notes with concern a reduction in National Research Initiative Competitive Grants funding from \$240 million to \$200 million. It is important to note the great needs for creative and competitive grant programs to provide valuable new information to broaden approaches to land management, especially with integrated timber and wildlife management on private lands. There are few truly competitive programs in wildlife science and USDA NRI has a great opportunity to make a unique contribution with this type of program. This program will fund creative and new ideas in ways that "formula" funding cannot. The Association supports funding at the fiscal year 2003 level of \$240 million.

FARM SERVICE AGENCY (FSA)

An adequately funded budget for the FSA is essential to implement conservation related programs and provisions under FSA administration and/or in cooperation with the Natural Resources Conservation Service (NRCS) as a result of passage of the Farm Security and Rural Investment Act of 2002. The Association strongly advocates that the budget include sufficient personnel funding to service a very active program and strongly believes that the past erosion of staffing levels has been inconsistent with the demonstrated need of agricultural producers. The Association is deeply concerned that the reduced level of staffing (16,701 FTE) proposed by the Administration is far too low to adequately address the need.

FSA programs have tremendous quantifiable impacts on natural resources, and yield substantial public as well as private benefits. Building on the provisions of present and past Farm Bills and as each program accomplishes the broadest possible range of natural resource objectives, the Association encourages close cooperation between FSA, NRCS and the State Technical Committees in implementing the 2002 Farm Bill.

Conservation Reserve Program (CRP)—The continued administration of CRP is a very significant and valuable commitment of USDA and the FSA. The Association applauds FSA efforts to fund and extend CRP contracts for the multiple benefits that accrue to the public as well as the landowner. The Association provides special thanks to FSA for the continuous CRP sign-up of high value environmental practices and encourages additional program options (such as wildlife field borders) and/or incentives to ensure that enrolled acres deliver soil, water, wildlife and other natural resource benefits through the use of more wildlife friendly cover as the CRP general sign-up has delivered.

The commitment of FSA to provide high wildlife benefits in CRP contracts has been obvious since the advent of the Environmental Benefits Index (EBI) in the 15th sign-up. The Association applauds FSA in those efforts with their special emphasis on native grasses, endangered species and enlightened pine planting and management and urge that strong emphasis on the establishment and management of wildlife friendly cover be continued and where possible strengthened. Recurring management is essential to ensure continuation of soil, water and wildlife benefits throughout the life of the CRP contract. The “up-to-\$5/acre” maintenance payment presently included in CRP contracts tends to be viewed by many landowners as additional rental payment, whether any maintenance or management is applied or not. Therefore, it makes sense that needed recurring management (for wildlife purposes) or maintenance measures (to control noxious weeds, etc.) be secured when necessary and landowners compensated only when actual management/maintenance is applied. The Association encourages FSA to develop necessary programmatic mechanisms as well as reimbursement to CRP participants for the added cost, to ensure that recurring management be performed when needed to manage succession in order to continue wildlife benefits throughout the contract period.

NATURAL RESOURCES CONSERVATION SERVICE (NRCS)

The Natural Resources Conservation Service has immense responsibilities for implementing the conservation provisions of the 1985 Food Security Act (FSA), the 1990 Food, Agriculture, Conservation and Trade (FACT) Act, the Federal Agricultural Improvement and Reform (FAIR) Act of 1996 and the Farm Security and Rural Investment Act of 2002.

The 2002 Farm Bill signed into law by the President May 13, 2002 represents the single largest investment in conservation ever authorized in a Farm Bill and includes reauthorized and new programs to help the Nation’s agricultural producers achieve conservation of natural resources in concert with production of food and fiber. Specifically, programs were reauthorized as follows: The Conservation Reserve Program (CRP)—39.2 million enrollment cap; the Wetland Reserve Program (WRP)—enrollment cap of 2.275 million acres (up to 250,000 acres new enrollment per year); the Wildlife Habitat Incentives Program (WHIP)—at \$360 million through 2007 (\$60 million in fiscal year 2004); the Environmental Quality Incentives Program (EQIP)—at \$5.8 billion through 2007 (\$1 billion in fiscal year 2004); and, the Farmland Protection Program (FPP)—at \$597 million through 2007 (\$125 million in fiscal year 2004). In addition, the following programs were created: The Grassland Reserve Program (GRP) with a 2 million acre cap; the Forest Land Enhancement Program (FLEP) with \$100 million through 2007; and, the Conservation Security Program (CSP) at \$2 billion based on the 10 year score of the 2002 Farm Bill. The Association strongly encourages Congress to provide annual funding for these conservation programs at the full levels authorized in the 2002 Farm Bill.

With approximately 50 percent of the land in the United States in agricultural production, conservation is inextricably linked with agriculture and, therefore, the importance of USDA conservation programs cannot be overemphasized. These programs are particularly important in that many species of wildlife reside on agricultural landscapes with nowhere else to go and must survive there if they are to survive at all.

Collectively, the 2002 Farm Bill effectively expands conservation opportunities provided in the 1985, 1990 and 1996 Farm Bills. Servicing landowner requests for these programs will require technical assistance well beyond levels provided by NRCS in times past. Whether technical assistance is provided by NRCS staff or non-federal technical service providers, it will take adequate funding to get the job done. The Association supports the use of an equitable portion of authorized funding from those programs that have enrollment authorizations expressed in dollars.

However, in the NRCS fiscal year 2004 Budget Request, it appears the funding request for some programs (CCC mandatory funding) have been reduced in widely varying and inequitable amounts in order to create the Farm Bill Technical Assistance account on the discretionary funding side. For example, the EQIP budget request for fiscal year 2004 is shown as \$850 million when the authorized fiscal year 2004 level is \$1 billion. The difference is \$150 million, or 15 percent of EQIP funding, which is proposed to transfer to help fund the Farm Bill Technical Assistance Account. Similarly, the fiscal year 2004 budget request for WHIP is shown as \$42 million when the authorized fiscal year 2004 funding level is \$60 million. The difference is \$18 million, or 30 percent of WHIP funding, which is proposed for transfer to the Farm Bill Technical Assistance Account. The Association is strongly concerned about this inequity, particularly since WHIP funding is more limited than most other Farm Bill conservation programs and the historic percentage of WHIP funds used for technical assistance has been much less than 30 percent.

Further, the fiscal year 2004 funding request for WRP is 200,000 acres although Congress authorized a 250,000 acre per year enrollment. Presumably, although it isn't clear in the budget request, the 50,000 acre difference (between authorized and requested enrollment authority) reflects the cost of WRP technical assistance. If so, this appears inequitable and illogical. First, the 20 percent reduction reflects transfer to the Farm Bill Technical Assistance Account compared with a 15 percent transfer of EQIP funding. Second, and much more importantly, the WRP enrollment authority is expressed in acres (like CRP) rather than dollars as is the case with EQIP, WHIP and many of the other Farm Bill conservation programs. The Association believes that this is contrary to the intent of the Farm Bill, so recently passed by Congress and signed into law by the President. The NRCS budget should reflect the full authorized 250,000 acres for WRP and NRCS should request technical assistance funding request based on that enrollment level. This is particularly important in that WRP is one of the most popular of Farm Bill conservation programs and demand has consistently exceeded enrollment authority. In fact the NRCS fiscal year 2004 budget request confirms this with the statement that "even with the authority to enroll 250,000 acres in the program, demand for the program exceeded the annual acreage allocation."

The Grassland Reserve Program (GRP) presents great opportunity to provide agricultural producers with an economic alternative to conversion of dwindling native prairie to other uses. GRP should enable producers to keep irreplaceable prairie in forage production, a use to which these lands have historically been so well suited. The Association supports the \$85 million in the fiscal year 2004 budget request to fund GRP and encourages NRCS to put development of the Rule for this promising program on the fast track so that the program can be effectively implemented as early in fiscal year 2004 as possible.

In these times of compelling conservation need, many State fish and wildlife agencies are contributing staff time to help NRCS field offices service fish and wildlife aspects of USDA assistance to landowners. Such partnerships help NRCS deliver specialized technical expertise to private landowners at less cost than adding NRCS staff with such expertise. The 2002 Farm Bill contains third party vendor aspects to allow USDA to contract with State fish and wildlife agencies to provide fish and wildlife expertise more inexpensively and effectively than could be provided by adding NRCS staff to fill the discipline need. And, importantly, State fish and wildlife agencies have state-level authority for fish and wildlife resources of the state and are, therefore, in an excellent position to help service related aspects of Farm Bill programs. The Association strongly encourages the Administration and Congress to emphasize partnering arrangements between NRCS and State fish and wildlife agencies and others that result in cost-efficiencies. The Association also encourages the Administration to develop a third party vendor certification system that fully

recognizes the technical expertise and management authority under state law of State fish and wildlife agencies.

PREPARED STATEMENT OF THE INTERTRIBAL BISON COOPERATIVE

INTRODUCTION AND BACKGROUND

My name is Ervin Carlson, a Tribal Council member of the Blackfeet Tribe of Montana and President of the InterTribal Bison Cooperative. Please accept my sincere appreciation for this opportunity to submit testimony to the honorable members of the Department of Agriculture Appropriations Sub-Committee. The InterTribal Bison Cooperative (ITBC) is a Native American non-profit organization, headquartered in Rapid City, South Dakota, comprised of 51 Federally recognized Indian Tribes located within 17 States across the United States.

Buffalo thrived in abundance on the plains of the United States for many centuries before they were hunted to near extinction in the 1800s. During this period of history, buffalo were critical to survival of the American Indian. Buffalo provided food, shelter, clothing and essential tools for Indian people and insured continuance of their subsistence way of life. Naturally, Indian people developed a strong spiritual and cultural respect for buffalo that has not diminished with the passage of time.

Numerous tribes that were committed to preserving the sacred relationship between Indian people and buffalo established the ITBC as an effort to restore buffalo to Indian lands. ITBC focused upon raising buffalo on Indian Reservation lands that did not sustain other economic or agricultural projects. Significant portions of Indian Reservations consist of poor quality lands for farming or raising livestock. However, these wholly unproductive Reservation lands were and still are suitable for buffalo. ITBC began actively restoring buffalo to Indian lands after receiving funding in 1992 as an initiative of the Bush Administration.

Upon the successful restoration of buffalo to Indian lands, opportunities arose for Tribes to utilize buffalo for tribal economic development efforts. ITBC is now focused on efforts to assure that tribal buffalo projects are economically sustainable. Federal appropriations have allowed ITBC to successfully restore buffalo the tribal lands, thereby preserving the sacred relationship between Indian people and buffalo. The respect that Indian tribes have maintained for buffalo has fostered a serious commitment by ITBC member Tribes for successful buffalo herd development. The successful promotion of buffalo as a healthy food source will allow Tribes to utilize a culturally relevant resource as a means to achieve self-sufficiency.

Amended Language Request to Food Stamp Act

The InterTribal Bison Cooperative respectfully requests an amendment to the Department of Agriculture's Food Stamp Act to increase the earmark for purchase of buffalo from the current fiscal year 2003 amount of \$3,000,000 to \$10,000,000. Specifically, ITBC requests the following amended language to the Food Stamp Act:

For necessary expenses to carry out the Food Stamp Act (7 U.S.C. 2011 et seq.), \$26,289,692,000, of which \$2,000,000,000 shall be placed in reserve for use only in such amounts and at such times as may become necessary to carry out program operations: Provided, That of the funds made available under this heading and not already appropriated to the Food Distribution Program on Indian Reservations (FDPIR) established under section 4(b) of the Food Stamp Act of 1977 (7 U.S.C. 2013 (b)), not to exceed \$10,000,000 shall be used to purchase bison and/or bison meat for the FDPIR and other food programs on the reservations, with one-half purchased from Native American bison producers and one half purchased from producer owned cooperatives or bison ranchers. Provided further, That all bison purchased shall be labeled according to origin and the quality of cuts in each package. Provided further, That the Secretary of Agriculture shall make every effort to enter into a service contract, with an American Indian Tribe, Tribal company, or an Inter Tribal organization, for the processing of the buffalo meat to be acquired from Native American producers. Provided further, That funds provided herein shall be expended in accordance with section 16 of the Food Stamp Act; Provided further, That this appropriation shall be subject to any work registration or workfare requirements as may be required by law: Provided further, That funds made available for Employment and Training under this heading shall remain available until expended, as authorized by section 16(h)(1) of the Food Stamp Act.

Preventative Health Care Initiative

The Native American Indian population currently suffers from the highest rates of Type 2 diabetes. The Indian population further suffers from high rates of cardiovascular disease and various other diet related diseases. Studies indicate that Type

2 diabetes commonly emerges when a population undergoes radical diet changes. Native Americans have been forced to abandon traditional diets rich in wild game, buffalo and plants and now have diets similar in composition to average American diets. More studies are needed on the traditional diets of Native Americans versus their modern day diets in relation to diabetes rates. However, based upon the current data available, it is safe to assume that disease rates of Native Americans are directly impacted by a genetic inability to effectively metabolize modern foods. More specifically, it is well accepted that the changing diet of Indians is a major factor in the diabetes epidemic in Indian Country.

Approximately 65–70 percent of Indians living on Indian Reservations receive foods provided by the USDA Food Distribution Program on Indian Reservations (FDPIR) or from the USDA Food Stamp Program. The FDPIR food package is composed of approximately 58 percent carbohydrates, 14 percent proteins and 28 percent fats. Indians utilizing Food Stamps generally select a grain based diet and poorer quality protein sources such as high fat meats based upon economic reasons and the unavailability of higher quality protein sources.

Buffalo meat is low in fat and cholesterol and is compatible to the genetics of Indian people. ITBC intends to promote buffalo meat on Indian Reservations as a healthy source of protein. First, ITBC is developing a preventative health care initiative to educate Indian families of the health benefits of buffalo meat. ITBC believes that incorporating buffalo meat into the FDPIR program will provide a significant positive impact on the diets of Indian people living on Indian Reservations. Further, ITBC is exploring methods to make small quantities of buffalo meat available for purchase in Reservation grocery stores. A healthy diet for Indian people that results in a lower incidence of diabetes will reduce Indian Reservation health care costs and result in a savings for taxpayers.

ITBC Goals and Initiatives

In addition to developing a preventative health care initiative, ITBC intends to continue with its buffalo restoration efforts and its Tribal buffalo marketing initiative.

In 1991, seven Indian Tribes had small buffalo herds, with a combined total of 1,500 animals. The herds were not utilized for economic development but were often maintained as wildlife only. During ITBC's relatively short 10-year tenure, it has been highly successful at developing existing buffalo herds and restoring buffalo to Indian lands that had no buffalo prior to 1991. Today, through the efforts of ITBC, over 35 Indian Tribes are engaged in raising over 15,000 buffalo. All buffalo operations are owned and managed by Tribes and many programs are close to achieving self-sufficiency and profit generation. ITBC's technical assistance is critical to ensure that the current Tribal buffalo projects gain self-sufficiency and become profit-generating. Further, ITBC's assistance is critical to those Tribes seeking to start a buffalo restoration effort.

Through the efforts of ITBC, a new industry has developed on Indian reservations utilizing a culturally relevant resource. Hundreds of new jobs directly and indirectly revolving around the buffalo industry have been created. Tribal economies have benefited from the thousands of dollars generated and circulated on Indian Reservations.

ITBC has also been strategizing to overcome marketing obstacles for Tribally raised buffalo. ITBC is presently assisting the Assiniboine and Gros Ventre Tribes of the Fort Belknap Reservation, who recently purchased an USDA approved meat-processing plant, with a coordination scheme to accommodate the processing of range-fed Tribally raised buffalo.

Conclusion

ITBC has proven highly successful since its establishment to restore buffalo to Indian Reservation lands to revive and protect the sacred relationship between buffalo and Indian Tribes. Further, ITBC has successfully promoted the utilization of a culturally significant resource for viable economic development.

ITBC has assisted Tribes with the creation of new jobs, on-the-job training and job growth in the buffalo industry resulting in the generation of new money for Tribal economies. ITBC is also actively developing strategies for marketing Tribally owned buffalo. Finally, and most critically for Tribal populations, ITBC is developing a preventive health care initiative to utilize buffalo meat as a healthy addition to Tribal family diets.

ITBC strongly urges you to support its request for the amended language as specifically provided above to the Food Stamp Act to allow \$10,000,000 for the purchase of buffalo and buffalo meat and for half that amount to be specifically designated for the purchase of Native American produced buffalo and buffalo meat.

PREPARED STATEMENT OF THE LUMMI INDIAN BUSINESS COUNCIL

My name is Darrell Hillaire, Chairman of the Lummi Nation. The Lummi Nation is located on the northern coastline of Washington State, and is the third largest tribe in Washington State serving a population of over 5,200. On behalf of the Lummi Nation I want to thank you and the members of the Committee for accepting this written testimony and allowing the Lummi Nation the opportunity to express our concerns and requests regarding the fiscal year 2004 Budget for Rural Development Programs within the Department of Agriculture.

\$1 Million from the Rural Business Development Program

The fisheries disasters beginning in 1999, continuing in 2000 and re-occurring in 2001 has literally bankrupted all of the small business owners of the Lummi Nation. This economic disaster has impacted over 700 fishers and 2,000 members of the Lummi Nation. This number represents nearly 50 percent of the total Lummi Nation population. The decline in the fisheries resource has subsequently been validated and declared by the Department of Commerce and Related Agencies as an economic disaster under the Magnuson-Stevens Act. In order to re-establish the private business sector of the Lummi Nation, the economy needs the assistance identified below on an emergency basis:

Retail Facilities

The Lummi Nation needs financial assistance to support the development of retail facilities on the Lummi Reservation. Retail facilities will support business development on the reservation and will employ both Tribal and non-Tribal residents. The Lummi Nation has provided some of its unemployed fishers with business development training. We were able to secure funding to provide adult and vocational training to our members at the Northwest Indian Community College and they have prepared 50 business plans in varying stages of readiness for financing.

Budget Period	2004	2005	2006
Funding Amount	\$500,000	\$2,000,000	\$140,000
Project Activity	Planning	Construction	Operations Implementation

Commercial Processing Facilities

The Lummi Nation needs financial assistance to support the development of commercial facilities on the Reservation to support finfish and shellfish processing from harvesters into retail products and to transport these products to markets within the contracted timeframes. The Lummi Nation will seek to contract with an established seafood processing companies to consult with during the design and construction phase, as well as operate the facility profitably under a lease agreement.

Budget Period	2004	2005	2006
Funding Amount	\$500,000.	\$5,000,000.	\$300,000.
Project Activity	Planning	Construction	Operations Support

\$500,000 from the USDA Indian Water Program

The Lummi Nation is seeking funding to support the cost of construction for the expansion of the Tribal infrastructure, which includes water and wastewater treatment systems for community development purposes. The Tribe has already begun planning and design efforts for a "Kwina Village" concept, which includes a new Tribal College campus, a Drug Treatment Center and a new Tribal Government facility. Funding is needed to upgrade, replace and develop Tribal infrastructure systems to accommodate Kwina Village development.

Budget Period	2004	2005	2006
Funding Amount	\$2,000,000	\$220,000	\$180,000
Project Activity	Construction	Implementation	Operations

Thank you for this opportunity and we hope that the Committee will find the request of the Lummi Nation a viable one.

PREPARED STATEMENT OF THE NATIONAL ASSOCIATION OF CONSERVATION DISTRICTS

The National Association of Conservation Districts is the nonprofit, nongovernment organization that represents the nation's 3,000 conservation districts and more than 16,000 men and women who serve on their governing boards. Established under state law, conservation districts are local units of state government charged with carrying out programs for the protection and management of natural resources at the local level. They work with nearly two-and-half million cooperating landowners and operators—many of them farmers and ranchers—to provide technical and other assistance to help them manage and protect private land in the United States. In carrying out their mission to coordinate and carry out all levels of conservation programs, districts work closely with USDA's Natural Resources Conservation Service (NRCS) through its Conservation Technical Assistance Program (CTAP) to provide the technical and other help farmers and ranchers need to plan and apply complex conservation practices, measures and systems.

The partnership of conservation districts, state conservation agencies and NRCS provides farmers and ranchers with critical help in protecting and improving the quantity and quality of our soil and water resources while meeting both domestic and international food and fiber needs. America's agricultural producers provide many benefits to our citizens including clean water and air, fish and wildlife habitat and open space. Many of the conservation practices producers apply on their land also take carbon out of the atmosphere and store it in the soil, providing a hedge against global climate change. As stewards of the nation's working lands, farmers and ranchers manage the vast majority of America's private lands and provide tremendous environmental benefits to the country.

On behalf of America's conservation districts, I am pleased to provide our recommendations on selected conservation programs carried out through the U.S. Department of Agriculture, especially those of the Natural Resources Conservation Service.

Conservation Operations—Conservation Technical Assistance Program

The heart of the agency's private lands conservation assistance delivery system is its Conservation Operations (CO) account. Through the CO Conservation Technical Assistance Program (CTAP), NRCS provides direct assistance to private landowners and operators and others to address myriad natural resource concerns such as soil erosion control, water and air quality protection and improvement, wetlands and wildlife habitat conservation, forestry management, grazing land improvement and other resource concerns. Requests for such assistance grow each year and far outstrip the ability of the agency to meet the demand. Data collected over the past several years continue to show a shortfall of several thousand staff years at the field level. Conservation districts recommendation for the NRCS Conservation Technical Assistance Program for fiscal year 2004 is for a total of \$731.000 million, an increase of approximately \$35 million, or 5 percent over the fiscal year 2003 level. We believe it is critical that this basic and essential program be strengthened to help landowners and operators address the nation's natural resource non-Farm Bill needs on private working lands.

The President's budget request for fiscal year 2004 includes a proposal to establish a separate Farm Bill Technical Assistance account, which would be funded by transferring \$154 million from the NRCS CO account, as well as transfers of Commodity Credit Corporation (CCC) funds and other offsets. We have argued consistently since enactment of the 2002 Farm Bill that Congress intended for the seven programs authorized in Sec. 1241(a) of Title XII of the Food Security Act of 1985 to fully fund technical assistance from their CCC accounts. We have further argued that, since at best the new Farm Bill's working agricultural lands conservation programs will reach less than 25 percent of the nation's agricultural lands, and an even smaller percentage of the nation's farms and ranches, the NRCS CO account should be intended to service basic technical assistance needs of producers who do not participate in the Farm Bill programs.

Congress rejected a similar Farm Bill Technical Assistance account proposal in its fiscal year 2003 appropriations bill for USDA and we urge you to do so again. We strongly support having each of the seven section 1241(a) programs pay for its own technical assistance, including CRP and WRP, and that funds for that purpose are not subject to the CCC section 11 cap. We also urge you to again adopt language in the fiscal year 2004 appropriations bill stating that CO funds cannot be used to provide technical assistance with respect to programs listed in section 1241(a).

Conservation Operations—Conservation of Private Grazing Lands

In addition to the base Conservation Technical Assistance Program, conservation districts support full funding for the NRCS Conservation of Private Grazing Lands

provision, authorized at \$60 million annually. Resource problems such as brush, weeds and accelerated water or wind erosion threaten the capacity of nearly 300 million acres—more than 50 percent—of these lands to satisfy production needs and meet natural resource values. Working with partners such as the National Grazing Lands Conservation Initiative, conservation districts and their partners have determined that at least \$60 million is needed to fund the CPGL program. This amount represents a \$36.5 million, or 5 percent, increase relative to fiscal year 2003 CTAP spending and will allow us to begin reversing the negative trends that affect both production and environmental concerns on these lands.

In addition technical assistance needs, currently more than 45 percent of the nation's rangelands lack an adequate soil survey. Approximately 80 percent of the same lands need inventory and classification of their vegetation. Such information is essential to planning and implementing coordinated resource management programs, monitoring rangeland status and dealing with resource issues such as noxious weeds, wildfire and endangered species.

NRCS is currently partnering with the Forest Service and USDI's Bureau of Land Management to develop a common interagency ecological framework for rangelands. The framework will provide improved efficiencies in rangeland inventory, facilitate interagency coordination, provide an essential base for monitoring, and provide all parties interested in rangelands a basis for a common understanding of their needs. Conservation districts urge Congress to direct the Secretaries of Agriculture and Interior to establish an interagency committee to develop a National Cooperative Rangeland Survey to address rangeland assessment and monitoring issues, provide adequate funding for those purposes and encourage the secretaries to cooperatively take actions necessary to develop and implement a 10-year plan for completion of a survey/ecological classification and a National Periodic Rangeland Survey. We recommend that \$3 million be provided to NRCS for its share of the activities described above.

The Conservation Operations account includes other important components that include snow survey and water forecasting activities; establishment and operation of plant materials centers; and conducting the cooperative soil survey program. Specific recommendations for those activities are: snow survey—\$10 million; plant materials center—\$15 million; and soil surveys: \$91 million.

Watershed Protection

Through its Watershed Protection and Flood Prevention, Watershed Surveys and Planning, Watershed Rehabilitation Program and Emergency Watershed Program, NRCS partners with states, local units of government, tribes and other sponsor organizations to address many natural resource issues on a watershed basis. More than 2,000 plans, covering 160 million acres in watersheds across the country, have been completed or are under development. The purposes of watershed projects include watershed protection, flood prevention, water quality improvements, soil erosion reduction, water supply, irrigation water management, fish and wildlife habitat enhancement and wetland protection and restoration. Technical and financial assistance are provided in cooperation with local sponsoring organizations and state and other sponsoring public agencies to voluntarily plan and install watershed-based projects on private lands.

In addition to planning new and meeting existing project needs, many of the more than 10,000 existing structures built over the past 50 years through the cooperative watershed programs are nearing the ends of their life spans and no longer meet current dam safety or other standards. These structures now need to be upgraded, repaired or decommissioned to address watershed needs of today and the future.

NRCS's Emergency Watershed Program provides cost-share and technical assistance to help landowners and operators and other cooperators restore damage from floods, storms and other natural disasters.

The President's requests of \$40 million for the Watershed Protection and Flood Prevention Program, \$5 million for Watershed Surveys and Planning, and \$10 million for Watershed Rehabilitation fall far short of the need. NACD and its partner, the National Watershed Coalition, document an immediate need and ability to effectively utilize \$190 million, \$35 million and \$45 million, respectively, for these programs that address important watershed-based public health and safety issues across the nation and we urge you to make these funds available.

Conservation districts also urge you to fund the NRCS Emergency Watershed Program at \$110 million in fiscal year 2004 as an important step toward creating a separate, stand-alone account for helping landowners and operators respond to flooding and other emergencies.

Resource Conservation and Development (RC&D) Program

NRCS's Resource Conservation and Development (RC&D) Program helps improve the capability of state, tribal and local units of government and local nonprofit organizations in rural areas to plan, develop and carry out programs to advance quality of life through natural resources conservation and community development. The overall goal of the RC&D Program is to help communities achieve sustainable development through prudent use, management and conservation of natural resources. The Farm Security and Rural Investment Act of 2002 (Farm Bill) permanently authorized the RC&D Program and increased the number of authorized areas to 450.

RC&D Councils play an important role in rural development and natural resource conservation. USDA has indicated that it takes \$161,000 to fully support an RC&D council. There are 368 existing councils and 20 pending applications. Conservation districts recommend that Congress appropriate \$69.2 million to fully support the existing councils and additional applicant areas up to the authorized limit.

Rural Abandoned Mine Program (RAMP)

Through its Rural Abandoned Mine Program (RAMP), NRCS addresses health, safety and environmental hazards created by abandoned mine lands in rural areas, which affect half of the 50 states. Although the Abandoned Mine Reclamation Fund (AMRF) is intended to fund these reclamation activities by providing a portion of the collected fees to be transferred from the Interior Department to RAMP, the program has received no funding for the past seven years.

A portion of the funds from the Abandoned Mine Reclamation Fund is intended to be transferred to NRCS to help defray the costs associated with mineland reclamation activities. Although the portion of the fees collected by the AMRF targeted for RAMP stands at more than \$250 million, no funds have been transferred in the past six years. Conservation districts recommend transferring \$25 million from the AMRF to the NRCS RAMP account in fiscal year 2004.

Additional recommendations for USDA's discretionary-funded private lands conservation programs are contained in the attached chart.

Mandatory Programs

In 1985, Congress recognized the important role that farmers and ranchers play in environmental protection when it enacted the first Farm Bill conservation title that required producers to incorporate conservation into their operations if they wanted to continue receiving USDA farm program benefits. The title also included a land retirement program—the Conservation Reserve Program (CRP)—to give farmers financial incentives to take sensitive lands out of production. In subsequent Farm Bills and other statutes, lawmakers added more incentives programs—the Wetlands Reserve Program (WRP), Environmental Quality Incentives Program (EQIP), Farmland Protection Program (FPP), Wildlife Habitat Incentives Program (WHIP) and Agricultural Management Assistance (AMA) Program—to provide additional incentives to increase conservation.

The Farm Security and Rural Investment Act of 2002 enacted sweeping legislation that extended the above Farm Bill conservation programs, added several new initiatives, including the Conservation Security Program (CSP), Grassland Reserve Program (GRP) and Forest Land Enhancement Program (FLEP). It also dramatically increased funding for conservation through the Commodity Credit Corporation (CCC) by 80 percent over current levels. In addition to the new and expanded program initiatives, the six-year bill provided that all of the “mandatory” conservation programs would pay for their own technical assistance needs from within their own CCC program accounts.

As noted earlier, the fiscal year agriculture component of the fiscal year 2003 omnibus appropriations bill clarified this by amending the Farm Bill to very specifically state this intent. However, the bill provided that technical assistance funding for the WRP and CRP would have to come from the CCC accounts of EQIP, FRPP, WHIP, the CSP and GRP. Conservation districts urge Congress to correct this oversight by amending the statute to allow WRP and CRP to pay their own technical assistance costs.

With respect to the CSP, this new program presents an extraordinary opportunity to increase conservation on private working lands. In contrast to the other, more targeted programs, all producers and all working the CSP are eligible to participate. This innovative program provides varying levels of cost-share and incentive payments to producers who install and/or maintain conservation practices and systems with higher levels of conservation qualifying for higher levels of payments. Conservation districts worked hard to help craft this program and ensure its passage in the Farm Bill and support the CSP as an entitlement with no cap on its cost, as written in the 2002 law. The 2003 appropriations law, however, capped the pro-

gram at \$3.7 billion over a 10-year period, which we believe seriously limits its ability to achieve much more significant conservation gains during that span. We strongly urge Congress to lift this restriction and allow the CSP to realize its true potential.

Other conservation programs addressed in the Farm Bill include increasing CCC funding for the Agricultural Management Assistance (AMA) Program, which provides EQIP-type assistance in states traditionally underserved by Farm Bill programs, and providing additional CCC funding for the Small Watershed Rehabilitation Program.

Conservation districts were strong supporters of the Farm Bill conservation programs and played a key role in their development and enactment. They also have significant roles in their implementation, among other roles, approving conservation plans, identifying local resource concerns, priorities and objectives, and coordinating community input into programs. In order to fully attain the public benefits the American want and expect from these key private lands conservation programs, we urge you to allow for their full funding in fiscal year 2004 as detailed in the attached chart.

Conclusion

As you continue your work on providing funding for critical NRCS programs, we again urge you to keep in mind that NRCS is the only Federal agency whose primary role is to provide conservation assistance on the nation's private lands. There are a few other agencies with narrowly targeted purposes, but no other agency even comes as close to touching all of America's private working lands as do NRCS and conservation districts. It is critical, therefore, that we strengthen the nation's commitment to providing adequate resources to help land managers conserve and protect natural resources on these lands.

On behalf of the nation's 3,000 conservation districts, we appreciate the opportunity to provide our views on fiscal year 2004 funding recommendations for select USDA conservation programs. We look forward to working with you over the next few months in finalizing your proposals.

PREPARED STATEMENT OF THE NATIONAL ASSOCIATION OF PROFESSIONAL FORESTRY SCHOOLS AND COLLEGES (NAPFSC)

The National Association of Professional Forestry Schools and Colleges (NAPFSC) is comprised of the 69 universities that conduct the Nation's research, teaching, and extension programs in forestry and related areas of environmental and natural resource management. NAPFSC strongly supports increased funding for Federal forestry research programs, including those operated by the USDA's Cooperative State Research Education and Extension Service (CSREES).

The time is right to strengthen the research and technology transfer capacity for Federal land management agencies. The management of nonfederal forestlands has become a critical economic, environmental, and security issue. Owners and managers of nonfederal forestlands are simply not equipped to deal with the tremendous changes in forest land use and management that have occurred in the last decade nor the pressures of the 21st century.

The programs outlined below are key to addressing the stewardship of these lands. These programs are: the McIntire-Stennis Cooperative Forestry Research Program (McIntire-Stennis), the Renewable Resources Extension Act (RREA), and the National Research Initiative (NRI) Competitive Grants Program. These programs have stimulated the development of vital partnerships involving universities, Federal agencies, non-governmental organizations and private industry, and need to have increased funding for fiscal year 2004.

The Case for Enhanced Forestry Research Funding.—The past, present, and future success of forestry research and extension activities arising from the NAPFSC member institutions results from a unique partnership involving Federal, State, and private cooperators. Federal agencies have concentrated on large-scale national issues while state funding has emphasized applied problems and state-specific opportunities. University research in contrast, with the assistance of Federal, State and private support, has been able to address a broad array of applied problems related to technology development and fundamental biophysical and socioeconomic issues and problems that cross ownership, state, region, and national boundaries.

The 1998 Farm Bill and various subsequent reports and conference proceedings have identified the need for greater attention on the emerging issues confronting non-Federal forest landowners. NAPFSC is pleased to be one of the cofounders of the National Coalition for Sustaining America's Nonfederal Forests. The founding

of the Coalition and its subsequent report emerged from a Forestry Summit held in 1999 that brought together key forestry leaders and landowners from across the nation. The Coalition has documented a plan of action to conserve, protect, and sustain our nation's nonfederal forest lands. Recent security threats to the nation's forest and water resources further heighten the importance of this plan. The plan stresses the importance of cooperation among the public universities, State forestry agencies, Federal agencies, and the many stakeholders in the natural resources arena. Key elements of this plan are research capacity and concerted action on stakeholder priorities.

The forests and other renewable natural resources of this country are primary contributors to the economic health of the nation; are reservoirs of biodiversity important to the well-being of our citizens; are significant to the maintenance of environmental quality of our atmosphere, water, and soil resources and provide diverse recreational and spiritual renewal opportunities for a growing population. Tremendous strains are being placed upon the nation's private forest lands by the combination of increasing demands for forest products coupled with dramatic changes in timber policies concerning our National Forests. Because of the changes in Federal forest policy, private forest lands in the United States are now being harvested at rates not seen since the beginning of the 20th century.

To meet this challenge, research priorities must be adjusted to better address the needs of private landowners, and to specifically enhance the productivity of such lands through economically efficient and environmentally sound means. These challenges can be substantially addressed by the university community through the building of integrated research and extension programs assisted by McIntire-Stennis, RREA, and NRI.

There are currently approximately 10 million private forestland owners in the United States. These landowners control nearly 60 percent of all forestland in the country. And it has been to the universities, with strong support from CSREES, that landowners traditionally look for new information about managing their lands. The overwhelming majority of the 10 million private landowners are not currently equipped to practice the sustained forest management that is critical to the health of our environment and economy. The combination of research conducted by the forestry schools, combined with the dissemination of that research through the cooperative extension network, has never been more essential.

The Cooperative Forestry Research (McIntire-Stennis) Program is the lead forestry effort administered by the USDA Cooperative State Research, Education, and Extension Service (CSREES). This program is the foundation of forest resources research and scientist training efforts at universities. The program provides cutting-edge research on productivity, technologies for monitoring and extending the resource base, and environmental quality—efforts that are critically important since universities provide a large share of the nation's research.

The Investment.—The program is currently funded at \$21,742,000 and matched more than three times by universities with state and nonfederal funds. The NAPFSC funding request for fiscal year 2004 is \$30 million with the increase targeted at:

- sustainable and productive forest management systems for private lands to address issues of global change, international competition and economic growth (\$2.8 million);
- forest health and risk to address fire, pest species, and other disturbances affecting domestic resource security, downstream impacts, and restoration of complex systems (\$2.1 million);
- assessing social values and tradeoffs to identify realistic policy options, economic impacts, and to inform decisions with effective science at all levels of government (\$1.1 million);
- forest monitoring and information systems with emphasis on geospatial technologies and landscape models for aiding the assessment of policy alternatives (\$1.1 million); and
- new biobased products, improved processing technologies, and utilization of small trees to extend the forest resource and enhance environmental quality (\$1.0 million);

The NAPFSC schools request this support with direction to focus on new or existing approved projects to achieve rapid progress on one or more of these research targets in each school's state, region, or nationally. We recognize that progress will be dependent on a critical mass of scientific effort, thus collaboration among schools is encouraged. Portions of this funding will also be used to provide training for critically needed new forest resources scientists. Addressing the base program needs will in turn build the capacity to compete effectively for competitive grants, such as through the National Research Initiative (NRI).

The Renewable Resources Extension Program (RREA) program in CSREES is the nation's lead forest resources extension effort—it is the foundation of outreach and extension efforts at universities. The program is critically important today since universities provide a large share of the nation's outreach and extension. Also, these same institutions educate nearly all of the nation's professionals in forest resources. Audiences for the products of outreach and extension are as diverse as are the stakeholders. The highest priority is the owners of nonfederal forestlands and those involved in implementing forest management.

The Investment.—A wide range of management practices and techniques are needed to increase the production of multiple outputs from forests and to enhance domestic resource security. Building toward this accomplishment will take several years. However, we urge a significant step this year. The RREA program is currently funded at \$4,516,000. The NAPFSC request for fiscal year 2004 is \$15 million. The most compelling targets for this increase are:

- Best management practices together with readily accessible information on programs, services, and benefits of natural resources management and planning to integrate water, wildlife, timber, fish, recreation and other products and services (\$3.5 million);
- Communication systems for landowner education and the delivery of information tailored to address owner values and objectives (\$3.3 million);
- Risk management approaches for addressing fire, pests, and other disturbances at local to larger scales—issues of environmental and resource security (\$2.1 million).
- Opportunities for cooperation such as landowner cooperatives and other organizations linked to professional services and marketing, and conservation strategies to address local issues within the framework of landowner's objectives (\$1.5 million).

The NAPFSC schools request this support with direction to focus on new or existing approved projects to achieve rapid progress on one or more of these research targets in each school's state, region, or nationally. We recognized that progress will be dependent on a critical mass of extension educator effort, thus collaboration among schools is encouraged. Portions of this funding will also be used to provide the training needed in developing new extension educators.

The National Research Initiative Competitive Grants Program (NRI) is a significant source of funding for basic and applied research on forest resources and their management and utilization. This program is currently funded at \$166,045,000 of which approximately ten percent goes to successful forestry research proposals. NAPFSC supports the Administration's efforts to increase the funding for this program to \$200 million for fiscal year 2004 but urges that at least 20 percent of the increase be directed to forest resources related research.

2002 Farm Bill Funding.—NAPFSC strongly urges Congress to provide full funding for the various programs authorized in the 2002 Farm Bill, especially programs such as Environmental Quality Incentives Program (EQIP) and the Forest Land Enhancement Program (FLEP). These programs, along with programs such as Wetland Reserve Program and the Wildlife Habitat Improvement Program (WHIP) are instrumental in the development and implementation of any national investment strategy for forest resources. It is important that the Department of Agriculture has a strong infrastructure to deliver these important conservation provisions. NAPFSC urges the Committee to provide necessary funding to the Natural Resources Conservation Service. These funds will provide the resources to insure that the technical expertise will be available to work with the increasing number of landowners who are addressing a broad set of resource issues, including forest management as well as conservation.

Conclusion

The investments outlined here are substantial, but the potential savings and returns are far greater. Disciplined and rigorous implementation of research and education on forest resources issues will contribute greatly to attaining our vision for America's nonfederal forests for the future. NAPFSC urges cooperation at Federal, State, and University levels to make this investment and the vision and security it will support a reality.

PREPARED STATEMENT OF THE NATIONAL ASSOCIATION OF UNIVERSITY FISHERIES
AND WILDLIFE PROGRAMS

The National Association of University Fisheries and Wildlife Programs (NAUFWP) appreciates the opportunity to submit testimony concerning the fiscal

year 2004 budgets for the Natural Resources Conservation Service (NRCS) and the Cooperative State Research, Education and Extension Services (CSREES). NAUFWP represents approximately 55 university programs and their 440 faculty members, scientists, and extension specialists and over 9,200 undergraduates and graduate students working to enhance the science and management of fisheries and wildlife resources. NAUFWP is interested in strengthening fisheries and wildlife education, research, extension, and international programs to benefit wildlife and their habitats on agricultural and other private land.

NATURAL RESOURCES CONSERVATION SERVICE

Farm Bill Technical Assistance.—We applaud Congress for passing the 2002 Farm Bill that authorizes USDA to work with third party Technical Service Providers, building a strong cadre of certified professionals to assist NRCS in delivering assistance to producers. However, NRCS recognizes that technical service and other training will be needed to effectively prepare Technical Service Providers to assist producers and landowners. NAUFWP recommends that the Administration provide NRCS with adequate funds to make use of universities, colleges, land grant institutions, and the Extension Service to train Technical Service Providers.

Monitoring and Evaluation.—Monitoring Farm Bill conservation programs and evaluating their progress toward achieving Congressionally established objectives for soil, water, and wildlife will enable NRCS to ensure successful conservation program implementation. Changes to agricultural policy in the 2002 Farm Bill, such as higher funding authorizations and expanded acreage enrollment caps, necessitate an accountability system that continuously assesses the effectiveness of conservation programs and policies. NAUFWP recommends dedicating the \$10 million approved in the Farm Bill Statement of Managers for monitoring to monitoring and evaluation of Farm Bill conservation programs. We propose using a competitive grants process to fund a consortium of non-USDA organizations (non-governmental organizations, universities, and state organizations) for the purpose of identifying cost-saving practices, program improvements, and future funding requirements, and determining the environmental and economic value of conservation expenditures.

COOPERATIVE STATE RESEARCH, EDUCATION AND EXTENSION SERVICES

Renewable Resources Extension Act.—NAUFWP was pleased that Congress appropriated \$423,000 above the Administration's request for the Renewable Resources Extension Act (RREA) in 2003. RREA provides an expanded, comprehensive extension program for forest and rangeland renewable resources. The need for these programs is greater than ever now due to fragmentation of ownerships, urbanization, the number and diversity of landowners needing assistance, and the increasing social concern for land use and its effect on soil, water, air, and wildlife.

It is important to note that RREA was reauthorized in the 2002 Farm Bill at \$30 million annually through 2007. Though RREA is proven to be effective at leveraging cooperative state and local funding, it has never been fully funded in the annual appropriations process. In fact, the fiscal year 2004 request for RREA falls back to the 2002 funding level, \$4.093 million, which is insufficient for assisting private landowners who own and manage most of the nation's natural resources. An increase to at least \$15 million would enable CSREES to expand its capability to assist more private landowners in improving management of private land while increasing farm revenue. Therefore NAUFWP recommends that the Renewable Resources Extension Act be funded at a minimum of \$15 million in fiscal year 2004.

McIntire-Stennis.—The McIntire-Stennis Cooperative Forestry program funds state efforts in forestry research to increase the efficiency of forestry practices, and to extend the benefits that come from forest and related rangelands. McIntire-Stennis calls for close coordination between state colleges and universities and the Federal Government, and is essential for providing research background for other Acts, such as RREA. The Administration's fiscal year 2004 request for McIntire-Stennis is \$21.884 million, in essence level with 2002 and 2003. NAUFWP recommends that funding for McIntire-Stennis Cooperative Forestry be increased to \$30 million.

National Research Initiative.—National Research Initiative Competitive Grants (NRI) are open to academic institutions, Federal agencies, and private organizations to fund research on improving agricultural practices, particularly production systems that are sustainable both environmentally and economically, and to develop methods for protecting natural resources, including wildlife. Innovative grant programs such as NRI help broaden approaches to land management, such as integrating timber and wildlife management on private lands. NAUFWP supports the Administration's 2004 request of \$200 million for National Research Initiative Competitive Grants, and requests Congressional approval.

Thank you for considering the views of university fisheries and wildlife scientists. We look forward to working with you and your staff to ensure adequate funding for wildlife conservation.

PREPARED STATEMENT OF THE NATIONAL COMMODITY SUPPLEMENTAL FOOD PROGRAM

Mr. Chairman and subcommittee members, I am Leona Martens, President of the National Commodity Supplemental Food Program (CSFP) Association. Our Association of state and local CSFP operators works diligently with the Department of Agriculture Food, Nutrition and Consumer Service to ensure a quality supplemental nutrition assistance commodity food package program for low income persons aged sixty and older, and low income mothers, infants, and children. The program, which was authorized in 1969, serves approximately 476,000 individuals every month in 32 states, 2 Tribal Organizations and the District of Columbia.

This 34 year old CSFP stands as testimony to the power of partnerships between community and faith-based organizations, private industry and government agencies. The CSFP offers a unique combination of advantages unparalleled by any other food assistance program:

- The CSFP specifically targets our nation's most vulnerable populations: the very young and the very old low-income persons.
- The CSFP provides a monthly selection of food packages specifically tailored to the nutritional needs of the population we serve. Each eligible participant in the program is guaranteed [by law] a certain level of nutritional assistance every month.
- The CSFP purchases foods at wholesale prices, which directly supports the farming community. The wholesale costs amount to $\frac{1}{3}$ the cost it would be to provide the same supplemental nutrients at retail voucher cost. The average food package for fiscal year 2003 is \$13.72, and the retail cost would be approximately \$45.00.
- The CSFP involves the entire community in the problems of hunger and poverty. Thousands of volunteers as well as many private companies donate money, equipment, and most importantly time to deliver food to homebound seniors. These volunteers not only bring food but companionship and other assistance to seniors who might have no other source of support.

Chairman Bennett, the committee has consistently been helpful with funding support for our very prudent way of providing nutritional supplemental food packages to low income eligible seniors, mothers and children. Please help us continue.

NATIONAL CSFP NATIONAL CSFP ASSOCIATION 2004 ISSUES AND GOALS

Fiscal year 2004 Caseload and Funding Request—\$130 Million

598,674 Caseload Slots—\$129,994,469.00.

Caseload Requirements Existing States—559,674 Slots.

Total Cost Per Caseload Slot: \$164.64.—(\$13.72 blended monthly food package cost \times 12 months) + \$52.08 (\$51.48 annual fiscal year 2003 administrative annual funding level \times 1.16 percent state and local index of inflation) = \$216.72 per slot = \$121,292,549.00.

Expansion For Current Participating States: 27,000 Slots.—Current participating states had requested 6,000 additional slots to serve CSFP eligible seniors, women and children that were not awarded for fiscal year 2003. Additional slots will be needed as the eligible population increases due to the current economic conditions. This would require an \$164.64 (\$13.72 blended monthly food package cost \times 12 months) + \$52.08 (\$51.48 annual fiscal year 2003 administrative annual funding \times 1.16 percent state and local index of inflation) = \$216.72 per slot = \$5,851,440.00

New States: 12,000 Slots.—Arkansas, Maine, Oklahoma and Utah are submitting State Plans. 3,000 slots for each State would equal an additional \$123.48 (\$13.72 blended monthly food package cost \times 9 months) + \$39.06 (\$52.08 prorated for 9 months) = \$162.54 per slot = \$1,950,480.00.

Estimated USDA Costs for Procuring Commodities—\$.9 million.

Restore Senior Income Guidelines to 185 percent of Poverty.—Current income eligibility for senior clients is set at 130 percent of the poverty income guidelines, as opposed to 185 percent of poverty for CSFP women, infants, and children and clients of the WIC Program and the Seniors Farmers Market Nutrition Program. Many seniors are struggling with high housing, medical, and utility costs, and at the 130 percent poverty guideline, even the slightest inflation-driven increase in Social Security income renders many seniors ineligible for CSFP. The Senior Nutrition Act has

been introduced in both the House and Senate in 2003. Senate bill number is S 468 and House is HR 1021.

PREPARED STATEMENT OF THE NATIONAL FISH AND WILDLIFE FOUNDATION

I appreciate the opportunity to submit testimony for the record regarding the fiscal year 2004 funding request for the National Fish and Wildlife Foundation (Foundation). The Foundation respectfully requests that this Subcommittee fund the Foundation at \$4 million through the U.S. Natural Resources Conservation Service (NRCS) appropriation. This request would allow the Foundation to expand its highly successful grant program to better assist the NRCS in maximizing the benefits of the Conservation Title of the 2002 Farm Bill.

Federal dollars appropriated by this Subcommittee allow us to leverage state, local and private dollars for on-the-ground conservation. Since our inception in 1984, the Foundation as a whole has supported over 5,756 grants and leveraged over 230 million Federal dollars for more than \$700 million in on-the-ground conservation projects. This has resulted in more than 24.6 million acres of restored and managed wildlife habitat; 15,036 miles of restored streams and waterways; new hope for countless species under stress; new models of private land stewardship; and, stronger education programs in schools, local communities and on our Nation's farms. This Subcommittee's appropriation of NRCS dollars to the Foundation has helped us reach our goal.

With funds appropriated to the Foundation in previous 2 fiscal years, we have been able to yield a return of more than three non-Federal dollars raised for every taxpayer dollar entrusted to our organization. None of our Federally appropriated funds are used for lobbying or litigation, or the Foundation's administrative expenses. All of our Federally appropriated funds go to on-the-ground projects. Furthermore, our general administrative expenses, including fundraising, public relations, and finance and administration averaged 4 percent or less over the past 5 years.

The Foundation's relationship with the NRCS began in 1996 when we signed a cooperative agreement to protect and restore previously converted agricultural wetlands through the Wetland Reserve Program (WRP). Through that partnership the Foundation received \$5 million in NRCS funds, matched it with \$5.4 million in non-Federal funds and awarded a total of 31 WRP grants. More than 10,000 acres were restored and enrolled in the WRP through this effort. In 1999, due in part to success of our WRP grant program, this Subcommittee appropriated \$3 million in fiscal year 2000 funds to the Foundation to implement a new general conservation grant program with the NRCS.

This new general conservation grant program allowed us then and continues to allow the Foundation to be highly successful in assisting the NRCS in accomplishing its mission to help people conserve, maintain and improve our natural resources and environment. Whether it involves farm, range or grassland conservation, species management or conservation education, the Foundation strategically invests the Federal funds entrusted to us in sound projects. In fiscal year 2000, the Foundation was able to match the \$3 million in appropriated funds with \$7.5 million in non-Federal funds. In fiscal year 2001, the Foundation received an additional \$3 million to continue our conservation partnership. This time the Foundation was able to exceed a 3:1 non-Federal to Federal investment ratio by matching the \$3 million appropriated by the Subcommittee with more than \$10.5 million in non-Federal funds.

Our success continued in fiscal year 2002 as we were able to once again achieve a 3:1 non-Federal to Federal matching ratio by turning the \$3 million appropriated to the Foundation into more than \$12 million in on-the-ground conservation. In total, during the past 3 years the Foundation has been able to support 185 grant projects in 43 states by matching the \$9 million in appropriated funds with more than \$27 million in non-Federal funds for a total of \$36 million in on-the-ground conservation. Although we have not received our fiscal year 2003 funds yet, we fully anticipate receiving more good project proposals than we will be able to fund.

You might ask how do we do it. The Foundation provides competitive grants that are matched by the grantee with non-Federal funds and in-kind services. Those grantees include Resource Conservation and Development Councils, conservation districts and non-profit organizations. The Foundation also works to provide private funds through the generosity of one of our growing number of corporate and foundation partners. For example, Federal funds awarded through our NRCS grant program have been supplemented with funding from the Shell Oil Company, the FMC Corporation, Anheuser-Bush Companies, Inc., the Summer T. McKnight Foundation, the Charles Stewart Mott Foundation and the David and Lucile Packard Founda-

tion. In fiscal year 2002 alone, these organizations provided more than a quarter of a million dollars to enhance our NRCS partnership grants.

Working Landscapes

Through our partnership we work with NRCS to identify and fund projects that have strong support in affected agricultural and rural communities. We place our highest priority on projects integrating conservation practices on ongoing agricultural, ranching and forestry operations. We fund partners and provide expertise by engaging watershed experts, ranchers, foresters, farmers, local governments and non-profits to undertake on-the-ground private land activities with willing landowners.

The Foundation has provided critical support to organizations that are assisting farmers and ranchers implement Farm Bill programs. Through these efforts the Foundation has helped to restore and protect thousands of acres of buffer, wetland and grassland habitats. From fiscal year 2000 through fiscal year 2002 the Foundation's partnership with the NRCS has led to the direct restoration of 177,716 acres of farmland and rangeland and to 638 miles of restored streams and rivers. The Iowa Buffer and Wetland Enrollment project is an example of a great working landscape project. With \$37,500 in Federal funds and \$387,500 in non-Federal funds, the grantee, Pheasants Forever, worked with Soil and Water Conservation Districts (SWCD) to sign up 58,790 acres of buffers and small wetlands to the Continuous Conservation Reserve Program (CCRP). The program was implemented in approximately 70 SWCD's in Iowa.

The Foundation has also invested heavily in efforts to improve the ecological health of working agricultural lands. Grantees supported by the Foundation have worked with farmers and ranchers to reduce agricultural runoff, remove invasive species and restore native ecosystems. An example of one of our stellar projects is the Conservation on Wisconsin Blufflands project. The grantee, The Prairie Enthusiasts, are utilizing \$12,500 in Federal funds and \$60,000 in non-Federal funds to work with local private landowners in managing prairie and oak savanna remnants in southern Wisconsin. Oak savanna is one of the most rare plant communities in North America and requires active management to properly maintain. This project seeks to work with 30 private landowners on 2,000 acres of land to connect adjacent prairie remnants through landowner management practices.

Conserving Fish, Wildlife and Plants

With our NRCS dollars, the Foundation funds projects that directly benefit diverse fish and wildlife species including, salmon in the west, migratory birds in the midwest and grassland birds in the south. Habitat for native fish has been restored on private lands throughout the United States through vegetative planting, streambank stabilization, livestock fencing and nutrient reduction efforts. In addition to improving water quality, efforts have been undertaken by our grantees to reduce water loss associated with irrigation systems. By reducing the water taken from rivers for irrigation purposes, there is less chance that drought will negatively impact aquatic life.

A project that highlights our restoration of native fish is the Thistle Creek (UT) Riparian Restoration project. With \$25,000 in Federal funds and \$51,600 in non-Federal funds the Utah Division of Wildlife Resources restored 3,500 feet of stream corridor and 30 acres of associated riparian habitat on a working ranch in Utah County, Utah. The project improved the spawning and rearing habitat for the leatherside chub, a state sensitive species, and served as a demonstration site to educate local landowners on the value of properly functioning streams to the ecological health of the land.

We also measure our success in part by preventing the listing of species under the Endangered Species Act and by stabilizing and hopefully moving others off the list. Some species that have received support through our NRCS grant program include salmonids, golden-cheeked warblers, black-tailed prairie dogs and Karner blue butterflies. We invest in common sense and innovative cooperative approaches to endangered species, building bridges between the government and the private sector.

Expanding Conservation Education Opportunities

Our grants also use our NRCS dollars to expand conservation education opportunities. Of our fiscal year 2002 NRCS partnership grants, approximately one fourth contained an environmental education component. Some of the conservation education projects supported through our NRCS grant program seek to educate farmers and ranchers on conservation practices while demonstrating how best management practices and wildlife incentives provide both environmental and economic benefits. Other projects have provided training to secondary school teachers on the ecological, economic and cultural benefits of rangeland and farmland conservation. The Limited

Resource Farmer Outreach (MS) grant is a good example to highlight. In this project, the grantee, Northwest Mississippi Resource Conservation & Development Council, was awarded \$57,500 in Federal funds that were matched with \$138,000 in nonfederal funds to increase limited resource farmer knowledge of and participation in conservation practices. The project made conservation methods available to the farmers, assisted them in their implementation and demonstrated the environmental and economic benefits derived from these programs.

Accountability and Grantsmanship

All potential grants are subject to a peer review process involving local NRCS staff, state agency staff, academics, commodity and environmental interests, corporations, and others. The review process examines the project's conservation need, technical merit, the support of the local community, the variety of partners, and the amount of proposed non-Federal cost share. We also provide a 30 day notification to the Member of Congress for the congressional district in which a grant will be funded prior to making the grant. In addition, the Foundation requires strict financial reporting by grantees and is subject to an annual audit.

Basic Facts About the Foundation

The Foundation promotes conservation solutions by awarding challenge grants using its Federally appropriated funds to match private sector funds. We have a statutory requirement to match Federal funds with at least an equal amount of non-federal funds, which we consistently exceed. No federal Agriculture Subcommittee appropriations meet our administrative expenses—these costs are met through private fundraising activities distinct from our matching grant fundraising. The Foundation assesses administrative fees for programs when an agency asks us to carry out a special project, such as the “Friends” Initiative to benefit the National Wildlife Refuge system. The fee is five percent or less and does not involve the funds appropriated to the Foundation.

The Foundation is governed by a 25-member Board of Directors appointed by the Secretary of The Interior. At the direction of Congress, the Board operates on a non-partisan basis. Directors do not receive any financial compensation for service on the Board; in fact, all of our directors make financial contributions to the Foundation. It is a diverse Board, representing the corporate, philanthropic, and conservation communities; all with a tenacious commitment to fish and wildlife conservation.

The National Fish and Wildlife Foundation continues to be one of, if not the, most cost-effective conservation program funded in part by the Federal Government. By implementing real-world solutions with the private sector while avoiding regulatory or advocacy activity, our approach is more consistent with this Congress' philosophy than ever before. We serve as a model for bringing private sector leadership to Federal agencies and for developing cooperative solutions to environmental issues. We are confident that the money you appropriate to the Foundation will continue to make a difference.

PREPARED STATEMENT OF THE NATIONAL ORGANIZATION FOR RARE DISORDERS
(NORD)

Mr. Chairman, and members of the Senate Appropriations Subcommittee on Agriculture, Rural Development and Related Agencies, the National Organization for Rare Disorders (NORD) wishes to express its views regarding appropriations for the Orphan Products Research Grants Program administered by the Office of Orphan Product Development (OOPD) at the Food and Drug Administration (FDA).

On November 6, 2002, President George W. Bush signed the Rare Diseases Orphan Product Development Act, Public Law 107-281, sponsored by Representative Mark Foley. The purpose of the Act is to “increase the national investment in the development of diagnostics and treatments for patients with rare diseases and disorders,” as follows:

Sec. 3. FOOD AND DRUG ADMINISTRATION; GRANTS AND CONTRACTS FOR THE DEVELOPMENT OF ORPHAN DRUGS.

Subsection (c) of section 5 of the Orphan Drug Act (21 U.S.C. 360ee(c)) is amended to read as follows:

“(c) For grants and contracts under subsection (a), there is authorized to be appropriated such sums as already have been appropriated for fiscal year 2002, and \$25,000,000 for each of the fiscal years 2003 through 2006.”

As NORD, and the 25 million Americans affected by rare diseases celebrate the 20th anniversary of the passage of the Orphan Drug Act, we respectfully request that this Committee reconfirm Congress' commitment to the rare disease community

by increasing funding for research on needed diagnostics and therapeutics. Specifically, we request that this Committee support an increase in funding for the FDA's Orphan Product Research Grants program to the \$25 million authorized in the Rare Diseases Orphan Product Development Act (Public Law 107-281), and for each of the fiscal years 2005 through 2008.

Background

In 1982, the U.S. Congress passed the Orphan Drug Act, (ODA), Public Law 97-414, and on January 4, 1983, President Ronald Reagan signed it into law. Both the Congress and the Administration recognized that "a pharmaceutical company which develops an orphan drug may reasonably expect the drug to generate relatively small sales in comparison to the cost of developing the drug and consequently to incur a financial loss." It also found that, "there is reason to believe that some promising orphan drugs will not be developed unless changes are made in the applicable Federal laws to reduce the costs of developing such drugs and to provide financial incentives to develop such drugs."¹

Financial incentives of the ODA include:

- Seven years marketing exclusivity for the first company to develop an orphan drug for a rare disease;
- User fee waiver;
- User fee waiver;
- Tax credits for the costs of clinical research;
- Establishment the FDA Orphan Product Research Grants program to support small clinical trials on new orphan drugs, biologics, devices and medical foods;
- The law defines a rare disease or condition as any disease or condition which "(A) affects less than 200,000 persons in the United States, or (B) affects more than 200,000 in the United States for which there is no reasonable expectation that the cost of developing and making available in the United States a drug for such disease or condition will be recovered from sales in the United States of such drug."²

Orphan Products Defined

"Orphan products" are treatments for rare conditions that have small potential markets and thus are not attractive to the commercial sector. Such treatments were not being developed for "orphan" diseases by the private sector until the Orphan Drug Act was enacted in 1983. For example, only 10 products specifically for the treatment of rare diseases were developed by the pharmaceutical industry during the 10 years prior to 1983.

Since 1983, the FDA has approved 238 orphan drugs for marketing, and more than 900 additional orphan drugs are in the research pipeline

- 85 percent are used for serious and/or life-threatening diseases
- 31 percent are for rare cancers
- 11 percent are for metabolic disorders
- 50 percent are for pediatric uses
- 20 percent of orphan designations are for novel biotechnology products.

According to the FDA Office of Orphan Product Development, these currently marketed orphan drugs are helping over 11 million Americans and millions more around the world.³

Orphan Products Research Grants Program

In 1982, Congress passed the Orphan Drug Act to provide funding for pivotal clinical trials on new orphan drugs, medical devices, and medical foods for rare diseases.

Of the 238 orphan products currently approved for marketing, 29 (25 drugs and 4 medical devices) have been developed with funding from the FDA's orphan product research grants. These small research grants are critically important to academic scientists trying to develop preliminary data they can use to attract commercial sponsors who will develop their treatment and bring it to the American market. They are also important to small companies developing sufficient data to attract investment capital.⁴

¹The Orphan Drug Act, Public Law 97-414.

²The Orphan Drug Act, as amended October 1984, Public Law 98-551.

³Haffner, Marlene E., Whitley, Janet and Moses, Marie. Two decades of orphan product development, *Nature Reviews*, October 2002, pp. 821-825.

⁴"The Orphan Drug Act has proven particularly helpful to the biotechnology industry that emerged in the years following passage. This young, volatile industry is heavily dependent on private capital to fund research and development." *The Orphan Drug Act, Implementation and Impact*. DHHS, Office of Inspector General, OEI-09-00-00380, May 2001.

Twenty-one of the 29 products developed through funding from the FDA's Orphan Products Research Grants Program were awarded to investigators at academic centers. The remainder went to start-up firms (see attached), thus "bridging the gap between basic research, clinical development and marketing approval."⁵

Approximately 80 applications for new orphan product research grants are received each year, but until now only 20 percent of those new applications have actually been funded annually.

Most of FDA's Orphan Products Research Grants support small clinical trials at academic institutions throughout the nation to develop the preliminary evidence that is necessary to attract commercial sponsors. This unique research grant program is the quintessential model for a successful government/industry partnership, filling a major gap between academic research and the private sector, and creating lifesaving products needed throughout the world. For example,

- Children with Severe Combined Immune Deficiency ("Bubble Boy Disease") no longer have to live in a plastic bubble because now their immune systems can fight off germs, thanks to an orphan drug developed with these grant funds.
- Children with urea cycle disorders no longer slip into a coma and die because an orphan drug enables their bodies to eliminate toxic levels of ammonia;
- Babies born without ribs no longer suffocate in infancy because an artificial rib (orphan medical device) is being developed now with funds from the Orphan Products Research Grants Program that allows the children's lungs to expand and breathe;
- Narcolepsy, Cystic fibrosis, Crohn's disease, and multiple sclerosis drugs are on the market today only because these grants supported some of their clinical research.

Conclusion

Many diseases and conditions are simply too rare to attract private investment because the commercial sector is not interested in developing treatments for small markets. The investment necessary for research and development of new drugs and devices is too large in comparison to the size of the potential market for a rare disease. The FDA's Orphan Products Research Grants program enables scientists to develop the preliminary data necessary to show that a drug, biologic, device or food is safe and probably effective, making commercial development less risky. Only then will a company be interested in adopting the product and bringing it through the FDA approval process.

The National Institutes of Health (NIH) has catalogued 6,000 rare diseases, some of which are familiar ailments including Tourette Syndrome, Sickle Cell Anemia and Hemophilia. Yet there are thousands of other devastating rare diseases that are unfamiliar to the public and the medical community.

- Fibrodysplasia ossificans progressive (FOP) is a genetic disorder "in which the body transforms its muscles, tendons, and ligaments into bone." Patient population: 125.⁶
- Sturge-Weber Syndrome is a condition characterized by excessive blood vessel growth, accumulation of calcium in the brain and seizures. Patient population: less than ten thousand.
- Angelman Disease is characterized by severe mental retardation, prolonged inappropriate laughter, facial abnormalities, and impaired movement control. Patient population: approximately 700.⁷

For the patients affected by these and thousands of other rare diseases, the prospects for a cure or the discovery of a therapy to alleviate symptoms have been dim. Diagnosis takes from one to six years in 35 percent of the cases, and more than seven years in 15 percent.⁸ Even when the cause of the disease is discovered, (e.g., a genetic defect, infectious agent, etc.), most pharmaceutical companies would be very hesitant to invest in development of a new treatment unless there is evidence from small clinical trials indicating that an experimental treatment will work. These small research grants from the FDA provide support for academic researchers and small companies so they can develop the evidence necessary to attract commercial sponsors.

The FDA's Orphan Products Research Grants Program is not new. It has a 21-year record of accomplishment, and it has already been responsible for the development of 29 life-saving orphan products that would not be on the market today if

⁵Haffner, et al.

⁶Maeder, Thomas. Adopting Orphan Diseases. Red Herring, January 16,2001, pp. 128–134.

⁷Maeder, p. 130.

⁸Report of the National Commission on Orphan Diseases, Publication Number HRP-090-7248, United States Government Printing Office, February, 1989.

this program had not existed. When Congress passed the Rare Diseases Orphan Product Development Act last year, it sent a strong signal to rare disease patients in every state of the union that it recognizes the critical importance of these research grants, it salutes the progress that the ODA has pioneered in the last two decades, and Congress implicitly intends to appropriate \$25 million to the FDA's Orphan Product Research Grants Program which represents only \$1 for every rare disease patient in the United States.

NORD, on behalf of the 25 million medically disenfranchised Americans and their families affected by rare "orphan" diseases, respectfully requests that the members of this Subcommittee appropriate no less than \$25 million to the FDA Orphan Products Research Grants Program for fiscal year 2004 and for each of the fiscal years 2005 through 2008, as provided for in the Rare Diseases Orphan Product Development Act. This funding will fill the void between government and the private sector, and propel new treatments forward from academic laboratories to patients' bedsides and ultimately to our local pharmacies. Your compassion and insight will put new orphan drugs and devices into the waiting hands of critically ill patients.

About NORD

NORD is a federation of approximately 130 voluntary health organizations and over 50,000 individual patients, healthcare providers and clinical researchers dedicated to helping the 25 million people in the United States affected by rare "orphan" diseases. NORD is committed to the identification, treatment, and cure of rare disorders through programs of education, advocacy, research and service. For additional information, please contact Diane E. Dorman, Vice President for Public Policy, in NORD's Washington Office at (202) 258-6457 or ddorman@rarediseases.org.

ATTACHMENT I—PUBLIC LAW 107-281

AN ACT To amend the Federal Food, Drug, and Cosmetic Act with respect to the development of products for rare diseases.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Rare Diseases Orphan Product Development Act of 2002".

SEC. 2. FINDINGS AND PURPOSES.

(a) FINDINGS.—Congress makes the following findings:

(1) Rare diseases and disorders are those which affect small patient populations, typically populations smaller than 200,000 individuals in the United States. Such diseases and conditions include Huntington's disease, amyotrophic lateral sclerosis (Lou Gehrig's disease), Tourette syndrome, Crohn's disease, cystic fibrosis, cystinosis, and Duchenne muscular dystrophy.

(2) For many years, the 25,000,000 Americans suffering from the over 6,000 rare diseases and disorders were denied access to effective medicines because prescription drug manufacturers could rarely make a profit from marketing drugs for such small groups of patients. The prescription drug industry did not adequately fund research into such treatments. Despite the urgent health need for these medicines, they came to be known as "orphan drugs" because no companies would commercialize them.

(3) During the 1970s, an organization called the National Organization for Rare Disorders (NORD) was founded to provide services and to lobby on behalf of patients with rare diseases and disorders. NORD was instrumental in pressing Congress for legislation to encourage the development of orphan drugs.

(4) The Orphan Drug Act created financial incentives for the research and production of such orphan drugs. New Federal programs at the National Institutes of Health and the Food and Drug Administration encouraged clinical research and commercial product development for products that target rare diseases. An Orphan Products Board was established to promote the development of drugs and devices for rare diseases or disorders.

(5) Before 1983, some 38 orphan drugs had been developed. Since the enactment of the Orphan Drug Act, more than 220 new orphan drugs have been approved and marketed in the United States and more than 800 additional drugs are in the research pipeline.

(6) Despite the tremendous success of the Orphan Drug Act, rare diseases and disorders deserve greater emphasis in the national biomedical research enterprise.

(7) The Food and Drug Administration supports small clinical trials through Orphan Products Research Grants. Such grants embody successful partnerships of government and industry, and have led to the development of at least 23 drugs and four medical devices for rare diseases and disorders. Yet the appropriations in fiscal year 2001 for such grants were less than in fiscal year 1995.

(b) PURPOSES.—The purpose of this Act is to increase the national investment in the development of diagnostics and treatments for patients with rare diseases and disorders.

SEC. 3. FOOD AND DRUG ADMINISTRATION; GRANTS AND CONTRACTS FOR THE DEVELOPMENT OF ORPHAN DRUGS.

Subsection (c) of section 5 of the Orphan Drug Act (21 U.S.C. 360ee(c)) is amended to read as follows:

“(c) For grants and contracts under subsection (a), there are authorized to be appropriated such sums as already have been appropriated for fiscal year 2002, and \$25,000,000 for each of the fiscal years 2003 through 2006.”.

SEC. 4. TECHNICAL AMENDMENT.

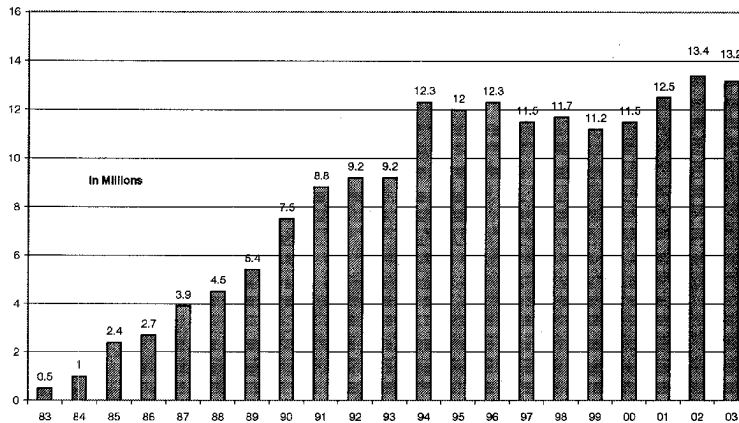
Section 527(a) of the Federal Food, Drug, and Cosmetic Act (21 U.S.C. 360cc(a)) is amended in the matter following paragraph (2)—

- (1) by striking “, of such certification,”; and
- (2) by striking “, the issuance of the certification,”.

Passed the House of Representatives October 1, 2002.
Approved November 6, 2002.

ATTACHMENT II

Orphan Product Research Grant Program
Food and Drug Administration
Appropriations Request FY 2004



ATTACHMENT III

U.S. FOOD AND DRUG ADMINISTRATION GRANT SUPPORTED PRODUCTS WITH MARKETING APPROVAL

Product: 4-methylpyrazole (trade name Antizole); Fomepizole
 Indication: Ethylene Glycol and Methanol Poisoning
 Approval Date: 12/04/1997
 Institution: Orphan Medical, Inc.
 Investigator: Dr. Dayton Reardan

Product: Actimmune
 Indication: Osteopetrosis
 Approval Date: 02/11/2000

Institution: Medical University of South Carolina
Investigator: Dr. Lester Key

Product: Auditory Brainstem Implant
Indication: Bilateral deafness
Approval Date: 10/24/00
Institution: Cochlear Corp.
Investigator: Dr. Steven J. Staller

Product: Anti-TNF (cA2) (trade name Remicade)
Indication: Severe Crohns Disease
Approval Date: 08/24/1998
Institution: Centocor, Inc.
Investigator: Dr. Richard McCloskey

Product: Baclofen Intrathecal (trade name Lioresal)
Indication: Severe Spasticity
Approval Date: 06/25/1992
Institution: Rush-Presbyterian-St. Lukes' Medical Center
Investigator: Dr. Richard Penn

Product: Betaine (trade name Cystadane)
Indication: Homocystinuria
Approval Date: 10/20/1996
Institution: University of Virginia
Investigator: Dr. William Wilson

Product: Busulfan IV
Indication: Bone Marrow Ablation
Approval Date: 02/04/1999
Institution: UT MD Anderson Cancer Center
Investigator: Dr. Borge Andersson

Product: Cladribine (trade name Leustatin)
Indication: Mycosis fungoides and hairy cell leukemia
Approval Date: 03/01/1993
Institution: Scripps Research Institute
Investigator: Dr. Ernest Beutler

Product: Clonidine (trade name Duraclon)
Indication: Intractable pain in cancer patients
Approval Date: 10/02/1996
Institution: Wake Forest University
Investigator: Dr. James Eisenach

Product: CroFab
Indication: Crotalid snake bites
Approval Date: 10/02/00
Institution: Therapeutic Antibodies, Inc.
Investigator: Dr. Richard C. Dart

Product: Cysteamine (trade name Cystagon)
Indication: Nephropathic Cystinosis
Approval Date: 08/15/1994
Institution: University of California, San Diego
Investigator: Dr. Jerry Schneider

Product: Ganciclovir Intravitreal (trade name Vitrasert)
Indication: CMV Retinitis
Approval Date: 03/04/1996
Institution: University of Kentucky Research Foundation
Investigator: Dr. Thomas Smith

Product: Glatiramer acetate (trade name Copaxone)
Indication: Relapsing remitting multiple sclerosis
Approval Date: 12/20/1996
Institution: Lemmon Company
Investigator: Dr. Yafith Stark

Product: Histrelin Acetate (trade name Supprelin)
Indication: Central precocious puberty
Approval Date: 12/24/1991
Institution: Massachusetts General Hospital
Investigator: Dr. Paul Boepple

Product: In-Exsufflator (trade name Cofflator)
Indication: Assist Ventilator dependent patients
Approval Date: 02/01/1993
Institution: University of Medicine and Dentistry of N.J.
Investigator: Dr. John Bach

Product: Iobenguane sulfate I-131
Indication: Localization of Pheochromocytoma
Approval Date: 03/24/1994
Institution: University of Michigan
Investigator: Dr. Brahm Shapiro

Product: Levocarnitine (trade name Carnitor)
Indication: Primary and Secondary Carnitine Deficiency of Genetic Origin
Approval Date: 12/16/1992
Institution: Duke University
Investigator: Dr. Charles Roe

Product: Nafarelin Acetate Intranasal (trade name Synarel)
Indication: Central Precocious Puberty
Approval Date: 02/06/1992
Institution: Baylor College of Medicine
Investigator: Dr. John Kirkland

Product: Neurostimulator implantable electrodes
Indication: Quadra-paraplegia with loss of hand function
Approval Date: 08/18/1997
Institution: Case Western Reserve University
Investigator: Dr. Paul Peckham

Product: Nitisinone (trade name Orfadin)
Indication: Treatment of tyrosinemia type 1.
Approval Date: 01/18/2002
Institution: Swedish Orphan AB
Investigator: Dr. Ronald Leonardi

Product: Pegademase (trade name Adagen)
Indication: ADA replacement in Severe Combined Immunogenicity Disease
Approval Date: 03/21/1990
Institution: Enzon, Inc.
Investigator: Dr. Abraham Abuchowski

Product: Pulmonary angioscope
Indication: Visualization of pulmonary emboli
Approval Date: 01/31/1989
Institution: Regents of the University of California
Investigator: Dr. Deborah Shure

Product: Sodium phenylbutyrate
Indication: Urea cycle disorders
Approval Date: 04/30/1996
Institution: Johns Hopkins University
Investigator: Dr. Saul Brusilow

Product: Succimer (trade name Chemet)
Indication: Lead Poisoning in Children
Approval Date: 01/30/1991
Institution: The Kennedy Institute
Investigator: Dr. J. Julian Chisolm

Product: Sucrase enzyme
Indication: Sucrase-isomaltase deficiency
Approval Date: 04/09/1998
Institution: Hartford Hospital
Investigator: Dr. Jeffrey Hyams

Product: Tobramycin for inhalation (trade name Tobi)
Indication: Management of CF patients with Pseudomonas Aeruginosa
Approval Date: 12/22/1997
Institution: Pathogenesis Corporation
Investigator: Dr. Alan Montgomery

Product: Tretinoin (trade name Vesanoid)
Indication: Acute Promyelocytic Leukemia

Approval Date: 11/22/1995
 Institution: Memorial Hospital for Cancer and Allied Diseases
 Investigator: Dr. Raymond Warrell, Jr.

Product: Zinc Acetate (trade name Galzin)
 Indication: Wilson's Disease
 Approval Date: 01/28/1997
 Institution: University of Michigan
 Investigator: Dr. George Brewer

Product: Gamma-hydroxybutyrate
 Indication: Narcolepsy
 Approval Date: 07/17/02
 Institution: University of Arkansas for Medical Sciences
 Investigator: Lawrence Scrima, Ph.D.

PREPARED STATEMENT OF THE NATIONAL POTATO COUNCIL

My name is Dwight Horsch. I am a potato farmer from Idaho and current Vice President, Legislative/Government Affairs for the National Potato Council (NPC). On behalf of the NPC, we thank you for your attention to the needs of our potato growers.

The NPC is the only trade association representing commercial growers in 50 states. Our growers produce both seed potatoes and potatoes for consumption in a variety of forms. Annual production in 2001 was 444,766,000 cwt. with a farm value of \$2.9 billion. Total value is substantially increased through processing. The potato crop clearly has a positive impact on the U.S. economy.

The potato is the most popular of all vegetables grown and consumed in the United States and one of the most popular in the world. Annual per capita consumption was 138.7 pounds in 2000, up from 104 pounds in 1962 and is increasing due to the advent of new products and heightened public awareness of the potato's excellent nutritional value. Potatoes are considered a stable consumer commodity and an integral, delicious component of the American diet.

The NPC's fiscal year 2004 appropriations priorities are as follows:

Cooperative State Research Education and Extension Service (CSREES)

Potato Special Grant Program.—The NPC urges that the \$1.75 million be appropriated for fiscal year 2004. The House recommended \$1.6 million for fiscal year 2003, however only \$1.584 million was included in the final bill. This has been a highly successful program and the number of funding requests from various potato-producing regions is increasing.

The NPC also urges that the Congress, once again, include Committee report language as follows:

"Potato research.—The Committee expects the Department to ensure that funds provided to CSREES for potato research are utilized for varietal development testing. Further, these funds are to be awarded competitively after review by the Potato Industry Working Group."

Agricultural Research Service (ARS)

The NPC urges that the Congress once again add Committee report language urging the ARS to work with the NPC on how overall research funds can best be utilized for grower priorities.

The NPC urges that the Congress maintain all increases for potato research provided in fiscal year 2001, 2002 and 2003 that have been proposed for deletion or redirection in the Administration's fiscal year 2004 budget request.

Prosser, Washington.—Appropriate \$250,000 for exotic diseases including late blight and PVYN on potatoes. The Congress appropriated \$200,000 in fiscal year 2003 for this activity. The funds appropriated in fiscal year 2001 should remain and continue to be used for breeding for resistant potato varieties and not be diverted to new areas of research.

Grand Forks and East Grand Forks.—Appropriate \$350,000 for a new scientist to be located at the Potato Research worksite in East Grand Forks, Minnesota. The scientist would address the effects of postharvest storage and treatments on potato market quality and value-added traits. Since over 70 percent of the U.S. fall potato crop is placed into storage for year around sale, this research will benefit potato growers throughout the country.

Fort Collins, Colorado.—Appropriate \$200,000 for the Soil, Plant, and Nutrient Research Program at Fort Collins to conduct research to enhance water and soil

quality with precision conservation farming. The Congress provided \$100,000 in fiscal year 2003.

Beltsville, Maryland.—Improving the nutritional value of potatoes is a high priority of the NPC. Research should also be initiated at the Beltsville Vegetable Laboratory that combines traditional breeding and plant biotechnology to increase the nutritional value of the potato and add value to the crop. The nutrition research currently underway in the Beltsville potato breeding program relates to the development of potato tubers with anti-cancer properties (high lutein/carotene) and a product to help alleviate osteoporosis (high available tuber calcium). Approximately \$150,000 is currently devoted to this newly developing field. The NPC urges that \$300,000 be appropriated in fiscal year 2004 for this important research effort.

Plant Protection and Quarantine Service (APHIS-USDA).—The NPC urges that the Congress appropriate \$971,000 for the Golden Nematode Quarantine Program as requested in the Administration's budget request. The National Potato Council also supports the budget request of \$27 million for pest detection and at least \$12 million for trade issues resolution and management. As new trade agreements are negotiated, the agency must have the necessary staff and technology to detect and to deal with the threat of pests and diseases. The NPC relies heavily on APHIS-PPQ resources to resolve phytosanitary trade barriers.

National Agricultural Statistics Service (NASS).—Appropriate the \$4.8 million in the Administration's budget request for core programs of NASS and ensure that the potato grade and quality survey program is continued.

PREPARED STATEMENT OF THE NATIONAL RURAL TELECOM ASSOCIATION

SUMMARY OF TESTIMONY REQUESTS

Project involved.—Telecommunications lending programs administered by the Rural Utilities Service of the U.S. Department of Agriculture

Actions proposed:

- Supporting loan levels for fiscal year 2004 in the same amounts as those contained in the fiscal year 2003 Agriculture Appropriations Act for cost-of-money, Rural Telephone Bank and guaranteed loan programs and the associated subsidy to fund those programs at the existing level. Supporting loans in the hardship program at the level requested in the budget. Opposing the budget recommendation to not fund new Rural Telephone Bank loans in fiscal year 2004.
- Supporting continued funding, as requested in the President's budget, in the amount of \$25 million in loan and grant authority designated for distance learning and telemedicine purposes and \$2 million in grants for broadband facilities and internet access in rural areas.
- Opposing the budget request seeking to cancel the \$20 million in mandatory funding provided in last year's farm act for direct loans for broadband deployment and replacing it with discretionary funding authority amounting to less than half that amount in fiscal year 2004. Seeking language to clarify that all rural communities under 20,000 population will qualify for loans in fiscal year 2004 under the new broadband loan program consistent with the existing eligibility criteria for the distance learning, telemedicine and pilot broadband programs.
- Supporting continuation of the restriction on retirement of Rural Telephone Bank Class A stock at the level contained in the fiscal year 2003 Agriculture Appropriations Act and an extension of the prohibition against the transfer of Rural Telephone Bank funds to the general fund. Opposing the proposal contained in the budget to transfer funds from the unobligated balances of the liquidating account of the Rural Telephone Bank for the bank's administrative expenses.

Mr. Chairman, Members of the Committee: My name is John F. O'Neal. I am General Counsel of the National Rural Telecom Association. NRTA is comprised of commercial telephone companies that borrow their capital needs from the Rural Utilities Service of the U.S. Department of Agriculture (RUS) to furnish and improve telephone service in rural areas. Approximately 1000, or 71 percent of the nation's local telephone systems borrow from RUS. About three-fourths of these are commercial telephone companies. RUS borrowers serve almost 6 million subscribers in 46 states and employ over 22,000 people. In accepting loan funds, borrowers assume an obligation under the act to serve the widest practical number of rural users within their service area.

PROGRAM BACKGROUND

Rural telephone systems have an ongoing need for long-term, fixed rate capital at affordable interest rates. Since 1949, that capital has been provided through telecommunications lending programs administered by the Rural Utilities Service and its predecessor, the Rural Electrification Agency (REA).

RUS loans are made exclusively for capital improvements and loan funds are segregated from borrower operating revenues. Loans are not made to fund operating revenues or profits of the borrower system. There is a proscription in the Act against loans duplicating existing facilities that provide adequate service and state authority to regulate telephone service is expressly preserved under the Rural Electrification Act.

Rural telephone systems operate at a severe geographical handicap when compared with other telephone companies. While almost 6 million rural telephone subscribers receive telephone service from RUS borrower systems, they account for only four percent of total U.S. subscribers. On the other hand, borrower service territories total 37 percent of the land area—nearly 1.5 million square miles. RUS borrowers average about six subscribers per mile of telephone line and have an average of more than 1,000 route miles of lines in their systems.

Because of low-density and the inherent high cost of serving these areas, Congress made long-term, fixed rate loans available at reasonable rates of interest to assure that rural telephone subscribers, the ultimate beneficiaries of these programs, have comparable telephone service with their urban counterparts at affordable subscriber rates. This principle is especially valid today as the United States endeavors to deploy broadband technology and as customers and regulators constantly demand improved and enhanced services. At the same time, the underlying statutory authority governing the current program has undergone significant change. In 1993, telecommunications lending was refocused toward facilities modernization. Much of the subsidy cost has been eliminated from the program. In fact, most telecommunications lending programs now generate revenue for the government. The subsidy that remains has been targeted to the highest cost, lowest density systems in accordance with this administration's stated objectives.

We are proud to state once again for the record that there has never been a default in the RUS/REA telephone program! All loans have been repaid in accordance with their terms, almost \$11 billion in principal and interest at the end of the last fiscal year.

NEED FOR RUS TELECOMMUNICATIONS LENDING CONTINUES

The need for rural telecommunications lending is great today, possibly even greater than in the past. Technological advances make it imperative that rural telephone companies upgrade their systems to keep pace with improvements and provide the latest available technology to their subscribers. And last year, Congress established a national policy initiative mandating access to broadband for rural areas. But rapid technological changes and the inherently higher costs to serve rural areas have not abated, and targeted support remains essential.

Competition among telephone systems and other technological platforms has increased pressures to shift more costs onto rural ratepayers. These shifts led to increases in both interstate subscriber line charges and universal service surcharges on end users to recover the costs of interstate providers' assessments to fund the Federal mechanisms. Pressures to recover more of the higher costs of rural service from rural customers to compete in urban markets will further burden rural consumers. There is a growing funding crisis for the statutory safeguards adopted in 1996 to ensure that rates, services and network development in rural America will be reasonably comparable to urban telecommunications opportunities.

The FCC and the states have yet to honor the balance Congress achieved in the 1996 policy, as regulators (a) radically revise the mechanisms for preserving and advancing universal service, (b) interpret the Act's different urban and rural rules for how incumbent universal service providers and their competitors connect their networks and compensate each other (c) respond to pressures to deregulate. Regulators continue to give new entrants advantages at the expense of statutory universal service provisions. The FCC appears to remain committed to further extending its wholly inadequate way to measure the costs of modern, nationwide access to telecommunications and information. The FCC needs to reorder its priorities to ensure that rural Americans are not denied the ongoing network development and new services the Act requires.

EXPANDED CONGRESSIONAL MANDATES FOR RURAL TELECOMMUNICATIONS

Considerable loan demand is being generated because of additional mandates for enhanced rural telecommunications standards contained in the authorizing legislation. We are, therefore, recommending the following loan levels for fiscal year 2004 and the appropriation of the associated subsidy costs to support these levels: 5 percent Hardship Loans:

[In dollars]

5 percent Hardship Loans	\$145,000,000
Cost-of-Money Loans	300,000,000
Guaranteed Loans	120,000,000
Rural Telephone Bank Loans	175,000,000
Total	740,000,000

These are essentially the same levels established in the fiscal year 2003 appropriations act for the cost-of-money, Rural Telephone Bank and guaranteed loan programs and the same amount for hardship loans as requested in the President's budget for fiscal year 2004. The authorized levels of loans in all programs were fully obligated in fiscal year 2002 and we expect these levels to be met in fiscal year 2003. We believe that the needs of this program balanced with the minimal cost to the taxpayer make the case for its continuation at the stated levels.

RURAL TELEPHONE BANK LOANS

The administration again proposes to not fund new Rural Telephone Bank (RTB) loans in fiscal year 2004.

The Rural Telephone Bank was established by Congress in 1971 to provide supplemental financing for rural telephone systems with the objective that the bank ultimately would be owned and operated by its private shareholders. Privatization of the RTB began in 1995 under the current law and the retirement of Class A government stock is proceeding annually at the rate of approximately \$25 million per year. The Bank has now retired about 27 percent, of the government's \$592 million investment. As we pointed out in our testimony last year, not funding new loans in the next fiscal year could actually impede privatization of the Bank since the law requires that the Bank annually retire government stock at the rate of at least 5 percent of the amount of Class B stock sold in connection with new loans. If no new loans were made, there would be no minimum requirement for retirement of additional government stock.

The current loan level of \$175 million has remained the same for many years. As a matter of fact, after factoring in the eroding effect of inflation, loan levels over the years have actually been reduced systematically. Despite this fact, we believe that the \$175 million level is adequate to meet current program needs and strikes a cost effective balance for the taxpayer. If no bank loans were made in fiscal year 2004, the budgetary outlay savings would be minimal because RTB loans are funded over a multi-year period. Moreover, if administration interest rate predictions are accurate, RTB loans will generate a profit for the government because of the minimum statutory interest rate of 5 percent.

BROADBAND LOANS UNDER THE 2002 FARM ACT (PUBLIC LAW 101-171)

The administration is recommending that the mandatory funding of loans for the deployment of broadband technology in rural areas provided in last year's farm act in the amount of \$20 million (new section 601(j)(1)(A) of the Rural Electrification Act of 1936) be cancelled in fiscal year 2004 and is suggesting a general provision in the fiscal year 2004 appropriations bill (Sec. 722(a)) to accomplish this. In its place the budget requests less than half that amount, \$9.1 million in new discretionary authority for these purposes. We are opposed to this dramatic reduction in the commitment made by Congress last year to rural areas for the deployment of broadband technology. The farm act program has been implemented by RUS and loans are being made in this fiscal year pursuant to the new authority. Disrupting the multi-year authority in the fashion recommended by the administration would create uncertainty to prospective borrowers under the new program and undermine Congress' efforts to accelerate deployment of this technology to our rural citizens.

In addition, we are seeking clarifying language in the bill to assure that all communities in the United States under 20,000 population will qualify for broadband loans in fiscal year 2004. The enabling act eligibility provision (new section 601 of Title VI of the Rural Electrification Act of 1936) is technically defective as enacted

and is causing substantial unintended consequences by excluding otherwise eligible rural areas from the program. Subsection (B) excludes from program eligibility any area that “is not located in an area designated as a standard metropolitan statistical area” even though its population is less than 20,000 (the criteria under Subsection (A)). The Bureau of the Census has not recognized “standard metropolitan statistical areas” since before 1990. This restriction could exclude up to 40 percent of otherwise eligible rural communities from this new program if not corrected, effectively undermining Congress’ efforts to accelerate deployment of broadband technology in rural areas.

SPECIFIC ADDITIONAL REQUESTS

Continue the Restriction on Retirement of Class A Government Stock in the Rural Telephone Bank (RTB) and also Continue the Prohibition Against Transfer of RTB Funds to the General Fund and Require the Payment of Interest

The Committee should continue the restriction on retirement of the amount of class A stock by the Rural Telephone Bank in fiscal year 2004. The Bank is currently in the process of retiring the government’s stock as required under current law. We believe that this process which began in fiscal year 1996 should continue to be an orderly one as contemplated by the retirement schedule enacted seven years ago and continued through last year’s bill to retire no more than 5 percent of the total class A stock in one year. The Rural Telephone Bank board last year commissioned a private firm to perform a privatization study. This study has just been completed and its recommendations are currently being evaluated by the administration, RTB board, RTB shareholders and interested members of the public. After that review is complete, both Congress and the rural telephone industry will be in a better position to evaluate the appropriate level of retirement of the government’s Class A stock in the future. In the meantime, we urge the Committee to continue the current restriction as well as the prohibition against the transfer of any unobligated balance in the bank’s liquidating account which is in excess of current requirements to the general fund of the Treasury along with the requirement that the bank receive interest on those funds. The private Class B and C stockholders of the Rural Telephone Bank have a vested ownership interest in the assets of the bank including its funds and their rights should be protected. Previous appropriations acts (Fiscal Year 1997 through 2003) have recognized the ownership rights of the private class B and C stockholders of the bank by prohibiting a similar transfer of the bank’s excess unobligated balances which otherwise would have been required under the Federal credit reform act.

Reject Budget Proposal to Transfer Funds from RTB Liquidating Account for Administrative Costs

The President’s budget proposes that the bank assume responsibility for its administrative costs by a transfer of funds from the unobligated balances of the bank’s liquidating account rather than through an appropriation from the general fund of the Treasury. This recommendation is contrary to the specific language of Sec. 403(b) of the RTB enabling act and would require enactment of new authorizing legislation as a prerequisite to an appropriation. It would not result in budgetary savings and has been specifically rejected by this Committee in previous years. No new justification is contained in this year’s budget and once again we request its rejection.

Loans and Grants for Telemedicine, Distance Learning and Internet Access. We support the continuation in fiscal year 2004 of the \$25 million in loan and grant authority provided in the President’s budget for telemedicine and distance learning purposes. Loans are made at the government’s cost-of-money. The purpose is to accelerate deployment of telemedicine and distance learning technologies in rural areas through the use of telecommunications, computer networks, and related advanced technologies by students, teachers, medical professionals, and rural residents. We also support making available \$2 million in additional funds available for grants for broadband facilities and internet access in rural areas, as recommended in this year’s budget.

CONCLUSION

Thank you for the opportunity to present the association’s views concerning this vital program. The telecommunications lending programs of RUS continue to work effectively and accomplish the objectives established by Congress at a minimal cost to the taxpayer.

PREPARED STATEMENT OF THE NATIONAL TELECOMMUNICATIONS COOPERATIVE
ASSOCIATION

SUMMARY

NTCA makes the following fiscal year 2004 funding recommendations with regard to the Rural Utilities Service Telecommunications Loan Program and related programs.

- Support the provisions of the president's budget proposal calling for the required subsidy to fully fund the RUS Telecommunications Loan Program's Hardship Account at a \$145 million level, Cost of Money Account at a \$250 million level, and the Guaranteed Account at a \$100 million level.
- Reject the provisions of the president's budget proposal calling for zero funding for the Rural Telephone Bank (RTB). Instead, provide the required subsidy to fully fund the bank at last fiscal year's \$175 million level.
- Reject the provisions of the president's budget proposal calling for funding the Rural Broadband Access Loan and Loan Guarantee Program to be funded through discretionary funding and instead funded at a level consistent with authorizing language.
- Repeal existing language prohibiting the use of loans to serve communities located in metropolitan statistical areas (MSA's).
- Support an extension of language that temporarily sets aside the 7 percent interest rate cap on loans made through the RUS Cost of Money fund.
- Support an extension of the language limiting the maximum amount of Rural Telephone Bank Class A stock that may be retired in fiscal year 2004.
- Support an extension of the restriction against RTB Liquidating Account funds from being transferred into the general Treasury.
- Support an extension of language prohibiting the expenditure of RTB Liquidating Account funds to provide for the subsidy or operational expenses of the bank.
- Support full funding of the Distance Learning and Telemedicine Grant and Loan Program.
- Support for funding of the Rural Business-Cooperative Service Grant and Loan Program.

Background

NTCA is a national association representing more than 560 small, rural, cooperative and commercial, community-based local exchange carriers (LECS) located throughout the nation. These locally owned and operated LECS provide local exchange service to more than 2.5 million rural Americans. While serving close to 40 percent of the geographic United States, NTCA members serve only 4 percent of the country's access lines. Since the creation of the RUS Telecommunications Loan Program, more than 80 percent of NTCA's member systems have been able to utilize the Federal program to one degree or another.

NTCA's members, like most of the country's independent LECS, evolved to serve high-cost rural areas of the nation that were overlooked by the industry's giants as unprofitable. On average, NTCA members have approximately 6 subscribers per mile of infrastructure line, compared with 130 for the larger urban-oriented LECs. This results in an average plant investment per subscriber that is 38 percent higher for NTCA members compared to most other systems.

Congress recognized the unique financing dilemma confronting America's small rural LECS as early as 1949, when Congress amended the Rural Electrification Act (REA) to create the Rural Electrification Administration Telephone Loan Program. Today, this program is known as the RUS Telecommunications Loan Program. Through the years Congress has periodically amended the REA to ensure that original mission—to furnish and improve rural telephone service—was met. In 1971, the Rural Telephone Bank (RTB) was created to as a supplemental source of direct loan financing. In 1973, the RUS was provided with the ability to guarantee Federal Financing Bank (FFB) and private lender notes. In 1993, Congress established a fourth lending program—the Treasury Cost of Money account. In 2002, Congress again met the changing demands of the telecommunications industry with the establishment of the Rural Broadband Access Loan and Loan Guarantee Program.

RUS HELPS MEET INFRASTRUCTURE DEMANDS

While the RUS has helped the subscribers of NTCA's member systems receive service that is comparable or superior to that available anywhere in the nation, their work is far from complete. As the Telecommunications Act of 1996 and other Federal policies continue to evolve, and as policymakers and the public alike con-

tinue to clamor for the deployment of advanced telecommunications services, the high costs associated with providing modern telecommunications services in rural areas will not diminish.

RUS telecommunications lending has stimulated billions of dollars in private capital investment in rural communications infrastructure. In recent years, on average, less than \$13 million in Federal subsidy has effectively generated \$670 million in Federal loans and guarantees. For every \$1 Federal funds that was invested in rural communications infrastructure, \$4.50 in private funds was invested. The RUS is also making a difference in rural schools, libraries, and hospitals. Since 1993, the RUS Distance and Learning Telemedicine Grant program has funded hundreds of projects throughout the nation of interactive technology in rural schools, libraries, hospitals, and health clinics.

In addition, two other RUS-related programs are making a difference in rural America. Formerly known as the Zero Interest Loan and Grant Program, the Rural Economic Development Grants Programs, and the Rural Economic Development Loans Programs are now managed by the Rural Business Cooperative Service. The two programs provide funds for the purpose of promoting rural economic development and job creation projects, including for feasibility studies, start-up costs, incubator projects and other expenses tied to rural development.

NTCA'S FISCAL YEAR 2004 APPROPRIATIONS RECOMMENDATIONS

Fully Fund The Entire RUS Telecommunications Loan Program

It is imperative that the entire RUS Telecommunications Loan Program be funded at the following levels:

(In dollars)

Hardship Account	145,000,000
Cost of Money/Treasury Account	250,000,000
Guaranteed Account	100,000,000
Rural Telephone Bank Account	175,000,000

Included in the Farm Bill (Public Law 107—171) was authorization of the Rural Broadband Access Loan and Loan Guarantee program. Built upon a record of strong demand during its pilot status, congressional language was explicit in its intent to assist in broadband deployment in the smallest and most rural communities in the United States. Earlier this year, USDA and RUS officials unveiled the regulations and were able make available \$1.4 billion in loans (fiscal year 2002 and 2003 funds). Such level of funding must be maintained to meet the continually growing needs of advanced telecommunications services across the United States.

Additionally, to support the operations of the RUS, it is critical that Congress provide at least \$41.562 million in administrative appropriations the president's budget proposal envisions.

Reject the President's Proposal To Provide Zero RTB Funding

The president's budget contains a proposal recommending the Rural Telephone Bank should not be funded in fiscal year 2004. In presenting last year's budget, the administration stated that the RTB had outgrown its need and usefulness. NTCA adamantly disagrees as the demand for advanced telecommunications services continues to grow and our members continue to meet this demand. To this end, we believe the president's decision to zero out funding for the RTB is without merit.

Privatization of the RTB is moving at pace mandated by Congress. As this occurs, NTCA wants to ensure the financial stability of the future Bank with minimal amount of risk for borrowers, shareholders and taxpayers. This transition to a private entity will require legislative changes to the Rural Electrification Act. NTCA believes this should occur with minimal disruptions to existing capital markets. In light of this fact, as well Congress' decision to reject the president's previous proposal to zero out RTB funding, we urge Congress to again reject this ill-conceived proposal and instead fully fund the bank at its regular \$175 million annual level.

Reject the President's Proposal to fund the Rural Broadband Access Loan and Loan Guarantee Program through discretionary funding

Acting on the tremendous demand for advanced rural telecommunications, the Congress authorized the Rural Broadband program as part of the 2002 Farm Bill and provided for \$100 million for the program until 2007. The mandate from Congress was to provide loans to the most underserved areas of rural America. With the proven demand of the program established during its pilot status, NTCA believes the President's budget request to cancel the \$20 million in mandatory fund-

ing, and instead fund through discretionary spending, should be rejected and the Rural Broadband Access Loan and Loan Guarantee Program should be funded consistent with congressional authorization.

Repeal language prohibiting communities included in Metropolitan Statistical Areas from eligibility under the Rural Broadband Access Loan and Loan Guarantee Program

Under the existing language, communities under 20,000 that are located in a Metropolitan Statistical Areas are ineligible for loans under the Rural Broadband Access Loan and Loan Guarantee Program. The intent of the authorizing language was to ensure only rural communities would benefit by the Rural Broadband Access Loan and Loan Guarantee Program. Unfortunately, this language has excluded thousands of unserved communities that would otherwise be eligible. This provision should be repealed and program language be brought in tune with population limits of other Rural Development programs.

Extend Removal Of the Interest Rate Cap On Treasury-Rate Loans

NTCA is also requesting that Congress again include language removing the 7 percent interest rate cap on Treasury-rate loans. This provision has been included in recent appropriations measures to prevent the potential disruption of the program in the case where interest rates exceed 7 percent and insufficient subsidy cannot support authorized lending levels.

Extend existing language limiting the retirement of Class A stock in the Rural Telephone Bank

The Rural Utilities Service is currently undergoing extensive evaluation of the privatization issue. With the recent completion of the private contractor's privatization study, the recommendations and fiscal implications of the report are currently being examined by the RTB Board and interested stakeholders. As the future structure of the RTB is still currently under examination, NTCA believes existing language limiting the amount of stock to be retired at 5 percent should be continued.

Prohibit The Transfer Of Unobligated RTB Liquidating Account Balances

NTCA also recommends that Congress continue the prohibition against the transfer of any unobligated balances of the Rural Telephone Bank liquidating account to the general fund of the Treasury. This language has routinely been included in annual appropriations measures since the enactment of the Federal Credit Reform Act (FCRA, Public Law 101-508) that allows such transfers to potentially occur. Re-statement of this language will ensure that the RTB's private class B & class C stockholders are not stripped of the value of their statutorily mandated investment in the Bank.

Prohibit RTB From Self Funding Subsidy and Administrative Costs

NTCA urges Congress to maintain its prohibition against unobligated RTB Liquidating Account Balances being used to cover the bank's administrative and operational expenses for the following reasons: (1) such action would require amending the REA, (2) the proposal appears to be in conflict with the intent of the FCRA, (3) the proposal will not result in Federal budgetary savings, (4) it is unnecessary to the determination of whether the bank could operate independently, and thus would amount to wasting the resources of the bank which could be put to better use upon its complete privatization.

Continue Distance Learning and Telemedicine Loan and Grant Program

The RUS Distance Learning and Telemedicine Loan and Grant program has proven to be an indispensable tool for rural development. In this regard NTCA urges Congress to provide adequate funding for this critical program. NTCA supports the recommendations for this program that are contained in the president's budget proposal.

Preserve RBCS Rural Development Grant and Loan Programs

Likewise, NTCA has witnessed the good these programs have done for rural communities. NTCA urges Congress to ensure adequate funding is at levels that are adequate to meet current demand for the programs.

CONCLUSION

The RUS Telecommunications Loan Program bears a proud record of commitment, service and achievement to rural America. Never in its entire history has the program lost a dollar to abuse or default—unparalleled feat for any government-sponsored lending program. Clearly such a successful program should remain in place to

continue ensuring rural Americans have the opportunity to play a leading role in the information age in which we live. After all, an operational and advanced rural segment of the nation's telecommunications infrastructure is critical to truly ensuring that the national objective of universal telecommunications service is fulfilled. We look forward to working with you to accomplish this objective.

PREPARED STATEMENT OF THE NATIONAL TURFGRASS EVALUATION PROGRAM

Mr. Chairman and Members of the Subcommittee: On behalf of the National Turfgrass Evaluation Program (NTEP), I appreciate this opportunity to provide the Subcommittee with the turfgrass industry's perspective in support of continuation of the \$55,000 appropriation for the National Turfgrass Evaluation Program (NTEP) included in the President's fiscal year 2004 budget request for the Agricultural Research Service (ARS). Also, I appreciate the opportunity to present to you the turfgrass industry's need and justification for continuation of the \$490,000 appropriated in the fiscal year 2003 budget for the full-time turfgrass scientist position within ARS. In addition, I appreciate the consideration of an additional appropriation of \$5,400,000 for the first installment on the \$32.4 million National Turfgrass Research Initiative developed by ARS and the turfgrass industry, with twelve new research scientist positions.

Justification of \$55,000 Appropriation Request for Program Support.

Once again, NTEP and the turfgrass industry come to the appropriations process to request continuation of the \$55,000 basic program support in the ARS budget for NTEP's activities at Beltsville. We appreciate the Subcommittee's continuation of this amount as in previous fiscal years, and hope that you will agree with us that this request is justified for the ensuing fiscal year.

The National Turfgrass Evaluation Program (NTEP) is unique in that it provides a working partnership that links the Federal Government, turfgrass industry and land grant universities together in their common interest of turfgrass cultivar development, improvement and evaluation. The National Turfgrass Evaluation Program is the primary means by which cultivated varieties of turfgrass are evaluated in this country. It provides unbiased information on turfgrass cultivar adaptations, disease and insect resistance and environmental stress tolerance. The public and private sectors of the turfgrass industry use this information to develop cultivar recommendations for home owners, sod producers, sports turf and parks managers, golf course superintendents and highway vegetation managers.

Our nation's awareness of safety is at an all-time high. Turfgrass provides multiple benefits to society including child safety on athletic fields, environmental protection of groundwater, reduction of silt and other contaminants in runoff, green space in home lawns, parks, golf courses, etc. With the advancements being made to turfgrasses that require less pesticides, water and other inputs as well as other efforts to improve integrated pest management programs, recycling, etc., the USDA has a unique opportunity to take positive action in support of the turfgrass industry. With a minuscule investment of Department funds, in relative terms within USDA's budget, a tremendous return can be gained for society and the turfgrass industry.

While the vast majority of the USDA's funds have been and will continue to be directed toward traditional "food and fiber" segments of U.S. agriculture, it is important to note that turfgrasses (e.g., sod production) are defined as agriculture in the Farm Bill and by many other departments and agencies. Further, it is estimated by the Economic Research Service that the turfgrass industry, in all its forms, is a \$40 billion industry. It should also be noted that the turfgrass industry is the fastest growing segment of U.S. agriculture, while it receives essentially no Federal support. There are no subsidy programs for turfgrass, nor are any desired.

For the past seventy years, the USDA's support for the turfgrass industry has been modest at best. The turfgrass industry's rapid growth, importance to our urban environments, and impact on our daily lives warrant more commitment and support from USDA. Failing to support the National Turfgrass Evaluation Program, would be a tremendous oversight of a major opportunity. USDA's support of NTEP at the \$55,000 level does not cover all costs. In fact, NTEP represents an ideal partnership of the public and private sectors in terms of program cost sharing. The NTEP relies most heavily on turfgrass industry (i.e., public sectors, end-users) support. However, it is essential that the USDA maintain its modest financial support and work closely with NTEP. The turfgrass industry relies heavily on NTEP for unbiased information. Discounting this support will also eliminate a highly reliable and credible level of objectivity that is associated with the NTEP program.

Justification of \$490,000 Appropriation Request for the ARS Scientist Position as well as \$5,400,000 Appropriation Request for the first installment on the National Turfgrass Research Initiative

NTEP and the turfgrass industry are requesting the Subcommittee's support for \$490,000 continuing funding for the full-time scientist staff position at ARS, focusing on turfgrass research, that was appropriated in the fiscal year 2003 budget. We also request that the Subcommittee appropriate an additional \$5,400,000 for the first installment on the \$32.4 million National Turfgrass Research Initiative. This Initiative has been developed by USDA, ARS in partnership with the turfgrass industry. We are asking for funding for the most pressing research needs, which address water use/efficiency and environmental issues.

Our society is becoming increasingly more urbanized. Currently, turfgrasses impact more than 90 percent of all people in the United States through exposure to home lawns, business landscapes, roadsides, parks, or recreational turf on a daily basis. As more and more cropland is converted to houses, office parks, shopping centers, etc., the acreage of turfgrass is increasing exponentially. However, with the increasing urbanization comes a greater demand on resources, such as potable water. Also, with the general public experiencing heightened awareness of the environment and its protection, use of inputs such as fertilizer, pesticides and water on turfgrass areas is coming under greater scrutiny. In some jurisdictions, use of these inputs will either be banned or severely restricted for turfgrass use. In addition, the urbanization of America is leading to an overuse of current recreational facilities such as parks, athletic fields and golf courses. New facilities are being considered or constructed, many on abandoned sites such as landfills, industrial wastelands, gravel pits or mine spoils. Turfgrasses in these areas will play an important role in reclamation vegetation, recreational turf or both.

The USDA needs to initiate and maintain ongoing research on turfgrass development and improvement for the following reasons:

The value of the turfgrass industry in the United States is \$40 billion annually. There are an estimated 50,000,000 acres of turfgrass in the United States. Turfgrass is the number one or two agricultural crop in value and acreage in many States (i.e. MD, PA, FL, NJ, NC).

As our society becomes and more urbanized, the acreage of turfgrass will increase significantly. Consequently, State and local municipalities will require the utilization of other water sources (i.e. effluent, reclaimed, etc.), reduction of pesticide use and elimination of nutrient runoff from turfgrass. However, demand on recreational facilities will increase while these facilities, for safety reasons, will still be required to provide safe, attractive athletic fields, parks and grounds.

Private and university research programs are working to develop improved turfgrasses, but they do not have the time nor resources to identify completely new sources of beneficial genes in commonly used species or the usefulness of potential new species. In addition, new plant materials collected by these institutions most often are not placed in the National Plant Germplasm System for use by all interested parties. Additionally, long-term research to identify and transfer desirable genes from other species (turfgrass or other crop species) is not being undertaken by public and private interests. ARS scientists working with turfgrass will enhance the ongoing research and development currently underway within the public and private sectors of the turfgrass industry.

Water management is a key component of healthy turf and has direct impact on nutrient and pesticide losses into the environment. New and improved technologies are needed to monitor turf stresses and to schedule irrigation to achieve the desired turf quality. Increasing demands and competition for potable water make it necessary to use water more efficiently for turf irrigation. In addition, severe droughts in the West, Southeast and Mid-Atlantic States over the last several years have resulted in less water available and watering restrictions. These drought situations have severely impacted the turf industry as well as homeowners and young athletes. Technologies are needed to more efficiently and uniformly apply irrigations to achieve desired turf quality for the intended use as well as develop drought tolerant grasses. Also, there is greater competition for potable water. Therefore, to increase water availability for turf irrigation, waste water (treated and untreated) from both animal and municipal sources as well as from food processing plants must be utilized. Some of these waste waters contain contaminants such as pathogens, heavy metals, and organic compounds. Consequently, movement and accumulation of these contaminants in the atmosphere, soil profile, and ground water must be determined.

USDA conducted significant turfgrass research from 1920-1988. However, since 1988, no full-time scientist has been employed by USDA, Agricultural Research Service (ARS) to conduct turfgrass research specifically.

A new turfgrass research scientist position within USDA, ARS was created by Congress in the fiscal year 2001 budget. Accordingly, in January 2001, the turfgrass industry met with USDA, ARS officials to discuss the position description, hiring process, facilities needed, etc. for the new position. ARS welcomed the new position but felt strongly that just one person working in turfgrass research would be ineffective in addressing the needs and concerns of the industry. Therefore, in January 2002, ARS held a customer workshop to gain valuable input from turfgrass researchers, golf course superintendents, sod producers, lawn care operators, athletic field managers and others on the research needs of the turfgrass industry. As a result of the workshop, ARS has developed, in conjunction with industry, a national strategy to address the specific needs and concerns within the turfgrass industry. The highlights of this strategy are below:

The turfgrass industry is very excited about this new proposal and wholeheartedly supports the efforts of ARS. Since the customers at the workshop identified turfgrass genetics/germplasm and water quality/use as their top priority areas for ARS research, for fiscal year 2004, the turfgrass industry requests that the following positions be established within USDA, ARS:

- Water Use Efficiency/Use of Other Water Sources—three (3) research scientist positions to develop improved irrigation technologies and investigate the impacts of using recycled water for turf.
- Germplasm Collection, Enhancement and Preservation—three (3) research scientist positions to identify germplasm tolerant of drought and other stresses, move genes that confer drought and stress tolerance to desirable turfgrasses.
- Environmental Aspects of Turf Management—three (3) research scientist positions to investigate turfgrasses’ ability to impact pesticide and nutrient transport in soil and water.
- Pest Management Practices—three (3) research scientists to investigate turfgrass pests and pest management practices to reduce pesticide use and maximize efficiency of applications.

We propose that this research be conducted in conjunction with appropriate university cooperators. For this ARS-University partnership, we propose that funding be allocated such that ARS can adequately conduct in-house research as well as in cooperation with university partners. We are asking for \$300,000 for each ARS scientist position with an additional \$150,000 attached to each position to be distributed to university partners. We are also asking that the funding be given to ARS and then distributed by ARS to those university partners selected by ARS and industry representatives.

Funding Breakdown:	
ARS Scientist Positions (\$300,000 ea. × 12)	\$3,600,000
University Cooperative Research Agreements (\$150,000 ea. × 12) (administered by ARS)	1,800,000
Total Request	5,400,000

In conclusion, on behalf of the National Turfgrass Evaluation Program and the turfgrass industry across America, I respectfully request that the Subcommittee continue the vital \$55,000 appropriation for the National Turfgrass Evaluation Program (NTEP) as well as the \$490,000 appropriated in fiscal year 2003 for the new turfgrass scientist position within the Agricultural Research Service. I also request that the Subcommittee appropriate an additional \$5,400,000 for twelve new turfgrass scientist positions within ARS.

Thank you very much for your assistance and support.

PREPARED STATEMENT OF THE NATIONAL WATERSHED COALITION

Mr. Chairman and members of the Subcommittee, I am Larry Smith from Berkeley Springs, West Virginia, and I am pleased to represent the National Watershed Coalition (NWC) as its Chairman. The National Watershed Coalition is privileged to present this testimony in support of the most beneficial water resource conservation programs ever developed in the United States. The Coalition recognizes full well the need to use our tax dollars wisely. That makes the work of this Subcommittee very important. It also makes it imperative that the federal programs we continue are those that provide real benefit to society, and are not programs that would be nice to have if funds were unlimited. We believe the Watershed Program (Public Law 83-566) and the Flood Prevention Operations Program (Public Law 78-534) are examples of those rare programs that address our nation’s vital natural resources which are critical to our very survival, do so in a way that provide benefits

in excess of costs, and are programs that serve as models for the way all federal programs should work. The President's proposed fiscal year 2004 budget would severely cut watershed program funding from current levels, and is unacceptable to watershed project sponsors throughout the United States.

General Watershed Program Observations

The watershed as the logical unit for dealing with natural resource problems has long been recognized. Public Law 566 offers a complete watershed management approach, and should have a prominent place in our current federal policy emphasizing watersheds and total resource management based planning. Proper watershed management improves water quality. Why should the federal government be involved with these watershed programs?

- They are programs whose objectives are the sustaining of our nation's precious natural resources for generations to come.
- They are not federal, but federally assisted, locally sponsored and owned. They do not represent the continued growth of the federal government.
- They are locally initiated and driven. Decisions are made by people affected, and respect private property rights.
- They share costs between the federal government and local people. Local sponsors pay between 30–40 percent of the total costs of Public Law 566 projects.
- They produce net benefits to society. The most recent program evaluation demonstrated the actual ratio of benefits to costs was approximately 2.2:1. The actual adjusted economic benefits exceeded the planned benefits by 34 percent. How many other federal programs do so well?
- They consider and enhance environmental values. Projects are subject to the discipline of being planned following the National Environmental Policy Act (NEPA), and the federal "Principles and Guidelines" for land and water projects. That is public scrutiny!
- They are flexible programs that can adapt to changing needs and priorities. Objectives that can be addressed are flood damage reduction, watershed protection (erosion and sediment control), water quality improvement, rural water supply, water conservation, fish and wildlife habitat improvement, recreation, irrigation and water management, etc. That is flexibility emphasizing multiple uses.
- They are programs that encourage all citizens to participate.
- They can address the needs of low income and minority communities.
- They are targeted to address the most serious resource problems.
- And best of all—they are programs the people like!

The National Watershed Coalition is concerned with the Administration's minimal support for these watershed programs, and trusts your deliberations will cause the outcome of the fiscal year 2004 appropriations process to enable this vital work to continue and expand as we seek to preserve, protect and better manage our nation's water and land resources. Every State in the United States has benefited from the Small Watershed Program.

National Watershed Coalition USDA Water Resource Program Budget recommendations

Watershed and Flood Prevention Operations

In order to continue this high priority work in partnership with states and local governments, the Coalition recommends a fiscal year 2004 funding level of \$190 million for Watersheds and Flood Prevention Operations, Public Law 83–566 and Public Law 78–534. The current unfunded federal commitment for this program is currently over \$1.6 billion.

We recommend that \$30 million of this amount be for Public Law 78–534 projects. The administration proposes no funding for these projects. For some years now, the federal budget has eliminated the separate line items for the Public Law 534 and Public Law 566 watershed projects, and just lumped a total figure under Public Law 566 with a note that some amount "may be available" for Public Law 534 projects. This is an entirely unsatisfactory way of doing business. Public Law 534 still exists in law; it has not been repealed. Many rural communities depend upon its assistance. It should be funded as a separate program. This tactic is unfair to both Public Law 566 and Public Law 534. We ask that the Public Law 534 projects be funded at \$30,000,000.00, and that it be separate from Public Law 566. These are two distinct authorities that should not be confused. The current situation really penalizes both Public Law 534 and 566, as 534 has no funds at the outset, and in order to provide a little something to the Public Law 534 watershed projects, NRCS has to take money from the Public Law 566 accounts which are already very underfunded. Please restore funding for Public Law 534 watershed projects to \$30 million in fiscal year 2004.

The \$190 million request represents the actual amount watershed project sponsors across the country have indicated they can use now for projects ready for installation. It is a real, community based, documented need. The administrations proposal of \$40 million would actually cut funds for watershed operations by 65 percent from what was available in fiscal year 2003.

Watershed Surveys and Planning

We recommend that watershed surveys and planning be funded at \$35 million. Watershed sponsors and communities throughout the country have indicated a need for \$38 million for surveys and planning. The National Watershed Coalition believes the \$35 million amount is a reasonable request when all national water resource priorities are considered. The administrations proposal of \$5 million would actually cut funds for watershed planning by 55 percent from what was available fiscal year 2003.

Watershed Rehabilitation

We recommend \$45 million be provided for structural rehabilitation and replacement in fiscal year 2004, in accordance with Public Law 106-472, the Small watershed Rehabilitation Amendments of 2000, passed by the Congress and signed into law on November 9th, 2000, and that another \$5 million be available for a thorough assessment of rehabilitation needs. The condition of our nation's dams, and the need for watershed structure rehabilitation, is a national priority. We are very disappointed to see the Administration's proposed budget apparently doesn't believe it is a national priority to protect the lives of America's citizens. Congress has indicated it is a priority with passage of Public Law 106-472. The 2002 Farm Bill would actually have provided \$90 million for this purpose in fiscal year 2004, if all its provisions had been funded.

The issue of the current condition of those improvements constructed over the last 50 years with these watershed programs is a matter of great concern. Many of the 11,000 plus dams that NRCS assisted sponsors build throughout the United States, no longer meet current dam safety standards largely as a result of development, and need to be upgraded to current standards. A USDA study published in 1991 estimated that in the next 10 years, \$590 million would be needed to protect the installed works. Of that amount, \$100 million would come from local sponsors as their operation and maintenance contributions. NRCS also conducted a more recent survey, and in just 22 states, about \$540 million in rehabilitation needs were identified. We are recommending \$45 million in fiscal year 2004, and commend Congress for their leadership in passing Public Law 106-472 and the 2002 Farm Bill. Watershed project sponsors throughout the United States appreciate your leadership on this vital issue. We now have the authorization, and need the appropriations. If we don't start to pay attention to our rural infrastructure needs, the ultimate cost to society will only increase, and project benefits will be lost. This is a serious national issue. Since most of these structures were constructed in the 1950's, 1960's, and 1970's, and were originally designed with a 50-year life, it is apparent we need to look at their current condition. If we do the rehabilitation work to bring these older structures up to current health and safety standards, they will continue to provide benefits far into the future. We are dismayed that the Administration's budget only provides \$10 million for this work. That amount would actually cut fiscal year 2003 rehabilitation funding by 65 percent which is unacceptable to watershed sponsors, and is unsafe.

Watershed Research and Development

There is a research and development (R&D) need as we get the structural rehabilitation process underway. In USDA, that work is undertaken by the Agricultural Research Service (ARS). That need is estimated at \$3.0 million, and we ask that it be included in the ARS budget. It would be used for evaluation of upstream and downstream changes to the stream channel systems in cases of decommissioning, evaluation of the water quality impact of stored sediment releases, and the evaluation of impacts of the loss of flood protection, among other things. In addition, we ask that ARS be provided \$10 million in fiscal year 2004 for basic watershed research. This is the amount needed to allow ARS to get back on track collecting needed basic watershed information. That activity has been neglected in recent years because of the lack of funding.

Summary

All people should understand these federal funds are only a part of the total that is committed to this vital national, conservation purpose. The local project sponsors in these "federally assisted" endeavors also have a tremendous investment. Congress increasingly talks of wanting to fund those investments in our nation's infra-

structure that will sustain us in the future. Yet past budgets have regularly cut funding for the best of these programs. This makes absolutely no sense! We can't seem to invest and re-invest in our vital watershed infrastructure. That is simply unconscionable. Isn't water quality and watershed management a national priority? We believe it is.

Once again we are disappointed with what appears to us to be a lack of Administration commitment for these very beneficial conservation programs. The Administration needs to recognize watershed natural resources conservation as a high national priority, as you do. It's only common sense.

The Coalition appreciates the opportunity to offer these comments regarding fiscal year 2004 funding for the water resource programs administered by USDA's Natural Resources Conservation Service (NRCS). With the "downsizing" the NRCS has experienced, we would be remiss if we did not again express some concern as to their ability to provide adequate technical support in these watershed program areas. NRCS technical staff has been significantly reduced and budget constraints have not allowed that expertise to be replaced. Traditional fields of engineering and economics are but two examples. We see many states where NRCS capability to support their responsibilities is seriously diminished. This is a disturbing trend that needs to be halted, and we are not convinced that using "Technical Service Providers" from the private sector is the answer. This downsizing has a very serious effect on state and local conservation programs. Local Watershed and Conservation Districts and the NRCS combine to make a very effective delivery system for providing the technical assistance to local people—farmers, ranchers and rural communities—in applying needed conservation practices. But that delivery system is currently very strained! Many states and local units of government also have complementary programs that provide financial assistance to land owners and operators for installing measures that reduce erosion, improve water quality, and maintain environmental quality. The NRCS provides, through agreement with the USDA Secretary of Agriculture, "on the land" technical assistance for applying these measures. The delivery system currently is in place, and by downsizing NRCS, we are eroding the most effective and efficient coordinated means of working with local people to solve environmental problems that has ever been developed. Our system and its ability to produce food and fiber is the envy of the entire world. In our view, these programs are the most important in terms of national priorities.

The Coalition pledges its full support to you as you continue your most important work. Our Executive Director, Mr. John W. Peterson, who has over 40 years experience in natural resource watershed conservation, is located in the Washington, DC area, and would be pleased to serve as a resource as needed. John's address is 9304 Lundy Court, Burke, VA 22015-3431, phone 703-455-6886 or 4387, Fax; 703-455-6888, email; jwpeterson@erols.com.

Thank you for allowing the National Watershed Coalition (NWC) this opportunity.

PREPARED STATEMENT OF THE NATIONAL RURAL HOUSING COALITION

Mr. Chairman and members of the House Subcommittee on Agriculture, my name is Robert Rapoza and I wish to testify on behalf of the National Rural Housing Coalition.

I wish thank you for the Subcommittee's support of the Rural Development programs of the United States Department of Agriculture and to urge you to support an increase in its budget for fiscal year 2004.

As you may know, the National Rural Housing Coalition (the Coalition) has been a national voice for rural low-income housing and community development programs since 1969. Through direct advocacy and policy research, the Coalition has worked with Congress and the Department of Agriculture to design new programs and improve existing programs serving the rural poor. The Coalition also promotes a non-profit delivery system for these programs, encouraging support for rural community assistance programs, farm labor housing grants, self-help housing grants, and rural capacity building funding.

The Coalition is comprised of approximately 300 members nationwide. We hope to work with you to assure that the voices of rural America are heard and its needs met. Our concerns are focused on rural housing and rural water and sewer systems.

THE NEED FOR AFFORDABLE RURAL HOUSING

A disproportionate amount of the nation's substandard housing is in rural areas. Rural households are poorer than urban households, pay more of their income for housing than their urban counterparts, and are less likely to receive government-assisted mortgages. They also have limited access to mortgage credit and the sec-

ondary mortgage market, making them prime targets for predatory lending. Rural America needs programs that focus on the issues facing it. The Rural Housing Service of Rural Development provides many of these needed programs.

According to the 2000 Census, there are 106 million housing units in the United States. Of that, 23 million, or 23 percent, are located in non-metro areas. Many non-metro households lack the income for affordable housing. The 2000 Census reveals that 7.8 million of the non-metro population is poor, 5.5 million, or one-quarter of the non-metro population, face cost overburden, and 1.6 million of non-metro housing units are either moderately or severely substandard. According to the USDA Economic Research Service, 4 million, or 17 percent of the households in non-metro areas are classified as being in housing poverty. Households are defined as being in housing poverty when their housing has at least one of four important indicators of housing disadvantage:

- Economic need—housing costs over 50 percent of household income;
- Inadequate quality—physical quality defined as moderately or severely inadequate using the HUD measure based on 26 indicators of physical problems;
- Crowding—more household members than rooms;
- Neighborhood quality—perception of poor quality in at least 2 out of 4 neighborhood conditions (crime, noise, inadequate public services, and litter/deteriorating housing).

Renters in rural areas are the worst housed individuals and families in the country. Thirty-three percent of rural renters are cost-burdened, paying more than 30 percent of their income for housing costs. Almost one million rural renter households suffer from multiple housing problems, 60 percent of whom pay more than 70 percent of their income for housing. The Section 515 rural rental housing loan program at USDA serves low and very-low income families with safe affordable housing.

Although issues around rental housing are of vital concern, homeownership is the principal form of housing in rural America. However, there are a number of obstacles to improving homeownership in rural areas including high rates of poverty and poor quality of housing. According to a 1999 Economic Research Service report, the poverty rate in rural America was 15.9 percent, compared to 13.2 percent in urban areas.

Rural residents also have limited access to mortgage credit. The consolidation of the banking industry that accelerated throughout the 1990s has had a significant impact on rural communities. Mergers among lending institutions have replaced local community lenders with large centralized institutions located in urban areas. Aside from shifting the locus of loan making, this has resulted in the diminishment of a competitive environment that, in the past, encouraged rural lenders to offer terms and conditions that were attractive to borrowers.

Because of the gap left by traditional lenders, rural households are often prime targets for predatory lenders. Predatory lending practices include excessive fees, prepayment penalties, and loan flipping into high cost subprime loans. Rural America depends upon the affordable loans through USDA's Section 502 single family direct loan program for homeownership.

USDA'S RURAL HOUSING SERVICE

I would like to begin with the rental housing program.

Section 515 rental housing program

Although we often talk about the surge in homeownership and all of its benefits, not all us are or are prepared to be homeowners. USDA's Rural Housing Service Section 515 rural rental housing program is invaluable to low-income residents in rural areas. The portfolio contains 450,000 rented apartments in Section 515 developments. The delinquency rate is a low 1.6 percent. The average tenant income is \$7,900, which is equal to only 30 percent of the nation's rural median household income. More than half of the tenants are elderly or disabled and one-quarter are minority.

Federal policy faces two challenges regarding rural rental housing. The first is to increase the production of affordable rental housing units in rural communities. The second is to maintain the existing stock of Section 515 units.

This year, the President's budget cut Section 515 to \$71 million and limited it to repair, rehabilitation, and preservation. If the fiscal year 2004 budget request for Section 515 is approved, it will be the first time in more than 30 years that the Federal Government provides no new rental units for rural America.

Section 521 rental assistance is used in conjunction with Section 515 to help families who cannot afford even their reduced rent. In recent years, mostly in response to an escalating number of expiring contracts, appropriations for rental assistance

have gone up. Despite the fact that the current appropriations stand at \$701 million (fiscal year 2002), the funds are insufficient. Although about 50 percent of the 450,000 Section 515 households receive rental assistance, almost 90,000 Section 515 households who need assistance do not receive it. The need for rental assistance is projected to increase to \$937 million by 2006.

Prepayment of 515 properties is a real threat to two-thirds of the portfolio over the next 7 years. Prepayment often means the units are lost for low-income residents. In 1987, Congress enacted legislation restricting prepayment, and providing financial incentives to owners to stay in the program. However, Section 515 funding has fallen off dramatically, and stands at \$114 million, its lowest level in 25 years. This allows little money to provide incentives and other resources for preservation.

The demand for incentives is estimated at approximately \$100 million for equity loans alone. This includes \$11 million in approved, but un-funded requests some of that date back 3 to 4 years. Spending for Section 515 rental subsidized housing has been cut by 73 percent since 1994. And rural rental housing unit production by the Federal Government has been reduced by 88 percent since 1990.

For fiscal year 2004, we recommend a total of \$250 million for section 515. With these funds, we proposed that \$100 million be used for basic maintenance and preservation and \$150 million for loans for new construction. In addition we recommend an increase of \$50 million for rural rental assistance that will be used in conjunction with section 515 and farm labor housing, described later.

Section 502 single family direct loan program

To qualify for the direct loan program, borrowers must have very low or low incomes but be able to afford mortgage payments. Also, applicants must be unable to obtain credit elsewhere, yet have reasonable credit histories. The average income of households assisted under Section 502 is \$18,500. About 9 percent of households have annual incomes of less than \$10,000. Since its inception, Section 502 has provided loans to almost two million families.

In recent years, the major trend in rural housing has been to guarantee home ownership loans. The fiscal year 2003 level for guarantees is approximately \$4 billion. This program serves families with incomes at 125 percent of median, substantially higher than that of direct loans.

Under Section 502 home ownership, the current loan level totals \$1.044 billion. This will provide subsidized, direct loan financing for about 15,000 units. Under this program, families receive a subsidized loan for a period of 33 years. The average income of households assisted under Section 502 is \$18,500. About 3 percent of households have annual incomes of less than \$10,000. Since its inception, Section 502 has provided loans to almost two million families.

There is unprecedented demand for section 502 direct loans totaling several billion dollars and exceeding the budget request. The fiscal year 2004 budget request for Section 502 direct loans is \$1.366 billion; the largest request is several years.

The additional funds are targeted to improve minority home ownership. Under the fiscal year 2004 budget, the cost per unit to finance housing is less than \$10,000. It is important to note that the Administration proposes to actually reduce spending on Section 502, but a revised subsidy rate and lower interest rates allow resources to be stretched. While we would have preferred additional lending in section 502 based on the fiscal year 2003 budget authority level, we applaud the focus on minority home ownership in the budget request.

Non-Profit Organizations

With dramatic program reductions and continued strength in the nation's real estate market, the private sector delivery system is no longer dominant as it was when funding levels were higher, and in many rural communities does not even exist. In some rural areas, non-profits have picked up the slack and pursued a multiple funding strategy. Skilled local organizations meld Federal, State, local and private resources together to provide affordable financing packages to low-income families. But there is not a dedicated source of Federal support to promote a non-profit delivery system for rural housing.

As one way to improve its programs, USDA has expanded its cooperation with non-profit housing and community development organizations. Two successful programs are Mutual and Self-Help Housing and the Rural Community Development Initiative.

Under Mutual and Self-Help Housing, with the assistance of local housing agencies, groups of families eligible for Section 502 loans perform approximately 65 percent of the construction labor on each other's homes under qualified supervision. This program, which has received growing support because of its proven model, has existed since 1961. The average number of homes built each year over the past 3

years has been approximately 1,500. For fiscal year 2004, we recommend a total of \$35 million for self-help housing. This is the same as fiscal year 2004.

The Rural Community Development Initiative (RCDI) program enhances the capacity of rural organizations to develop and manage low-income housing, community facilities, and economic development projects. These funds are designated to provide technical support, enhance staffing capacity, and provide pre-development assistance—including site acquisition and development. RCDI provides rural community development organizations with some of the resources necessary to plan, develop, and manage community development projects. Using dollar-for-dollar matching funds and technical assistance from 19 intermediary organizations, some \$12 million in capacity building funds were distributed to 240 communities. There is a tremendous demand for capacity building funding. In the fiscal year 2000 funding round, USDA's Rural Housing Service received some \$80 million in applications for \$6 million in appropriated funds. This valuable program is also at risk in the budget request this year—it has been eliminated. For fiscal year 2004, we recommend \$6 million for the Rural Community Development Initiative to continue level funding for fiscal year 2002.

Section 514 loan and Section 516 grant farm labor housing programs

Two additional rental housing programs specifically address the needs of farm laborers. Migrant and seasonal farmworkers are some of the nation's most poorly housed populations. The last documented national study indicated a shortage of some 800,000 units of affordable housing for farmworkers.

Farmworker households are also some of the least assisted households in the nation. Some 52 percent of farmworker households' incomes are below the poverty threshold, four times the national household poverty rate, and 75 percent of migrant farmworkers have incomes below the poverty line. Yet little more than 20 percent of farmworker households receive public assistance; most commonly food stamps, rarely public or subsidized housing.

There are only two Federal housing programs that specifically target farmworkers and their housing needs: Sections 514 and 516 of the Housing Act of 1949 (as amended). Borrowers and grantees under Rural Housing Service Sections 514 and 516 receive financing to develop housing for farmworkers. Section 514 authorizes the Rural Housing Service to make loans with terms of up to 33 years and interest rates as low as 1 percent. Section 516 authorizes RHS to provide grant funding when the applicant will provide at least 10 percent of the total development cost from its own resources or through a 514 loan.

Non-profit housing organizations and public bodies use the loan and grant funds, along with RHS rural rental assistance, to provide units affordable to eligible farmworkers. These funds are used to plan and develop housing and related facilities for migrant and seasonal farmworkers. Current funding for Sections 514/516 totals \$37 million in program authority. This amount provides about 700 units of housing. The estimated need is two to three times the appropriated level.

The budget request for section 514/516 is \$35 million. We applaud the slow, but steady progress of the Committee in increasing funding for this very important program. We recommend that funding for farmworker housing grants and loans be increased to \$100 million in budget authority for fiscal year 2004. We ask that these funds be equally divided between loans and grants authorized under sections 514 and 516. This will result in approximately \$150 million in financing for much needed farmworker housing.

THE NEED FOR RURAL WATER AND SEWER SYSTEMS

Hundreds of rural communities nationwide do not have access to clean drinking water and safe waste disposal systems. A 1995 USDA needs assessment of rural areas showed that more than one million households had no indoor plumbing, and 2.4 million households had critical drinking water needs. In its 1997 Drinking Water Infrastructure Needs Survey, the Environmental Protection Agency estimated that over the next 20 years, water systems serving communities of less than 10,000 people will require \$37.2 billion in funding for water systems improvements and upgrades. And regarding wastewater, a 1996 EPA Survey demonstrated that small communities with up to 10,000 residents will need 21,000 wastewater treatment facilities by 2016 at a cost of approximately \$14 billion. According to EPA's numbers, approximately \$51.2 billion will be needed to address the basic water and wastewater needs of small communities.

Many projects that the Rural Utilities Service funds are under consent order from the state EPA office for immediate action. The problems that the agency deals with range from communities and systems that are out of compliance with health and pollution standards, to communities without sewer systems where raw sewage runs

in ditches after a heavy rainfall. Because so much time and money are spent on critical needs, the state offices spend less time on prevention. The programs and communities do not have enough resources to address issues before they become larger problems.

The issue of affordability moves to the forefront with waste disposal systems, which are generally more expensive than water systems. Waste systems naturally succeed water systems—with central water comes indoor plumbing, washing machines, dishwashers, etc., all of which eventually require an efficient wastewater disposal system. Low-income communities often already pay as much as they can afford for water service alone and are unable to manage the combined user fees for water and waste. According to EPA data, ratepayers of small rural systems are charged up to four times as much per household as ratepayers of larger systems. In some extreme situations, some households are being forced out of homeownership because they cannot afford rising user costs.

As I mentioned earlier, rural communities have limited access to much-needed debt and equity capital, and small water and wastewater systems lack the economies of scale needed to reduce costs on their own. In order for communities to cut back on project costs and have affordable rates, operation and maintenance are typically underestimated in the budgets for many new systems. This often results in limited or no capital improvement accounts for future upgrades and expansions needed for community development including stabilization of local small business, affordable housing development, and other needed industrial development.

USDA'S RURAL UTILITIES SERVICE

USDA's Rural Utilities Service (RUS) is the primary Federal force in rural water and waste development, providing loans and grants to low-income communities in rural areas. The agency assists low-income rural communities that would not otherwise be able to afford such services. Approximately one-fifth of the communities served live below the national poverty line.

In providing these important services, the program also protects public health and promotes community stabilization and development. Aging municipal sewage systems alone are responsible for 40,000 overflows of raw sewage each year. The overflows cause health hazards including gastrointestinal problems and nausea, as well as long-term damage to the environment. Businesses and industries are unable or reluctant to locate in areas without functioning water and sewer systems. But with the assistance of RUS, communities are able to have the services they need so that their health and economies may benefit.

Through Federal and State initiatives, RUS is working to confront the challenges faced by rural communities. With increasingly restricted time and money, state offices are using other resources such as leveraged funds and technical assistance from the Rural Community Assistance Program (RCAP). Funds are being leveraged through HUD's Community Development Block Grant program and the EPA's State Revolving Loan Funds, as well as some private lenders. Through the RCAP technical assistance program, more than 2,000 communities and over 1.6 million households in 49 states have received assistance to identify solutions to water problems, improve and protect water quality, and construct and operate facilities. The RCAP program has proven to be an effective and efficient way of ensuring that small rural communities receive the information, technical assistance, and training needed to provide for the water and waste disposal needs of their residents.

Mr. Chairman and members of the Committee, we look to you for continued support of the efforts of Rural Development. These programs are vital to the survival of our small communities nationwide. They address the most basic needs of affordable housing and clean water that still exist all over the country.

We appreciate your past support and your attention to this matter.

PREPARED STATEMENT OF THE NAVAJO NATION

INTRODUCTION

My name is Arvin S. Trujillo. I serve as Executive Director for the Division of Natural Resources of the Navajo Nation, America's largest Indian tribe. On behalf of President Joe Shirley, Jr., Vice-President Frank Dayish, Jr. and the Navajo people, I appreciate the opportunity to submit for the hearing record this Statement setting forth the Navajo Nation's recommendations and requests regarding fiscal year 2004 appropriations for the U.S. Department of Agriculture ("USDA").

A participant in Congressional proceedings leading to enactment of the Farm Security and Rural Investment Act of 2002 ("Farm Bill"), the Navajo Nation strongly

urges appropriations up to full authorized levels for many new, or expanded, Farm Bill programs that hold significant promise for at last addressing the staggering rural development deficit confronting the Navajo Nation. In fact, the Shirley-Dayish Administration, inaugurated this past January, has made implementation of Farm Bill programs on the Navajo Nation one of its top priorities over the next 4 years. Toward that end, the Navajo Nation looks forward to working with this Subcommittee and the full Committee, as well as the USDA, to improve dramatically participation by the historically-underserved Navajo people in USDA /Farm Bill programs that are extraordinarily well-suited to addressing substantial conservation, rural development, education and energy needs.

BACKGROUND

The Navajo Nation—with a land area covering almost 18 million acres—comprises one-third of all Indian lands in the lower 48 States, and is larger than the States of Connecticut, Delaware, Maryland, Massachusetts and Rhode Island combined. Unlike those States, however, the Navajo Nation suffers from enormous deficits in all areas critical to prosperous rural livelihoods.

The unemployment rate on the Navajo Nation ranges seasonally from 36 percent to 50 percent. Per capita income averages \$6,123 (less than one-third of that in surrounding States), and 56 percent of Navajo people live below the poverty level. Massive infrastructure deficiencies continue to hamstring Navajo leaders' efforts to promote rural development and economic self-sufficiency. Though the Navajo Nation is slightly larger than West Virginia, our approximately 2,000 miles of paved roads equate to barely 11 percent of West Virginia's 18,000+ miles. Basic "necessities" of life, taken for granted elsewhere in the United States, are sorely lacking in the Navajo Nation. In fact, approximately 17,500 occupied structures on the Navajo Nation are presently without electric power—a circumstance that simply defies belief in 21st Century America!

FISCAL YEAR 2004 APPROPRIATIONS RECOMMENDATIONS AND REQUESTS

Against this background, the Navajo Nation urges the Subcommittee Members to provide the leadership and direction necessary to cause USDA increasingly to target scarce resources toward populations/areas that combine a compelling need for USDA's programs with a historical lack of access to, or participation in, those programs (in relation to other populations/areas). In other words, USDA resources and expertise should be redirected from locations (many of which have become suburban rather than rural) that have now realized the purposes of USDA programs to those locations—such as the Navajo Nation—that have benefited comparatively little from the resources and expertise that USDA has to offer.

Among the Navajo Nation's overall appropriations recommendations, within which such targeting of resources should occur (including the specific requests identified), are the following:

CONSERVATION

Environmental Quality Incentives Program ("EQIP").—The Natural Resources Conservation Service ("NRCS") has worked diligently in outreach to the Navajo Nation to attempt to expand EQIP structural practices, but there remains enormous untapped potential for installation of measures to conserve scarce water resources and eroding cropland and rangeland. In that regard, the Navajo Nation recently filed comments, in the NRCS's proposed rulemaking regarding Farm Bill-related modifications to EQIP, urging revisions to enhance Navajo farmer/rancher participation. Funding of EQIP at the full authorized amount is recommended.

Ground and Surface Water Conservation.—The Farm Bill established this new EQIP-related initiative, in part, to help producers "improve irrigation systems . . . [and] enhance irrigation efficiencies," as well as to "mitigate the effects of drought." This initiative offers opportunities to help reverse significant long-term problems that have plagued Navajo farmers—crumbling irrigation systems, installed in the 1950's, that presently irrigate less than 30 percent of the farmland acreage originally serviced thereby, and a devastating drought that has adversely impacted the Navajo people for approximately 3 years. In written comment to the NRCS, the Navajo Nation has urged that any new rules/procedures take account of the special circumstances existing on tribal lands so that Navajo farmers can fully take advantage of these much-needed conservation incentives. Fully authorized funding of \$60 million should be provided, with emphasis on cost-share and incentive payments (rather than loan programs) for targeted areas with limited resources and substantial unmet needs.

The Navajo Nation specifically requests that \$350,000 of funding hereunder be allocated to the Ganado Irrigation Water Conservation Project, a model project that will bring water from Ganado Reservoir to 640 acres of land, thereby allowing 63 Navajo land permit holders to return those lands to farming notwithstanding ongoing extreme drought conditions. The Project is integral to sustaining traditional Navajo crops and food products, generating revenue, and increasing employment in Apache County, Arizona. The first phase of construction was completed in the summer of 2002 in a joint effort by the Ganado Water Users Association of the Navajo Nation, NRCS, the Bureau of Reclamation and the Bureau of Indian Affairs. The requested funding would be for the final step to completion, including enhancing irrigation efficiency through the installation of plastic lining for irrigation piping.

Watershed Planning and Operations, Emergency Watershed Protection, and Small Watershed Rehabilitation.—The importance of fully appropriated, and fully implemented, USDA/NRCS watershed planning, operations and rehabilitation programs for the Navajo Nation cannot be overstated. Soil and water management difficulties, not to mention salt-laden runoff to the Colorado River System, are longstanding problems that demand a coordinated, comprehensive, watershed-based strategy and solutions utilizing the NRCS's substantial expertise. Regrettably, the Administration's Budget proposes a substantial decline in funding. Rather than eliminating these very worthwhile programs, funding should instead be increased so that areas, such as the Navajo Nation, which have not fully benefited in the past can now partake of the substantial potential of these programs. In particular, sufficient funding should be allocated to allow for reestablishment of an NRCS watershed planning team on the Navajo Nation.

In addition, the Navajo Nation requests that \$700,000 of technical assistance funding be allocated to the NRCS specifically to allow for development and preparation of the required follow-up documentation necessary to move ahead with two existing plans of importance to the Navajo Nation: (1) the Canyon del Muerto Natural Resource Plan, and (2) the Moenkopi—Tuba City Plan. Such targeted technical assistance funding would be utilized for preparation of small watershed plans and environmental assessments in furtherance of the much-needed watershed-related initiatives for both areas.

Conservation Security Program.—The Navajo Nation supports the program goals to implement important conservation measures on working lands, including "land under the jurisdiction of an Indian tribe." In fact, in recently-filed comments with the USDA regarding implementation of this new program, the Navajo Nation recommended policies to facilitate Navajo participation therein. The Budget appears to have significantly underfunded this new program, and the Navajo Nation urges increased funding thereof.

Resource Conservation and Development Program.—The Navajo Nation supports the continuation and expansion of funding for this beneficial program.

Conservation Program Incentives.—Section 2004 of the Farm Bill added Section 1244 to the Food Security Act of 1985 to provide that "[i]n carrying out any conservation program . . . the Secretary may provide to . . . Indian tribes . . . incentives to participate in the conservation program to—(1) foster new farming and ranching opportunities; and (2) enhance environmental stewardship over the long term." The Navajo Nation, which exercises governmental authority over the vast lands (primarily tribal and trust lands) under its jurisdiction, urges the Subcommittee to direct the Secretary to implement this new provision expeditiously, and to provide funding therefor.

RURAL DEVELOPMENT

Water and Waste Disposal Grant Programs

A. There are enormous needs on the Navajo Nation for grants for the "development, storage, treatment, purification or distribution of water . . . in rural areas" (7 U.S.C. § 1926(a)(2)); authorized applicants under this program for "Water and Waste Facility Loans and Grants" include Indian tribes. However, the Budget proposes a very significant cutback in grant funding, despite the fact that numerous rural areas, such as the Navajo Nation, have yet to realize equitably the benefits of this critical program. Given the Navajo Nation's huge infrastructure deficiencies, the Navajo Nation recommends a grant program level of \$590 million, with directions from the Committee that such grant funding/assistance be targeted to areas with substantial need and limited past participation.

B. Moreover, under the program for "Water and Waste Facility Loans and Grants to Alleviate Health Risks" (7 U.S.C. § 1926c), the "Secretary shall make . . . grants to . . . Indian tribes . . . to provide for the conservation, development, use, and control of water (including the extension or improvement of existing water supply

systems) . . .” (7 U.S.C. § 1926c(a)(1)). In reauthorizing these provisions in Section 6010 of the Farm Bill, Congress provided for additional funding of \$20 million for each fiscal year specifically “for grants under this section to benefit Indian tribes.” The Subcommittee should make good on this commitment to the health and welfare of Indian country, and should fully appropriate this new grant authorization.

C. The Navajo Nation (and other areas of the desert southwest) have been severely impacted by long-term drought. Under the “Emergency Community Water Assistance Grant Program,” the USDA “shall provide grants . . . to assist the residents of rural areas and small communities to secure adequate quantities of safe water . . . after a significant decline in the quantity or quality of water available . . .” (7 U.S.C. § 1926a(a)). Rather than eliminating funding (or appropriating only for pending applications), the Subcommittee (and the USDA) should recognize that such an emergency already exists in the Navajo Nation. Monies should be appropriated now and targeted to areas such as the Navajo Nation that have been devastated by drought and which require assistance to provide ample, safe water to rural residents.

In particular, the Navajo Nation Drought Contingency Plan has identified more than 70 public water systems at high risk due to the ongoing drought. Deficiencies at the following public water systems in Arizona and New Mexico can be rectified in a timely fashion, and the corresponding health risks and water shortage emergencies alleviated, if the following targeted appropriations are provided from one or a combination of the above-identified three grant funding authorizations:

Arizona:		
Cameron—Grey Mountain	water source; storage	\$900,000
Fort Defiance Chapter	replacement well; storage	250,000
Teec Nos Pos chapter	water source	470,000
Tuba City Chapter	water source; storage	380,000
Total .....	.....	2,000,000
New Mexico:		
Baca/Haystack Chapter	water source; storage	800,000
Spencer Valley—Manuelito Chapter	conveyance line	90,000
Torreon Chapter	water source	450,000
Total .....	.....	1,340,000

Moreover, the Navajo Nation requests funding of \$4 million for construction of the Navajo Mountain Public Water System to alleviate public health and safety issues at Navajo Mountain, Utah. The present water system, which is dependent on springs that are unreliable during dry periods, is inadequate to provide for the needs of the community and its schools. Consequently, last year the Navajo Nation had to resort to hauling water more than 40 miles to provide drinking water for the community. This crisis resulted in the closing of the schools during the summer months. Repeated efforts by the Indian Health Service to develop wells in the area have not been successful. In March 2000, the Bureau of Reclamation completed a feasibility study for the Navajo Mountain Public Water System, resulting in a design and cost estimate for a long-term solution to the Navajo Mountain water supply crisis. The proposed project would cost approximately \$6 million; programmatic funding already committed through the U.S. EPA and BIA totals \$2 million. The Navajo Nation requests through USDA the remaining \$4 million—under any one or a combination of the above-identified three grant funding authorizations—necessary to construct this urgently-needed project.

Rural Strategic Investment Program.—One of the most disinvested areas of the United States, the Navajo Nation has long been a proponent of integrated, multidisciplinary rural planning and development, but has lacked adequate funding and the commitment of USDA resources and expertise necessary to succeed in such effort. Accordingly, the Navajo Nation supports implementation of this new program (added to the Consolidated Farm and Rural Development Act by Farm Bill Section 6030) that can facilitate regional rural strategic investment plans through planning and innovation grants. The Subcommittee should reject the Budget’s proposal to block mandatory funding authorized under the Farm Bill, and should instead fully appropriate authorized amounts for planning/innovation grants thereunder.

Rural Development Grant Programs.—The Navajo Nation supports full funding of programs for Rural Business Enterprise Grants (Farm Bill Section 6014), Rural Business Opportunity Grants (Farm Bill Section 6003), and Rural Cooperative Development Grants (Farm Bill Section 6015). These programs offer substantial oppor-

tunities for Indian country, and the Navajo Nation hopes to work closely with USDA to increase Navajo participation therein. The Budget limitations on such programs should be rejected.

Tribal College Essential Community Facilities.—Farm Bill Section 6008 amended the Consolidated Farm and Rural Development Act by adding a new authorization of \$10 million annually for “grants to tribal colleges and universities . . . to provide the Federal share of the cost of developing specific tribal college or university essential community facilities in rural areas.” Among America’s land grant institutions, none have greater need for increased Federal financial assistance for the development of infrastructure/facilities than the tribal colleges (i.e., the so-called 1994 Institutions). This new authorization should be fully funded.

Value-Added Agricultural Product Market Development Grants.—This program (Farm Bill Section 6401) offers exciting opportunities to several ventures and existing/planned cooperatives on the Navajo Nation. The budgeted funding is woefully inadequate, and the Navajo Nation recommends appropriations that can help jumpstart this important program.

Rural Firefighters and Emergency Personnel.—Given the much-needed focus on homeland security, not to mention its responsibility for 18 million acres under its jurisdiction, the Navajo Nation urges full funding for this helpful authorization at Farm Bill Section 6405.

RESEARCH/EDUCATION/EXTENSION

Tribal Colleges Classroom Instruction Grants.—Farm Bill Section 7201(a) increased these annual grants to each 1994 Institution from \$50,000 to \$100,000, but the Budget proposes only \$73,000 per tribal college. This position is entirely unacceptable—not only because of the well-documented need for a substantial input of resources to the tribal colleges, but also in relation to the continuing large funding allocations directed to the 1862 and 1890 Institutions. The Budget is inapposite to the intent underlying the Equity in Educational Land-Grant Status Act of 1994, and should not be accepted; the Farm Bill’s Congressional directive to raise these annual grants to \$100,000 should be heeded by the Subcommittee.

Other 1994 Institutions Funding Authorizations.—Unfortunately, since 1994, the commitment to fund tribal colleges has not lived up to the “land grant” status bestowed. Appropriations must be targeted where they are most needed. Consequently, the Navajo Nation supports very dramatic increases for the Native American Endowment Fund, and for the authorizations for 1994 Institutions institutional capacity building grants and research grants (see 7 U.S.C. § 301 note) and agricultural extension grants (see 7 U.S.C. § 343(b)(3)). A concerted Federal/tribal effort is required to help bring tribal colleges to a level playing field—as they deserve to be—with other land grant and higher education institutions.

Socially Disadvantaged Farmers and Ranchers.—While Farm Bill Section 10707 increased from \$10 million to \$25 million annual authorized funding for this outreach and assistance program that is ideally suited for the Navajo Nation, the Budget proposes just \$4 million. The Navajo Nation urges the Subcommittee, through its appropriations decisions, to direct the USDA finally to implement this program in a meaningful way reflecting Congressional intent.

ENERGY

Renewable Energy (Section 9006).—The Navajo Nation, which has recently announced its comprehensive energy policy, is firmly committed to the development of renewable energy. Indeed, the Navajo Nation submitted written comments to the USDA supporting expeditious implementation of Farm Bill Section 9006 to provide, in part, for grants to farmers, ranchers and rural small businesses to purchase renewable energy systems. The Budget recommends no funding; the Subcommittee should reject that position and provide adequate funding for meaningful implementation of this program.

Renewable Energy (Section 9005).—Similarly, the Navajo Nation recommends increased funding for this program, established under Farm Bill Section 9005, that would authorize grants to “an Indian tribe” to “assist farmers, ranchers, and rural small businesses in becoming more energy efficient and in using renewable energy technology and resources.” Such grants match up well with objectives of the Navajo Nation’s comprehensive energy policy, and—if provided in meaningful amounts—could assist greatly in the implementation thereof.

As the new Shirley—Dayish Administration continues to establish its priorities and objectives, we will keep the Subcommittee apprised of additional specific opportunities—within these and other USDA/Farm Bill programs—where the Subcommit-

tee's leadership can help us to improve the lives and rural livelihoods of the Navajo people. We appreciate your consideration of our recommendations and requests.

PREPARED STATEMENT OF THE NEW MEXICO INTERSTATE STREAM COMMISSION

Summary

This Statement is submitted in support of appropriations for the Department of Agriculture's Colorado River Basin salinity control program. The salinity control program has not been funded in recent years at the level necessary to control salinity with respect to water quality standards. Also, inadequate funding of the salinity control program negatively impacts the quality of water delivered to Mexico pursuant to Minute 242 of the International Boundary and Water Commission. Funding for the Environmental Quality Incentives Program (EQIP), from which the Department of Agriculture funds the salinity program, has been insufficient to implement needed salinity control measures. The Farm Security and Rural Investment Act (FSRIA) of 2002 authorized a funding level of \$1 billion for EQIP in fiscal year 2004. I urge the Subcommittee to support funding from Commodity Credit Corporation (CCC) of \$1 billion to be appropriated for EQIP. I request that the Subcommittee designate 2.5 percent of the EQIP appropriation, but at least \$17.5 million, for the Colorado River Basin salinity control program. I request that adequate funds be appropriated for technical assistance and education activities directed to salinity control program participants.

Statement

The seven Colorado River Basin states, in response to the salinity issues addressed by Clean Water Act of 1972, formed the Colorado River Basin Salinity Control Forum (Forum). Comprised of gubernatorial appointees from the seven Basin states, the Forum was created to provide for interstate cooperation in response to the Clean Water Act, and to provide the states with information to comply with Sections 303 (a) and (b) of the Act. The Forum has become the primary means for the seven Basin states to coordinate with Federal agencies and Congress to support the implementation of the salinity control program.

The Colorado River Basin salinity control program was authorized by Congress in the Colorado River Basin Salinity Control Act of 1974. Congress amended the Act in 1984 to give new responsibilities to the Department of Agriculture. While retaining the Department of the Interior as the lead coordinator for the salinity control program, the amended Act recognized the importance of the Department of Agriculture operating under its authorities to meet the objectives of the salinity control program. Many of the most cost-effective projects undertaken by the salinity control program to date have occurred since implementation of the Department of Agriculture's authorization for the program.

Bureau of Reclamation studies show that damages from the Colorado River to United States water users are about \$300,000,000 per year. Damages are estimated at \$75,000,000 per year for every additional increase of 30 milligrams per liter in salinity of the Colorado River. It is essential to the cost-effectiveness of the salinity control program that Department of Agriculture salinity control projects be funded for timely implementation to protect the quality of Colorado River Basin water delivered to the Lower Basin States and Mexico.

Congress concluded, with the enactment of the Federal Agriculture Improvement and Reform Act of 1996 (FAIRA), that the salinity control program could be most effectively implemented as a component of the Environmental Quality Incentives Program (EQIP). The salinity control program, since the enactment of FAIRA, has not been funded at an adequate level to protect the Basin State-adopted and Environmental Protection Agency approved water quality standards for salinity in the Colorado River. Appropriations for EQIP have been insufficient to adequately control salt loading impacts on water delivered to the downstream states, and to Mexico pursuant to Minute No. 242 of the International Boundary and Water Commission, United States and Mexico.

EQIP subsumed the salinity control program without giving adequate recognition to the responsibilities of the Department of Agriculture to implement salinity control measures per Section 202 (c) of the Colorado River Basin Salinity Control Act. The EQIP evaluation and project ranking criteria target small watershed improvements that do not recognize that water users hundreds of miles downstream are significant beneficiaries of the salinity control program. Proposals for EQIP funding are ranked in the states of Utah, Wyoming and Colorado under the direction of the respective State Conservationists without consideration of those downstream, particularly out-of-state, benefits.

Following recommendations of the Basin States, the Department of Agriculture's Natural Resources Conservation Service (NRCS) designated the Colorado River Basin an "area of special interest" including earmarked funds for the salinity control program. The NRCS concluded that the salinity control program is different from the small watershed approach of the EQIP program. The watershed for the salinity control program stretches almost 1,200 miles, from the headwaters of the river through the salt-laden soils of the Upper Basin to the river's termination at the Gulf of California in Mexico. NRCS is to be commended for its efforts to comply with the Department of Agriculture's responsibilities under the Colorado River Basin Salinity Control Act of 1974. Irrigated agriculture in the Upper Basin realizes significant local benefits of the salinity control program and agricultural producers have succeeded in submitting cost-effective proposals to NRCS.

However, the Basin States, including New Mexico, have been very dismayed that funding for EQIP has been inadequate since the enactment of FAIRA in 1996. Several years of inadequate Federal funding for the Department of Agriculture have resulted in the Forum finding that the salinity control program needs to be accelerated to maintain the water quality criteria of the Colorado River water quality standards for salinity. Since the enactment of FSRIA in 2002, an opportunity to adequately fund the salinity control program exists for the first time since the enactment of FAIRA.

The Basin States contribute about \$4.3 million in up-front cost sharing and local farms contribute an estimated \$3.9 million to match the NRCS earmarked funds of about \$10 million in the fiscal year 2002. State and local cost sharing is triggered by and indexed to the Federal appropriation. The requested funding of at least \$17.5 million for fiscal year 2004 will continue to be needed each year for at least the next few fiscal years.

The Department of Agriculture projects have proven to be the most cost-effective component of the salinity control program. The Department of Agriculture has indicated that a more adequately funded EQIP program would result in more funds being allocated to the salinity program. The Basin States have cost sharing dollars available to participate in on-farm salinity control efforts. The agricultural producers in the Upper Basin are willing to cost-share their portion and waiting for adequate funding for their applications to be considered.

I urge the Congress to appropriate at least \$1 billion from the CCC in fiscal year 2004 for EQIP. Also, I request that Congress designate 2.5 percent of the EQIP appropriation, but at least \$17.5 million, for the Colorado River Basin salinity control program.

Finally, I request that adequate funds be appropriated to NRCS technical assistance and education activities for the salinity control program participants, rather than requiring the NRCS to borrow funds from CCC for these direly needed and under funded support functions. Recent history has shown that inadequate funding for NRCS technical assistance and education activities has been a severe impediment to successful implementation of the salinity control program. The Basin States parallel funding program, implemented as a means of cost sharing with NRCS, expends 40 percent of the states' funds available to meet the needs of NRCS for technical assistance and education activities. I urge the appropriation of adequate funds for these essential activities.

PREPARED STATEMENT OF THE NORTHWEST INDIAN FISHERIES COMMISSION

Mr. Chairman and Members of the Committee, I am Billy Frank, Jr., Chairman of the Northwest Indian Fisheries Commission (NWIFC), and on behalf of the twenty-Western Washington member Tribes, I submit this request for appropriations to support the research, sanitation and marketing of Tribal shellfish products. We request the following:

- \$500,000 to support seafood marketing costs which will assist the tribes in fulfilling the commercial demands for their shellfish products both domestically and abroad;
- \$1,000,000 to support water and pollution sampling, sampling and research for paralytic shellfish poisoning and coordination of research projects with State agencies; and,
- \$1,000,000 to support data gathering at the reservation level for the conduct of shellfish population surveys and estimates.

Treaty Shellfish Rights

As with salmon, the tribes' guarantees to harvest shellfish lie within a series of treaties signed with representatives of the Federal Government in the mid-1850s.

In exchange for the peaceful settlement of what is today most of Western Washington, the tribes reserved the right to continue to harvest finfish and shellfish at their usual and accustomed grounds and stations. The tribes were specifically excluded from harvesting shellfish from areas “staked or cultivated” by non-Indian citizens. Soon after they were signed, the treaties were forgotten or ignored.

The declining salmon resource in the Pacific Northwest negates the legacy Indian people in Western Washington have lived by for thousands of years. We were taught to care for the land and take from it only what we needed and to use all that we took.

We depended on the gifts of nature for food, trade, culture and survival. We knew when the tide was out, it was time to set the table because we live in the land of plenty; a paradise complete. Yet, because of the loss of salmon habitat, which is attributable to overwhelming growth in the human population, a major Pacific coastal salmon recovery effort ensues. Our shellfish resource is our major remaining fishery.

At least ninety types of shellfish have been traditionally harvested by the Tribes in Western Washington and across the continent Indian people have called us the fishing Tribes because of our rich history of harvesting and caring for finfish and shellfish. Our shellfish was abundant and constituted a principal resource of export, as well as provided food to the Indians and the settlers, which greatly reduced the living expenses.

Shellfish remain important for subsistence, economic, and ceremonial purposes. With the rapid decline of many salmon stocks, due to habitat loss from western Washington’s unrelenting populous growth, shellfish harvesting has become a major factor in tribal economies.

The tribes have used shellfish in trade with the non-Indian population since the first white settlers came into the region a century and a half ago. Newspaper accounts from the earliest days of the Washington Territory tell of Indians selling or trading fresh shellfish with settlers. Shellfish harvested by members of western Washington’s Indian tribes is highly sought after throughout the United States and the Far East. Tribal representatives have gone on trade missions to China and other Pacific Rim nations where Pacific Northwest shellfish—particularly geoduck—is in great demand. Trade with the Far East is growing in importance as the tribes struggle to achieve financial security through a natural resources-based economy.

Treaty language pertaining to tribal shellfish harvesting included this section:

“The right of taking fish at usual and accustomed grounds and stations is further secured to said Indians, in common with all citizens of the United States; and of erecting temporary houses for the purposes of curing; together with the privilege of hunting and gathering roots and berries on open and unclaimed lands. Provided, however, that they not take shell-fish from any beds staked or cultivated by citizens.”

(Treaty with the S’Klallam, January 26, 1855)

In exchange for the peaceful settlement of what is today most of western Washington, the tribes reserved the right to continue to harvest finfish and shellfish at all of their usual and accustomed grounds and stations. The tribes were specifically excluded from harvesting shellfish from areas “staked or cultivated” by non-Indian citizens.

Tribal efforts to have the Federal Government’s treaty promises kept began in the first years of the 20th Century when the United States Supreme Court ruled in *U.S. v. Winans*, reaffirming that where a treaty reserves the right to fish at all usual and accustomed places, a state may not preclude tribal access to those places.

Sixty years later, the tribes were again preparing for battle in court. After many years of harassment, beatings and arrests for exercising their treaty-reserved rights, western Washington tribes took the State of Washington to Federal court to have their rights legally re-affirmed. In 1974, U.S. District Court Judge George Boldt ruled that the tribes had reserved the right to half of the harvestable salmon and steelhead in western Washington.

The “Boldt Decision,” which was upheld by the U.S. Supreme Court, also re-established the tribes as co-managers of the salmon and steelhead resources in western Washington.

As a result of this ruling, the tribes became responsible for establishing fishing seasons, setting harvest limits, and enforcing tribal fishing regulations. Professional biological staffs, enforcement officers, and managerial staff were assembled to ensure orderly, biologically-sound fisheries.

Beginning in the late 1970s, tribal and state staff worked together to develop comprehensive fisheries that ensured harvest opportunities for Indian and non-Indian alike, and also preserved the resource for generations to come.

It was within this new atmosphere of cooperative management that the tribes sought to restore their treaty-reserved rights to manage and harvest shellfish from all usual and accustomed areas. Talks with their state counterparts began in the mid-1980s, but were unsuccessful. The tribes filed suit in Federal court in May 1989 to have their shellfish harvest rights restored.

The filing of the lawsuit brought about years of additional negotiations between the tribes and the state. Despite many serious attempts at reaching a negotiated settlement, the issue went to trial in May 1994.

In 1994, District Court Judge Edward Rafeedie upheld the right of the treaty tribes to harvest 50 percent of all shellfish species in their Usual and Accustomed fishing areas. Judge Rafeedie also ordered a shellfish Management Implementation Plan that governs tribal/state co-management activities.

After a number of appeals, the U.S. 9th Circuit Court of Appeals let stand Rafeedie's ruling in 1998. Finally, in June 1999, the U.S. Supreme Court denied review of the District court ruling, effectively confirming the treaty shellfish harvest right.

Assist the Tribes in Marketing Efforts to Fulfill the Demands for their Shellfish Products, \$500,000

Shellfish harvested by members of Western Washington Indian Tribes are of extreme quality and are highly sought after throughout the United States, Europe and the Far East. Unfortunately, because Tribes are not centrally organized and it is the individual tribal fisher who harvests the resource, such markets have never fully materialized.

We request \$500,000, which will assist the Tribes in promoting our shellfish products, both in domestic and international markets. Tribes anticipate the need to provide necessary health training to harvesters, possibly develop cooperative seafood ventures, develop marketing materials and engage in actual marketing operations. Specific earmarked funding from the Committee can jump start tribal efforts in these areas. We also anticipate participating in intertribal consortiums that generally promote tribal products, and urge the Committee to support necessary funding for those efforts. Funding from the Committee will allow the tribes to realize the fair value for their product, help employ more tribal members, and allow the tribes to fulfill their treaty rights.

Water and Pollution Sampling, Sampling and Research for Paralytic Shellfish Poisoning and Coordination of Research Projects with State and Federal Agencies, \$1,000,000

Shellfish growing areas are routinely surveyed for current or potential pollution impacts and are classified based on the results of frequent survey information. No shellfish harvest is conducted on beaches that have not been certified by the tribes and the Washington Department of Health. Growing areas are regularly monitored for water quality status and naturally-occurring biotoxins to protect the public health.

However, both Tribal and non-Indian fisheries have been threatened due to the lack of understanding about the nature of biotoxins, especially in subtidal geoduck clams. Research targeted to better understand the nature of biotoxins could prevent unnecessary illness and death that may result from consuming toxic shellfish, and could prevent unnecessary closure of tribal and non-Indian fisheries.

Data Gathering at the Reservation Level for the Conduct of Shellfish Population Surveys and Estimates, \$1,000,000

Very little current data and technical information exists for many of the shellfish fisheries now being jointly managed by state and Tribal managers. This is particularly true for many free-swimming and deep-water species. This lack of information can not only impact fisheries and the resource as a whole, but makes it difficult to assess 50/50 treaty sharing arrangements. Additionally, intertidal assessment methodologies differ between state and tribal programs, and can lead to conflicts in management planning.

Existing data systems must be enhanced for catch reporting, population assessment and to assist enhancement efforts. Research on methodology for population assessment and techniques also is critical to effective management.

Onsite beach surveys are required to identify harvestable populations of shellfish. Regular monitoring of beaches is also necessary to ensure that the beaches remain safe for harvest. Additional and more accurate population survey and health certification data is needed to maintain these fisheries and open new harvest areas. This information will help protect current and future resources and provide additional harvest opportunities.

Conclusion

We ask that you give serious consideration to our needs. We are available to discuss these requests with committee members or staff at your convenience. Thank you.

PREPARED STATEMENT OF THE OKLAHOMA FARMERS UNION FARM AND RURAL PROGRAMS COORDINATOR, NATIONAL FIRE ANT STRATEGY DEVELOPMENT, AND OKLAHOMA FIRE ANT RESEARCH AND MANAGEMENT ADVISORY COMMITTEE

For the last several years I have submitted testimony on behalf of finding solutions that are economically viable to manage fire ants. In that time the number of acres, counties and states have continued to grow. Also, in that time has come great hope for finding a solution to control the fire ant pest. As an agriculture producer stakeholder and as a parent I have a keen interest in moving forward with the research as quickly as possible.

Fire ants are a frequent topic of conversation among the 100,000 plus family memberships that make-up the Oklahoma Farmers Union. Our membership is comprised of agriculture producers, rural neighbors and urban cousins—if you will. We represent this membership in three areas of legislative activity, cooperative development and educational opportunity as well as provide property and casualty and life insurance services to our membership. We are also the driving force to ensure that fire ant research is included in our national organization policy. And, we have organized an educational session for Congressman, staff and other key people on Capitol Hill with ARS presenting a fire ant research update.

Our membership is very interested in this issue and as soon as the warmth returns to the state in the next few weeks the calls will start and our membership will want to know what we are doing about controlling the fire ant. I am always pleased to let them know the progress that is being made with ARS in cooperation with the land grant universities. But, we must do more and the only way to do that is with additional resources.

While fire ants have been around for decades as a result of importation into Alabama from South America, this non-native pest has spread further and caused far more destructive damage than ever envisioned. Just a few decades ago, it was never anticipated that these pests would expand so far north and encompass so many states and such a great population. Yet, today there are no signs of any slow-down and the impacted constituencies continue to grow. The red imported fire ant now infests and requires APHIS quarantine in over 321 million acres in 13 states and Puerto Rico. And, the counties and states continue to be added. Since the first of the year additional counties in Tennessee have been added with some counties revised to indicate complete infestation. The total annual fire ant losses to households, business, schools, government and military are estimated at \$6 billion. Total fire ant losses to agriculture alone are estimated at almost \$900 million annually. If we were to treat with conventional chemicals all infested land in the U.S., the cost would be between \$6 billion to \$12 billion per year.

My interest in fire ants first came in 1985 when the imported red fire ants first crossed the border in Southeastern Oklahoma. As a U.S. House of Representatives Associate Appropriations Staff member for the House Agriculture and Rural Development Subcommittee, I drafted questions asked of ARS as to the status of research regarding the control or eradication of fire ants as a few constituents began to call from the district.

In recent years, it has become much more personal now that imported red fire ants has spread to the mid-south central area of the state and to my farm and home. Our agriculture operation is split with part being in a quarantined county and part in a non-quarantined county. By the most stringent interpretation of the law, I cannot feed cattle in a non-quarantined county with hay produced in a quarantined county even though the pasture may be just across the road. The fire ant infestations have resulted in an economic impact on us as well because it impacts where we can sell the hay.

And, equally important is our quality of life. I have two young daughters—Courtney is 7 years old and Sarah is 2 years and they both love playing outside but it is different today than when I grew up. Today we must watch for the new danger of fire ants whether recreation or work is involved.

With the increased activity in my area my interest gained in the issue and just a few years ago I made contact with the Gainesville fire ant research team presenting at the Southern Legislative Conference in Oklahoma City, a conference for state legislators across the south. From that initial meeting, we worked together with a variety of state cooperators including Oklahoma, Texas, South Carolina and

Alabama to create a national strategy for dealing with fire ants. While many research components existed, a comprehensive national focus and strategy did not. That plan has applied the tools and the science that these extremely talented people had been working so diligently on in recent years

Recently, I participated in the USDA-ARS National Fire Ant Program Review in New Orleans which are held every five years with stakeholders. I am excited about the direction taken by ARS with fire ant work. While not totally discounting chemicals, the scope is to use all tools at their disposal to combat the enemy. Non-native bio-controls such as phorid flies, existing bio-controls such as fire ant pathogens within fire ant populations, native ant species and chemical bait applications are all part of the integrated approach. We must find a means to reduce the expense to producers when treating for fire ants. Past history has shown that a chemical application approach alone isn't economically feasible nor responsible for the impact on the environment unless we do find the magic formula that will not impact the environment and be cost efficient. The research represents efforts to provide self-sustaining, limited or non-pesticidal, biologically based control tactics for a serious medical, veterinary, and agricultural pest, which would be safe and effective in urban, agricultural and natural ecosystems.

With success in the laboratory and small sites around Florida, the research has expanded to cooperators across the south. As a result of the success, mass rearing facilities for the phorid flies are coming on-line much like the mass rearing done with the successful screwworm program. In Oklahoma, considered the northern reach of the experiment process, we are encouraged that we have seen multiple generations of parasitic phorid flies in the field and we are anxious to see if they survived the winter.

The research being conducted in this area speaks to the confidence that colleagues of the scientists have in them and as a result this program is one of a handful of initiatives to receive additional funds based on the peer review recommendation process. The Area-Wide Suppression of Fire Ant Populations in Pastures is expected to run 4-5 years. This area wide management project uses permanently established bio-control agents and reduced chemical pesticide applications to maintain the fire ant population below economic damage thresholds. Specific objectives are to: Release and spread natural enemies for fire ants—decapitating flies and *Thelohania* fire ant disease; Area wide reduction of fire ant populations by 80 percent using natural enemies; Save at least \$5 billion a year in cost of fire ant control and damage for agricultural producers, businesses, homeowners, government and military; Reduce reliance on repeated applications of insecticide for fire ant control; and Restore ecological balance in the natural environment. This project aims to demonstrate and transfer to the public, management strategies for the imported fire ant. If successful, this will return money to my pocket book and impact my families' quality of life.

An area not yet fully tapped in research of the control of fire ants is to identify viruses that can be used in the weapons of war against this enemy. Hopefully, funds can be found to bring on a molecular biologist to the team to further target this area.

I commend the Congress for providing additional funds for fire ants to the Biological Control of Pests Research Unit in Stoneville, Mississippi. These funds will greatly assist in the mass rearing of phorid flies that are showing great hope as one means leading to helping in the control process. However, the location charged with the overall mission of fire ant research has not seen a congressional increase in 30 years for this effort. Our request is that you increase the research base of the Imported Fire Ant Unit at the Center for Medical, Agricultural & Veterinary Entomology in Gainesville, Florida by a total of \$800,000.

The available base for this research mission has actually been dropping steadily and we are in a position today where the critical mass of only a few experienced scientist' remain at Gainesville. Investing in the basic applied research at this location is key to the success at all other work at ARS and land grant locations related to the issue. Let's not stop at this point. Biological methods for treatment of fire ants are working! While it is exciting that we are finally making more progress on fire ants in the last few years than we have for the entire time that fire ants has plagued this country—continued success requires one key ingredient—adequate funding.

We would strongly encourage you to provide the appropriate funding of \$2 million annually to Gainesville by adding \$800,000 to the ARS budget base for such a nationally biologically-based integrated management strategy that includes a partnership of both USDA-ARS, state land-grant universities, state legislatures and the private sector.

In conclusion, I appreciate the opportunity to submit testimony on behalf of the grassroots agriculture producers across the south that struggle each day to make a viable living and home for their families. Thank you

PREPARED STATEMENT OF THE ORGANIZATION FOR THE PROMOTION AND
ADVANCEMENT OF SMALL TELECOMMUNICATIONS COMPANIES

SUMMARY OF REQUEST

The Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO) seeks the Subcommittee's support for fiscal year 2004 loan levels for the telecommunications loans program and Rural Telephone Bank (RTB) program administered by the Rural Utilities Service (RUS) in the following amounts:

[In millions of dollars]

5 percent hardship loans	145
Treasury rate loans	250
Guaranteed loans	100
RTB loans	175

In addition, OPASTCO requests the following action by the Subcommittee: (1) a prohibition on the transfer of unobligated RTB funds to the general fund of the Treasury and a requirement that interest be paid on these funds; (2) funding of the distance learning, telemedicine, and broadband grant and loan programs at sufficient levels; and (3) removal of the prohibition on rural communities located in standard metropolitan statistical areas from participating in the broadband loan program.

GENERAL

OPASTCO is a national trade association of approximately 500 small telecommunications carriers serving primarily rural areas of the United States. Its members, which include both commercial companies and cooperatives, together serve over 2.6 million customers in 42 states. Approximately half of OPASTCO's members are RUS or RTB borrowers.

Perhaps at no time since the inception of the RUS (formerly the REA) has the telecommunications loans and RTB programs been so vital to the future of rural America. The telecommunications industry is at a crossroads, both in terms of technology and public policy. Rapid advances in telecommunications technology in recent years have already begun to deliver on the promise of a new "information age." The Federal Communications Commission's (FCC) ongoing implementation of the landmark Telecommunications Act of 1996, as well as modernization resulting from prior statutory changes to RUS's lending program, will expedite this transformation. In addition, both Federal and State policymakers have made deployment of advanced telecommunications services a top priority. However, without continued support of the telecommunications loans and RTB programs, rural telephone companies will be hard pressed to build the infrastructure necessary to bring their communities into this new age, creating a bifurcated society of information "haves" and "have-nots."

Contrary to the belief of some critics, RUS's job is not finished. Actually, in a sense, it has just begun. We have entered a time when advanced services and technology—such as broadband fiber optics, high-speed packet and digital switching equipment, and digital subscriber line technology—are expected by customers in all areas of the country, both urban and rural. Unfortunately, the inherently higher costs of upgrading the rural wireline network, both for voice and data communications, has not abated.

Rural telecommunications continues to be more capital intensive and involves fewer paying customers than its urban counterpart. Nationally, the average population density in areas served by rural carriers is only about 13 persons per square mile. This compares to a national average population density of 105 persons per square mile in areas served by non-rural carriers. The FCC's February 2002 report on the deployment of advanced telecommunications capability noted that a positive correlation persists between population density and the presence of subscribers to high-speed services. Indeed, the report stated that there are high-speed subscribers in 97 percent of the most densely populated zip codes but in only 49 percent of the zip codes with the lowest population densities. In order for rural telephone compa-

nies to modernize their networks and provide consumers with advanced services at reasonable rates, they must have access to reliable low-cost financing.

The relative isolation of rural areas increases the value of telecommunications services for these citizens. Telecommunications enables applications such as high-speed Internet connectivity, distance learning, and telemedicine that can alleviate or eliminate some rural disadvantages. A modern telecommunications infrastructure can also make rural areas attractive for some businesses and result in revitalization of the rural economy. For example, businesses such as telemarketing and tourism can thrive in rural areas, and telecommuting can become a realistic employment option.

While it has been said many times before, it bears repeating that RUS's telecommunications loans and RTB programs are not grant programs. The funds loaned by RUS are used to leverage substantial private capital, creating public/private partnerships. For a very small cost, the government is encouraging tremendous amounts of private investment in rural telecommunications infrastructure.

Most importantly, the programs are tremendously successful. Borrowers actually build the infrastructure and the government is reimbursed with interest. There has never been a default in the history of the telecommunications lending programs.

THE TELECOMMUNICATIONS ACT OF 1996 HAS HEIGHTENED THE NEED FOR THE RUS AND RTB LOAN PROGRAMS

The FCC's implementation of the Telecommunications Act of 1996 will only increase rural telecommunications carriers' need for RUS assistance in the future. The forward-looking Act defines universal service as an evolving level of telecommunications services that the FCC must establish periodically, taking into account advances in telecommunications and information technologies and services. The FCC is currently seeking comment on the recommended decision of the Federal-State Joint Board on Universal Service regarding the list of services supported by the high-cost universal service program. RUS has an essential role to play in the implementation of the law, as it will compliment support mechanisms established by the FCC, thus enabling rural America to move closer to achieving the Federally mandated goal of rural/urban service and rate comparability.

A \$175 MILLION LOAN LEVEL SHOULD BE MAINTAINED FOR THE RTB PROGRAM

As previously discussed, the RTB's mission has not been completed as rural carriers continue to rely on this important source of supplemental financing in order to provide their communities with access to the next generation of telecommunications services. Pursuant to Section 305(d)(2)(B) of the Rural Electrification (RE) Act, Treasury rate loans are to be made concurrently with RTB loans. Thus, if lending is not authorized for the RTB, the overall telecommunications loans program will be significantly reduced, to the detriment of rural Americans. The ongoing need for the RTB program makes it essential to maintain a \$175 million loan level for fiscal year 2004.

THE PROHIBITION ON THE TRANSFER OF ANY UNOBLIGATED BALANCE OF THE RTB LIQUIDATING ACCOUNT TO THE TREASURY AND REQUIRING THE PAYMENT OF INTEREST ON THESE FUNDS SHOULD BE CONTINUED

OPASTCO urges the Subcommittee to reinstate language prohibiting the transfer of any unobligated balance of the RTB liquidating account to the Treasury or the Federal Financing Bank which is in excess of current requirements and requiring the payment of interest on these funds. As a condition of borrowing, the statutory language establishing the RT13 requires telephone companies to purchase Class B stock in the bank. Borrowers may convert Class B stock into Class C stock on an annual basis up to the principal amount repaid. Thus, all current and former borrowers maintain an ownership interest in the RTB. As with stockholders of any concern, these owners have rights which may not be abrogated. The Subcommittee's inclusion of the aforementioned language into the fiscal year 2004 appropriations bill will ensure that RT13 borrowers are not stripped of the value of this required investment.

THE DISTANCE LEARNING, TELEMEDICINE, AND BROADBAND PROGRAMS SHOULD CONTINUE TO BE FUNDED AT ADEQUATE LEVELS

In addition to RUS's telecommunications loans and RTB programs, OPASTCO supports adequate funding of the distance learning, telemedicine, and broadband grant and loan programs. Through distance learning, rural students gain access to advanced classes which will help them prepare for college and jobs of the future.

Telemedicine provides rural residents with access to quality health care services without traveling great distances to urban hospitals. In addition, the broadband program will allow more rural communities to gain high-speed access to the Internet and receive other advanced services. In light of the Telecommunications Act's purpose of encouraging deployment of advanced technologies and services to all Americans—including schools and health care providers—sufficient targeted funding for these purposes is essential in fiscal year 2004.

THE PROHIBITION ON RURAL COMMUNITIES LOCATED IN STANDARD METROPOLITAN STATISTICAL AREAS FROM PARTICIPATING IN THE BROADBAND LOAN PROGRAM SHOULD BE REMOVED

Last year, Congress passed the Farm Security and Rural Investment Act of 2002. That Act added new Title VI to the RE Act, which established a broadband loan program. Under Section 601(b)(2) of Title VI, in order for a rural community to be eligible for the program, the community cannot: (a) have more than 20,000 inhabitants, and (b) be located in an area designated as a standard metropolitan statistical area (SMSA). Through these criteria, it is reasonable to assume that Congress was attempting to distinguish between urban and rural areas and to exclude those areas that are obviously urban. Unfortunately, the second criterion that excludes areas located within SMSAs would encompass many rural communities with less than 20,000 inhabitants—perhaps more than 40 percent of such areas. Certainly, Congress did not intend to automatically exclude so many small communities of America from a program designed to facilitate deployment of broadband technology in rural areas. In addition, the Bureau of the Census has not recognized the SMSA designation since before 1990, making it practically impossible to interpret this exclusionary provision. Therefore, OPASTCO urges the Subcommittee to remove this criterion so that more rural Americans can reap the benefits of broadband technology.

CONCLUSION

The development of the nationwide telecommunications network into an information superhighway, as envisioned by policymakers, will help rural America survive and prosper in any market—whether local, regional, national, or global. However, without the availability of low-cost RUS funds, building the information superhighway in communities that are isolated and thinly populated will be untenable. By supporting the RUS telecommunications programs at the requested levels, the Subcommittee will be making a significant contribution to the future of rural America.

PREPARED STATEMENT OF THE PARTNERSHIP FOR FOOD SAFETY EDUCATION

As your Subcommittee prepares for its fiscal year 2004 appropriations process, we are writing to request your help in advancing a funding item in which all of us have a strong interest—helping ensure that Americans are educated about and protected from foodborne illnesses and diseases. In order to develop an appropriate food safety education program that will benefit consumers and prepare them for a potential bioterrorist attack, as well as protect themselves from the threats posed by common foodborne pathogens, the Partnership for Food Safety Education (“Partnership”) requests \$1.3 million in new funding within the Food and Drug Administration account of the fiscal year 2004 Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Bill.

As you well know, foodborne illness is a serious public health problem. The Partnership, a non-profit, public-private partnership composed of consumer groups and national food industries, in liaison with Federal agencies, will work to establish an educational program that will provide current information to educate individuals about food safety issues. Although provisions are in place to protect our food supply from acts of terror, there is not a communications program available to educate the American public on how to be prepared in the event of a bioterrorist attack. By coordinating the efforts of the public and private sectors, the Partnership can develop and manage a food safety education program to assist in this important task.

The Partnership is an ideal model of how consumer groups, industry, and government agencies can work together for the good of the American people. Since its formation in 1997, the Partnership has demonstrated its ability to educate consumers about proper safe food handling. Based on this experience and using its existing structure, the Partnership can develop research-based consumer messages to inform

and educate the American people, through their local governments, regarding potential threats to the food supply.

Although most consumers are concerned about food safety, many Americans today have inadequate knowledge about basic sanitation and food handling steps that can greatly reduce the risk of foodborne illness. To address this knowledge gap, in October 1997, the Partnership launched a nationwide consumer education campaign called Fight BAC!® (bacteria). This campaign has been an enormous success, with the Partnership coordinating thousands of community organizations and retail centers to educate consumers. These campaigns have allowed the Partnership to educate over one quarter of the U.S. population in an effort to reduce the incidents of foodborne illnesses in our country, the requested funding, the Partnership will be able to further protect the American people from foodborne illness and disease, regardless of its source.

As always, we are grateful for your interest in promoting food safety. Please do not hesitate to contact us if you have any questions regarding this request for funding under the fiscal year 2004 Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Bill.

PREPARED STATEMENT OF PEOPLE FOR THE ETHICAL TREATMENT OF ANIMALS (PETA)

People for the Ethical Treatment of Animals (PETA) is the world's largest animal rights organization, with more than 750,000 members and supporters. We greatly appreciate this opportunity to submit testimony regarding the fiscal year 2004 appropriations for the Food and Drug Administration (FDA). Our testimony will focus on chemical tests allowed or required by the FDA to be conducted on animals.

As you may know, the FDA requires substances such as drugs, medicated skin creams, and others to be tested for their rates of skin absorption, skin irritation, phototoxicity, and/or pyrogenicity (potential to cause fever). Traditionally, these tests involve smearing chemicals on animals' shaved backs (often causing painful lesions), or injecting a substance into an animal's bloodstream (often causing breathing problems, organ failure, or fatal shock).

Fortunately, there are non-animal test methods that are just as effective, if not more so. Various tissue-based methods have been accepted in Europe as total replacements for skin absorption studies in living animals. Government regulators in Canada accept the use of a skin-patch test in human volunteers as a replacement for animal-based skin irritation studies (for non-corrosive substances free of other harmful properties). The Organization for Economic Cooperation and Development (OECD), of which the U.S. is a key member, has accepted a cell culture test for light-induced ("photo") toxicity, and a test using donated human blood has been validated in Europe as a total replacement for animal-based fever, or pyrogenicity, studies.

However, the FDA continues to require the use of animals for all four of these endpoints, despite the availability of non-animal tests.

We respectfully request that the subcommittee include report language ensuring that no funds for the FDA (including salaries or expenses of personnel) may be used for the purpose of assessing data from an animal-based test method when a non-animal test for the desired endpoint has been validated and/or accepted by the OECD or its member countries.

Animal tests cause immense suffering

Traditionally, the rate at which a chemical is able to penetrate the skin has been measured by shaving the backs of rats and smearing the substance on them for an exposure period of up to 24 hours. They are eventually killed, and their skin, blood, and excrement are analyzed. A similar method is used to test for skin irritation, except it usually done to rabbits, who are locked in full-body restraints. A test chemical is applied to their shaved backs, and the wound site is then covered with a gauze patch for normally four hours. A chemical is considered to be an irritant if it causes reversible skin lesions or other clinical signs, which heal partially or totally by the end of a 14-day period. Phototoxic chemicals cause inflammation of the skin when applied to skin that is subsequently exposed to sunlight or ultraviolet radiation. To test for phototoxicity, a similar body-restraint, shaved-back procedure is used, but this time it is mice and guinea pigs who are the subjects, and they are kept restrained for several days while enduring the pain, swelling, and sores that develop on their skin. Pyrogenicity is the potential of a substance to cause fever and inflammation. Once again, the traditional pyrogenicity test method involves locking rabbits in full-body restraints. After having a test substance injected into their bloodstream, the rabbits can suffer fever, breathing problems, circulatory and organ

failure, and fatal shock. Animals used in the above tests are not given any painkillers.

These tests have never been proven to be relevant to humans

None of the animal tests currently used for skin absorption, irritation, phototoxicity, or pyrogenicity has ever been scientifically validated for its reliability or relevance to human health effects. Animal studies yield highly variable data and are often poor predictors of human reactions. For example, one study, which compared the results of rabbit skin irritation tests with real-world human exposure information for 65 chemicals, found that the animal test was wrong nearly half (45 percent) of the time in its prediction of a chemical's skin damaging potential (Food & Chemical Toxicology, Vol. 40, pp. 573-92, 2002). For phototoxicity, the animal-based tests have never even been codified into a standardized test guideline, meaning that the protocols can vary widely from laboratory to laboratory, rendering the results virtually uninterpretable. There are well-documented drawbacks to the rabbit pyrogen test, including marked differences in sensitivity between species and strains of rabbits.

Validated methods exist which do not harm animals

Fortunately, test methods have been found to accurately predict skin absorption, irritation, phototoxicity and pyrogenicity without harming animals.

The absorption rate of a chemical through the skin can be measured using skin from a variety of sources (e.g. human cadavers). The reliability and relevance of these in vitro methods have been thoroughly established through a number of international expert reviews, and have been codified and accepted as an official test guideline of the OECD.

Instead of animal-based skin irritation studies, government regulators in Canada accept the use of a skin-patch test using human volunteers. (The chemical is first determined to be non-corrosive and free of other harmful properties before being considered for human studies.)

A cell culture test has been validated in Europe and accepted at the international level as a total replacement for animal-based phototoxicity studies. The 3T3 Neutral Red Uptake Phototoxicity Test involves exposing cells to a test chemical in the presence and absence of light, and cell viability is measured by the degree to which they are able to absorb the dye, neutral red. This method is the only test for phototoxicity that has been accepted as an official test guideline of the OECD, yet the FDA continues to use thousands of animals to test for phototoxicity.

Using human blood donated by healthy volunteers, an in vitro pyrogen test has been validated in Europe as a total replacement for animal-based pyrogenicity studies.

Non-animal test methods can save time, money, and yield more useful results

Tissue culture methods to test for skin absorption allow researchers to study a broader range of doses, including those at the actual level of exposure that occurs in the occupational or ambient environment, which is not possible with the animal-based method.

Many non-animal methods can yield results with greater sensitivity and at a lower cost than animal-based methods. Protocols are more easily standardized, and the variations among strains and species are no longer a factor.

The FDA continues to require the use of animals

Despite the ethical, financial, efficiency, and scientific advantages of the above non-animal methods, the FDA continues to require and accept the unnecessary use of animals in tests for skin absorption, irritation, phototoxicity, and pyrogenicity.

Summary

Non-animal methods are available now to replace animal-based methods to test substances for skin absorption, irritation, phototoxicity, and pyrogenicity. There simply is no excuse for continuing to cause animals to suffer when non-animal tests are available.

We therefore hereby request, on behalf of all Americans who care about the suffering of animals in toxicity tests, that you please include language in the report accompanying the fiscal year 2004 Agriculture, Rural Development, Food and Drug Administration and Related Agencies bill stating that no funds for the FDA (including salaries or expenses of personnel) may be used for the purpose of assessing data from an animal-based test method when a non-animal test for the desired endpoint has been validated and/or accepted by the OECD or its member countries.

Thank you for your consideration of our request.

PREPARED STATEMENT OF THE RED RIVER VALLEY ASSOCIATION

Mr. Chairman and members of the Committee, I am Wayne Dowd, and I am pleased to represent the Red River Valley Association as its President. Our organization was founded in 1925 with the express purpose of uniting the citizens of Arkansas, Louisiana, Oklahoma and Texas to develop the land and water resources of the Red River Basin.

As an organization that knows the value of our precious water resources we support the most beneficial water and land conservation programs administered through the Natural Resources Conservation Service (NRCS). We understand that attention and resources must be given to our national security; however, we cannot sacrifice what has been accomplished on our nation's lands. NRCS programs are a model of how conservation programs should be administered and our testimony will address the needs of the nation as well as our region.

The President's fiscal year 2004 budget for NRCS indicates a decrease of \$142 million from fiscal year 2003. In reality NRCS is taking a major decrease in program funding and staff years. This reduction of direct funding is compounded by inadequate Technical Assistance (TA) funding for mandatory support to CCC Farm Bill programs. The fiscal year 2004 budget reflects a serious shortfall in services for landowner assistance that will not be available in fiscal year 2004. This is also reflected in the fact that NRCS manpower for fiscal year 2004 would have to decrease by 1,400 staff years. This is unacceptable.

This means that NRCS assistance to landowners will not be adequately funded, to the detriment of the agency and our natural resources. We would like to address several of the programs administered by NRCS. Failure to adequately fund these initiatives would reduce assistance to those who want it and the resources that need protection.

Conservation Operations.—This has been in steady decline, in real dollars, over the past several years. It has occurred partly as a result of funds being reduced from Conservation Operations to balance increases in technical assistance for mandatory conservation financial assistance programs.

The President's budget included \$774 million, which is a decrease of \$51 million from fiscal year 2003.

This reflects a decrease in "discretionary" Technical Assistance, which is compounded by inadequate funding of TA for mandatory Farm Bill programs. The TA shortfall, for mandatory programs, must come out of this account leaving little funds for discretionary use. This is far short of what is required to serve the needs of our nation's private lands. We request a total of \$800 million be appropriated For Conservation Technical Assistance, increasing Conservation Operations to \$975,000,000.

Conservation Technical Assistance is the foundation of technical support and a sound, scientific delivery system for voluntary conservation to the private users and owners of lands in the United States. It is imperative that we provide assistance to all "working lands" not just those fortunate few who are able to get enrolled in programs. Working lands are not just crops and pasture (commodity staples) but includes forests, wildlife habitat and coastal marshes. The problem is that NRCS personnel funded from "mandatory programs" can only provide technical assistance to those enrolled in these programs, leaving the majority of the agricultural community without technical assistance. We recommend that this funding for technical assistance be placed in "Conservation Technical Assistance", and allow NRCS to provide assistance to everyone.

We do not support the use of third party vendors for technical assistance as a replacement of career NRCS public servants rather than "in addition to". We would then have to address the question of quality assurance and administration for these programs. Why establish a new process that will ultimately cost more than using the in-house expertise that now exists and has proven to be successful? We believe third party vendors can be made available only after NRCS staffing is brought up to levels commensurate with the increase in workload caused by the Farm Bill.

Watershed and Flood Prevention Operations (Public Law 566 & 534).—We are greatly disappointed that the President's Budget provided only \$45,000,000 for watershed operations. There is no doubt that this is a Federal responsibility, as well as for the local sponsor. We ask our legislators to support the local sponsors in this national issue. This funding level is too low to support a national program, as important as this one.

We are very appreciative for the funding level of \$110 million enacted in the fiscal year 2003 appropriations bill. It is reassuring to know that both Houses of Congress realize the importance of this program to the agricultural community.

There are many new projects, which are awaiting funds for construction under this program. We strongly recommend that a funding level of \$200 million be appro-

appropriated for Watershed Operations, Public Law 534 (\$20 million) and Public Law 566 (\$180 million) programs.

Walnut Bayou Irrigation Project, AR.—This project received \$300,000 in the fiscal year 2003 appropriations. Plans and specifications have been completed and it is ready to proceed into the construction phase. An irrigation district has been formed and they are prepared to generate the income for the O&M required to support this project. We request that \$4,000,000 be appropriated for this specific project in fiscal year 2004.

Red Bayou Irrigation Project, LA.—The plans and specifications will be completed in fiscal year 2003 making this project ready for construction in fiscal year 2004. An irrigation district has been formed and prepared to collect funds to support the O&M for this proposed system. We request that \$2,500,000 be specifically appropriated for this project in fiscal year 2004.

The Red River has proven, through studies and existing irrigation, to be a great water source for supplemental irrigation. The two projects mentioned above, will use existing, natural bayous to deliver water for landowners to draw from. The majority of expense will be for the pump system to take water from the Red River to the bayous. This project will provide the ability to move from ground water dependency to surface water, an effort encouraged throughout the nation. Both will enhance the environmental quality and economic vitality of the small communities adjacent to the projects.

Watershed Rehabilitation.—More than 10,400 individual watershed structures have been installed nationally. They have contributed greatly to conservation, environmental protection and enhancement, economic development and the social well being of our communities. More than half of these structures are over 30 years old and several hundred are approaching their 50-year life expectancy. Today you hear a lot about the watershed approach to resource management. These programs offer a complete watershed management approach and should continue for the following reasons:

- They protect more people and communities from flooding than when they were first constructed.
- Their objectives and functions sustain our nation's natural resources for future operations.
- They are required to have local partners and be cost shared.
- The communities and NRCS share initiatives and decisions.
- They follow NEPA guidelines and enhance the environment.
- They often address the need of low income and minority communities.
- The benefit to cost ratio for this program has been evaluated to be 2.2:1.

What other Federal program can claim such success?

There is no questioning the value of this program. The cost of losing this infrastructure exceeds the cost to reinvest in our existing watersheds. Without repairing and upgrading the safety of existing structures, we miss the opportunity to keep our communities alive and prosperous. It would be irresponsible to dismantle a program that has demonstrated such great return and is supported by our citizens. We cannot wait for a catastrophe to occur where life is lost to decide to take on this important work.

A 1999 survey, conducted in 22 states, showed that 2,200 structures are in need of immediate rehabilitation at an estimated cost of \$543 million. The President's budget neglects the safety and well being of our community needs by placing only \$10 million for this program. This is drastically lower than the levels authorized in the 2002 Farm Bill. We request that \$55 million be appropriated to provide financial and technical assistance to those watershed projects where sponsors are prepared to commence rehabilitation measures, as directed in the 2002 Farm Bill.

Watershed Survey and Planning.—In fiscal year 2003 \$11.2 million was appropriated to support this extremely important community program. NRCS has become a facilitator for the different community interest groups, state and Federal agencies. In our states such studies are helping identify resource needs and solutions where populations are encroaching into rural areas. The Administration decided to fund this program with only \$5 million. We strongly disagree with this low level and ask Congress to fund this important program at the appropriate level.

As our municipalities expand, the water resource issue tends to be neglected until a serious problem occurs. Proper planning and cooperative efforts can prevent problems and insure that water resource issues are addressed. We request this program be funded at a level of \$40 million.

Maniece Bayou Irrigation Project, AR.—This is a project in its initial stage of planning. An irrigation district is being formed to be the local sponsor. This project transfers water from the Red River into Maniece Bayou where land-

owners would draw water for supplemental irrigation. We request that \$200,000 be appropriated to initiate the plans and specifications.

—*Lower Cane River Irrigation Project, LA.*—The transfer of water from the Red River to the Lower Cane River will provide opportunities for irrigation and economic development. Funds are needed to initiate a Cooperative River Basin Study. We request that \$300,000 be appropriated for this study.

Emergency Watershed Protection Program.—This program has traditionally been funded through Emergency Supplemental Appropriations and administered by NRCS through its Watershed and Flood Prevention Operations. It has traditionally been a zero budget line item, because it relies on a supplemental appropriation.

As our populations expand and shift, land use changes and intensifies. Impacts of severe weather events are becoming more intense on our communities, rivers and related eco-systems. These major weather events will have an adverse impact requiring urgent NRCS assistance. It is important that NRCS is prepared for a rapid response, not waiting for legislative action to provide funds for emergency work. With some funds available, they would be able respond immediately to an emergency when it occurs and not have to wait for an emergency supplemental to be passed.

We request that \$20 million be appropriated as “seed” funding to allow NRCS to react to an emergency while the full need is determined and added through a supplemental appropriation.

Resource Conservation and Development (RC&D).—This has always been a well-received program by the Administration. Their budget proposal of \$51 million is adequate to accomplish the needs of the Nation and we support this level of funding.

Mandatory Accounts (CCC) Technical Assistance (TA).—Request for assistance through the CCC programs has been overwhelming. Requests far exceed the available funds and place an additional workload on NRCS’s delivery system. Adequate funding for TA must be provided to administer these programs. Historically 19 percent of total program cost has been required.

The mandatory CCC programs for fiscal year 2004 have been appropriated at a level of \$3.9 billion. Only \$432 million (11 percent) has been allocated in TA for NRCS. NRCS will have to fund this TA requirement at a level of \$741 million. The short fall will have to come from the Conservation Operation account, which is unacceptable. This leaves little funding for discretionary assistance to landowners. We request that CCC Program budget TA at \$741 million (19 percent) and funds NOT be taken from the CO account to administer this program as Congress saw fit to do in the 2003 Omnibus Bill.

Over 70 percent of our land is privately owned. This is important in order to understand the need for NRCS programs and technical assistance. Their presence is vital to ensuring sound technical standards are met in conservation. These programs not only address agricultural production, but sound natural resource management. Without these programs and NRCS properly staffed to implement them, many private landowners will not be served adequately to apply conservation measures needed to sustain our natural resources for future generations.

There have been new clean water initiatives, but why do we ignore the agency that has a proven record for implementing watershed conservation programs? Congress must decide; will NRCS continue to provide the leadership within our communities to build upon the partnerships already established? It is up to Congress to insure NRCS is properly funded and staffed to provide the needed assistance to our taxpayers for conservation programs.

All these programs apply to the citizens in the Red River Valley and their future is our concern. The RRVA is dedicated to work toward the programs that will benefit our citizens and provide for high quality of life standards. We therefore request that you appropriate the requested funding within these individual programs, to insure our nation’s conservation needs are met.

I thank you for the opportunity to present this testimony on behalf of the members of the Red River Valley Association and we pledge our support to assist you in the appropriation process

Grant Disclosure.—The Red River Valley Association has not received any Federal grant, sub-grant or contract during the current fiscal year or either of the two previous fiscal years.

RED RIVER VALLEY ASSOCIATION FISCAL YEAR 2004 APPROPRIATIONS—NATURAL RESOURCES
CONSERVATION SERVICE (NRCS)

[In thousands of dollars]

Discretionary accounts	Fiscal year 2003	RRVA request fiscal year 2004	President's budget fiscal year 2004
Conservation Operations	825,004	930,000	1 774,000
Watershed Protection & Flood Prevention Operations	110,000	200,000	45,000
Walnut Bayou Irrigation Project, AR	300	4,000	.....
Red Bayou Irrigation Project, LA	0	2,500	.....
Watershed Rehabilitation	30,000	55,000	10,000
Watershed Survey & Planning	11,197	40,000	5,000
Maniece Bayou Irrigation Project, AR	0	200	.....
Lower Cane River Irrigation Project, LA	New	300	.....
Resource Conservation & Development(RC&D)	51,000	51,000	51,000
Emergency Watershed Protection	0	20,000	0

Note 1: This funding level would reduce NRCS manpower by 1,400 FTE. There does not appear to be any correlation between workload and manpower.

Mandatory Accounts (CCC)—\$3.9 Billion.—This fund is for Technical Assistance (TA) and Financial Assistance (FA) to support the following CCC, Farm Bill programs:

- Environmental Quality Incentives Program—EQIP
- Ground and Surface Water Conservation—GSW
- Farmland Protection Program—FPP
- Wildlife Habitat Incentives Program—WHIP
- Wetlands Reserve Program—WRP
- Grassland Reserve Program—GRP
- Conservation Securities Program—CSP
- Klamath Basin Water Conservation

The President's Budget has provided \$432,000,000, which is less than 11 percent of the \$3.9 billion allocated for these programs in fiscal year 2004. The historical TA that has been required is 19 percent, which is a TA requirement of \$741,000,000. NRCS is mandated to support these programs, which means they will have to fund them from their Conservation Operations account. This leaves a great shortfall for any assistance to anyone NOT enrolled in a program.

It is imperative that the TA for these mandatory programs be funded at the required TA levels.

PREPARED STATEMENT OF THE SEMINOLE TRIBE OF FLORIDA

The Seminole Tribe of Florida is pleased to submit this statement regarding the fiscal year 2004 budget for the Natural Resources Conservation Service (NRCS) in the Department of Agriculture.

The Seminole Tribe of Florida asks that Congress direct the Natural Resources Conservation Service (NRCS) to begin final design and planning activities for the Big Cypress Water Conservation Plan implementation on the west side of the Big Cypress Reservation. Because we understand that this committee does not earmark funds in the account for Conservation Programs, Natural Resources Conservation Service's (NRCS) Watershed Surveys and Planning (06 account) that funds planning activities for the Small Watershed Program, as authorized by Public Law 83-566, we request that the following language be included in the committee's report: "The Committee expects the Department to provide financial and/or technical assistance for the Big Cypress Reservation Water Conservation project (FL) as it contributes to Everglades restoration." The Tribe has worked with the NRCS in Florida for 7 years to develop this small watershed project as a part of the Tribe's overall Everglades Restoration Initiative. The results of this small watershed project will complement the joint effort of the Tribe and the Corps of Engineers to complete the Initiative.

The Seminole Tribe of Florida

The Seminole Tribe lives in the Florida Everglades. The Big Cypress Reservation is located in the western basins, directly north of the Big Cypress National Preserve. The Everglades provide many Seminole Tribal members with their livelihood. Traditional Seminole cultural, religious, and recreational activities, as well as commercial endeavors, are dependent on a healthy Everglades ecosystem. In fact, the

Tribe's identity is so closely linked to the land that Tribal members believe that if the land dies, so will the Tribe.

During the Seminole Wars of the 19th Century, the Tribe found protection in the hostile Everglades. But for this harsh environment filled with sawgrass and alligators, the Seminole Tribe of Florida would not exist today. Once in the Everglades, Seminoles learned how to use the natural system for support without harm to the environment that sustained them. For example, the native dwelling, the chickee, is made of cypress logs and palmetto fronds and protects its inhabitants from the sun and rain, while allowing maximum circulation for cooling. When a chickee has outlived its useful life, the cypress and palmetto return to the earth to nourish the soil.

In response to social challenges within the Tribe, Tribal elders provided guidance. Tribal elders directed the Tribe's leadership to look to the land, for when the land was ill, the Tribe would soon be ill as well. When looking at the land, the leadership saw the Everglades in decline and recognized that the Tribe had to help mitigate the impacts of man on this natural system. At the same time, tribal members acknowledged that this land must sustain the Tribe and its culture. The clear message from the Tribal elders and the land called for a way of life to preserve the land and the Tribe. Tribal members must be able to work and sustain themselves. Tribal leadership needs to protect the land and the animals, while also protecting Tribal farmers and ranchers.

Recognizing the needs of the land and the people, the Tribe, along with its consultants, designed a plan to mitigate the harm to the land and water systems within the Reservation while ensuring a sustainable future for the Seminole Tribe of Florida. The restoration plan will allow Tribal members to continue their farming and ranching activities while improving water quality and restoring natural hydroperiod to large portions of the native lands on the Reservation and ultimately, positively effecting the Big Cypress National Preserve and Everglades National Park.

The Seminole Tribe's project addresses the environmental degradation wrought by decades of Federal flood control construction and polluted urban and other agricultural runoff. The interrupted sheet flow and hydroperiod have stressed native species and encouraged the spread of exotic species. Nutrient-laden runoff has supported the rapid spread of cattails, which choke out the periphyton algae mat and sawgrass necessary for the success of the wet/dry cycle that supports the wildlife of the Everglades.

The Seminole Tribe designed an Everglades Restoration project that reflects the need to live off of the land while minimizing impacts on the Everglades. The Seminole Tribe is committed to improving the water quality and flows on the Big Cypress Reservation. The Tribe already has committed significant resources to the design and construction of this project and to its water quality data collection and monitoring system. The Tribe is willing to continue its efforts and to commit more resources, for its cultural survival is at stake.

Small Watershed Project on Big Cypress

As a part of the Tribe's Everglades Restoration Initiative, the Tribe completed a water conservation plan for the design and construction of surface water management systems to remove phosphorus, convey and store irrigation water, improve flood control, and rehydrate the Big Cypress National Preserve. This water conservation plan has been permitted for construction under the Clean Water Act Section 404 program.

Through the Corps of Engineers (COE) critical project program authorized by the Water Resources Development Act of 1996, the Tribe is building part of that water conservation plan. The first phase of the critical project constructs a conveyance canal system to supplement and improve the existing system; this construction is nearly complete. The balance of the critical project will construct water storage and treatment areas on the east side of the Reservation.

Over the last 7 years, the Tribe has enjoyed the support of the Florida State Conservationist and the Florida staff of the NRCS in the development of a small watershed project to address some needs identified in the water conservation plan. While some preliminary planning has been completed, an existing funding commitment prevented commencement of the small watershed project. In fiscal year 2004, both the Tribe and the NRCS in Florida are prepared to begin planning of water storage and treatment areas on the west side of the Reservation. To do so, Congress must appropriate the initial funding.

While all the project component options have not been fully vetted, the cost estimates range from downward from \$34.6 million. This project is approved to operate with a 75 percent Federal and 25 percent Tribal cost share. The timing of the design and construction are dependent on the funding stream.

Conclusion

Everglades restoration is a well-recognized national priority. The Tribe's goal of sustainable agriculture is consistent with the goals of the NRCS and the restoration activities in South Florida. The NRCS's support of the Tribe's conservation measures in the past, along with the implementation of future programs, will make a significant impact on the Big Cypress Reservation and the South Florida Ecosystem.

Through its assistance to the Tribe, NRCS has provided valuable technical assistance to date. Beginning in fiscal year 1999, NRCS has provided programmatic support through EQIP and WRP, which is anticipated to continue. Additional programmatic assistance through the small watershed program will provide the needed design and construction to complete the water conservation plan. None of the joint objectives of the Tribe and the NRCS can be accomplished, however, without sufficient funding.

The Tribe has demonstrated its economic commitment to the Everglades Restoration effort; the Tribe is asking the Federal Government to also participate in that effort. This effort benefits not just the Seminole Tribe, but all Floridians who depend on a reliable supply of clean, fresh water flowing out of the Everglades, and all Americans whose lives are enriched by this unique national treasure.

Thank you for the opportunity to present the request of the Seminole Tribe of Florida. The Tribe will provide additional information upon request.

PREPARED STATEMENT OF THE SOCIETY FOR ANIMAL PROTECTIVE LEGISLATION

We appreciate the support this Subcommittee has provided to the Animal Care Program of APHIS and respectfully request that the current appropriations for enforcement of the Animal Welfare Act and Horse Protection Act be maintained for fiscal year 2004 to ensure that these laws passed by Congress are being carried out effectively.

\$15.2 Million for APHIS/Animal Care's Enforcement of the Animal Welfare Act

The Animal Welfare Act is the chief Federal law for the protection of animals. The USDA seeks compliance with its minimum standards for the care and treatment of animals during transportation and at the more than 10,000 sites of dealers, research, testing and teaching facilities, zoos, circuses, carriers (airlines, motor freight lines and other shipping businesses) and handlers (ground freight handlers).

Nearly half of the facilities that are visited are found to be noncompliant. Facilities with serious deficiencies require reinspections to ensure that corrective action is taken. Our review of inspection reports shows an inability of inspectors to make the needed reinspections; they are unable to reinspect because of a lack of sufficient funds.

In 1966 the Laboratory Animal Welfare Act (later renamed the Animal Welfare Act) was adopted in an effort to prevent the sale of lost or stolen pets into research. Nevertheless, this has continued to be a serious problem. In an attempt to address this problem, in the mid-1990s Animal Care instituted a policy of conducting quarterly inspections of random source dealers. Since stepping up its enforcement in this area (which has come at the expense of inspections conducted elsewhere), USDA has revoked 11 dealer licenses and imposed over \$500,000 in fines. The number of random source (USDA licensed Class B) dealers supplying dogs and cats to research has dropped from 104 to 23.

This example illustrates the value of frequent, unannounced inspections of licensees and registrants. Increasing the number of inspections will ensure effective compliance with the law.

The 1985 amendment to the AWA mandates at least one inspection per year of all registered research facilities. A vigorous inspection program is vital to maintaining public confidence in the quality of research and ensuring the humane treatment of research animals. With the need to evaluate performance, as well as engineering, standards, each inspection is extremely time-consuming and labor intensive.

AC will be able to continue its searches for unlicensed/unregistered facilities, an important effort because failure to obtain licensure or registration is a widespread problem with many entities purposefully evading AC and the requirements of the AWA. The area most frequently ignored for lack of sufficient funds has been inspection of airlines. Continued funding will permit AC to conduct an adequate number of inspections of airlines in an effort to protect against the injury, loss or death of animals being transported by air and to help meet the requirements of the recently adopted Federal Aviation Administration amendment for safe transport of animals by air.

Continued funding at the fiscal year 2003 level will permit AC to maintain its field force of 99 veterinary and lay inspectors. It is vital that the number of inspectors be maintained.

\$500 Thousand for APHIS/Animal Care's Enforcement of the Horse Protection Act

More than 30 years have passed since the Horse Protection Act was adopted by Congress, yet soring of Tennessee Walking Horses continues to be a widespread problem. Soring is defined by APHIS as "the application of any chemical or mechanical agent used on any limb of a horse or any practice inflicted upon the horse that can be expected to cause it physical pain or distress when moving." Horses are sored to produce an exaggerated gait.

The most effective methods of reducing the showing of horses who have been sored is to have Animal Care (AC) inspectors present at the shows and to increase the penalties assessed to violators of the law. AC has been restricted to attending only about 10 percent of horse shows because of shortage of funds. Unfortunately, the total of penalties assessed for violation of the law have dropped to a negligible amount. Unless 1. funding is provided to enable AC to attend more events and 2. increased penalties are assessed, the industry will continue to defy the law with impunity.

Lack of financial support has made it necessary for Animal Care to rely heavily on the industry to assume responsibility for enforcement of the law. This is the same industry that has turned a blind eye to compliance with the law since 1970! "Designated Qualified Persons" (DQPs) are the "inspectors" from industry who are supposed to assist AC in identifying sore horses and pursuing action against the individuals who are responsible. The history of the DQPs reveals their failure to achieve the level of enforcement of the unbiased, well-trained, professional inspectors who work for AC. Following is data for horses shown with pads on their front feet to accentuate their gait: in calendar year 2000 (the most recent year for which such information is available), the rate at which DQPs turned down these horses for soring was 2.4 percent. The turndown rate was 39.1 percent, when government inspectors were present to oversee the activities of the DQPs.

An appropriation of at least \$500,000 is essential to permit AC to maintain a modest level of compliance with the Horse Protection Act. Further, it is essential that penalties be increased and more widely assessed for violators.

Congress Needs to Provide Increased Oversight of Wildlife Services Operations and Research

Wildlife Services (WS) needs to utilize a variety of tools for management of wildlife under its purview. However, it is essential that these tools are effective and publicly acceptable.

WS needs to phase out of use of steel jaw leghold traps. Leghold traps slam shut with bone-crushing force on the limbs of their victims, tearing ligaments and tendons, severing toes and causing excruciating pain. These traps, opposed by the vast majority of Americans, have been condemned as "inhumane" by the American Veterinary Medical Association, the American Animal Hospital Association and the World Veterinary Association.

The European Union (E.U.) banned use of the barbaric steel jaw leghold trap so that 88 countries now prohibit their use. Nobly, the EU went a step further; the EU law also prohibits import of furs from countries that use steel jaw traps. On December 11, 1997, in response to this European law, the U.S. Trade Representative reached an "Understanding" with the EU in which the United States agreed to end use of "all jaw-type leghold restraining traps" by 2002 on muskrat and nutria and to phase out use of "conventional steel-jawed leghold restraining traps" by 2004. WS has the responsibility of complying with this U.S. obligation by ending its use of these barbaric devices.

WS should pursue no further testing of leghold traps as this would be an extremely wasteful and cruel use of taxpayer money. Previously, funds designated for trap research were merely passed on to a nongovernmental organization to utilize as it saw fit, without involvement from WS. If funds are allocated for trap testing, WS should conduct the research since the agency has the appropriate technical expertise.

Further, WS should adopt a policy of checking all restraining traps within a 24-hour period. A wealth of scientific studies documents the fact that the longer an animal is in a restraining trap, the greater the injury. For this reason, the majority of states have a daily trap check requirement. Animals should not be subjected to long-drawn out pain because of a failure to assume the responsibility of carefully checking traps every day. This policy will help reduce the trauma experienced by

non-target animals, too, ensuring that more of these animals will be able to be released alive.

PREPARED STATEMENT OF THE SUN GRANT INITIATIVE
THE NATIONAL NEED FOR BIOENERGY AND BIOPRODUCTS

Energy Security.—As readily accessible domestic sources of petroleum have waned, the United States has steadily increased its reliance on imported oil from other nations. The proportion of imported oil increased from about 30 percent of domestic consumption in 1970 to about 56 percent in 2000. Evidence that world oil supplies will become even more limited in the coming decades suggests that alternative sources of energy and industrial chemicals must be developed as soon as possible. Bioenergy resources can be further developed in ways that complement and augment petroleum energy resources, helping to reduce our dependence on imported oils while helping constrain the costs of energy for American industries and consumers.

Farm Security.—Farmers have been experiencing economic hardships throughout the 1990's and continue today, primarily because of excessive production of core commodity crops. The hardships have flowed throughout rural America and a devastating exodus to urban centers has resulted. Viable alternatives and diversity are needed in agriculture to bolster the nation's independent farm families. Bioenergy and bioproducts produced on American farms represent an opportunity to both reduce dependence on imported oil while providing a significant source of income to American farmers.

New Industries.—Imported oil is an important feedstock for numerous uses other than energy and transportation fuels. Contemporary plastics, synthetic fibers, lubricants, solvents, paints and numerous other common products depend on petroleum as a feedstock. In the future, agriculture will produce biobased feedstocks for production of these products as well as many other non-food uses. Agriculture will also be integral to manufacturing pharmaceuticals, cosmetics, building materials, biocatalysts, and numerous other biobased products. The development of biobased products will complement, augment, and be integrated with the petroleum industry.

Rural Economic Development.—New biobased industries will benefit not only agricultural producers but will also stimulate economic development in the surrounding rural communities. In many cases, transportation logistics and infrastructure requirements will require that new biobased industries be physically located in rural communities—new capital investments and economic stimulation will stay in the rural community! A biobased economy will revitalize rural America.

Environmental Protection.—The use of renewable bioenergy and the production of many biobased products will have numerous benefits for the environment. The increased use of renewable bioenergy will help reduce greenhouse gases and will help U.S. communities and industries improve air quality while remaining economically viable and competitive. Products that were once “wastes” can now become resources and ingredients in the development of new bioproducts. In turn, bioproducts can be designed to be biodegradable, further reducing the “waste stream” and reducing the demand for trash disposal land fills.

New Science and Engineering Technologies.—The latest scientific and engineering breakthroughs will be brought to bear on the challenge of moving to a bio-based economy. For example, genomics, nanobiotechnology, and new computer modeling technologies will be utilized to improve our technical understanding of plant biochemistry, to develop new enzymatic processes and new materials for bioenergy production and the development of new bioproducts.

THE SUN GRANT INITIATIVE

Land Grant Universities.—Today, land grant universities serve agriculture by implementing research, extension, and educational programs to benefit agricultural producers and consumers, to assist rural families and communities, and to conserve the world's natural resources. Clearly, agriculture will play an important role in providing power, fuels, and biobased products for America. Because of the unique position land grant universities have in science, service and education, it is critical that they are proactively involved in creating the biobased economy. Over the past several years, land grant universities have been working to develop a new model for harnessing the capacities of the distributed agricultural research and education system into a national network that can work in ready partnership with the Federal agencies to help reach national bioenergy goals, which has led to the development of the Sun Grant Initiative.

The Sun Grant Mission.—The mission of the Sun Grant Initiative is to (1) enhance national energy security through development, distribution and implementation of biobased energy technologies, (2) promote diversification and the economic viability of America's agriculture through land grant based research, extension, and education programs in renewable energy and biobased products, and (3) promote opportunities for biobased economic diversification and the development of new biobased industries in rural communities.

Centers of Excellence and a National Network.—A network of five land grant universities are serving as regional Sun Grant Centers of Excellence (Figure 1). The universities include South Dakota State University, Oklahoma State University, the University of Tennessee—Knoxville, Cornell University, and Oregon State University. Federal funds will be shared equally among each of the regions. As Federal funds become available, up to 25 percent of the funds will be utilized at each center to enhance their abilities to develop model research, extension, and educational programs on agriculture-based renewable energy technologies and biobased industries located in rural communities. The balance of the funds in each region will be awarded competitively among all land grant universities in the region, drawing on the expertise of all land grant universities to address national priorities at the regional level.

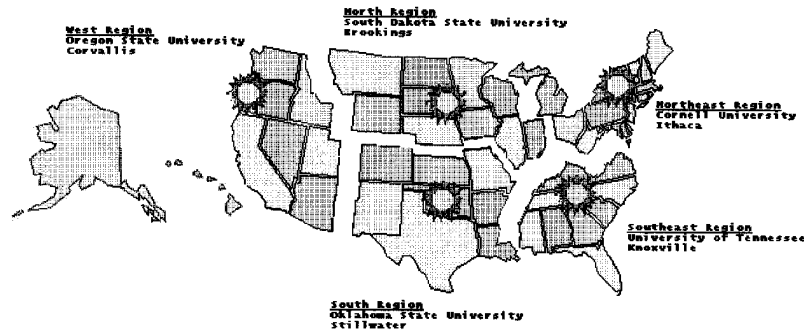


FIGURE 1.—The five founding Sun Grant Centers and their respective regions.

These regional programs will embrace the multi-state, multi-function, multi-disciplinary integrated approach that is at the heart of the land grant method of addressing problems. The centers will interface their activities with DOE research laboratories at Oak Ridge, TN (ORNL, Oak Ridge National Laboratory) and Golden, CO (NREL, National Renewable Energy Laboratory).

National Priorities

The Sun Grant Initiative programs will revitalize rural communities, enhance the nation's energy security and improve our soil, water, and air. The primary challenges that must be faced include:

- The emergence of agriculturally based bio-industries that can coexist with and complement petroleum based industries.
- Developing biobased industries that improve the environment and protect air, water, soil, and other natural resources.
- Developing biobased industries that diversify American agriculture and complement food production.
- Developing industries that provide opportunities for the growth and prosperity of rural America.

The transition to agriculturally-based bio-industries will create economic opportunities for other sectors of the U.S. economy through creation of high-tech companies and jobs. Through the Sun Grant Initiative, the United States will continue to be a world leader in technology and innovation for future high-tech commerce and trade. We will not only produce biomass feedstocks, we will also lead the world in the technologies and the intellectual property that makes this transition to a biobased economy possible.

Regional Priorities

During the development of the Sun Grant Initiative a series of regional workshops were held with agricultural, industry and community leaders. Priority needs were

identified for bioenergy and bioproducts projects within each region. The unique structure of the Sun Grant Initiative will enable the land grant universities to address national issues of concern to the Federal agencies in the context of regional and local needs and circumstances.

RELATION TO THE SUN GRANT INITIATIVE TO FEDERAL AGENCY BIOMASS PROGRAMS

The Biomass Research and Development Act of 2000 established an Interagency Board to coordinate the biomass-related programs within and among Federal departments and agencies. It is co-chaired by the Departments of Energy and Agriculture. Other member agencies include: the Department of Interior, Environmental Protection Agency, National Science Foundation, Office of Science and Technology Policy and the Office of the Federal Environmental Executive. The Act also established an Advisory Committee to advise the Secretaries of Energy and Agriculture and the Interagency Board on the future direction of biomass research and development investments. The Advisory Committee, now in its third year of activity, consists of 31 members from industry, academia, non-profit organizations, and the agricultural and forestry sectors, who are experts in their respective fields. In December of 2002, the Biomass Research and Development Technical Advisory Committee released a science "roadmap" outlining recommended priorities for the development of biomass technologies in the United States. In addition, Section 9008 of the Farm Security and Rural Development Act of 2002 provided for a reauthorization of the funding for the Biomass Research and Development Act of 2000 and provided funding to support biomass production. Building on these several legislative authorities, the Department of Energy and the Natural Resources Conservation Service of the Department of Agriculture are collaborating in the development and implementation of a Biomass Research and Development Initiative to address the priorities identified in the roadmap.

One of the remaining challenges in developing bioenergy and bioproducts technologies is that they have to be developed as a complete system to be cost effective and economically viable. Many new biobased businesses have failed because they only addressed one part of a new biobased economy. In order for farmers to increase production of a needed biofuels feedstock materials they need to be assured of a steady demand. In order for bio-industries to develop a new product, they have to be assured of a steady supply of biobased feedstock materials. The rate limiting cost in developing biobased feedstock is often the cost of shipment; it may be most cost effective to process feedstock within a fifty mile radius of the site where it was grown, which in turn requires a distributed network of bioprocesses or generators. The generators may not break even unless they are also used to co generate heat or unless they feed energy back into local energy grids. The Sun Grant Initiative provides a means for the Department of Energy and the Department of Agriculture to access the research and education expertise of the land grant university system across the country to develop new technologies and education programs. The structure of the Sun Grant Initiative will enable the Departments to "put all the pieces" together to create comprehensive regional scale projects that can address multiple real world production needs simultaneously. The Sun Grant Initiative complements and completes the mix of legislative and funding tools that support biomass research and development.

LEGISLATIVE DEVELOPMENTS

Legislation to authorize the Sun Grant Initiative was developed in 2002. The proposed legislative language defines the regional Centers of Excellence and the network of collaborating universities, as well as the mechanism for apportioning and distributing funds described in this testimony. The proposed legislative language will authorize funding for the Sun Grant Initiative at the level of \$100 million. There is bi-partisan support for introducing and passing this language in 2003. It is our understanding that there will be communications from leading Senate offices to the Committee indicating support for moving this initiative forward and initiating start-up funding in fiscal year 2004.

FUNDING REQUEST

We request initial start-up funding of \$20 million for the Sun Grant Initiative in fiscal year 2004. We are requesting that funding be provided by the Senate Appropriations Energy and Water Development Subcommittee through the Energy Efficiency and Renewable Energy programs of the Department of Energy, in order to augment and expand the Department of Energy's biomass and bioenergy research and development programs. In order to facilitate collaboration and enhancement of programs in the Department of Agriculture, we are also recommending that funding

of \$1 million be provided in fiscal year 2004 through the USDA's Cooperative State Research, Extension and Education Service.

PREPARED STATEMENT OF THE U.S. APPLE ASSOCIATION

The U.S. Apple Association (U.S. Apple) appreciates the opportunity to provide this testimony on behalf of our nation's apple industry.

Our testimony will focus on the following three areas: the Market Access Program (MAP); Food Quality Protection Act (FQPA) implementation; and Agricultural Research Service (ARS) funding.

U.S. Apple is the national trade association representing all segments of the apple industry. Members include 40 state and regional apple associations representing the 9,000 apple growers throughout the country as well as more than 500 individual firms involved in the apple business. Our mission is to provide the means for all segments of the U.S. apple industry to join in appropriate collective efforts to profitably produce and market apples and apple products.

Market Access Program (MAP).—The U.S. Apple Association (U.S. Apple) encourages members of Congress to support \$125 million in MAP funding for the coming fiscal year (fiscal year 2004), which is the level authorized in the farm bill.

The apple industry receives roughly \$3 million annually in export development funds from the U.S. Department of Agriculture's Market Access Program (MAP). These funds are matched by grower dollars to promote apples in more than 20 countries throughout the world. Since this program's inception in 1986, the U.S. apple industry has expanded fresh apple exports by 194 percent, thanks in large part to the foreign promotions made possible by this program. One-quarter of U.S. fresh apple production is exported, with an annual value of roughly \$370 million.

The U.S. apple industry faces keen competition around the globe from competitors who receive significant government funds for generic promotions. The governments of our foreign competitors spend approximately \$500 million on export promotion and market development. It has become increasingly difficult for U.S. exporters to compete with European and Chinese producers who receive massive government assistance. Increased funding for this critical program will assist U.S. apple producers to better compete and revive export demand in countries recently hit by adverse economic conditions.

Food Quality Protection Act (FQPA) Implementation.—U.S. Apple strongly supports full funding for the following programs intended to facilitate fair FQPA implementation and to offset its anticipated negative impact on apple growers and processors.

Specifically, U.S. Apple supports the U.S. Department of Agriculture's following budget requests.

- \$15 million for the Pesticide Data Program, administered by the Agricultural Marketing Service (AMS);
- \$8.0 million for the National Agricultural Statistics Service (NASS) pesticide-usage surveys;
- \$2.6 million for the Office of Pest Management Policy administered by the Agricultural Research Service (ARS);
- \$3.7 million for minor-use registration of crop protection tools (IR-4) administered by ARS;
- \$7.2 million for area-wide Integrated Pest Management research administered by ARS;
- \$13.5 million for the Integrated Pest Management Research Grant Program administered by the Cooperative State Research, Extension and Education Service (CSREES);
- \$10.8 million for minor-use registration of crop protection tools (IR-4) administered by CSREES; and
- \$12.5 million for the Pest Management Alternatives Program, Regional Pest Management Centers, Crops at Risk and Risk Avoidance and Mitigation Program also administered by CSREES.

National Tree Fruit Technology Roadmap.—U.S. Apple urges the Committee to encourage USDA to continue to work with the tree fruit industry by completing the national technology roadmap process and developing a national research strategy.

Worldwide apple production increased by 112 percent between 1990 and 2001, while U.S. apple production grew by 11 percent during this same period. This dramatic increase in global apple production continues to threaten the profitability of America's apple growers. Global oversupply, subsidized foreign competition and unfairly priced imports have caused apple prices to decline in recent years, while regulatory, production and distribution costs are steadily increasing. The U.S. apple in-

dustry's future survival may depend on its ability to develop and utilize new technology to decrease costs, while improving apple quality. Thus, the industry is seeking federal support of a national research initiative to develop new technology to automate orchard and fruit handling operations, optimize fruit quality, nutritional value, and safety, and integrate digital technologies and communication.

Temperate Fruit Fly Research Position—Yakima, Wash.—U.S. Apple requests continued funding of \$300,000 to conduct critical research at the USDA-ARS laboratory in Yakima, Wash. on temperate fruit flies, a major pest of apples.

The Yakima, Wash., USDA Agricultural Research Service (ARS) facility is conducting research critical to the crop protection needs of the apple industry. FQPA implementation has reduced the number of pesticides currently available to growers for the control of pests, such as cherry fruit fly and apple maggot. Left unchecked, these temperate fruit flies can be devastating. Thus, research is needed to develop alternative crop protection methods as growers struggle to cope with the loss of existing tools. While Congress appropriated \$300,000 last fiscal year for this critical research, the administration's proposed budget for fiscal 2004 rescinds this funding.

Post Harvest Quality Research Position—East Lansing, Mich.—U.S. Apple requests that the Committee provide continued funding of \$309,600 for postharvest-quality research at the ARS laboratory in East Lansing, Michigan.

The East Lansing, Mich., USDA Agricultural Research Service (ARS) facility is conducting research critical to the future economic recovery of the apple industry. Using a series of new sensing technologies, researchers at this facility are developing techniques that would allow apple packers to measure the sugar content and firmness of each apple before it is offered to consumers. Research indicates consumer purchases will increase when products consistently meet their expectations, suggesting consumers will eat more apples once this technology is fully developed and employed by our industry. While Congress appropriated \$309,600 last fiscal year for this critical research, the administration's proposed budget for fiscal 2004 rescinds this funding.

Tree Assistance Program (Tap).—U.S. Apple urges Congress to provide \$9.3 million to cover losses beginning in 2000 for the Tree Assistance Program (TAP).

A recent series of severe weather-related natural disasters that have taken an enormous economic toll on many of the U.S. apple industry's most progressive and productive apple producers, who have lost their orchards to these storms and resulting disease outbreaks. The Farm Security and Rural Investment Act of 2002 re-authorizes the Tree Assistance Program (TAP), which provides reimbursement for 75 percent of the cost of replanting trees lost to natural disasters up to \$75,000 per producer per year.

The U.S. Apple Association thanks the committee for this opportunity to present testimony in support of the U.S. apple industry's federal agricultural funding requests.

PREPARED STATEMENT OF THE U.S. MARINE SHRIMP FARMING CONSORTIUM

Mr. Chairman, we greatly appreciate the opportunity to provide testimony to you and the Subcommittee, to thank you for your past support, and to discuss the achievements and opportunities of the U.S. Marine Shrimp Farming Program.

We would like to bring to your attention the success of the U.S. Marine Shrimp Farming Consortium and its value to the nation. The Consortium consists of institutions from seven states: University of Southern Mississippi/Gulf Coast Research Laboratory, Mississippi; The Oceanic Institute, Hawaii; Tufts University, Massachusetts; Texas A&M University, Texas; Waddell Mariculture Center, South Carolina; University of Arizona, Arizona; and Nicholls State University, Louisiana. These institutions have made major advances in technology to support the U.S. shrimp farming industry, and the program's excellent performance through multi-state collaboration has been recognized by the USDA in its recent program reviews. The Consortium is at a point of opportunity to make significant contributions to building the U.S. industry, reducing the trade deficit, and satisfying increasing consumer demand for shrimp. Seafood imports constitute the second largest trade deficit item for the United States at \$7.1 billion, and shrimp represents approximately half of this deficit.

Accomplishments

The Consortium, in cooperation with private industry, industry associations and government agencies, has generated new technologies for producing premium quality marine shrimp at competitive prices. To date, the program has: (1) established the world's first and currently most advanced breeding and genetic selection pro-

gram for marine shrimp; (2) completed pioneering research and development of advanced diagnostic tools for disease screening and control; (3) described the etiology of shrimp diseases associated with viral pathogens; (4) fostered shrimp production at near-shore, desert, and inland/rural farm sites; (5) played a lead role in the Joint Subcommittee on Aquaculture's efforts to assess the threat of globally transported shrimp pathogens; (6) supplied the U.S. industry with genetically improved and disease resistant shrimp stocks; (7) developed advanced technology biosecure shrimp production systems to protect both cultured and native wild stocks from disease; and (8) developed new feed formulations to minimize waste generation. These substantial accomplishments advance the continued growth of our industry, place an important emphasis on environmental sustainability, and increase market competitiveness. Judging from the state of our industry today, USMSFP programs continue to have measurable positive effects. The coastal industry continues to lead in the production of farm-raised shrimp in the United States. Recent improvements in farm management practices have resulted in bumper crops for the industry. The year 2002 resulted in the largest harvest ever for U.S. farmers at over 12 million pounds. This is the third consecutive year of record production, and represents an 107 percent increase in U.S. production over the last nine years.

Industry Vulnerability

While exceptional progress has been made, this emerging and important industry is continually confronted with new challenges. It depends on the U.S. Marine Shrimp Farming Program (USMSFP) for high-health and improved stocks, disease diagnosis and production technologies. As a result of the Consortium's support, the U.S. industry has maintained relative stability, while other countries have had major losses in their production, due to diseases and environmental problems. Disease losses, due to exotic viruses in Asia and Latin America during the past six years, have approached \$7 billion U.S. There have been no outbreaks of notifiable disease in the United States during the last four years, and a commensurate increase in shrimp production during the same period. With reliable protection in place, we have also seen a commensurate geographic expansion of the industry within the United States. A broader industry base, while increasing production through the addition of new farms, also provides additional protection to the industry by geographically isolating different regional sectors of the industry in the event of disease outbreaks or natural disaster. Significant amounts of shrimp are now produced from wide parts of the South, with farms now operational in South Carolina, Florida, Alabama and Texas. Arizona and Hawaii have also greatly expanded production during the same period.

While significant progress has been made in risk assessment and risk management with visible success to further improve the competitiveness of the U.S. industry, the industry and the USMSFP must remain constantly vigilant. In addition to providing significant input on the development of national and international regulatory standards for shrimp farmers, important service work for government agencies and NGOs keeps us continuously apprised of new developments pertaining to emerging regulations so USMSFP research plans can be kept proactively responsive to dynamic shifts in industry needs.

Industry Independence

As a result of the work of the Consortium, investor confidence is increasing. In addition to supporting today's industry, advanced biosecure shrimp production systems are allowing the expansion of shrimp farming into near-shore, inland/rural and desert sites, away from the environmentally sensitive coastal zone. Importantly, these new production technologies produce the highest quality shrimp at world competitive prices, consume U.S. grains as feed, and pose no threat to the environment. Shrimp farming is the newest agricultural industry for the United States, and USDA/CSREES has suggested that our program represents a model program for resolving important problems and capturing opportunities in both agriculture and aquaculture. Clearly, the U.S. shrimp farming industry has emerged from the early 1990s with a larger and more diverse industry for the new millennium.

To begin completion of our remaining tasks, an increase in the current funding level from \$4.186 million to \$5 million is being requested. Allocation of \$5 million per year for the next few years to work in cooperation with the private sector, to support existing efforts, and to build this new industry with its associated jobs and economic benefits is in the best interests of the nation.

Mr. Chairman, the U.S. shrimp farming industry and our Consortium deeply appreciate the support of the Committee and respectfully ask for a favorable consideration of this request.

PREPARED STATEMENT OF THE UNITED STATES TELECOM ASSOCIATION

SUMMARY OF REQUEST

Project Involved.—Telecommunications Loan Programs Administered by the Rural Utilities Service of the U.S. Department of Agriculture.

Actions Proposed.—Supporting RUS loan levels and the associated funding subsidy for the cost of money, Rural Telephone Bank and loan guarantee programs in fiscal year 2004 in the same amount as loan levels specified in the fiscal year 2003 Agriculture Appropriations Act, supporting loans in the hardship program at the level requested in the budget. Opposing the Administration's proposal to not fund Rural Telephone Bank loans in fiscal year 2004. Also supporting an extension of the language removing the 7 percent interest rate cap on cost of money loans. Also supporting an extension of the prohibition against the transfer of Rural Telephone Bank funds to the general fund. Opposing the proposal contained in the budget to transfer funds from the unobligated balances of the liquidating account of the Rural Telephone Bank for the Bank's administrative expenses. Supporting continued funding, as requested in the President's budget, in the amount of \$25 million in distance learning and telemedicine loan and grant authority and \$2 million to finance broadband transmission and local dial-up Internet service in rural areas. Requesting clarification that all rural communities under 20,000 population will qualify for loans in fiscal year 2004 under the new broadband loan program. Opposing the budget request seeking replacement of the \$20 million in mandatory funding provided in last year's Farm Act for direct loans for broadband deployment with less than half that amount of discretionary funding authority in fiscal year 2004.

I am Walter B. McCormick, Jr., President and CEO of The United States Telecom Association (USTA), the nation's oldest trade organization for the local exchange carrier industry. USTA's carrier members provide a full array of voice, data and video services over wire and wireless networks. I submit this testimony in the interests of the members of USTA and their subscribers.

USTA members firmly believe that the targeted assistance offered by a strong RUS telecommunications loan program remains essential to a healthy and growing rural telecommunications industry that contributes to the provision of universal telephone service. We appreciate the strong support this Committee has provided for the telecommunications program since its inception in 1949 and look forward to a vigorous program for the future.

A CHANGING INDUSTRY

As Congress recognized through passage of the Telecommunications Act of 1996, telecommunications in the United States is in the midst of the most significant changes any industry has ever undergone. Both the technological underpinnings and the regulatory atmosphere are dramatically different and changing at an extraordinarily rapid pace. Without system upgrades, rural customers will be left out of the emerging information revolution.

The need for modernization of the telecommunications technology employed by RUS borrower rural telecommunications companies has never been greater. In addition to upgrading switching capability to allow new services to be extended to rural subscribers, it is crucially important that rural areas be included in the nationwide drive for greater bandwidth capacity. In order to provide higher speed data services, such as Digital Subscriber Line (DSL) connections to the Internet, outside plant must be modernized and new electronics must be placed in switching offices. With current technology, DSL services cannot be provided to customers located on lines more than three miles from the switching office. Rural areas have a significant percentage of relatively long loops and are therefore particularly difficult to serve with higher speed connections. Rural telecommunications companies are doing their best to restructure their networks to shorten loops so that DSL may be provided, but this is an expensive proposition and may not be totally justified by market conditions. However, these services are important for rural economic development, distance learning and telemedicine. RUS-provided financial incentives for additional investment encourage rural telecommunications companies to build facilities which allow advanced services to be provided. The externalities measured in terms of economic development and human development more than justify this investment in the future by the federal government.

Greater bandwidth and switching capabilities are crucial infrastructure elements which will allow rural businesses, schools and health care facilities to take advantage of the other programs available to them as end users. The money spent on having the most modern and sophisticated equipment available at the premises of businesses, schools or clinics is wasted if the local telecommunications company cannot

afford to build facilities that quickly transport and switch the large amounts of data that these entities generate. RUS funding enhances the synergies among the FCC and RUS programs targeted at improving rural education and health care through telecommunications.

The RUS program helps to offset regulatory uncertainties related to universal service support, interstate access revenues and interconnection rules with a reliable source of fairly priced, fixed-rate long term capital. After all, RUS is a voluntary program designed to provide incentives for local telecommunications companies to build the facilities essential to economic growth.

RUS endures because it is a brilliantly conceived public-private partnership in which the borrowers are the conduits for the federal government benefits that flow to rural telephone customers, the true beneficiaries of the RUS program. The government's contribution is leveraged by the equity, technical expertise and dedication of local telecommunications companies. The small amount of government capital involved is more than paid back through a historically perfect repayment record by telecommunications borrowers, as well as the additional tax revenues generated by the jobs and economic development resulting from the provision and upgrading of telecommunications infrastructure. RUS is the ideal government program—it generates more revenues than it costs, it provides incentives where the market does not for private companies to invest in infrastructure promoting needed rural economic development, it allows citizens to have access to services which can mean the difference between life and death, and it has never lost a nickel of taxpayer money.

RECOMMENDATIONS

For fiscal year 2004, this Committee should continue the loan levels and necessary associated subsidy amounts for the RUS cost of money, Rural Telephone Bank and guaranteed telecommunications loan programs that it recommended for fiscal year 2003, and which were signed into law. These levels, as well as supporting loans in the hardship program at the level requested in the budget, would maintain our members' ability to serve the nation's telecommunications needs, maintain universal service and bring advanced telecommunications services to rural America.

USTA strenuously objects to the recommendation in the Administration's budget to not fund Rural Telephone Bank loans in fiscal year 2004. The proposal is fundamentally flawed. The RTB's mission is far from complete. Loans made today are to provide state of the art telecommunications technology in rural areas. If no bank loans were made in fiscal year 2004, the budgetary outlay savings would be minimal, because RTB loans are funded over a multiyear period. Moreover, because of the minimum statutory interest rate of 5 percent, the RTB stands an excellent opportunity of actually generating a profit for the government!

The Administration budget proposes that funds be transferred from the unobligated balances of the Bank's liquidating account to fund the Bank's administrative expenses, instead of those expenses being funded through an appropriation from the general fund of the Treasury. This proposal would not result in budgetary savings. As it has in previous years, this Committee should specifically reject this recommendation.

For a number of years, through the appropriations process, Congress has eliminated the seven percent "cap" placed on the insured cost-of-money loan program. The elimination of the cap should continue. If long term Treasury interest rates exceeded the 7 percent ceiling contained in the authorizing act, the subsidy would not be adequate to support the program at the authorized level. This would be extremely disruptive and hinder the program from accomplishing its statutory goals. Accordingly, USTA supports continuation of the elimination of the seven percent cap on cost-of-money insured loans in fiscal year 2004. The Committee should also continue to protect the legitimate ownership interests of the Class B and C stockholders in the Bank's assets by continuing to prohibit a "sweep" of any unobligated balance in the bank's liquidating account that is in excess of current requirements funds into the general fund.

Recommended Loan Levels

USTA recommends that the telephone loan program loan levels for fiscal year 2004 be set as follows:

[In millions of dollars]

RUS Insured Hardship Loans (5 percent)	\$145
RUS Insured Cost-of-Money Loans	300
Rural Telephone Bank (RTB) Loans	175

[In millions of dollars]

Loan Guarantees	120
Total	740

LOANS AND GRANTS FOR TELEMEDICINE, DISTANCE LEARNING, INTERNET ACCESS AND BROADBAND

USTA supports the continuation of \$25 million for distance learning and telemedicine, as provided in the President's budget. USTA also supports making available \$2 million in additional funds for loans and grants to finance broadband transmission and local dial up access to the Internet in rural areas. RUS was founded on the notion that rural Americans should have no lesser services and facilities for telephone service as those living in more densely populated, lower cost areas. As we move into the Information Age with the tremendous potential of the Internet to increase productivity, economic development, education and medicine, such funds can help continue the historic mission of RUS to support the extension of vital new services to rural America.

BROADBAND LOANS UNDER THE 2002 FARM ACT (PUBLIC LAW 101-171)

Last year the Congress recognized the tremendous potential of broadband technology to enhance human and economic development in rural areas by providing mandatory funding of loans for the deployment of such technology in rural areas. This funding was included in last year's Farm Act in the amount of \$20 million. USTA opposes the Administration's request to cancel this in 2004 and replace it with less than half that amount, \$9.1 billion, in discretionary authority. The capital intensive nature of the telecommunications industry, particularly with respect to implementation of broadband, requires a stable and predictable source of capital. Any disruption to the multi-year authority adopted last year by Congress would greatly discourage use of this program and deny rural consumers the benefits of services provided over broadband technology.

The Committee's bill should include language to assure that all communities in the United States with a population of less than 20,000 will qualify for loans under the RUS broadband loan program in fiscal year 2004. The importance of the availability of broadband in rural areas cannot be overstated. Broadband is the future of telecommunications and rural areas cannot be and should not be denied its benefits. Unfortunately, many rural areas will not be eligible for this program due to a technical defect in the enabling act eligibility provision (new section 601 of Title VI of the Rural Electrification Act of 1936). Although the criteria in subsection (A) demonstrates the commitment of Congress to assure that the program will allow all communities in the United States with a population of less than 20,000 to qualify for broadband loans, subsection (B) seeks to exclude from program eligibility any area that "is not located in an area designated as a standard metropolitan statistical area," even though its population is less than 20,000. "Standard Metropolitan Statistical Area" has not been a term recognized by the Bureau of the Census since 1990. If not corrected, this technical defect could deny up to 40 percent of otherwise eligible rural communities access to a program designed to accelerate deployment of broadband technology in rural areas.

CONCLUSION

Our members take pleasure and pride in reminding the Committee that the RUS telecommunications program continues its perfect record of no defaults in over a half century of existence. RUS telecommunications borrowers take seriously their obligations to their government, their nation and their subscribers. They will continue to invest in our rural communities, use government loan funds carefully and judiciously, and do their best to assure the continued affordability of telecommunications services in rural America. Our members have confidence that the Committee will continue to recognize the importance of assuring a strong and effective RUS Telecommunications Program through authorization of sufficient loan levels.

PREPARED STATEMENT OF THE UTAH DIVISION OF WATER RESOURCES

This testimony is in support of funding for the Colorado River Basin Salinity Control Program. As the lead agency designated by Congress for salinity control in the Colorado River Basin, Utah hereby requests funding in the amount of \$17,500,000 for fiscal year 2004 to implement the needed and authorized program for the De-

partment of the Interior, Bureau of Reclamation (Reclamation). Failure to appropriate these funds will result in significant economic damage in the United States and Mexico.

The program authorized by the Congress in 1995 has proven to be very successful and cost-effective. Proposals from the public and private sector to implement salinity control strategies have far exceeded the available funding and Reclamation has a backlog of proposals. Reclamation continues to select the best and most cost-effective proposals. Funds are available for the Colorado River Basin States' cost sharing for the level of federal funding requested. Water quality improvements accomplished under Title II of the Colorado River Basin Salinity Control Act also benefit the quality of water delivered to Mexico. Although the United States has always met the commitments of the International Boundary & Water Commission's (Commission) Minute 242 to Mexico with respect to water quality, the United States Section of the Commission is currently addressing Mexico's request for better water quality at the International Boundary.

Some of the most cost-effective salinity control opportunities occur when the USBR can improve irrigation delivery systems at the same time that the USDA's program is working with landowners (irrigators) to improve the on-farm irrigation systems. Through the newly authorized USDA EQIP program, more adequate on-farm funds are available and adequate USBR funds are needed to maximize the effectiveness of the effort. Reclamation has received cost-effective proposals to move the program ahead and the Basin States have funds available to cost-share up-front.

A salinity control program has been developed by the Colorado River Basin States with input from the Bureau of Reclamation, the Natural Resources Conservation Service, the U.S. Fish and Wildlife Service, the Bureau of Land Management, and the Environmental Protection Agency. The plan necessary for controlling salinity and to reduce downstream damages has been captioned the "plan of implementation." The 2002 Review of Water Quality Standards includes an updated plan of implementation. The level of appropriation requested in this testimony is in keeping with the agreed upon plan. If adequate funds are not appropriated, state and federal agencies involved are in agreement that damage from the high salt levels in the water will be widespread in the United States as well as Mexico. The \$17,500,000 requested by the Forum on behalf of the seven Colorado River Basin States is the level of funding necessary to proceed with Reclamation's portion of the plan of implementation. Utah urges the Subcommittee to support this level of funding as set forth in the plan of implementation.

In addition to the funding identified above for the plan of implementation, Utah also requests the Congress to appropriate necessary funds needed to continue to maintain and operate salinity control facilities as they are completed and placed into long-term operation. Reclamation has completed the Paradox Valley unit which involves the collection of brines in the Paradox Valley of Colorado and the injection of those brines into a deep aquifer through an injection well. The continued operation of this project and other completed projects will be funded through operation and maintenance funds.

In addition, Utah supports necessary funding to allow for continued general investigation of the salinity control program. It is important that Reclamation have planning staff in place, properly funded, so the progress of the program can be analyzed, coordination between various Federal and State agencies can be accomplished, and future projects and opportunities to control salinity can be properly planned to maintain the water quality standards for salinity so the Basin States can continue to develop their Compact-apportioned waters of the Colorado River.

PREPARED STATEMENT OF THE WILDLIFE MANAGEMENT INSTITUTE (WMI)

The Wildlife Management Institute (WMI) is submitting its comments on the proposed fiscal 2004 budget for natural resource programs within the U.S. Department of Agriculture. WMI is a scientific and educational non-profit organization that is staffed by professional wildlife biologists and is committed to the sustainable management of wildlife populations and habitats throughout North America. For several decades we have worked closely with the Natural Resources Conservation Service (NRCS), Farm Service Administration (FSA), Animal and Plant Health Inspection Service (APHIS) and Cooperative State Research, Education and Extension Services (CREES) to enhance the conservation of wildlife resources on private lands, to support disease control efforts that protect free-ranging wildlife, and to promote public stewardship of all wildlife resources. Our comments on the budgets of these agencies include the following spending increases of the Administration's request:

Natural Resources Conservation Service

Conservation Technical Assistance (CTA).—WMI finds that through congressional and administrative actions during the past several years, the number of positions at NRCS has fluctuated to the detriment of the CTA program. The current proposed level of FTE staff years for fiscal year 2004 is 12,878. This is a 276 FTE (2.2 percent) increase over the estimated fiscal year 2003 level. However, NRCS presently has a backlog of farmers and ranchers who have applied for the Farm Bill's conservation programs but have not yet received any technical assistance. This demand for CTA will only increase as NRCS starts implementing two new conservation programs, the Conservation Security Program and the Grassland Reserve Program, and expanding the Environmental Quality Incentives Program (scheduled for a \$1 billion in fiscal year 2004). Further compounding this problem, is the Administration's proposed \$121,400 cut for the CTA account. Even though the 2002 Farm Bill established the Technical Service Provider Program (TSP), NRCS cannot rely on the services of third party vendors to meet the farmers' and ranchers' demands for technical assistance. It will take at least three years to develop a seamless delivery system for TSP. For these reasons, WMI urges your subcommittee to increase the Administration's request for CTA by \$100 million.

Technical Service Providers (TSP).—This program will be of great assistance to NRCS as it delivers technical assistance to agricultural producers. However, fisheries and wildlife biologists will need training to participate as technical service providers, and The Wildlife Society estimates that it will take \$10 million to provide such training for interested TSP candidates. To the degree that you are able, WMI asks your subcommittee to appropriate funds for training activities within The Wildlife Society and American Fisheries Society. Both organizations are the only societies that certify professionals within their field but need assistance when addressing the certification requirements for TSP.

Monitoring and Evaluation.—Commodity groups, water utility companies, and natural resource professionals (e.g., The Wildlife Society, National Association of Conservation Districts and university extension specialists) remain in steadfast agreement with WMI that the Farm Bill's conservation title must include funding for monitoring and evaluation. Throughout the Administration and Congress, national leaders want to get the "biggest bang for the buck" when implementing an enhancement project for soil, water, air, and wildlife on private lands. Because the 2002 Farm Bill authorizes a \$17.1 billion spending increase for the conservation title, it is imperative that NRCS establishes an accountability system that focuses on results (i.e., outcomes) instead of activities (i.e., outputs). No such system currently exists. Therefore, WMI proposes the establishment of a competitive grants process to fund a consortium of non-governmental organizations, universities, and state agencies that could identify cost saving practices, program improvements, and future funding requirements for the Farm Bill's conservation title. Additionally, this consortium could determine what the environmental and economic values are for each conservation program. WMI recommends that your subcommittee dedicate \$10 million as mandatory funding for monitoring and evaluation activities through the proposed consortium of non-USDA entities. Please note that this is the same funding level that was requested in the Farm Bill's Managers Report.

Wetlands Reserve Program.—WMI supports the full authorization of 250,000-acres for the Wetlands Reserve Program in fiscal year 2004.

Wildlife Habitat Incentives Program.—WMI does not support the Administration's \$42 million request for the Wildlife Habitat Incentives Program (WHIP). That dollar amount will not allow NRCS to reduce its current backlog for WHIP while accommodating additional enrollment in the program. Requests from the Northeast and Western regions are areas where interest in WHIP is the highest, primarily because of the areas' land base and specialized farming interests (e.g., horse ranching, fruit orchards, and dairy farms). Lest participation in the Farm Bill's conservation programs favor only agricultural producers in the Midwestern and Southern regions, WMI urges your subcommittee to appropriate \$100 million for WHIP in fiscal year 2004. And with the matching ability of partners, this request will let more dollars flow into WHIP, a result that benefits both the Federal government and private landowner.

Environmental Quality Incentives Program.—WMI supports mandatory funding of \$850 million for the Environmental Quality Incentives Program in fiscal year 2004. However, during the rulemaking process for EQIP, WMI asked NRCS to make this program more wildlife friendly. We trust that this recommendation will be accepted so that additional benefits can be generated for agricultural landowners and the natural resource system.

Conservation Security Program.—In order for the Conservation Security Program (CSP) to work, it must receive more than the Administration's request of \$20 mil-

lion. WMI believes it must be funded at its original intent of \$2 billion over the next ten years, or \$200 million per year.

WMI supports the \$8.1 million allocation to the Klamath Basin. Studies being conducted in the Klamath Basin need to review the impacts of water shortages on wildlife populations that use the area for breeding and foraging purposes.

Farm Service Administration

Staff years.—The staffing level of 16,701 FTE's may be too low to address the administrative needs of the Farm Bill's conservation programs. WMI recommends that funding be increased to facilitate the current level of 19,337 FTE's. Despite efforts to "streamline" USDA's application process, the private landowners' demand for participation in FSA's conservation programs far exceeds the supply; thus the need to increase staffing levels.

Grassland Reserve Program.—WMI supports the fiscal year 2004 request of \$85 million for the Grasslands Reserve Program. This program will help Congress realize its desired goals for soil, water, and wildlife conservation.

Conservation Reserve Program.—WMI supports maintaining the Conservation Reserves Program's (CRP) enrollment at 39.2 million acres. The demand for CRP justifies its continuation at the recommend acreage. It has generated historical improvements for wildlife populations and associated habitat, all through voluntary efforts of willing landowners. Such benefits include population enhancement for declining species (e.g., sharp-tailed grouse).

The Conservation Reserve Enhancement Program (CREP), a component of CRP, is another shining example of how the Conservation Reserve Program serves the needs of private landowners and all American citizens. CREP has hit its stride in recent years. Twenty-five states are presently enrolled in the program, which requires all participating states to match federal dollars when implementing a project. Pennsylvania in particular exemplifies how successful CREP can be. In that state, projects leaders enrolled 100,000-acres within a few years and are now asking FSA for another 100,000-acres. WMI believes the enrollment cap of 2 million acres for CREP is achievable in the foreseeable future, therefore, lending further justification for the Administration's the 39.2 million acre request. However, Congress may need to reconsider the 40 million acre cap when reauthorizing the Farm Bill in 2006.

ANIMAL PLANT AND PLANT HEALTH INSPECTION SERVICE

Wildlife Services.—WMI is concerned about the proposed \$1.5 million decrease for Methods Development in fiscal year 2004. Technological improvements for controlling nuisance wildlife are desperately needed. Public groups disfavor traditional control techniques, such as trapping and poisoning, and are demanding the development and use of non-lethal and non-injurious alternatives, such as immuno-contraception. Consequently, APHIS must receive sufficient financial resources to research and develop alternative control techniques. Thus, WMI recommends the appropriation of \$11.5 million for Wildlife Service's Methods Development account.

Veterinary Sciences.—Chronic Wasting Disease (CWD) is a national news item affecting wild and/or captive populations of white-tailed deer, mule deer and elk in 12 states and 2 Canadian provinces. Management of this fatal disease is administratively and financial taxing for state and federal agencies. Moreover, the CWD's impact on state economies (via hunting seasons) is well documented and comes at a time when those economies are receding. WMI supports the objectives of the CWD Implementation Plan and urges your subcommittee to appropriate \$41.8 million to fund the plan's research, surveillance, control, and communication activities. The \$41.8 million takes into consideration the needs of the Department of the Interior (\$7.7 million), Department of Agriculture (\$13.6 million), and State and Tribal Grants via the U.S. Fish and Wildlife Service (\$20.5 million).

Cooperative State Research, Education and Extension Services

McIntire-Stennis.—WMI recommends that your subcommittee fund the McIntire-Stennis Program at \$30 million in fiscal year 2004. These research programs, conducted by land grant universities and other educational institutions, are crucial for promoting natural resource sustainability now and in the future.

Smith-Lever.—WMI urges your subcommittee to support a \$10 million increase over the Administration's request for the Smith-Lever 3 (d) Program. The Administration requested a \$2.3 million increase over fiscal year 2003 for this natural resources extension program, but additional money is needed to expand its services. These programs facilitate public education on a variety of topics, such as wetlands conservation, endangered species conservation, forestry and wildlife management, and human-wildlife conflicts. Our suggested increase would better prepare agricul-

tural producers for involvement in the Farm Bill's conservation programs, as well as other public groups that may serve as partners on select projects.

Thank you for reviewing our comments, and we look forward to working with you throughout the appropriations process. If you or your staff would like to discuss our recommendations further, please contact me or Ron Helinski, Conservation Policy Specialist, at (202) 371-1808.

PREPARED STATEMENT OF THE WILDLIFE SOCIETY

The Wildlife Society appreciates the opportunity to submit testimony concerning the fiscal year 2004 budgets for the Natural Resources Conservation Service (NRCS), Farm Service Agency (FSA), Animal Plant Health Inspection Service (APHIS), and Cooperative State Research, Education and Extension Services (CSREES). The Wildlife Society is the association of almost 9,000 professional wildlife biologists and managers dedicated to sound wildlife stewardship through science and education. The Wildlife Society is committed to strengthening all Federal programs that benefit wildlife and their habitats on agricultural and other private land.

NATURAL RESOURCES CONSERVATION SERVICE

Farm Bill Technical Assistance.—We applaud Congress for passing the 2002 Farm Bill, which authorizes the U.S. Department of Agriculture to work with third party Technical Service Providers to build a solid network of certified professionals that can assist NRCS in delivering assistance to producers. However, NRCS recognizes that training will be needed to effectively prepare Technical Service Providers to assist producers and landowners. The Wildlife Society recommends that Congress provide NRCS with adequate funds to recruit land grant universities and colleges, the USDA Extension System, and professional societies to help train sufficient Technical Service Providers.

Monitoring and Evaluation.—Monitoring Farm Bill conservation programs and evaluating their progress toward achieving Congressionally established objectives for soil, water, and wildlife will enable NRCS to ensure successful program implementation. Changes to agricultural policy in the 2002 Farm Bill, such as higher funding authorizations and expanded acreage enrollment caps, necessitate the establishment of an accountability system that continuously assesses the effectiveness of conservation programs and policies. The Wildlife Society recommends dedicating mandatory funding to the monitoring and evaluation of Farm Bill conservation programs at the \$10 million level approved in the Farm Bill Statement of Managers. We propose using a competitive grants process to fund a consortium of non-USDA organizations (non-governmental organizations, universities, and state organizations) for the purpose of identifying cost-saving practices, program improvements, and future funding requirements and determining the environmental and economic value of conservation expenditures.

Wetland Reserve Program (WRP), Wildlife Habitat Incentives Program (WHIP).—We would like to express our gratitude for your continued support of WRP and for authorizing WHIP in 2003. WRP is a valuable program designed to assist farmers and ranchers protect and restore wetland habitat. WHIP is a voluntary program that provides technical and financial support to farmers and ranchers to create high quality wildlife habitat. The Wildlife Society supports funding WRP at \$250 million in fiscal year 2004. We are concerned that the Administration's request for WHIP, \$42 million for 2004, is well below the 2002 Farm Bill's authorized amount of \$275 million. The Wildlife Society recommends funding WHIP at \$275 million in 2004.

FARM SERVICE AGENCY

Staff Years.—FSA requires an adequate budget to implement the Farm Bill conservation programs under its administration. The Wildlife Society is concerned that the staffing level of 16,701 FTE proposed by the Administration in 2004 is too low to address the demonstrated need of agricultural producers. The Wildlife Society recommends that the budget include sufficient personnel funding to maintain the 2003 requested level of 19,337 FTE.

Grassland Reserve Program (GRP).—We believe the GRP will be valuable in aiding landowners in their grassland restoration efforts. The Wildlife Society supports the Administration's 2004 request of \$85 million for GRP.

Conservation Reserve Program (CRP).—CRP is popular with landowners, and has resulted in significant wildlife and habitat benefits on agricultural land. Current demand for the program is on the rise, as is demand for technical assistance associ-

ated with implementation of CRP. The Wildlife Society recommends maintaining CRP enrollment at 39.2 million acres as finalized in the 2002 Farm Bill.

Forest Land Enhancement Program (FLEP).—The Forest Land Enhancement Program was created through the 2002 Farm Bill to provide financial, technical, educational, and related assistance to promote sustainable management of non-industrial private forestlands. The program is authorized at \$100 million for 2002–2007, to be distributed through state forestry agencies. The Wildlife Society asks that Congress appropriate at least \$20 million to FLEP in 2004 to ensure that private forestlands continue to provide sustainable forest products and protect the health of our water, air, and wildlife.

ANIMAL AND PLANT HEALTH INSPECTION SERVICE

Wildlife Services.—Wildlife Services (WS), a unit of APHIS, is responsible for controlling wildlife damage to agriculture, aquaculture, forest, range and other natural resources, for controlling wildlife-borne diseases, and for controlling wildlife at airports. Its activities are based on the principles of wildlife management and integrated damage management, and are carried out cooperatively with State fish and wildlife agencies.

The Wildlife Society is concerned about the proposed \$1.5 million decrease in funding for Methods Development for 2004. Many current wildlife control tools such as traps, snares and wildlife toxicants are becoming less acceptable to the public and are being prohibited in many states as the result of public referenda. The only credible way to identify and perfect new methods is through research. However, WS funding is only adequate to cover maintenance and operating costs and no funding is being provided for the development of new innovative wildlife damage management methods. The Wildlife Society requests a \$5 million increase for Methods Development to adequately continue non-lethal methods research and address the increased operating and maintenance costs.

Veterinary Services.—Chronic Wasting Disease (CWD) is a serious problem plaguing our Nation's deer and elk. The spread of CWD is draining already diminished Federal and State agency budgets and is hurting local economies that depends on revenues from recreational hunting. The Wildlife Society supports the Administration's request of \$14.9 million for the research, monitoring, and control of CWD.

COOPERATIVE STATE RESEARCH, EDUCATION AND EXTENSION SERVICES

Renewable Resources Extension Act.—The Wildlife Society was pleased that Congress appropriated \$423,000 above the Administration's request for the Renewable Resources Extension Act (RREA) in 2003. RREA provides an expanded, comprehensive extension program for forest and rangeland renewable resources. The need for these programs is greater now than ever due to fragmentation of ownerships, urbanization, the number and diversity of landowners needing assistance, and the increasing social concern for land use and its effect on soil, water, air, and wildlife.

It is important to note that RREA was reauthorized in the 2002 Farm Bill at \$30 million annually through 2007. Though RREA is proven to be effective at leveraging cooperative state and local funding, it has never been fully funded in the annual appropriations process. In fact, the fiscal year 2004 request for RREA falls back to the 2002 funding level, \$4.093 million, which is insufficient for assisting private landowners who own and manage most of the nation's natural resources. An increase to at least \$15 million would enable CSREES to expand its capability to assist more private landowners in improving management of private land while increasing farm revenue. Therefore The Wildlife Society recommends that the Renewable Resources Extension Act be funded at a minimum of \$15 million in fiscal year 2004.

McIntire-Stennis.—The McIntire-Stennis Cooperative Forestry program funds state efforts in forestry research to increase the efficiency of forestry practices, and to extend the benefits that come from forest and related rangelands. McIntire-Stennis calls for close coordination between state colleges and universities and the Federal Government, and is essential for providing research background for other Acts, such as RREA. The Administration's fiscal year 2004 request for McIntire-Stennis is \$21.884 million, in essence level with 2002 and 2003. The Wildlife Society recommends that funding for McIntire-Stennis Cooperative Forestry be increased to \$30 million.

National Research Initiative.—National Research Initiative Competitive Grants (NRI) are open to academic institutions, Federal agencies, and private organizations to fund research on improving agricultural practices, particularly production systems that are sustainable both environmentally and economically, and to develop methods for protecting natural resources and wildlife. Innovative grant programs

such as NRI help broaden approaches to land management, such as integrating timber and wildlife management on private lands. The Wildlife Society supports the Administration's 2004 request of \$200 million for National Research Initiative Competitive Grants, and requests Congressional approval.

Thank you for considering the views of wildlife professionals. We look forward to working with you and your staff to ensure adequate funding for wildlife conservation.

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